

**FINANCIAL CRISIS ADVISORY GROUP**

April 29, 2009

The Rt Hon Gordon Brown MP  
Prime Minister  
10 Downing Street  
London SW1A 2AA

Dear Prime Minister:

We are writing to you in your role as chair of the leaders of the G-20 nations. We respectfully request that the Secretariat circulate this letter to all G-20 participants.

In our letter of March 31, we introduced you to the work of the Financial Crisis Advisory Group (FCAG). The FCAG was established by the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) to advise the two Boards about the standard-setting implications of the global financial crisis and potential changes to the global regulatory environment. As part of our work, we are helping the Boards develop their priorities in this area and promoting coordination among the two Boards, the international supervisory community, and industry participants. We will issue our report in July.

The financial crisis has exposed critical weaknesses in business practices and financial regulation. The FCAG fully shares the G-20's sense of urgency regarding the agenda for broad-based reform in the wake of the crisis and recognizes that improvements in financial reporting are an integral part of that reform agenda. Over the last three months, we have discussed approaches that would improve the quality of financial reporting, with a particular focus on financial institutions, in an effort to enhance market confidence.

In our discussions, it has been abundantly clear to the 18 senior, internationally diverse leaders who comprise the FCAG (Attachment I) that the global nature of the financial crisis has underscored the need for globally accepted improvements to financial accounting and reporting standards. We note that at its April 2009 meeting, the G-20 similarly concluded, "Standard-setters should make significant progress towards a single set of high quality global accounting standards." Consistent with that observation, we urge continued support for the process already underway between the IASB and the FASB.

As indicated in responses to the G-20 recommendations that the IASB recently posted to its website (Attachment II), the IASB and the FASB are working jointly to improve and converge standards and have given priority to areas highlighted by the financial crisis. We are encouraged by the significant progress that has been made, and continues to be made, by the two Boards. The Boards are working together, and in consultation with key regulators, to issue a comprehensive proposal later this year to improve and streamline the reporting of financial instruments. The FCAG believes that valuation and off-balance sheet standards particularly need improvement. We are convinced that improved standards in these areas, and also in the provisioning area, which is of particular importance to regulators, can increase transparency, preserve financial statement integrity and thus contribute to reducing the financial sector's vulnerability to excesses of the business cycle. As we share a common interest in bolstering the financial system's integrity and stability, we strongly encourage the two Boards to consult with key regulators.

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Page Two

The IASB issued proposed improvements in the area of off-balance sheet items (consolidation and derecognition standards) earlier this year and is working jointly with the FASB in this area. The FASB will issue in May improvements to the current US standards in this area. These projects follow a number of other improvements the Boards individually and together have been making over the past several months. The two Boards have provided globally consistent fair value measurement guidance for inactive markets and enhanced fair value disclosure requirements. In early May, the IASB will publish a proposal to enhance disclosures related to fair value measurement. The FASB also published, in March 2009, improvements to asset impairment guidance related to a US-specific impairment approach.

Throughout, the FCAG has strongly encouraged the two Boards to continue acting promptly and responsibly to address financial reporting issues highlighted by the financial crisis. However, we believe that the more significant, lasting, and global improvements are those that will stem from the financial instruments and consolidation/derecognition projects. We at the FCAG are united in recommending to the two Boards that these joint and comprehensive projects be the focus and chief priority of both organizations. We are also convinced that these projects present a tremendous challenge to the two Boards. The financial instruments project, in particular, is very wide-ranging and complex, and issuing a comprehensive proposal by the end of 2009, as the G-20 has urged, is ambitious and challenging, requiring significant resources, coordination, and focus.

We fully understand that policymakers are under tremendous pressure to provide both short and long term reforms for the many challenges with which they are confronted. We stand ready to help where we can. However, the FCAG strongly believes that the two Boards can only achieve what the G-20 seeks if they can completely focus on the highly complicated technical work that these projects entail. Additional work on other issues, beyond the commitments the Boards have already made, will inevitably lead to delays on the projects that matter most.

In the meantime, the FCAG will continue its constructive dialogue with the two Boards. In addition to issuing our report in July, the FCAG committed at its meeting on April 20 to meet again as a group in December to follow up with and discuss the Boards' efforts and proposed guidance in these important areas for financial reporting, the financial markets, and the financial system.

Sincerely,



Harvey J. Goldschmid  
Co-chair



Hans Hoogervorst  
Co-chair

cc: FCAG members and official observers  
Sir David Tweedie, chair, IASB  
Robert Herz, chair, FASB

# **Attachment I – FCAG Membership**

## **CO-CHAIRS**

### **Harvey J. Goldschmid**

*Former Commissioner, U.S. Securities and Exchange Commission  
United States*

### **Hans Hoogervorst**

*Chairman, AFM (the Netherlands Authority for the Financial Markets)  
Europe*

## **MEMBERS**

### **John Bogle**

*Founder, Vanguard  
United States*

### **Jerry Corrigan**

*Goldman Sachs and Former President of the New York Federal Reserve Bank  
United States*

### **Fermin del Valle**

*Former President, International Federation of Accountants  
Argentina*

### **Jane Diplock**

*Chairman, International Organization of Securities Commissions Executive Committee  
New Zealand*

### **Raudline Etienne**

*Chief Investment Officer, New York State Common Retirement Fund  
United States*

### **Stephen Haddrill**

*Director General, Association of British Insurers  
United Kingdom*

### **Toru Hashimoto**

*Former Chairman, Deutsche Securities Limited  
Japan*

### **Nobuo Inaba**

*Former Executive Director, Bank of Japan  
Japan*

### **Gene Ludwig**

*Former Comptroller of the Currency  
United States*

**Yezdi Malegam**

*Board Member, National Reserve Bank of India  
India*

**Klaus-Peter Müller**

*Chairman of the Supervisory Board, Commerzbank  
Germany*

**Don Nicolaisen**

*Former Chief Accountant, U.S. Securities and Exchange Commission  
United States*

**Wiseman Nkuhlu**

*Chairman of the Audit Committee, AngloGold Ashanti; Former Economic Advisor to the  
President of the Republic of South Africa  
South Africa*

**Tommaso Padoa-Schioppa**

*Former Finance Minister  
Italy*

**Lucas Papademos**

*Vice-President, European Central Bank  
Europe*

**Michel Prada**

*Former Chairman, Autorité des Marchés Financiers  
France*

## Attachment II – Strengthening Transparency and Accountability

A comprehensive overview of measures undertaken by the IASC Foundation and the IASB responding to the conclusions reached by the G20 at their summit in London, UK 2 April 2009. The overview was updated on 9 April 2009.

RECOMMENDATION <sup>1</sup>	ACTIONS COMPLETED/UNDERWAY	NEXT STEPS
<p>Accounting standard setters should improve standards for the valuation of financial instruments based on their liquidity and investors' holding horizons, while reaffirming the framework of fair value accounting.</p>	<ol style="list-style-type: none"> <li>1. October 2008: the IASB issues the report of its expert advisory panel on fair value measurement when markets are no longer active and a staff summary of that report.</li> <li>2. October 2008: the IASB permits the reclassification of specific financial instruments in some instances.</li> <li>3. March 2009: the IASB publishes a request for views on proposals from the US Financial Accounting Standards Board (FASB) that deal with guidance on fair value measurement. Comment deadline is 20 April.</li> <li>4. Ongoing (to early May 2009): The IASB is developing an exposure draft of an IFRS on fair value measurement, to establish a single source of guidance for all fair value measurements required or permitted by existing IFRSs. This will make the application of those requirements more consistent, reduce complexity and bring about further convergence with US GAAP and IFRSs.</li> </ol>	<ol style="list-style-type: none"> <li>1. April 2009: following the FASB decision on the amendments on 2 April, the IASB recognises the need for rapid consideration of these issues, which was anticipated by the shortened consultation period. Staff analysis, the comments solicited by the IASB's consultation, and input received from the Financial Crisis Advisory Group and the Standards Advisory Council will inform the IASB's decision at its 20-24 April meeting as to whether, in the light of FASB's actions, further guidance on the application of fair value in inactive markets and impairment of debt securities is needed.</li> <li>2. Early May 2009: the IASB will issue its exposure draft on fair value measurement with a comment period of 120 days. The IASB plans to hold a round table thereafter. Publication of a final standard is planned for the first half of 2010.</li> <li>3. The IASB will respond to the recommendations received from the Financial Crisis Advisory Group (FCAG), which is due to report in the first half of the year.</li> </ol>

<sup>1</sup> <http://www.londonsummit.gov.uk/resources/en/PDF/annex-strengthening-fin-sysm>

<p>The standard-setters should reduce the complexity of accounting standards for financial instruments.</p>	<ol style="list-style-type: none"> <li>1. March 2008: The IASB and the FASB published a discussion paper for a replacement of IAS 39 Reducing Complexity in Reporting Financial Instruments.</li> </ol> <p>March 2009: The IASB and the FASB agree to undertake on an accelerated basis, the replacement of existing financial instruments standards (IAS 39 <i>Financial Instruments: Recognition and Measurement</i>, in the case of the IASB) with a common and globally accepted standard that would address issues arising from the financial crisis in a comprehensive manner.</p>	<ol style="list-style-type: none"> <li>1. October 2009: The IASB and FASB will work urgently to propose a new common standard that would replace existing financial instruments requirement. This is consistent with the timetable of the G20 recommendations.</li> <li>2. The preparation of the new standard will include appropriate consultation with investors, regulators, preparers, standard-setters and other interested parties. The project will use the input of the FCAG, the comments received to that discussion paper, and consider the lessons learned from the crisis.</li> </ol>
<p>Standard-setters should strengthen accounting recognition of loan-loss provisions by incorporating a broader range of credit information</p>	<ol style="list-style-type: none"> <li>1. The IASB and the Basel Committee on Banking Supervision are meeting on a regular basis to discuss the issue of loan-loss provisions. The FASB has been invited to join these discussions.</li> <li>2. Ongoing: The FCAG is examining the issue of provisioning and will make a recommendation to the IASB and the FASB.</li> <li>3. March 2009: The IASB and the FASB initiate the urgent review of loan loss accounting, including the incurred and expected loss models.</li> </ol>	<ol style="list-style-type: none"> <li>1. Discussions with the Basel Committee, the FCAG, and other interested parties will provide direction to the IASB's conclusions to be included in the proposed revised standard with an estimated October publication.</li> </ol>
<p>Standard-setters should improve accounting standards for provisioning, off-balance sheet exposures and valuation uncertainty.</p>	<ol style="list-style-type: none"> <li>1. As noted above, the IASB is taking a number of steps on provisioning.</li> <li>2. March 2009: Comment period for a proposed standard on Consolidation ends. The exposure</li> </ol>	<ol style="list-style-type: none"> <li>1. Early May 2009: IASB plans publication of an exposure draft on fair value measurement.</li> <li>2. June 2009: IASB and FASB will be holding joint round-tables in Europe, the United States,</li> </ol>

	<ol style="list-style-type: none"> <li>3. March 2009: IASB publishes an exposure draft on derecognition. Comments are open for public comment until 31 July 2009.</li> <li>4. As noted above, the IASB is actively working on an exposure draft on fair value measurement.</li> </ol>	<ol style="list-style-type: none"> <li>3. Year end 2009: IASB anticipates the publication of a final standard on Consolidation.</li> <li>4. IASB will continue consultations with interested parties on an urgent basis.</li> </ol>
Standard-setters should make significant progress towards a single set of high quality global accounting standards.	<ol style="list-style-type: none"> <li>1. Achieving global accounting standards are the organisation's primary objective, as stated in its Constitution.</li> <li>2. 2008: IASB and FASB update their Memorandum of Understanding. The objective: achieving broad convergence of IFRSs and US GAAP by 2011.</li> <li>3. IASB works with national standard-setters internationally to promote adoption of IFRSs.</li> </ol>	<ol style="list-style-type: none"> <li>1. The organisation will continue to promote full adoption of IFRSs. IASB and FASB will work as a matter of priority on projects related to the Memorandum of Understanding and will seek to avoid any unnecessary divergences in the interim period.</li> <li>2. The IASB plans to finish many of its major projects by 2011 to provide an orderly transition for several countries intending to adopt IFRS around that time.</li> </ol>
The IASC Foundation, within the framework of the independent accounting standard setting process, should improve involvement of stakeholders, including prudential regulators and emerging markets, through the IASB's constitutional review.	<ol style="list-style-type: none"> <li>1. January 2009: Completion of the first part of the Constitution review. The result: <ul style="list-style-type: none"> <li>▪ the Trustees implemented a change that will increase the size of the IASB to 16 members and sets out geographical guidelines regarding the IASB's composition. Under the new guidelines, there shall be one member each from Africa and South America. The IASB already has members from China and India.</li> <li>▪ the Trustees establish a formal link with capital</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li>1. 3<sup>rd</sup> and 4<sup>th</sup> quarter 2009: the Trustees will hold public round-tables in order to enhance the consultation process on the second part of the Constitution Review</li> <li>2. January 2010: planned ratification date of relevant constitutional amendments as a result of the second part of the Constitution Review.</li> </ol>

	<p>market authorities, who have created the IASC Foundation Monitoring Board. The IOSCO Emerging Markets Committee is a member of the Monitoring Board. The Basel Committee is an observer.</p> <p>2. July 2008: the Trustees restructure the Standards Advisory Council, the IASB's main advisory body.</p> <p>The objective:</p> <ul style="list-style-type: none"> <li>▪ enhancing its effectiveness, and wider outreach to analyst and investor groups.</li> </ul> <p>The council is reconstituted to comprise representatives of stakeholder organizations around the world. They are expected to canvas their respective constituent groups in preparation of meetings, present these views to the IASB, and bring back meeting conclusions and discussions to their colleagues. The membership includes the stakeholders recommended by the G20.</p> <p>3. December 2008: the Trustees initiate the second part of the Constitution Review by publishing a consultation document.</p>	
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