The World Bank

Washington, D.C. 20433 U.S.A.

JULES W. MUIS Vice President and Controller Letter of Comment No: ///
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Financial Accounting Standards Board (FASB) Director of Research and Technical Activities 401 Merrit 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

Dear Sir:

Re: Proposed Statement re Consolidated Financial Statements
File Ref No. 954-D

We appreciate the opportunity to comment on the above-mentioned exposure draft. This comment letter is put forward on behalf of the four separate institutions which are sometimes referred to as the World Bank Group, the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

Unlike domestic corporations, multilateral inter-governmental organizations such as those that comprise the World Bank Group, as well as many other (inter)governmental organizations have been created by multilateral treaties subject to international law.

Many international organizations, including the World Bank Group institutions, other multilateral (regional) development banks, and International Monetary Fund share an overlapping group of shareholders. These organizations are owned by the countries of the world, which are limited in number. As a result, each institution is held by and accountable to a group of shareholders which may be identical (as in the case of the IMF and the IBRD) or similar (as in the case of the IBRD and IDA). Also, oversight and managerial functions of some of these institutions are carried out by the same persons, as representatives of the member governments. However, through inter-governmental conventions, the shareholders have ensured that each institution be created with autonomous responsibilities and accountability for its actions, and that assets and liabilities be separated accordingly.

It is our view that the proposed standard does not in substance and should not in practice require consolidation of international organizations established by treaties which:

- endows them with separate legal personality and capital;
- requires them to hold their assets and funds separate and apart from other international organizations' assets and funds;
- establish separate organizational and managerial structures and independent decision making processes; and
- requires their Presidents and staff to owe their loyalty entirely to that organization and to no other authority.

Although IBRD, IDA, IFC and MIGA are sometimes referred to collectively as the World Bank Group, they are different, in law and practice, from any group of domestic corporations tied together by common ownership or control. None of these organizations is owned by the other and none of them controls (legally or effectively) the other. None of them has power over the assets of the other or obtains economic benefits from the assets of the other and none of them establishes the policies or controls the budget of the other. The relationship among them is not and cannot be assimilated to the parent-subsidiary relationship known in the practice of domestic corporations. Each of these organizations is established by a treaty, to which only sovereign states are parties. Where there is a share capital, the shareholders are exclusively the member-states. The capital resources of each organization are required to be kept, and have been kept, separate and apart from the resources of the other. And each organization has its own governance and managerial structure and decision making process. The fact that they have related purposes and tend to work together to achieve these purposes cannot in our view result in the consolidation or combination of their financial statements. In fact, these organizations also closely cooperate with a host of other international organizations with a similar membership and related purposes, such as the IMF, the Inter-Development Bank, the Asian Development Bank and the African Development Bank (the regional development banks).

Consequently, we believe that there are substantial arguments against consolidation of the financial statements of the separate institutions within the World Bank Group. However, the generic uncertainties introduced by the judgmental nature of the wording of this proposed standard, particularly paragraph 158(f) of Appendix B, would make interpretation and application onerous for inter-governmental and other similar organizations. As such, the proposed standard could result in combined financial statements prepared in situations where close affiliations exist with arms-length structure, but without control.

Moreover, it is our view that consolidation or combination would hide more than it would reveal (assuming the individual entities did not continue to prepare individual entity based financial statements and disclose, in particular, related party transactions in accordance with US GAAP).

For these reasons we believe that Appendix B should be modified to take into account circumstances whereby the articles of agreement of entities (particularly intergovernmental entities) require them to keep their assets and funds separate and distinct, regardless of common or overlapping ownership and the existence of a relationship that requires them to work together to fulfill a business purpose as well as other factors. Alternatively, we recommend that entities (particularly inter-governmental entities) with these criteria be added to the list in Appendix B of, Relationships that Generally Do Not Result in Control of an Entity.

Sincerely yours,
Lates W. Muis