Note for EFRAG's constituents

Because of the timetable to which the Financial Crisis Advisory Group is working, it has not been possible for EFRAG to complete all its normal processes before issuing this draft letter. However, the intention is that those normal processes will be completed when the letter is finalised in April.

EFRAG
European Financial Reporting Advisory Group

XX April 2009

Adam Van Eperen
Financial Crisis Advisory Group
c/o International Accounting Standards Board
30 Cannon Street
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UK

DRAFT COMMENT LETTER
Comments should be received by 30 March 2009
and sent to Commentletter@efrag.org

Dear Sir

Financial Crisis Advisory Group's request for input

On behalf of the European Financial Reporting Advisory Group (EFRAG) I am writing in response to the Financial Crisis Advisory Group's (FCAG's) request for input that was published on 10 March 2009. This letter is submitted in EFRAG's capacity as a contributor to IASB's and IFRIC's due process and does not necessarily indicate the conclusions that would be reached in its capacity of advising the European Commission on endorsement of any IFRS or IFRIC on the issues covered in this letter.

There is no doubt that we are currently in the middle of a very serious financial crisis. At such times, drastic actions are often necessary. There has been talk of general purpose financial reporting exacerbating the crisis and of it failing to provide satisfactory warning signs. It is essential that such concerns are thoroughly investigated as a matter of high priority so that the lessons arising from the crisis are learned. We recognise that this might involve making fundamental changes to notions that have underpinned the way we have prepared financial statements for years; but if that is what the crisis has taught us is necessary then so be it.

One of the issues that is being much debated at the moment is the relationship between general purpose financial reporting and prudential reporting. In our view there are close links because, for example, capital market participants need to understand the implications and restrictions imposed by regulatory capital to make their various assessments. Furthermore, it is clear there are advantages to be gained the closer the statutory accounting and the prudential returns are to each other. However, the information needs of capital market participants are not the same as those of prudential regulators and we think it is fundamentally important in the debate that needs to take place about financial reporting that it is recognised that those different information needs mean different financial reporting objectives, and that could be different reporting.

The pro-cyclicality of existing accounting practices is another issue that is being much-debated. We think there is evidence that it could be pro-cyclical, and we would encourage the IASB to look carefully at the causes of that apparent pro-cyclicality. We think those are in the area of fair value measures and loan loss provisioning. We think disclosure of off-balance sheet risk and whether such risks should remain off-balance sheet is another important area that needs to be investigated carefully. There are also a number of other concerns that we have mentioned in the appendix to this letter.

Our detailed response to the questions raised in the Financial Crisis Advisory Group's request for input is set out in the appendix to this letter.

If you would like further clarification of the points raised in this letter, please contact either me, Paul Ebling or Svetlana Boysen.

Yours faithfully

Stig Enevoldsen
EFRAG, Chairman

APPENDIX
EFRAG'S RESPONSE TO THE QUESTIONS RAISED IN THE FCAG'S REQUEST FOR INPUT

1 We realise that the FCAG is a joint working group of the IASB and FASB and that it is seeking input to help it in making recommendations to both the IASB and FASB. However, we only have experience and expertise in relation to IFRS, so in our comments we will refer mainly to IFRS.

2 Having said that, we wish also to emphasise that we have been—and remain—strongly in favour of the efforts of the IASB and other standard-setters around the world to develop one global set of high-quality standards (although we are not in favour of the convergence objective being pursued regardless of cost). We are also in favour of the IASB and FASB working closely together to ensure that the lessons for general purpose financial reporting arising from the financial crisis are learnt.

Question 1—From your perspective, where has general purpose financial reporting helped identify issues of concern during the financial crisis? Where has it not helped, or even possibly created unnecessary concerns? Please be as specific as possible in your answers.

3 There is no doubt that we are in the middle of a very serious economic crisis. There is also no doubt that many of the things that exist to prevent and forewarn us about the problems that are now occurring have failed. In such circumstances, urgent—and perhaps radical—action is needed to ensure that things do not get worse and in fact start to get better. It is also essential that the role that accounting might have played in causing, exacerbating or prolonging some of the problems are thoroughly investigated as a matter of high priority so that lessons can be learned.

The objectives of general purpose financial reports such as the statutory accounts

4 Two of the concerns that have been raised about general purpose financial reports such as the statutory accounts is that some of the accounting requirements are pro-cyclical and have encouraged behaviour that has been inconsistent with the objectives of financial stability, the maintenance of adequate capital and prudential regulation. We are not in a position to evaluate such comments. However, we do have a couple of observations.

5 First of all, we recognise that it has been a long-standing view of many of those closely involved in general purpose financial reporting that one should never mix shareholder reporting with prudential regulatory returns. We think things are not as simple as that.

(a) In our view the current problems are so serious that no long-standing practice should be left unchallenged. We might have prepared financial statements without significant regard to financial stability etc for years, but that does not mean that that is right or that fundamental change is not necessary.

(b) The traditional view is that statutory accounts are for shareholders and other capital market participants. However, it needs to be recognised that capital market participants are very interested in prudential capital requirements. For example, such users will want to make assessments about a bank's ability to grow its loan book and to make such assessments they need to understand the implications—and restrictions imposed by—regulatory capital.

Assessments about things like financing needs and dividend streams also depend crucially on understanding the entity's regulatory capital position.

(c) It is clear that, from a practical point of view, there are advantages to be gained the closer the statutory accounting and the prudential returns are to each other.

(d) On the other hand, there is also no doubt that the information needs of capital market participants are in some respects very different from those of prudential regulators. Those different information needs mean different financial reporting objectives, and that could be having to choose at times between adopting a capital market participant approach and a prudential regulation approach. If that is indeed the case, we think it is important to bear in mind that prudential regulators, unlike capital market participants, are in a position to demand the information they need from entities; capital market participants have to rely on general purpose financial reporting only.

6 Secondly, pro-cyclicality. Statutory reporting is designed to 'tell it like it is', so it is not fair to criticise it for reporting losses when the reporting entity is suffering losses. If statutory accounts do not do that, they will not be transparent and statutory accounts that are not transparent are of little use to capital market participants. However, in our view that is not the real concern about pro-cyclicality. The real concern is whether in bad times statutory accounts:

(a) report losses that do not exist and/or fail to report profits that do exist). For example, some are arguing that the use of fair value measures derived from disrupted markets results in bad times in the recognition of losses that do not exist; and

(b) report losses that actually arose in better times and/or defer the recognition of profits to better times. For example, some are arguing that the existing loan loss provisioning model results in bad times in losses being reported that actually arose earlier.

<u>Pro-cyclicality and fair value measures</u>

7 As we understand it, the main pro-cyclicality concern about the use of fair value measures is that, because of the current market disruption, the market prices of many types of financial instrument have fallen significantly below those instruments' economic value—and therefore below those instruments' true worth to those holding them. Thus, being forced to use such measures forces those holding the instruments to recognise losses that would not arise were the holders able to continue holding the instruments—and those losses are eroding capital and forcing the companies involved to sell the instruments in order to strengthen their balance sheets. Thus, measuring the instruments at fair value is forcing entities to take cash losses that would not otherwise arise.

8 We think there is some truth to this argument. However, we have concerns about some of the alternatives proposed.

(a) In most cases, it would appear that cost would not be a more appropriate measure. It might solve the problem of pro-cyclicality, but it would in many cases significantly reduce the information being provided to users about the entity's exposure to the market.

(b) Another alternative suggested is to use some sort of average market value rather than a spot market value. We agree that average market values can be useful if market prices are fluctuating significantly around a fairly constant value. However, if market prices are trending either downwards or upwards, the use of average market values simply results in the recognition of the full effect of market value changes being deferred. And, unless fairly long-term averages are used, our understanding is that using average market values will not address the pro-cyclical concern to any significant degree.

9 On the other hand, there are some avenues that we think are worth exploring.

(a) For example, one possibility might be to amend the way fair value measures are estimated when markets are disrupted. Perhaps there are some market inputs that become less relevant when markets are disrupted, or perhaps some of the approximations or assumptions that work well when markets are operating reasonably well work less well when the markets are disrupted.

(b) Another possibility might be to use some current value measurement basis other than fair value; value in use for example.

10 We would encourage the IASB and FASB to look carefully at such possibilities, and to explore similar possibilities as a matter of high priority.

<u>Pro-cyclicality and loan loss provisioning</u>

11 Concerns have also been raised about the pro-cyclical effect of the existing loan loss provisioning requirements. The current requirements adopt an incurred loss model, which means that credit losses are not recognised until they are incurred—not even if statistical methods show they are highly likely to occur. As a result in good times lenders generally recognise more income (ie interest) than credit losses from their loans and in bad times they recognise more losses than income.

(a) Thus, the lender's profitability will inevitably decrease in bad times.

(b) Lenders are also motivated to increase their lending in good times and decrease it in bad times.

(c) With a loan, the lender assesses the credit risk and prices the loan to reflect the expected losses. Then, assuming that those expectations are borne out by practice, it recognises the interest that it has charged to offset the credit losses expected in the income statement as it is earned as a gain. It might even distribute those profits to shareholders as dividends. Later, it recognises the credit loss. Even if that loss is in line with expectations about credit losses, it will negatively impact profitability at a time when the lender is also suffering other losses and is perhaps short of capital. As a result, it is forced to raise additional capital when the appetite of investors to take on additional capital is not great.

12 Again, there is a good deal of truth in all of this.

13 Various alternatives to the existing incurred loss model have been mentioned.

(a) One possibility might be to change what is meant by an incurred loss to bring forward the point at which credit losses are recognised.

(b) Another possibility is to abandon the incurred loss model in favour of an alternative model. Two possible types of model have been mentioned: an expected loss model and a 'through the cycle' provisioning model. There is no generally agreed understanding of precisely what these terms mean but, put simply:

(i) an expected loss model involves recognising expected credit losses in advance of them being incurred so that when they are incurred no additional loss needs to be recognised. Different models build up the expected loan loss provision in different ways, although usually how much is provided against a loan in any particular period will not be affected by whether the economy is doing well or doing badly.

(ii) a 'through the cycle' provisioning model loss also involves recognising credit losses in advance of them being incurred. Some models can be similar to the expected loss model, although with one important difference: for any given loan, more would be provided in good year than in a bad year. Some versions of this model however do not look very much like an expected loss model.

(c) A third possibility is to leave the income statement unchanged but to earmark amounts that would currently be viewed as distributable as non-distributable. The amount thus earmarked could be calculated using, for example, expected loss or 'through the cycle provisioning' methodologies.

14 Once again, we would encourage the IASB and FASB to look carefully at all these approaches. We think for example that some sort of expected loss model has merit conceptually, although we are told that it can give rise to some significant practical issues. On the other hand, we are less convinced that the 'through the cycle' model is appropriate in statutory accounts; to us its advantages lies more in the prudential regulation area than in terms of transparent information for capital market participants. We still believe though it is worthy of serious consideration. The 'earmarking reserves as non-distributable' approach is also a very interesting idea, and might be an effect way of bridging between the requirements of capital market participants and prudential regulation.

Disclosure

15 A second big concern that has been mentioned is the quality of the note disclosures that entities have been providing. It seems to us that, judging by behaviour in the capital markets and also in some of the other financial markets, a significant factor in the seizing up of markets has been the inability of investors and other potential counterparties to understand the risks and uncertainties to which entities are exposed. This has caused many to ask whether entities are providing sufficient—or indeed the right—information about the risks and other uncertainties to which they are exposed.

16 The IASB has recently issued some revisions to its main standard in this area (IFRS 7) in order to enhance some of the disclosures provided about the fair value measures used and about liquidity risk.

(a) We have not yet evaluated this standard, but in its exposure draft form it was fairly limited in scope and it might be that there is a need for a more extensive piece of work on the subject in the medium term."

(b) No disclosure regime will be effective unless it is implemented with care and with thought, and there is some anecdotal evidence to suggest that insufficient thought might have been given in the past to the implementation of the existing disclosure requirements. It might be that this is ultimately an enforcement issue, but another possibility is that the disclosure requirements are structured and drafted in a way that encourages a checklist approach to implementation.

17 We would be in favour of further thought being given to both these issues.

Measurement

18 We have already mentioned the concerns that some have about the pro-cyclical effect of fair value measures, but the use of fair value measures has given rise to other concerns as well. For example, some have questioned whether reporting financial instruments at fair value under such circumstances has resulted in information that is not sufficiently reliable to be useful. Others have questioned whether the use of spot values that, some suggest, are significantly out of line with the economic value provides useful information, particularly in circumstances in which the entity holding the instruments intends to hold (rather than sell) the financial assets and has a practical ability to do so. This has had a number of effects, but probably the biggest (apart from the pro-cyclical effect) is that there seems to have been a loss of trust in many of the fair value numbers in the statutory accounts.

19 The IASB recently enhanced its guidance on the use of fair values in illiquid markets and will shortly be issuing an ED of a proposed standard on Fair Value Measurement guidance. It is also currently seeking comments on some fair value guidance issued by the FASB in the last few days. All this will undoubtedly help, but we remain firmly of the view that some fundamental debates need to take place about the usefulness of the market-based exit value version of fair value when markets are illiquid—indeed on measurement in general—if the existing standards in this area are to gain wide acceptability and cease to be the subject of almost constant criticism.

20 More generally, we think that recent events have called into question the approach in existing IFRS to the classification of financial instruments for the purposes of determining their measurement basis. The October 2008 amendment to IAS 39 *Reclassifications of Financial Assets* addressed one pressure point, but simply resulted in attention shifting to another pressure point (the Fair Value Option) and to differences in this area between IFRS and US GAAP. We recommended in our response to the IASB Discussion Paper *Reducing Complexity in Reporting Financial Instruments* that the IASB simplify and improve the way financial instruments are categorised for measurement purposes so that like items would be treated alike and complex rules would not be needed to police the boundaries between categories. We went on to suggest that the categorisation would be improved if it:

> "(a) was based on the facts involved. Such an approach would be much simpler than one that allows considerable choice and flexibility. It would mean for example that like items will be treated alike. It would also mean that reclassification from one category to another would be necessary only if the facts change; as a result, complex rules to police the boundaries between categories (such as the tainting rules that exist today to ensure an appropriate use of the held-to-maturity category) would be unnecessary.

(b) reflected the business model, so that the information faithfully represents the entity's activities. We recognise that the existing categorisation approach in IAS 39 is an attempt to do that, for example it allows entities to carry an instrument at amortised cost if the purpose is to hold the instrument for its cash flows or apply the fair value option if the instrument is managed on a fair value basis. We also recognise that there are many different business models and it is unrealistic to expect the IASB to develop lots of different categorisation approaches; some compromise is necessary."

Loan loss provisioning

21 We have already mentioned the concerns that some have about the pro-cyclical effect of the existing loan loss provisioning model, but other questions have been raised about the existing loan loss provisioning requirements. There are several issues here in addition to the one mentioned earlier about the model to use.

(a) We will not repeat what we said in the context about pro-cyclicality about the possibility that the incurred loss model should be abandoned. It is worth mentioning though that some argue that statutory accounts would more effectively meet their objective were some sort of expected loss model to be used. They argue that users are being mislead if a company reports on a loan without mentioning (and preferably providing for) the credit losses that are expected to be incurred on the loan.

(b) Another important issue is whether the same impairment test should be applied to all financial instruments. Under existing IFRS, there are a number ways the impairment loss is measured and reported. This includes loss recognition based on the fair value, loss recognition based on reported losses and loss recognition based on incurred but not yet reported losses. Having such a mix of tests inevitably obscures the objective of impairment loss recognition and makes it difficult to understand the information provided on this basis.

In a similar context, questions are asked about whether the differences between IFRS and US GAAP in this area are justified.

(c) The prohibition on reversing certain impairment losses is another issue.

22 We think these are all valid areas for exploration within the context of general purpose financial reporting. We discuss some of these issues further under question 2.

Consolidation and derecognition

23 We are aware that concerns have also been raised about the existing consolidation and derecognition requirements. We discuss this issue further under question 3.

Embedded derivatives

24 Another issue that has been much discussed is the alleged lack of clear principle with regard to separation of embedded derivatives is another example.

Question 2—If prudential regulators were to require 'through-the-cycle' or 'dynamic' loan provisions that differ from the current IFRS or US GAAP requirements, how should general purpose financial statements best reflect the difference: (1) recognition in profit or loss (earnings); (2) recognition in other comprehensive income; (3) appropriation of equity outside of comprehensive income; (4) footnote disclosure only; (5) some other means; or (6) not at all? Please explain how your answer would promote transparency for investors and other resource providers.

25 We think what is needed is for prudential regulators and standard-setters to take their own decisions on the changes if any that are necessary to ensure that the prudential regulation achieves its objectives and the statutory accounts achieve their (probably different) objectives. As we said earlier, it is possible that both objectives could be met through the same financial report, but it is also possible—and we suspect likely—that they cannot be.

26 It follows from this that we would not support approaches (1) or (2)—ie recognising the provisions required by prudential regulators in earnings or in other comprehensive income) if they are not considered necessary to meet the objectives of general purpose financial reports. We have no strong views as to which of approaches (3), (4 or (5) is the most appropriate, but we would not be in favour of the general purpose financial reports being silent about regulatory capital (approach 6) because of their importance to users.

Question 3—Some FCAG members have indicated that they believe issues surrounding accounting for off-balance items such as securitisations and other structured entities have been far more contributory to the financial crisis than issues surrounding fair value (including mark-to-market) accounting. Do you agree, and how can we best improve IFRS and US GAAP in that area?

27 We think that how one responds to this question depends to a certain extent on whether one is talking about IFRS or US GAAP and also whether one is talking about prudential regulation or general purpose financial reporting. For example, it has been suggested to us that the way some jurisdictions treat certain types of securitisation, relative to other financing arrangements, has resulted in those types of securitisation being used more extensively than was wise—or perhaps in circumstances in which it was not wise. However, if that is true we suspect it is a matter for prudential regulation, rather than general purpose financial reporting.

28 Similarly, it has also been suggested to us that the existing consolidation requirements of IFRS have worked reasonably well, but that there have been problems under US GAAP. We cannot comment on US GAAP, but we think it important not to be complacent about IFRS.

(a) There have been concerns about the impact that some unconsolidated structured entities have had on the 'parent' as the crisis has unfolded. This could be a problem with the consolidation model used or it could be that the risks and uncertainties arising from unconsolidated structured entities are not being appropriately disclosed.

(b) There have also been some concerns raised because some entities have started consolidating previously unconsolidated structured entities. We are not aware of the facts involved in these cases and recognise that there can be valid reasons why a change in consolidation status is appropriate, but we can also understand the nervousness that such changes can cause amongst users of financial statements.

29 It is important that the IASB addresses effectively the underlying reasons for these concerns, and it has of course recently issued some proposed amendments to its consolidations standards that seek to address various concerns that have arisen. We are still evaluating those proposals.

30 However, the concerns that have been raised about the significant losses that have arisen from off-balance sheet risks might not just relate to the consolidation requirements; they could also be highlighting weaknesses in the derecognition model. Again US GAAP and IFRS are very different in this area and we cannot comment on US GAAP, but our impression is that, in the context of IFRS, the main concerns raised relate to the treatment of securitisations and instruments with securitised assets underlying them. Again one possibility is that the existing requirements are not being applied correctly, but another is that the line between recognition and derecognition has been drawn in the wrong place. There are also implications for disclosure. However, we are not able to comment further because we have not yet evaluated how well the IASB's existing derecognition requirements have fared during the crisis. We note though that this is another area on which the IASB is working with some urgency.

Question 4—Most constituents agree that the current mixed attributes model for accounting and reporting of financial instruments under IFRS and US GAAP is overly complex and otherwise suboptimal. Some constituents (mainly investors) support reporting all financial instruments at fair value. Others support a refined mixed attributes model. Which approach do you support and why? If you support a refined mixed attributes model, what should that look like, and why, and do you view that as an interim step toward full fair value or as an end goal? Whichever approach you support, what improvements, if any, to fair value accounting do you believe are essential prerequisites to your end goal?

31 This was an issue that was fairly fully explored in the recent IASB Discussion Paper *Reducing Complexity in Reporting Financial Instruments.* EFRAG argued in its response to that paper that, although improvements could—and should—be made to existing financial instrument accounting by reducing the many alternatives, bright lines and exceptions in the existing standards, it is premature, and perhaps even inappropriate, to move to a full fair value model. The objective of any improvement project for the foreseeable future should be to find ways of improving and simplifying the mixed measurement model. We also argued that a comprehensive debate about measurement is needed to clear away many of the myths, misconceptions and misunderstandings that currently exist and to focus attention on the real issues. Those are still our views. Set out below are some relevant extracts from that letter:

> "6 We agree that a fair amount of the complexity in existing financial instrument reporting is caused by "the many alternatives, bright lines and exceptions" in existing standards. We agree therefore that they are likely to be areas in which simplifications are possible. However:
>
> (a) although we agree that some reduction in the number of options as to how financial instruments can be measured and the results of those remeasurements presented would both simplify and improve financial instrument reporting, we believe it does not follow that adopting one measurement and presentation basis for all financial instruments will inevitably be the best approach of all.
>
> (b) we note that the recent market turmoil has asked some pretty fundamental questions about the existing fair value measurement requirements.

7 What we think is needed is a comprehensive debate about measurement. Such a debate would clear away many of the myths, misconceptions and misunderstandings that currently exist. It ought also to make it possible to achieve a high degree of consensus on many of the issues that the recent market turmoil has raised and on the way forward generally.

8 Bearing all this in mind, we think it is premature, and perhaps even inappropriate, to decide that the long-term objective should be full fair value for financial instruments and that changes to IAS 39 should not be allowed unless they represent a step towards that objective (or at least do not involve a step away from that objective). We currently have a mixed measurement model; we will have a mixed measurement model for the foreseeable future; and the objective of any IAS 39 project should be to find ways of improving and simplifying that mixed measurement model so that the information provided to users is enhanced and/or the cost it creates for preparers and users is reduced with no significant impact on the quality of the information provided."

The letter goes on:

"57 As we already stated in our response to question 2 above we believe that it is premature to decide that the long-term objective should be to have a single method of measuring all types of financial instruments. In our response to question 3 we suggested addressing the measurement-related problems within the context of a mixed measurement environment. We suggested doing this by improving the categorisation of financial instruments (for example making categorisation based on facts), enhancing usefulness of information about financial instruments through presentation and making the treatment of embedded derivatives principle based.

58 In our response to question 2, we stated that we think "it is premature, and perhaps even inappropriate, to decide that the long-term objective should be full fair value for financial instruments". We have reached that conclusion because we find it difficult to accept many of the statements made in the DP about the usefulness of full fair value for financial instruments when:

(a) there is not yet any general agreement as to what fair value is (and when the possibilities being discussed could make a significant difference to the numbers reported);

(b) there is not yet any agreement as to which attributes of an entity's financial position and performance need to be highlighted in the financial statements in order to optimise the usefulness of the information provided;

(c) there is not yet any agreement on a presentation system that will extract significant amounts of useful information out of the gains and losses arising from financial instruments that would be recognised. We recall here that the report of the Joint Working Group of Standard-setters Financial Instruments and Similar Items (published in December 2000) was criticised for not addressing this issue adequately, and little progress seems to have been made in the last eight years. There is a widely held view that, in order to enhance user understanding of reported fair values, gains and losses reported in earnings need to be disaggregated into various categories and that this disaggregation needs to go far beyond what is contemplated currently in the Financial Statement Presentation project. In addition, for fair value to be meaningful to investors sufficient accompanying disclosures need to be provided on how the fair value has been determined in order to highlight the degree of uncertainty in the reported amounts. Such disclosures have not yet been devised.

59 Putting that aside for a moment, the IASB argues that the fair value of a financial asset better reflects the price of the asset that would be received at the measurement date. However, it is not clear to us why that is a more relevant, more faithfully representational measure of the asset than various alternative measurement bases in all circumstances. A market-based exit price highlights the opportunity cost of holding the asset involved, but we do not understand why that opportunity cost is the measure that financial statements should use. It is also often argued that fair value measures enable users of financial statements to understand risk and uncertainty resulting from the fluctuations in the value of financial assets and liabilities during the holding period. However, we would question whether the use of fair value measures is the only—let alone the best—way of doing this. As stated earlier in our letter, these issues should be first addressed in a comprehensive debate on measurement.

60 In view of the above, EFRAG believes that for the time being the objectives should be to:

(a) to reach a conclusion as to the detailed meaning of the term 'fair value';

(b) to develop material as part of the project on the Conceptual Framework that helps us to understand how many different measurement bases are appropriate for use in financial statements and the circumstances in which each basis should be used;

(c) tackle the other issues described in the DP as representing hurdles that have to be overcome before full fair value could be adopted; and, in the meantime

(d) reducing complexity by improving the way in which financial instruments are categorised, by developing a principle-based hedge accounting system, and by making some of the other changes suggested in this letter."

Question 5—What criteria should accounting standard-setters consider in balancing the need for resolving an 'emergency issue' on a timely basis and the need for active engagement from constituents through due process to help ensure high quality standards that are broadly accepted?

32 We believe that active engagement of constituents through due process ensures the legitimacy of a standard setter, and that without effective due process the standard-setter is nothing more than a group of experts expressing their opinion. Therefore, we believe it is essential that the IASB follows due process for any amendments, new standards or interpretations. Therefore, in our view the issue is not whether due process should be foregone—it should not be—but whether and in what circumstances it is appropriate to shorten the comment periods involved.

33 Within that, we think all parties need to be as flexible as possible. Short comment periods make it difficult for some of the IASB's constituents to participate effectively in a consultative process, and that is clearly not desirable. On the other hands, it is also not desirable that urgently desirable solutions arrive too late A satisfactory balance needs to be found, and we think it is better to take a case-by-case decision rather than set hard-and-fast rules. We think this is also an issue where the IASCF trustees should continue also to have a role to play.

34 In addition we note that the IASB has a very heavy agenda at the moment, which means a lot of work for the IASB and for its constituents. In our view, part of the flexibility mentioned in the previous paragraph would involve the IASB managing its work programme in a way that enables it and also its constituents to react quickly to 'emergency issues' without compromising the depth of the analysis required, level of involvement from constituents and ultimately the quality of IFRS.

Question 6—Are there financial crisis-related issues that the IASB or the FASB have indicated they will be addressing that you believe are better addressed in combination with, or alternatively by, other organisations? If so, which issues and why, and which organisations?

35 In our view it is the IASB's role to develop IFRS so as to help ensure that general purpose financial reports are as effective as possible in meeting their objectives in a way that minimises costs for preparers and users. It should not involve itself in other issues. As far as we are aware, the IASB is not addressing any issues that fall outside the scope that we have just described. We would furthermore be strongly against encouraging the IASB to address issues that fall outside this scope, such as issues on financial stability or prudential regulation that go beyond what is necessary to meet the objectives of general purpose financial reporting.

36 However, it is also very important that the IASB draws on the expertise of others and that its work reflects the linkages between the some of the issues it is addressing and some of the issues being addressed by certain regulators. For that reason, we believe the IASB should work in close cooperation with relevant other organisations when that is necessary to enable the IASB to gain a better understanding of implications of its proposed financial reporting requirements in practice. To take just one example, when the IASB and the prudential regulators both want entities to provide the disclosures designed to meet the same disclosure objective, there can be advantages for all concerned in harmonising the detailed disclosure requirements.

37 Having said that, we believe it is essential that all decisions on the content of IFRS remain with the IASB.

Question 7—Is there any other input that you would like to convey to the FCAG?

38 There are no other comments that we wish to make at this point.