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.
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     Hans Hoogervorst
Co-chair       Co-chair

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