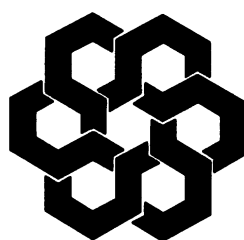


NOVEMBER 1999

RECOMMENDATIONS ON SHAPING IASC FOR THE FUTURE

**A Report of the International Accounting Standards Committee's
Strategy Working Party**

Recommendations to the IASC Board



**International
Accounting Standards
Committee®**

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30 November 1999

This Report is issued by the Strategy Working Party of the International Accounting Standards Committee.

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I. Introduction

1. The Board of the International Accounting Standards Committee (IASC) formed a Strategy Working Party (the Working Party) in 1997 to consider and recommend to the Board what IASC's strategy and structure should be upon completion of the work programme agreed with the International Organization of Securities Commissions (IOSCO). In December 1998, a Discussion Paper, "Shaping IASC for the Future" was issued for public comment by the Strategy Working Party. This Discussion Paper presented strengths and accomplishments of the current IASC structure, and proposed several revisions to the IASC's infrastructure to build upon these accomplishments in the future. In this Discussion Paper, the Strategy Working Party requested comments both on specific questions raised and any other aspects of the proposal. The comment period ended on 30 April 1999.
2. IASC received eighty six (86) letters of comment in response to the Discussion Paper. The comment letters have been made available to the IASC Board and to the public, both through the IASC's website and in hardcopy format. Additionally, Members of the IASC Board and the Working Party have had extensive consultations with interested parties. The Working Party appreciates the participation it has received.
3. In July 1999, the Working Party met with the IASC Board to discuss the way forward. At that meeting, a new proposal, developed in response to the comments and consultations, was discussed. One of the key features of this new proposal was to abandon the bicameral approach described in the Discussion Paper and to retain the IASC's unicameral Board structure. The Working Party has continued to build upon that proposal for a unicameral structure at meetings in July and September, and telephonic meetings in October and November 1999.
4. The Working Party understands that the IASC Board will discuss the proposals in this Report at its meeting in December 1999. The IASC Board plans to consider approving, at its meeting in March 2000, resolutions for changes to the constitution to be put to its Members in May 2000.

II. Recommendation

5. The comment letters expressed support for the primary objective presented in the Discussion Paper: working toward the convergence of standards to a set of global standards that require high quality, transparent and comparable information. Commentators expressed widespread support for the need for change in the IASC's current structure. There is also substantial international commitment to finding an acceptable structure to achieve the objectives of IASC and build on its already significant contribution to improving accounting standards internationally in the interest of economic decision makers in the world's capital markets. Many commentators also expressed support for IASC as the most appropriate organisation to play the pivotal role in the development of a single set of global standards.
6. The comment letters and consultations with interested parties also reflected various views on the attributes which are considered desirable to establish the legitimacy of a standard setting organisation. The primary attributes identified were the representativeness of the decision making body, the independence of its members, and technical expertise. As applied to the IASC structure, the legitimacy of IASC's Standards is considered by some to be established through direct participation of key constituents in the decision making process. The other view is that legitimacy is established if the development of Standards is undertaken by an autonomous body of relatively few, full-time and highly skilled experts who are independent of perceived economic incentives which might interfere with their role on the decision making body.
7. In the Working Party's view, IASC should now make structural changes so that it can continue to meet the need for a set of high quality global accounting standards. If IASC fails to make those changes, other national, regional or international bodies are likely to emerge to fill the gap in response to market pressures and become de facto global or regional standard setters.
8. The proposed structure set forth below provides a balanced approach to legitimacy based upon representativeness among members of the Trustees, the Standing Interpretations Committee (SIC), and the Standards Advisory Council, and technical competence and independence among Board Members. The Strategy Working Party recommends its acceptance and implementation.

III. Objectives and Strategy of IASC

9. The debate has centred primarily on the IASC's structure. While this may be natural, there is a need for focus on the IASC's objectives and strategy. The objectives as stated in the IASC's Constitution are:

- (a) to formulate and publish in the public interest accounting standards to be observed in the presentation of financial statements and to promote their worldwide acceptance and observance; and
- (b) to work generally for the improvement and harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements.

10. In the Working Party's view, it is important to focus IASC's objectives more precisely as follows:

IASC Objectives:

- (a) **to develop in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements to help participants in the world's capital markets make sound economic decisions;**
- (b) **to promote the use and rigorous application of those standards; and**
- (c) **to bring about convergence of national accounting standards and International Accounting Standards to high quality solutions.**

11. The strategy to achieve these goals is:

IASC Strategy:

To provide an international organisation that will enable the achievement of the IASC's stated objectives by acting as a leader in finding the best accounting solutions and facilitating convergence of accounting standards internationally through working together with national standard setters.

12. There are many roads which may lead sovereign authorities to converge to a single set of global standards. Whether companies or countries initially select IASC standards or other standards, over time it is anticipated that market pressures will encourage convergence. National sovereignty will continue to exist and the specific path of convergence will depend on the detailed decisions of each national standard setter.

13. Countries may elect to participate differently in the market driven convergence:
- (a) some countries may simply adopt IASC standards nationally, either because it is too costly to maintain or develop their own standards, or because they have embraced IAS to facilitate harmonisation;
 - (b) some countries may allow compliance with IASC standards as an alternative to national standards, but not require them. However, it can be expected that over time, the differences between the national standards and IASC standards will diminish and ultimately the two are likely to converge;
 - (c) other countries may not allow certain options permitted under the current IASC standards or may require additional disclosures, or both. However, it would be expected that as a result of further revisions by IASC or the national standard setter, few if any of these differences would survive; and
 - (d) still other countries may either reject solutions required by IAS and require different accounting for these items, or may not require certain IASC standards to be followed. For example, emerging markets may move, gradually over time, to increase the number of IASC standards required locally. In this case also, it would be expected that given further time, convergence would occur.
14. The Working Party also believes that:
- (a) governments, regulators and standard setters in each country should decide, in the light of local circumstances, whether International Accounting Standards are appropriate in that country for small and medium-sized enterprises (as defined in that country). It is likely that many countries will choose to bring accounting standards for smaller enterprises into line with International Accounting Standards over a period of time; and
 - (b) IASC should continue its investigations in the area of the needs of emerging markets for assistance in using IASC standards. The IASC approved a project in this area in April 1998.
15. The Working Party believes that, in developing International Accounting Standards, IASC should work closely with national standard setters to reach mutual agreement on what is the highest quality result. The aim is to ensure that national accounting standards and International Accounting Standards converge around high quality solutions that require reporting of high quality, transparent, and comparable information that will help participants in the world's capital markets make sound economic decisions. Decisions about how a national standard setter is to implement the objectives and interact with the proposed IASC structure continue to be a matter of national sovereignty and authority. The Working Party believes that IASC should work for convergence by:
- (a) acting as a catalyst for, or initiator of, national developments in standard setting;

- (b) continuing to develop International Accounting Standards that build on the best features of existing and newly developed national standards. For topics where national standards do not yet exist, or are still evolving, IASC will need to work with national standard setters to develop high quality requirements that lead to transparency and comparability; and
 - (c) keeping existing International Accounting Standards under review in the light of the latest thinking at national and international levels. In some cases, this review may lead to the conclusion that a national standard provides greater transparency or comparability than an existing International Accounting Standard. In such cases, IASC will need to consider amending its existing Standard.
16. IASC's Constitution does not limit IASC's objectives to financial reporting by business enterprises. The Working Party believes that:
- (a) IASC should continue to concentrate on business enterprises in the private sector for the time being and maintain a close dialogue with the Public Sector Committee of the International Federation of Accountants which is working on the development of international standards for the public sector, taking IASC's standards as a basis; and
 - (b) IASC should not focus on financial reporting by not-for-profit organisations, such as charities, at this stage. However, IASC might wish to address this topic at some point in the future.
17. The Working Party believes that IASC and national standard setters need to find new ways of working together to minimise unnecessary delays in reaching consensus and implementing the results of that consensus. The structure recommended below is specifically designed to foster consensus through extensive consultation.

IV. Proposed Structure

Overview

18. The proposed structure is considered by the Working Party to provide a balanced approach to legitimacy based upon representativeness among members of the Trustees, the Standing Interpretations Committee, and the Standards Advisory Council, and technical competence and independence among Board Members.
19. The Working Party recommends the following key changes to the present structure (see also Appendix B for a figure presenting the proposed new structure):
 - (a) a Nominating Committee would be appointed to begin the implementation of the new structure. This Nominating Committee would comprise between five (5) and eight (8) individuals of distinction from diverse geographic and functional backgrounds who would be selected to act in the public interest in selecting the initial group of Trustees. The current IASC Board would approve the membership of the Nominating Committee. The Nominating Committee would choose one of its members as Chairman.
 - (b) the Trustees, a group of nineteen (19) individuals having diverse geographic and functional backgrounds, would appoint Members of the Board, the Standing Interpretations Committee and a new Standards Advisory Council. The Trustees would also have responsibility for reviewing IASC's strategy and monitoring its effectiveness, for fundraising, for approving IASC's budget and for constitutional changes;
 - (c) the current Board would be replaced by a new Board of fourteen (14) individuals (twelve (12) full-time Members and two (2) part-time Members). The foremost qualification for Board membership would be technical expertise. Trustees would select Board Members so the Board will be composed of a group of people representing within that group the best available combination of technical skills and background experience of relevant international business and market conditions in order to contribute to the development of high quality, international accounting standards. The selection of Board Members would not be based on geographic representation. The Trustees would exercise their best judgement to ensure that the Board is not dominated by any particular constituency or regional interest. All Board Members would be required to act in the public interest. Seven (7) of the new Board's members would be expected to have formal liaison responsibilities with national standard setters who would play a major role in developing International Accounting Standards and would assist the IASC in achieving the convergence of accounting standards around high quality solutions. The Board would have complete responsibility for all IASC technical matters, including the final approval of International Accounting Standards and Exposure Drafts and final Interpretations prepared by the SIC;

- (d) the SIC would continue to exist in its present form;
- (e) a new Standards Advisory Council would replace the current Consultative Group to provide a formal vehicle for further participation of groups and individuals having diverse geographic and functional backgrounds in giving technical and other advice to the Board and Trustees; and
- (f) administrative issues of the type currently dealt with by the Executive Committee would be handled by the Chairman of the Board, subject to supervision by the Trustees.

Individuals serving as a member of one body (Trustees, Board, SIC, Standards Advisory Council) would not serve as a member of another of these bodies.

20. The Working Party believes that:

- (a) the result of implementing these recommendations will provide parties from all constituencies with extensive opportunities for participation and input into the process of standard setting while ensuring that all technical decisions are made by independent and technically competent individuals who are knowledgeable of relevant international business and market conditions. Accountability of IASC would be ensured through a combination of several mechanisms at the Trustee, Board, and Standards Advisory Council levels more fully described below. Additionally, in the light of IASC's higher profile today, the greatly increased interest in its work, and IASC's changing role, the Working Party is recommending certain improvements to the due process followed by IASC in developing Standards and Interpretations. The due process recommended would be a very open one which would extend the opportunities for the development of alternative views to be debated and concluded on by the Board.
- (b) the structural, due process, and other recommendations summarised in this paper are essential to finding the best global accounting solutions and facilitating the convergence of accounting standards internationally to those solutions. Moreover, the recommended structure allows for extensive input of views by interested parties from a diversity of backgrounds and constituencies, and provides mechanisms to ensure that the Board is not dominated by any particular constituency or regional interest.
- (c) the technically outstanding individuals who would become IASC Board Members would be selected by the Trustees because of their ability to act in the public interest in developing technically sound solutions which continue to improve the quality of international accounting standards. These Board Members would represent the best available combination of skills and background experience of relevant international business and market conditions in order to contribute to the development of high quality, understandable and enforceable global accounting standards that require high quality, transparent, and comparable information in financial statements. It is also expected that formal liaison relationships with national standard setters

would provide a key link between IASC and national standard setters which would improve the understanding of differences, increase the co-ordination of agenda projects, and ultimately facilitate the elimination of differences.

Nominating Committee

Members and Responsibilities

21. Formation of a Nominating Committee will expedite the implementation of the new structure. This Nominating Committee would comprise between five (5) and eight (8) outstanding individuals from diverse geographic and functional backgrounds. Examples might include senior members of regulatory bodies, major international organisations, major global corporations, and the accounting profession.
22. The Nominating Committee would appoint the initial group of Trustees, including the at-large Trustees, and would designate one of those Trustees as Chairman.

Selection

23. The current IASC Board would approve the membership of the Nominating Committee. The Nominating Committee would select one of its members as Chairman. The Board might be asked to approve the membership of the Nominating Committee at its meeting in December 1999. Early appointment of the Nominating Committee would have the advantage of establishing certainty as regards the specific individuals who would undertake the vital role of Trustee selection before final decisions were made about constitutional change.

Trustees

Members and Responsibilities

24. The Trustees would consist of nineteen (19) individuals drawn from diverse geographic and functional backgrounds. Trustee responsibilities would include the selection of all Board Members, including those who will serve in a liaison capacity with national standard setters (see Board section below). In addition, Trustees would be responsible for establishing contracts with Board Members, including requirements for exercising independent judgement on standard setting; and they would establish performance criteria for Board Members. The Trustees would be excluded from all technical matters relating to accounting standards.
25. The Trustees would also be responsible for selection of the members of SIC and of the Standards Advisory Council, oversight of IASC's activities, fundraising, and constitutional changes. Their responsibilities would include reviewing broad strategic issues and promoting IASC and its work, as well as approving its annual budget. The Trustees would establish the operating procedures of the Trustees, Board, SIC, and Standards Advisory Council.

26. Trustees would be required to make a commitment to act in the public interest in all matters. All appointments would be personal: neither alternates nor proxy voting would be permitted.
27. Trustees would normally be appointed for a fixed term of three (3) years, renewable once. Staggering of terms is desirable to distribute expiration dates and ensure reasonable continuity; some of the first group of Trustees might retire after three (3) years, some after four (4) years, and some after five (5) years. Trustees would meet two (2) or three (3) times each year.
28. All Trustees would be remunerated with an annual and a per-meeting fee, commensurate with the responsibilities assumed. Expenses of travel on IASC business would also be paid by IASC. The Chairman of the Trustees would receive additional remuneration commensurate with the responsibilities assumed.
29. The Trustees would have primary responsibility for future changes to the IASC constitution. The Working Party recommends that a due process for constitutional changes be established, including requirements for consultation with the Board and Standards Advisory Council prior to publication of proposed constitutional changes for public comment. The public comment period should be sufficiently long to allow for adequate consultation with constituents. A 75% majority of all Trustees would be required for changes to the constitution. For other decisions, a quorum of 50% would apply and a simple majority of those present would be required.

Selection

30. The initial group of Trustees would be appointed by the Nominating Committee. All Trustees would be required to show a firm commitment to the IASC as a high quality global standard setter, to be financially knowledgeable, and to have an ability to meet the time commitment. Each Trustee would need to have an understanding of, and be sensitive to, international issues relevant to the success of an international organisation responsible for the development of high quality international accounting standards for use in the world's capital markets. The mix of Trustees would be representative of the world's capital markets and a diversity of geographic and professional backgrounds. To ensure a broad international base, Trustees would be appointed so that there would be six (6) from North America, six (6) from Europe, four (4) from Asia Pacific, and three (3) others from any area, as long as geographic balance is maintained.
31. IFAC would suggest candidates to fill five (5) of the nineteen (19) Trustee seats. A process of mutual consultation between IFAC and the Nominating Committee would be followed to ensure that prospective nominees were consistent with a satisfactory balance of geographic and professional backgrounds, with consideration given to having two (2) of the five (5) IFAC nominees being senior executives from prominent international accounting firms.

32. The Nominating Committee would also enter into a process of mutual consultation with international organisations of preparers, users, and academics for the purpose of obtaining a nomination of one Trustee from each of these backgrounds. Organisations consulted might include the International Association of Financial Executives Institutes (financial executives), the International Council of Investment Associations (analysts), and the International Association for Accounting Education and Research (academics).
33. The Nominating Committee would also select eleven (11) initial at-large Trustees. The " at-large" designation would indicate that such Trustees are not appointed through the consultation process with constituency organisations (IFAC, preparers, users or academics). At-large Trustees would bring to IASC strong public interest experiences and backgrounds which are complementary to those of Trustees nominated through the constituency process. To select at-large Trustees, the Nominating Committee should establish procedures for inviting suggestions from relevant organisations and for allowing individuals to put forward their own names for consideration.
34. The existing Trustees would be responsible for the selection of all subsequent Trustees to fill vacancies as they arose following the same procedures as set out above for the initial appointments, including consultation with the relevant constituency organisation(s) where the vacancy arose on the retirement of a Trustee appointed as a result of such consultation. The geographic balance described above would be maintained.

Accountability

35. The proposed structure would ensure accountability of the Trustees through various mechanisms including:
 - (a) all Trustees would be required to commit formally to acting in the public interest in all matters;
 - (b) the selection criteria would ensure a diversity of geographic and functional backgrounds and interests that would provide balance within the group of Trustees and the avoidance of any concentration of membership;
 - (c) Trustee terms would be staggered to provide for ongoing balance; and
 - (d) the entire structure and its effectiveness would be reviewed beginning three years after implementation.

Board

Members and Responsibilities

36. The Board would comprise fourteen (14) Members. While some might believe that a smaller sized Board would be preferable in terms of certain aspects of operating efficiency, the Working Party has come to this number because of the need to have enough people to work closely with national standard setters and the need for involvement of individuals with diverse experience.
37. The fourteen (14) Members would consist of twelve (12) full-time Members, some of whom would have formal liaison responsibilities for one or more designated national standard setters, and two (2) part-time Members. Each Member of the Board, regardless of category or role, would have one vote and an equal role in the debate of and decision making on technical matters.
38. The Trustees would appoint one full-time Board Member to serve as the Chairman of the IASC Board. In addition to having Board Member responsibilities for decision making on technical matters, the Chairman would act as chief executive of IASC.
39. In addition to having Board Member responsibilities for the decision making on technical matters, seven (7) Members would be expected to have formal liaison responsibility for one or more designated national standard setter(s); the other seven (7) Board Members, including the two (2) part-time Members, would not be expected to have formal liaison responsibilities.
40. Members selected for a formal liaison role would also need to be accepted in an IASC liaison capacity by the respective national standard setter(s). As a result, the selection process would necessarily involve consultation between the Trustees and the national standard setter.
41. While Members having formal liaison responsibilities may or may not be permitted to vote as members of the national standard setters with which they are associated, they should be allowed to observe all meetings of the national standard setters and participate in the debate of technical topics.
42. While an individual filling a formal liaison role might be expected to have previous experience as a standard setter, this will be a matter for Trustee discretion taking account of the views of the national standard setters with whom the IASC liaison Member would interact.
43. Designation of one of the full-time Members as Deputy Chairman would be likely to be beneficial to the operation of the organisation. The responsibilities attached to the title of Deputy Chairman would primarily relate to stepping in to chair meetings of the Board in the unusual circumstance when the Chairman was not available, for example due to illness. The Deputy should also be a full-time IASC Board Member, but could be one of the liaison Members. The title of Deputy Chairman would not imply that the individual is the Chairman elect.

44. Part-time Board Members would have a half-time commitment to IASC. Part-time Members would have the same responsibilities for decision making on technical matters as the full-time Members. Part-time Members would be selected to ensure that the range of experience represented on the Board was the best possible for producing high quality international standards.
45. Each part-time and full-time Member is expected to have the highest level of technical competence, commitment to the IASC Framework, integrity and objectivity.
46. The Board would have full discretion over the technical agenda and project assignments on technical matters. The most important functions of the Board would be to prepare and issue Exposure Drafts and International Accounting Standards, and approve final SIC Interpretations.
47. It is considered important to undertake liaison activities with as many national standard setters as possible within the IASC structure. However, it is recognised that liaison Members will not be able to provide input from all national standard setters. Therefore, establishment of a Standards Advisory Council is recommended to achieve a further broadening of the mechanism for involvement of parties, including national standard setters, in IASC.
48. Board Members would normally be appointed for a fixed term of five years, renewable once. Terms should be staggered so that not all Members retire at once. To accomplish this, the Trustees might consider initial terms of three (3) years for some Members, four (4) years for some Members, and a full five (5) years for the Chairman and remaining initial Members.
49. It is expected the Board would meet approximately ten times per year for up to a week each time. This may change over time as the Board's agenda and the need for new projects develop.
50. The importance of building mutual trust and teamwork amongst Board Members is recognised. However, it is also recognised that only the Chairman would be required to be located in the central office of IASC. Perhaps some of the other full-time Board Members not having formal liaison roles would also choose to be located in the central location. Other full-time Members with liaison responsibilities and part-time Members would be likely to remain in their home countries to carry out their other responsibilities.

Independence

51. All full-time Members would sever all employment relationships with current employers and would not hold any position giving rise to perceived economic incentives which might call into question their independence of judgement in setting accounting standards. As a result, secondments and any rights to return to an employer would not be permitted. These full-time Members would be compensated by IASC at a rate appropriate for a full-time position commensurate with the responsibilities assumed.

52. Part-time Members would be compensated by IASC at an appropriate rate for the expected half-time commitment commensurate with the responsibilities assumed. Part-time Board Members would not be expected to sever all other employment arrangements.
53. All Board Members would be required to agree contractually to act in the public interest and apply the IASC Framework in deciding on and revising standards. The Trustees would establish procedures for terminating the appointments of Board Members who had not complied with their contracts.

Selection

54. The foremost qualification for Board membership would be technical expertise. Trustees would select Board Members so the Board would be composed of a group of people representing within that group the best available combination of technical skills and background experience of relevant international business and market conditions in order to contribute to the development of high quality, international accounting standards. The selection of Board Members would not be based on geographic representation. The Trustees would exercise their best judgement to ensure that the Board is not dominated by any particular constituency or regional interest. All Board Members would be required to act in the public interest. The Trustees would exercise their best judgement in selecting Board Members within the general parameters set out in the “Criteria for Board Members” attached as Appendix A. Trustees would be expected to act in the public interest in making these selections.
55. As a group, the full-time and part-time Board Members would be expected to have a mixture of functionally diverse backgrounds. To achieve a balance of perspectives and experience, a minimum of five (5) Board Members would have a background as practising auditors, a minimum of three (3) would have a background in the preparation of financial statements, a minimum of three (3) would have a background as users of financial statements, and at least one Member would have an academic background. Seven (7) of the fourteen (14) Board Members would be expected to have formal liaison responsibility for one or more designated national standard setter(s); the other seven (7) Board Members, including the two (2) part-time Members, would not be expected to have formal liaison responsibilities. The Trustees would select Board Members so that at the beginning of their initial terms, there would be a balance of recent and prior experience in each category of Members having backgrounds as auditors, preparers, users and academics.

Standing Interpretations Committee

56. The Working Party believes that the Standing Interpretations Committee (SIC) should continue to exist as a separate body with twelve (12) Members (as today). The SIC would provide a vehicle for more timely guidance within the IASC's due process. SIC Members would bring additional outside perspectives to the IASC. The SIC should continue to report to the Board and Board approval should continue to be required for a final SIC Interpretation.
57. Members of the SIC would be appointed by the Trustees. While as a group the SIC Members would have a broad geographic distribution, the criteria for membership would be commitment to the IASC Framework, technical competence, integrity and objectivity, and willingness to act in the public interest. Most Members would be accountants in practice as auditors, but selection should also secure broadly based input from persons having a diversity of experience in the application of IASC Standards, including preparers and users. The Trustees would also approve the operating procedures of the SIC.
58. The Working Party recommends that two Members of the Board be designated to attend SIC meetings as observers.

Standards Advisory Council

59. The Working Party proposes that a Standards Advisory Council be appointed by the Trustees. The Standards Advisory Council would provide its members with a forum in which to debate technical and other issues with the Board and, at times, to advise the Trustees. The Standards Advisory Council would be selected to ensure a diversity of geographical and functional backgrounds. The Chairman of the Board would chair the Standards Advisory Council.
60. Individuals and representatives of organisations would be selected by the Trustees for membership in the Standards Advisory Council, for a renewable term of two and a half years. Probable sources of its members would be accountancy institutes, regulatory bodies, national standard setters without a formal liaison relationship to the Board, representatives of auditors, preparers, academics, and users, and organisations such as UNCTAD, OECD, and other international groups such as those included in the current Consultative Group. The Standards Advisory Council would comprise about thirty (30) people to represent a wide spectrum of experience.
61. Operating procedures, including attendance requirements and performance criteria, would be developed by the Trustees in consultation with the Board. All Standards Advisory Council Members should be able to fully participate in technical discussions and contribute to the debate. Standards Advisory Council Members would normally serve at no cost to the IASC.

62. The Working Party expects that the Standards Advisory Council would meet three or four times a year, and would be consulted in advance of Board decisions. The Board would also communicate to the Standards Advisory Council its basis for conclusions on technical matters, particularly in cases where the Board's conclusion is in conflict with the advice of the Standards Advisory Council. The Standards Advisory Council would also be consulted with by the Trustees in advance of any proposed constitutional changes.

Members of IASC

63. The current IASC membership comprising the professional accountancy bodies that are members of IFAC would not be continued. A new form of membership might be established which would be open to any individual or organisation interested in supporting the activities of IASC. The members of IASC would not have the right to effect changes of the constitution. Membership would be likely to offer the benefit of discounted publications and participation on favourable terms in conferences or similar advantages. Membership meetings, if held, would be chaired by the Chairman of the Trustees.

Staff

64. The Working Party believes that IASC must be self-sufficient as regards having the staff to carry out its technical agenda. The technical staff would support the Board, Standards Advisory Council, and SIC. A high quality technical staff of fifteen is considered to be a reasonable starting number.
65. Some projects might be joint projects with national standard setters and the national standard setter concerned might contribute some of the staff resources needed. However, IASC's own staff would need to monitor the staff work on these projects to ensure that the output met IASC's needs.
66. Technical functions would be headed by a Technical Director who would be appointed by the Board Chairman in consultation with the Trustees. The Technical Director, while not a Board Member, would be entitled to participate in the debate at Board meetings.
67. A Commercial Director would manage publications and copyright, communications, fundraising, administrative and finance staff. The Board Chairman, in consultation with the Trustees, would appoint an individual to the position of Commercial Director.
68. The function of chief executive officer, currently performed by the Secretary-General, should pass to the Chairman of the Board. However, the current position of Secretary-General would probably be maintained in the transitional period to ensure continuity.

Legal Structure

69. The Working Party recommends that consideration be given to ways of establishing IASC as a legal entity, in the light of the proposal to alter the membership of IASC and taking account of implications for taxation, copyright, and other issues. The Trustees should in due course review the location of IASC (its legal base and its operating location) to determine whether some other location would be preferable. The Working Party also believes that IASC should investigate the possibility of seeking charitable or similar status in those countries where such status would assist fund-raising.

Timetable for Change

70. The Working Party recommends that all possible endeavours be applied to making the new structure operational from 1 January 2001. A proposed timetable for implementing the Working Party's recommendations is set out in Appendix D. The Working Party recognises that this is a challenging timetable which relies on the assumption that appointment of the Nominating Committee and the process for selecting Trustees can be largely completed before the Members of IASC decide whether to approve the constitutional changes at their meeting in May 2000.

V. Due Process

71. To secure IASC's legitimacy, IASC's due process must ensure the development of International Accounting Standards that are of high quality, requiring transparent and comparable information that will enable participants in capital markets to make sound economic decisions. Users and preparers of financial statements are more likely to accept the Standards if they have extensive opportunities to contribute to their development. Given IASC's higher profile today, the greatly increased interest in its work and IASC's changing role, it is appropriate to seek improvement of IASC's due process. Commentators responding to the December 1998 Discussion Paper expressed strong support for its recommendations in relation to strengthening IASC's due process.
72. In general, the Board would work in whatever way it considers most effective and cost efficient. It would normally form Steering Committees or other forms of specialist advisory groups to give advice on major projects. The Board may also wish to outsource detailed research or other work to national standard setters.
73. The Board would determine the scope of any projects formally added to its agenda. The process for the development of a Standard would involve the following steps:
 - (a) during the early stages of a project, the Board would normally establish a Steering Committee to give advice on the issues arising in the project. Consultation with the Steering Committee and the Standards Advisory Council would occur throughout the project;
 - (b) the Board would normally develop and publish a Draft Statement of Principles or similar discussion document for public comment;
 - (c) following the receipt and review of comments, the Board would develop and publish an Exposure Draft for public comment; and
 - (d) following the receipt and review of comments, the Board would issue a final Standard.

The following paragraphs address additional elements of the due process that would be followed in the development of an International Accounting Standard.

Voting

74. Each Board Member would have one vote on technical and other matters. The publication of a Standard, Exposure Draft, or final SIC Interpretation would require approval by eight (8) of the Board's fourteen (14) Members. Other decisions, including the issuance of a Draft Statement of Principles or a Discussion Paper and agenda decisions, would require a simple majority of the Board Members present at a meeting attended by 50% or more of the Board Members. The Board would have full control over its technical agenda.

75. Each SIC Member would have one vote on a SIC Interpretation. Eight voting Members of the SIC would represent a quorum. Approval of SIC Interpretations would require no more than three Members of the SIC present at the meeting voting against the proposal.

Openness of Meetings

76. The Working Party believes that meetings should be conducted as follows:
- (a) Board meetings would continue to be open to public observation as has been the case from March 1999. SIC meetings would be opened to public observation as soon as is practicable. However, certain discussions (primarily selection, appointment and other personnel issues) would need, at the Board's and SIC's discretion, to be held in private. Portions of the Trustees' meetings would also be open to the public, at the discretion of the Trustees;
 - (b) IASC could make more use of new technology (such as the Internet, the web site, electronic observation of meetings), to overcome geographical barriers and the logistical problems for members of the public in attending open meetings;
 - (c) IASC would publish in advance the agenda for each meeting of the Standing Interpretations Committee, Board and Trustees and would publish promptly a summary of the technical decisions made at Board and SIC meetings and, where appropriate, decisions of the Trustees; and
 - (d) when IASC publishes a Standard, it would publish a Basis for Conclusions to explain publicly how it reached its conclusions and to give background information that may help users of IASC standards to apply them in practice. IASC would also publish dissenting opinions (IASC's current Constitution prohibits this).

Comment Periods

77. IASC would continue its practice of issuing each Exposure Draft of a Standard, Discussion Paper, and Draft SIC Interpretation for public comment. The Working Party believes that there is now a case for IASC to extend its comment periods for Exposure Drafts and other discussion documents relating to a proposed Standard. A minimum of four (4) to six (6) months would be appropriate. Draft Interpretations would continue to be exposed for a 60 day comment period.

Public Hearings and Field Tests

78. The Working Party believes that the Board should make appropriate use of the following, although there would be no requirement to do so for every project:
- (a) 'public hearings' to discuss proposed standards; and

- (b) field tests (both in developed countries and in emerging markets) to ensure that proposals are practical and workable around the world.
79. Where practicable, public hearings and field tests should be coordinated with national standard setters.

Coordination with National Due Process

80. An important objective of the Working Party's model is closer coordination between IASC's due process and the due process of national standard setters. The Working Party recognises that many national standard setters will not give up their own due process, nor can they give an undertaking that they will tie themselves to IASC's due process. However, the Working Party believes that IASC should aim to integrate its due process more closely with national due process. Such integration may grow as the relationship between IASC and national standard setters evolves. The Working Party's desired outcome is the following procedure for most, and preferably all, projects that have international implications:
- (a) IASC and national standard setters would coordinate their work plans so that when IASC starts a project, national standard setters would also add it to their own work plans so that they can play a full part in developing an international consensus. Similarly, where national standard setters start projects, IASC would consider whether it needs to develop a new Standard or revise its existing Standards. Over a reasonable period, IASC and national standard setters should aim to review all standards where significant differences currently exist, giving priority to the areas where the differences are greatest;
 - (b) those Members of the IASC Board having liaison responsibilities would not be required to vote for IASC's preferred solution in their national standard setters, since each country would remain free to adopt IASC standards with amendments or to adopt other standards. However, the existence of an international consensus is clearly one factor that members of national standard setters would consider when they decide how to vote on national standards;
 - (c) IASC would continue to publish its own Exposure Drafts and other documents for public comment;
 - (d) national standard setters would publish their own exposure documents at approximately the same time as IASC Exposure Drafts and would seek specific comments on any significant divergences between the two exposure documents. The Working Party expects that such divergences would become increasingly rare. In some instances, national standard setters may include in their exposure documents specific comments on issues of particular relevance to their country or include more detailed guidance than is included in the corresponding IASC document; and
 - (e) national standard setters would follow their own full due process, which they would, ideally, choose to integrate with IASC's due process. This integration would avoid unnecessary delays in completing standards and would also

minimise the likelihood of unnecessary differences between the standards that result. In the same way as for Exposure Drafts, the Working Party expects that it will become increasingly rare for national standard setters to adopt standards that differ from International Accounting Standards.

81. These procedures would be facilitated by IASC through those Board Members having liaison responsibilities with a national standard setter.

Opportunities for Input

82. The development of an International Accounting Standard would follow a very open, public process of debating technical issues and evaluating input sought through several mechanisms. Opportunities for interested parties to participate in the development of International Accounting Standards would include, depending on the nature of the project:
- (a) participation in the development of views as a Member of the Standards Advisory Council;
 - (b) participation on Steering Committees;
 - (c) participation in other specialist advisory groups;
 - (d) submission of a comment letter in response to the Draft Statement of Principles or similar discussion document;
 - (e) submission of a comment letter in response to the Exposure Draft;
 - (f) participation in public hearings; and
 - (g) participation in field tests.

The Board should also publish an annual report on its activities during the past year and priorities for the next year. This report would provide a basis and opportunity for comment by interested parties.

VI. Implementation, Enforcement, and Training

83. In the Working Party's view, identifying and dealing with departures by preparers from International Accounting Standards (or from national requirements that are consistent with International Accounting Standards) is primarily a matter for auditors, professional accountancy bodies, IFAC, national enforcement agencies and supranational bodies such as IOSCO and the Basel Committee. IASC does not have the resources or the legal authority to do this effectively.
84. While it is recognised that the IASC Trustees and Board cannot take on a direct role in implementation and enforcement, the organisation would be expected to take an active interest in such matters and to liaise with organisations which do have implementation and enforcement roles. This includes working with those organisations in the assessment of whether national standards result in compliance with International Accounting Standards. The Working Party recommends IASC address the following:
- (a) IASC should work with organisations including IOSCO, the European Commission, and national regulators and standard setters to encourage domestic regulators to be active in enforcing the proper application of IASC Standards and Interpretations;
 - (b) IASC should provide advice in response to technical inquiries from appropriate local authorities including national standard setters and regulators engaged in enforcing IASC standards;
 - (c) The Trustees should keep under review, in consultation with regulators, national standard setters, IFAC and other professional accountancy bodies, the possibility of establishing improved arrangements for ensuring the good application of IASC standards. Good application is considered as important as developing high quality standards;
 - (d) IASC should refer obvious cases of incorrect application of its standards (of which it becomes aware) to the relevant authorities (professional bodies, regulators, etc); and
 - (e) IASC should continue to encourage the efforts of the International Forum on Accountancy Development regarding implementation of its commitment earlier this year to building the accounting and auditing capacity of developing, transitional, and developed economies and promoting the use of IASC Standards as the minimum benchmark for national accounting standards.
85. The structure recommended by the Working Party is intended to encourage the co-operation of IASC with organisations involved in the implementation and enforcement of its Standards. Achievement of this co-operation is achieved through the involvement of such groups in the activities of the Trustees, Board, SIC and Standards Advisory Council.

86. The Working Party believes that IASC should consider publishing training material, illustrative examples and other implementation guidance, such as staff technical accounting bulletins and, perhaps, also giving training courses.

Translation

87. IASC has recently published authorised German, Russian and Polish translations of its standards and is working on other translations. These are the first translations that IASC has undertaken directly. The Working Party recommends that IASC publish or promote authorised translations of its standards into other languages, preferably on a self-financing or contributing basis.
88. The objective of such translations is to:
- (a) promote the use of International Accounting Standards;
 - (b) ensure that users of International Accounting Standards have access to high quality translations; and
 - (c) raise revenue.
89. The Working Party believes that IASC should explore ways by which it could eventually establish quality control of all translations of its standards, possibly by working with local standard setters and accountancy bodies.

VII. Funding

90. The Working Party has reviewed a detailed budget prepared for the operations of IASC after the recommended reorganisation. It estimates the annual budget necessary to implement all aspects of the proposed structure to be approximately £10 million. This figure includes the remuneration of Trustees, Board Members, technical and administrative staff, the costs of meetings and accommodation and other costs. The Working Party notes that this sum is in the same general order of magnitude as the budget of the Financial Accounting Standards Board in the United States. It also notes that the benefits to the international economy of having uniform and high quality accounting standards are likely to be many times this sum. It therefore concludes that the reorganisation of IASC is likely to be highly beneficial in terms of the balance of costs and benefits and that IASC has a strong case for raising the funding required.
91. The largest cause of increase over present levels in the budget of IASC results from the remuneration of Board Members and Trustees. Ultimately, this remuneration will be set by the Trustees. The following estimates of total employment costs have been used for budgeting purposes:
- (a) Trustees: For the Chairman, *£25,000* annually; for the other Trustees, *£12,500* annually; for each Trustee, *£1,000* per meeting of the Trustees or sub-committee; and
 - (b) Board: For the Chairman, *£400,000* annually; for the other full-time Members, *£325,000* annually; for part-time Members, *£162,500* annually.
92. The Working Party believes that IASC should undertake a detailed planning study in the near future to provide an improved basis for assessing the feasibility and modality of obtaining the required funding. The basic guiding principle should be that the beneficiaries should ultimately bear the cost. The beneficiaries are particularly the participants in capital markets, investors and their advisors. This principle encourages the thought that IASC should plan to raise a reasonably large proportion of its budget from the sale of its publications and similar commercial activities. It also suggests that direct contributions should be sought from institutional investors, investment advisers and similar undertakings.
93. The most cost-effective system for raising the required funding will probably involve spreading the burden so that many different organisations are asked to make relatively small contributions. Fund-raising efforts should include intermediaries, that is organisations which are involved in the effective operation of capital markets but are not the end beneficiaries. Stock exchanges and auditing firms, particularly the large international auditing firms, should be expected to contribute significant sums according to arrangements which are fair in the context of their competitive environments. Similarly, professional bodies should continue to meet a reasonable share of the total IASC budget.
94. National standard setters will be additional beneficiaries if the work of IASC ultimately makes it possible for them to carry out their activities more economically.

In this connection, the Working Party notes that standard setters in some countries are virtually obtaining a "free ride" at present in that they are making extensive use of international standards without bearing any of the cost. While recognising that standard setters in emerging markets cannot afford to pay large sums, the Working Party notes that some of those concerned are based in relatively wealthy countries and that an effort should be made to find an equitable way for them to make a financial contribution.

95. One of the largest groups of beneficiaries of uniform international standards will be multinational companies and large national companies which wish to be compared with multinational companies. These companies are partly intermediaries in that their costs ultimately fall partly on their investors but they also stand to make very large cost savings (in the cost of their financial administration and, in some cases, in their cost of capital) from agreement on international standards and they should be willing to make some financial contribution to achieve those savings.
96. Another potentially large set of beneficiaries of agreement on international accounting standards is governments and others, such as foundations, who foster the general public interest. The G7 finance ministers have made clear that they regard good accounting as one element of a set of arrangements needed to increase confidence in international investment and thereby reduce the danger of instability in the international economy, the danger, for example, that recession in certain countries may spread to others. Care is needed over any arrangement for financing that may leave IASC exposed to political pressure and annual financial contributions from governments, even if they were obtainable, would probably cause difficulty. However, ways could be sought of obtaining endowment contributions from governments to provide a fund which would secure IASC's initial phase of operations.

VIII. Structure Review

97. A review of the effectiveness of the new structure is a critical step. The Working Party recommends that the Trustees undertake such a review commencing three years after implementation of this new structure, to enable any revisions to become effective no later than after five years and that similar reviews be conducted with the same frequency thereafter. Without limiting the generality of such reviews, consideration should be given to the impact of changing global economic conditions.

IX. Conclusion

98. Although IASC's existing structure has served it well, the Working Party believes that IASC needs to change its structure so that it can meet new challenges, and seize new opportunities, as effectively as it has met other challenges in the first 25 years of its life. IASC has completed the major projects in its work programme to develop the core standards as agreed with IOSCO. However, IASC will face even greater challenges as it works, in partnership with national standard setters, for further convergence among standards. Therefore, it is vital to give IASC the right structure for the beginning of the twenty-first century.

Appendix A

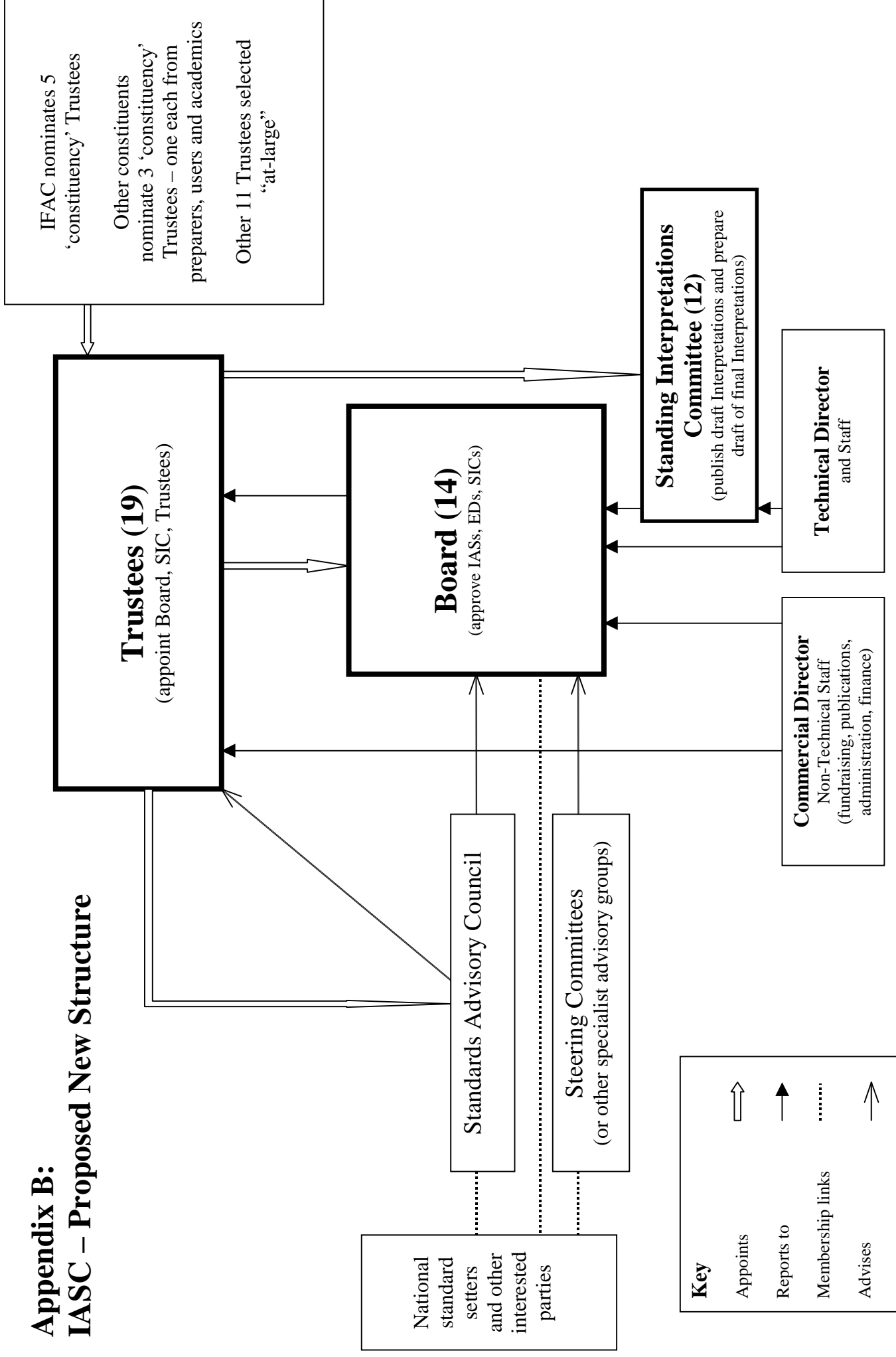
International Accounting Standards Committee Criteria for Board Members

The following would represent criteria for IASC Board membership:

- 1. Demonstrated Technical Competency and Knowledge of Financial Accounting and Reporting.** All Members of the Board, regardless of whether they are from the accounting profession, preparers, users, or academics, should have demonstrated a high level of knowledge and technical competency in financial accounting and reporting. The credibility of the Board and its individual Members and the effectiveness and efficiency of the organisation will be enhanced with Members who have such knowledge and skills.
- 2. Ability to Analyse.** Board Members should have demonstrated the ability to analyse issues and consider the implications of that analysis for the decision making process.
- 3. Communication Skills.** Effective oral and written communication skills are necessary. These skills include the ability to communicate effectively in private meetings with Board Members, in public meetings, and in written materials such as accounting standards, speeches, articles, memos and correspondence with constituents. Communication skills also include the ability to listen to and consider the views of others. While a working knowledge of English is necessary, there should not be discrimination in selection against those for whom English is not their first language.
- 4. Judicial Decision Making.** Board Members should be capable of considering varied viewpoints, weighing the evidence presented in an impartial fashion, and reaching well reasoned and supportable decisions in a timely fashion.
- 5. Awareness of the Financial Reporting Environment.** High quality financial reporting will be affected by the financial, business and economic environment. Board Members should have an understanding of the global economic environment in which the Board operates. This global awareness should include awareness of business and financial reporting issues that are relevant to, and effect the quality of, transparent financial reporting and disclosure in the various capital markets worldwide.
- 6. Ability to Work in a Collegial Atmosphere.** Members should be able to show respect, tact and consideration for one another's and constituents' views. Members must be able to work with one another in reaching consensus views based on the Board's objective of developing high quality and transparent financial reporting. Members must be able to put the objective of the Board above individual philosophies and interests.
- 7. Integrity, Objectivity and Discipline.** The credibility of Members should be demonstrated through their integrity and objectivity. This includes intellectual integrity as well as integrity in dealing with fellow Board Members and constituents. Members should demonstrate an ability to be objective in reaching decisions. Members also should demonstrate an ability to show rigorous discipline and carry a demanding workload.

8. Commitment to IASC's Mission and Public Interests. Members should be committed to achieving the objective of the IASC of establishing international accounting and financial reporting standards that are of high quality, comparable, and transparent. A candidate for the Board also should be committed to serving the public interest through a private standard setting process.

Appendix B: IASC – Proposed New Structure



Appendix C

Strategy Working Party Membership

The Strategy Working Party was appointed by the Chairman and Deputy Chairman of IASC, in accordance with authority delegated by the IASC Board. Its members are:

<i>Edward Waitzer (Chairman)</i>	<i>Chairman, Stikeman, Elliott Former Chairman, Ontario Securities Commission Former Chairman, IOSCO Technical Committee</i>
<i>Georges Barthès de Ruyter</i>	<i>Chairman, Conseil National de la Comptabilité, France Former Chairman of IASC</i>
<i>Sir Bryan Carsberg</i>	<i>Secretary-General, IASC</i>
<i>Anthony Cope</i>	<i>Board Member, Financial Accounting Standards Board, United States</i>
<i>Stig Enevoldsen</i>	<i>Chairman, IASC</i>
<i>Frank Harding</i>	<i>President, International Federation of Accountants</i>
<i>Kazuo Hiramatsu</i>	<i>Professor of Accounting, Kwansei Gakuin University, Japan Former Member, Business Accounting Deliberation Council</i>
<i>Birgitta Kantola</i>	<i>Vice President, Finance and Planning, International Finance Corporation</i>
<i>Jacques Manardo</i>	<i>Global Managing Partner - Strategic Clients - Member of the Executive Group, Deloitte Touche Tohmatsu</i>
<i>David S. Ruder</i>	<i>Professor of Law, Northwestern University Trustee, Financial Accounting Foundation, United States Former Chairman, US Securities and Exchange Commission</i>
<i>Michael Sharpe</i>	<i>Past Chairman, IASC</i>
<i>Sir David Tweedie</i>	<i>Chairman, Accounting Standards Board, United Kingdom</i>

Appendix D

Possible Timetable for Implementing the Working Party's Proposals

Working Party publishes Report to the IASC Board	30 November 1999
IASC Board to discuss Strategy Working Party's Report and approve Nominating Committee	13-16 December 1999
First meeting of Nominating Committee to begin selection process for Trustees	January 2000
IASC Board to approve resolutions for constitutional changes	13-17 March 2000
Nominating Committee to make provisional appointments of the Trustees, subject to the approval by IASC Members of the constitutional changes	April 2000
Meeting of IASC Members to approve resolutions for constitutional changes	24 May 2000
Trustees to appoint new Board	from 24 May 2000
New Board to commence activities	1 January 2001