



**International
Accounting Standards
Committee Foundation®**

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11 November 2008

The Honourable George W Bush
The President of the United States
1600 Pennsylvania Avenue, NW
Washington, DC 20500
United States of America

Dear Mr President

On behalf of the Trustees of the IASC Foundation, the oversight body of the International Accounting Standards Board (IASB), I am writing to you as the host of the upcoming meeting of leaders of G20 countries on 15 November in Washington. We respectfully request that the meeting secretariat circulates this letter to other participants in advance of the meeting.

The purpose of this letter is to inform the leaders of G20 countries of the role that the IASB, the independent body charged with developing a single set of high quality, global accounting standards, is playing in addressing issues emanating from the credit crisis. The Trustees understand that the issues of accounting standards and the credit crisis and the governance of our organisation may be on the meeting's agenda.

Accounting standards and the credit crisis

The need for a global response to the credit crisis, a global problem, is evident and has been emphasised by world leaders. International co-operation is already well advanced in the field of accounting standard-setting. International Financial Reporting Standards (IFRSs), set by the IASB, are now used in more than 100 countries. Most of the world's developed and emerging economies—including nearly all of the G20 members—have made commitments to IFRSs. The IASB has been actively engaged in promoting common standards over the world and in particular in ensuring convergence among major economies. The success so far achieved should not be compromised by actions that would weaken the independence of the standard-setting process.

The role of fair value accounting in the credit crisis has received much scrutiny. The Trustees support the IASB's efforts to establish accounting standards aimed at providing transparent and comparable financial information. To respond to the crisis, the IASB has taken urgent action to improve the application of fair value principles, where necessary, and is committed to working with the US Financial Accounting Standards Board (FASB) to ensure globally consistent solutions.



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The use of fair values has received support from both banking supervisory and investor communities. Christian Noyer, President of the Banque de France, wrote in the Banque de France's October 2008 *Financial Stability Review*, "In parallel, the move to mark-to-market accounting in financial reporting has fostered transparency and a more timely recognition of risk exposures, and has contributed to sharpening market discipline." The International Corporate Governance Network (ICGN), an association of 500 investment organisations in more than 40 countries world-wide with more than US\$15 trillion under management, this week stated, "Investors generally support fair value that delivers a picture of what is actually happening. There are some challenges to address, but abandoning this approach would damage confidence in financial reporting." In a survey of its European members, the CFA Institute, an international association of investment analysts, found that 85 per cent think that a suspension of fair value standards would further decrease confidence in the European banking system (559 respondents).

The Trustees believe that any steps taken outside the well-established and supported standard-setting process to amend fair value accounting would further undermine already scarce confidence in financial markets. Therefore, efforts to improve financial reporting should be led and completed expeditiously by the IASB in order to ensure a globally coordinated approach. The IASB has already taken a number of significant steps to improve accounting guidance based on the recommendations particularly of the Financial Stability Forum (FSF) but also of other stakeholders and commentators. (Further details of the IASB response are attached.)

At the same time, any further IASB action needs to take proper account of the views of all stakeholders in order to develop accounting standards that provide transparent financial information to market participants. Stakeholders, particularly investors, have been very clear about this point in representations to us. Issues related to fair value accounting are complex, with consequences which need careful evaluation. They are not necessarily conducive to immediate fixes.

Thus the Trustees will continue to support the IASB's efforts to respond to issues as rapidly as possible, while emphasising the need to take account of the views of all stakeholders and the needs of investors. In addition to work already completed, the IASB has initiated two important efforts:

- **Addressing procyclicality through urgent and focussed dialogue between accounting standard-setters and prudential supervisors:** Procyclicality arises from the interaction of accounting standards with the rules on capital requirements, which are also being reconsidered. Some commentators believe that fair value requirements accelerated the downturn of markets by requiring financial institutions to sell off assets to meet capital requirements, thus depressing markets further. Therefore, it is understandable that addressing the issue of procyclicality is a priority for policymakers and prudential supervisors, who are tasked with ensuring financial stability. At the same time, the primary aim of accounting standard-setters (and securities regulators) is to provide transparency and comparability of financial information for investors and participants in capital markets—an objective that should not be sacrificed.



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The IASB acknowledges the clear benefit of urgent and focussed discussion between accounting standard-setters and prudential supervisors and the need for joint interaction on this issue. Last week, the IASB and the Basel Committee indicated their willingness to explore solutions expeditiously in this specific area, along with intensifying the regular dialogue between the two organisations and among those concerned within the context of the FSF (in which the IASB is a member).

- **A high level advisory group to report rapidly:** The IASB and the US FASB are establishing a high level advisory group that will comprise senior leaders with broad international experience with financial markets. The group will consider how improvements in financial reporting could help enhance investor confidence in financial markets.

Accountability of the IASC Foundation and the IASB

Underpinning the organisation's approach is the view that accounting standards should be developed by an independent IASB that reaches conclusions following a transparent and open due process. An independent body of Trustees, whose appointments are approved by publicly accountable authorities, should oversee the IASB. The Trustees and the IASB are strongly committed to improvements that will enhance confidence in the standard-setting process. The organisation's efforts have been recognised by One World Trust, an independent not-for-profit organisation, for excellence in public accountability.

Recognising that IFRSs are rapidly becoming the global standard for financial reporting and taking into account consultation with stakeholders, the Trustees have proposed that the IASC Foundation should enhance its public accountability through the creation of a link to a Monitoring Board. The Monitoring Board will comprise public authorities responsible for the adoption of accounting standards to enable a fruitful dialogue with all parties concerned. The International Organization of Securities Commissions (IOSCO) strongly supports this initiative. The construct of the Monitoring Board is now broadly agreed and should be announced formally during the next few weeks. The Trustees also wish to establish a more formal engagement with investor groups.

My fellow Trustees and I understand the extraordinary circumstances facing policymakers today. Our organisation is committed to acting in an urgent and responsible manner to help restore confidence in financial markets. Broad international adoption of IFRSs, combined with the actions described above, means that the IASB is helping to ensure a globally consistent response on financial reporting issues. We urge the G20 nations to support our efforts in a manner that reinforces the IASB's efforts and the organisation's independence.

Sincerely,

Gerrit Zalm
Chairman of the Trustees



Appendix A—the IASB’s response to the credit crisis

- **FSF response:** With the support of the G8 governments, the Financial Stability Forum proposed three areas for IASB action—fair value in illiquid markets, off balance sheet items, and improved disclosures. The IASB has responded to all three issues:
 - **Fair value guidance issued:** On 31 October, the IASB issued a staff summary and its expert advisory panel’s report on fair value measurement when markets are no longer active. This guidance is consistent with US pronouncements and was praised by the European Commission.
 - **Improved disclosures:** On 15 October, the IASB released its proposals to improve financial instrument disclosures related to exposure to risk from off balance sheet items.
 - **Improved accounting for off balance sheet items:** The IASB already had two projects under way directly related to off balance sheet vehicles. The IASB has given priority to both projects in order to accelerate their completion and will publish the first proposals for public comment by the end of November.
- **Other efforts completed:** In addition to responding to the FSF report, the IASB has made and will make urgent adjustments in existing accounting standards, when it will enhance investor confidence.
 - **Reclassifications permitted:** On 13 October, the IASB issued an amendment to permit the reclassification of some financial assets from fair value through the profit and loss statement or from the available to sale category. Reclassifications in particular situations are permitted under US accounting standards, but were not under IFRSs before the amendment.

While the IFRS amendment differed in some of the details to the US rules (for example, the impairment and transition provisions), the purpose of the IASB amendment was to provide a level playing field between IFRSs and US accounting standards.

The IASB recognises the benefit in developing common approaches with its US counterparts to ensure a globally consistent and high quality response to the credit crisis.

- **Urgent consideration of other issues:** Over the next three weeks, the IASB and the US FASB are holding round tables in order to give urgent consideration to issues raised as a result of the credit crisis. The round table meetings will occur in London (14 November), Norwalk, Connecticut (25 November), and Tokyo (3 December).



Appendix B—Trustees of the IASC Foundation

Gerrit Zalm, Chairman

Former Deputy Prime Minister and Finance Minister, The Netherlands (The Netherlands)

Philip A Laskawy, Vice Chairman

Retired Chairman, Ernst & Young International (United States)

Marvin Cheung

Retired Chairman of KPMG Hong Kong SAR (People's Republic of China)

Bertrand Collomb

Chairman Emeritus, Lafarge; Chairman, Association Française des Entreprises Privées (France)

Samuel A DiPiazza, Jr

CEO, PricewaterhouseCoopers (United States)

Oscar Fanjul

Vice Chairman, Omega Capital; former Chairman. Founder and CEO, Repsol, SA (Spain)

Tsuguoki (Aki) Fujinuma

Immediate Past Chairman and President, Japanese Institute of Certified Public Accountants (Japan)

Robert Glauber

Retired Chairman and CEO, NASD (the private sector regulator of the US securities market); former Under Secretary of the Treasury for Finance (United States)

Max Dietrich Kley

Member of the Supervisory Board, BASF AG (Germany)

Alicja Kornasiewicz

Member of the Board, CA IB Corporate Finance GmbH, Vienna; CEO and Chairman, CA IB Group, Poland (Poland)

Liu Zhongli

President, Chinese Institute of Certified Public Accountants; former Minister, Ministry of Finance (People's Republic of China)

Jeffrey Lucy

Chairman, Financial Reporting Council (Australia)

Pedro Malan

Chairman, Unibanco; former Finance Minister of Brazil; former President, Central Bank of Brazil (Brazil)

Sir Bryan Nicholson

Former Chairman, Financial Reporting Council (United Kingdom)



T. V. Mohandas Pai

Director of Human Resources and Member of the Board, Infosys Technologies Limited;
Chairman, Infosys BPO Limited (India)

David L Shedlarz

Former Vice Chairman of Pfizer Inc. (United States)

David Sidwell

Former Chief Financial Officer, Morgan Stanley; Director, MSCI Inc., Director, UBS
(United States)

Paul Tellier

Former President and CEO, Bombardier and CN; former Clerk of the Privy Council and
Secretary of the Cabinet (Canada)

Junichi Ujiie

Chairman, Nomura Holdings Inc. (Japan)

Jeff van Rooyen

Chief Executive, Uranus Investment Holdings; former Vice Chairman, Executive Committee,
International Organization of Securities Commissions (IOSCO); former CEO, South African
Financial Services Board (South Africa)

Luigi Spaventa

Former Chairman, Commissione nazionale per le società e la borsa (Consob); former
Minister of the Budget (Italy)

Antonio Vegezzi

Former President and Director, Capital International (Switzerland)