

International Accounting Standards Committee Foundation

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# CHANGES IN THE CONSTITUTION

Report of the IASC Foundation Trustees on Part 1 of their Review

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APRIL 2009



**International  
Accounting Standards  
Committee Foundation®**

Changes in the IASC Foundation's Constitution  
Part I

**Report of the IASC Foundation Trustees**

April 2009

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## CONTENTS

	<i>pages</i>
<b>SECTION A SUMMARY</b>	<b>4</b>
<b>SECTION B AMENDED SECTIONS OF CONSTITUTION</b>	<b>6</b>
<b>SECTION C COMMENTARY ON PART I OF THE PROPOSED CHANGES TO THE CONSTITUTION AND THE TRUSTEES' CONCLUSIONS.</b>	<b>9</b>
<b>APPENDICES</b>	
<b>1 Process for the Constitution Review</b>	<b>21</b>
<b>2 Organisations and individuals that participated in the Constitution Review</b>	<b>23</b>
<b>3 Memorandum of Understanding between the Monitoring Board and the Trustees</b>	<b>26</b>
<b>4 Revised Constitution</b>	<b>30</b>

A complete set of comment letters and statements provided to the Constitution Committee and Trustees is available on the IASC Foundation's website, together with an analysis of the comment letters received. They may be accessed at [www.iasb.org](http://www.iasb.org)

## Section A

### Summary

- 1 On 15 January 2009 in New Delhi, India, the Trustees completed the first part of their five-yearly review of the IASC Foundation's Constitution, the document setting out the IASC Foundation's governance arrangements. The first part of the review addressed the issue of public accountability by creating a link to a Monitoring Board of public authorities and helped ensure the international basis of the IASB by increasing its size from 14 to 16 members by July 2012 and providing some geographical guidelines for the IASB's membership.
- 2 This document explains the rationale for the changes agreed in the first part of the Constitution Review and provides feedback regarding the input from interested parties during the public consultation. The Trustees published their proposals formally in July 2008 in a consultation document, *Review of the Constitution: Public Accountability and the Composition of the IASB—Proposals for change*.
- 3 While the January 2009 changes were part of a regular five-yearly review of the Constitution, the amendments reflect the work undertaken by the Trustees beginning in 2007. A strategy review by the Trustees in 2007 highlighted the need to enhance the public accountability of the IASC Foundation, if the IASB were to become the world's accounting standard-setter. When the Constitution Review formally began, the Trustees gave priority to the issue of public accountability. The relevance of this priority was confirmed when a group of regulators (the International Organization of Securities Commissions, the European Commission, the Japan Financial Services Agency, and the US Securities and Exchange Commission) issued in November 2007 a press release regarding the IASC Foundation's public accountability.
- 4 In undertaking the first part of the Constitution Review, the Trustees consulted a wide range of interested parties. The consultations included round-table discussions in London and a public comment period on the proposals, where more than 70 individuals and organisations responded to the IASC Foundation proposals.
- 5 From the beginning the Trustees adopted the view that the fundamental premise of the original Constitution remains sound. It was only in June 2005, after extensive consultations throughout the world, that the Trustees completed their first five-yearly Constitution Review, when this premise was reaffirmed. At the same time, the constitutional changes are intended to make significant enhancements to existing governance arrangements. Underpinning the organisation's structure is the internationally accepted principle that global accounting standards should be developed by an independent IASB. The IASB reaches conclusions after following a transparent and open due process that considers the views of all stakeholders. An independent and geographically diverse body of Trustees oversees the IASB. With the constitutional changes, the Trustees themselves are now publicly accountable to a Monitoring Board of public authorities.
- 6 This basic approach to the architecture of governance is similar to that in place in many national jurisdictions for accounting standard-setters. The consultations revealed strong and consistent support among investors and others on the need to maintain, within agreed due process, the independence of the IASB's decision-making. At the same time, stakeholders understood the need to establish a formal linkage to public authorities, where none was previously defined, and strongly encouraged the Trustees' efforts to enhance the organisation's public accountability.

- 7 Therefore the first part of the Constitution Review focused on the creation of a direct link to public authorities—one that would seek to replicate, on an international basis, the link between accounting standard-setters and those public authorities that have generally overseen accounting standard-setters. The membership of the Monitoring Board, now agreed, will comprise the relevant leaders from the IOSCO Emerging Markets and Technical Committees, the European Commission, the Japan FSA, and the US SEC. The Basel Committee on Banking Supervision will sit as a formal observer at Monitoring Board meetings.
- 8 The Monitoring Board's main responsibilities are, first, to ensure that the Trustees continue to discharge their duties as defined by the IASC Foundation's Constitution and, second, to approve the appointment or reappointment of Trustees. It is expected that the Monitoring Board will meet the Trustees at least once a year, or more often if appropriate. The relationship and responsibilities of the participating organisations are described in the Memorandum of Understanding (MoU) developed by the members of the Monitoring Board and the Trustees.
- 9 The Monitoring Board arrangements do not replace existing consultation requirements. Indeed, the Trustees are stepping up their efforts for greater dialogue with interested parties through the Standards Advisory Council, which was reconstituted in 2008 and met for the first time in February 2009. The Trustees and the IASB are also working to build stronger relationships with stakeholders representing users, preparers, auditors, academics and regulators.
- 10 Furthermore, the Trustees also approved, in New Delhi on 15 January, a constitutional change that will expand the IASB to 16 members and provides guidelines on geographical diversity. To ensure a broad international basis, there will normally be
- four members from the Asia/Oceania region;
  - four members from Europe;
  - four members from North America;
  - one member from Africa;
  - one member from South America; and
  - two members appointed from any area, subject to maintaining overall geographical balance.
- 11 This report sets out the conclusions of the first part of the Trustees' Constitution Review, as follows:
- **Section B** shows the amendments approved in the Constitution in marked-up format.
  - **Section C** is a discussion of the Trustees' conclusions on each of the issues identified for consideration as part of the Constitution Review. The arguments considered on those issues may be found in further detail in the Trustees' consultation paper *Review of the Constitution: Public Accountability and the Composition of the IASB—Proposals for change*.
  - **Appendices:** The following are included:
    - Process for the Constitution Review.
    - Organisations and individuals that participated in the Constitution Review.
    - Memorandum of Understanding between the Monitoring Board and the Trustees.
    - The revised Constitution.

## Section B

### Amended Sections of the Constitution

- 5 The Trustees **Monitoring Board (described further in Sections 18-23)** shall be responsible for the **approval** selection of all subsequent Trustees **appointments and reappointments** to fill vacancies caused by routine retirement or other reason. In **approving** making such selection, the Trustees **Monitoring Board** shall be bound by the criteria set **out** ~~forth~~ in Sections 6 and 7. **The Trustees and the Monitoring Board shall agree a nomination process that will entitle the Monitoring Board to recommend candidates and provide other input. In administering the nomination process and putting forward nominations to the Monitoring Board for approval, the Trustees shall consult** and in particular shall undertake mutual consultation with international organisations as set out in Section 7, for the purpose of selecting an individual with a similar background to that of the retiring Trustee, where the retiring Trustee was selected through a process of mutual consultation with one or more international organisations **as set out in Section 7.**
- 17 The accountability of the Trustees shall be ensured *inter alia* through:
- (a) a commitment made by each Trustee to act in the public interest;
  - (b) their **commitment to report to and engage with the Monitoring Board according to the terms described in Sections 18-23.**
  - (c) **their** undertaking a review of the entire structure of the IASC Foundation and its effectiveness, such review to include consideration of changing the geographical distribution of Trustees in response to changing global economic conditions, and publishing the proposals of that review for public comment, the review commencing three years after the coming into force of this Constitution, with the objective of implementing any agreed changes five years after the coming into force of this Constitution (6 February 2006, five years after the date of the incorporation of the IASC Foundation); and
  - ~~(e)~~**(d)** their undertaking a similar review subsequently every five years.

#### **The Monitoring Board**

- 18 **A Monitoring Board will provide a formal link between the Trustees and public authorities. This relationship seeks to replicate, on an international basis, the link between accounting standard-setters and those public authorities that have generally overseen accounting standard-setters. A Memorandum of Understanding will be agreed between the Monitoring Board and the Trustees describing the interaction of the Monitoring Board with the Trustees. This Memorandum of Understanding will be made available to the public.**
- 19 **The responsibilities of the Monitoring Board shall be:**
- (a) **to participate in the process for appointing Trustees and to approve the appointment of Trustees according to the guidelines in Sections 5-8.**
  - (b) **to review and provide advice to the Trustees on their fulfilment of the responsibilities set out in Sections 13 and 15. The Trustees shall make an annual written report to the Monitoring Board.**

- (c) to meet the Trustees or a subgroup of the Trustees at least once annually, and more frequently as appropriate. The Monitoring Board shall have the authority to request meetings with the Trustees or separately with the Chairman of the Trustees (with the Chairman of the IASB as appropriate) about any area of work of either the Trustees or the IASB. These meetings may include discussion of, and any IASC Foundation or IASB proposed resolution of, issues that the Monitoring Board has referred for timely consideration by the IASC Foundation or the IASB.
- 20** The Monitoring Board shall develop a charter that sets out its organisational, operating and decision-making procedures. The charter shall be made public.
- 21** Initially, the Monitoring Board shall comprise:
- (a) the responsible member of the European Commission.
- (b) the chair of the IOSCO Emerging Markets Committee.
- (c) the chair of the IOSCO Technical Committee (or vice chair or designated securities commission chair in the case where either the chairman of an EU securities regulator, commissioner of the Japan Financial Services Agency or chairman of the US Securities and Exchange Commission is the chair of the IOSCO Technical Committee).
- (d) the commissioner of the Japan Financial Services Agency.
- (e) the chairman of the US Securities and Exchange Commission, and
- (f) as an observer, the chairman of the Basel Committee on Banking Supervision.
- 22** The Monitoring Board shall reconsider its composition from time to time relative to its objectives.
- 23** The Monitoring Board shall reach decisions to approve the appointment of Trustees and establish any common positions by consensus.

## IASB

- ~~1824~~ The IASB shall comprise fourteen members, increasing to sixteen members at a date no later than 1 July 2012. The members of the IASB are appointed by the Trustees under Section 15(a). Up to three members may be part-time members (the expression 'part-time' meaning that the members concerned commit most of their time in paid employment to the IASC Foundation) and shall meet appropriate guidelines of independence established by the Trustees. The remaining members of whom ~~twelve~~ shall be full-time members (the expression 'full-time' meaning that the members concerned commit all of their time in paid employment to the IASC Foundation). ~~The remaining two members shall be part-time members (the expression 'part-time' meaning that the members concerned commit most of their time in paid employment to the IASC Foundation) and shall meet appropriate guidelines of independence, established by the Trustees.~~ The work of the IASB shall not be invalidated by its failure at any time to have a full complement of ~~fourteen~~ members, although the Trustees shall use their best endeavours to achieve a full complement.
- ~~1925~~ The main qualifications for membership of the IASB shall be professional competence and practical experience. The Trustees shall select members of the IASB, consistently with the Criteria for IASB Members set out in the Annex to the Constitution, so that it will comprise a group of people representing, within that group, the best available combination of technical expertise and diversity of international business and market experience in order to contribute to the development of high quality, global accounting standards. The members of the IASB shall be required to commit themselves formally to acting in the public interest in all matters. No individual shall be both a Trustee and an IASB member at the same time.

~~2026~~ **In a manner consistent with the Criteria for IASB Members as set out in the Annex to this Constitution and in order to ensure a broad international basis, there shall normally be, by 1 July 2012:**

- (a) four members from the Asia/Oceania region;**
- (b) four members from Europe;**
- (c) four members from North America;**
- (d) one member from Africa;**
- (e) one member from South America; and**
- (f) two members appointed from any area, subject to maintaining overall geographical balance.**

~~The work of the IASB shall not be invalidated by its failure at any time to have a full complement of members according to the above geographical allocation, although the Trustees shall use their best endeavours to achieve the geographical allocation. The selection of members of the IASB shall not be based on geographical criteria, but the Trustees shall ensure that the IASB is not dominated by any particular constituency or geographical interest. In particular, the Trustees shall observe the general parameters set out in the Criteria for IASB Members which are attached to this Constitution.~~

~~3036~~ The publication of an ~~Exposure Draft~~, **or an International Accounting Standard, International Financial Reporting Standard, (including an International Accounting Standard or an final Interpretation of the International Financial Reporting Interpretations Committee)** shall require approval by nine ~~of the fourteen~~ members of the IASB, **if there are fewer than 16 members, or by ten members if there are 16 members**. Other decisions of the IASB, including the publication of a discussion paper, shall require a simple majority of the members of the IASB present at a meeting that is attended by at least 60% **per cent** of the members of the IASB, in person or by telecommunications.

## Section C

### Explaining the constitutional changes and providing feedback to commentators

- 1 The IASC Foundation's Constitution, originally approved in 2000 and subsequently revised in 2002, 2005 and 2007 sets out both the governance structure and the operating procedures of the Foundation and its independent standard-setting body, the International Accounting Standards Board (IASB).
- 2 The Constitution states that the Trustees should undertake:
 

a review of the entire structure of the IASC Foundation and its effectiveness, such review to include consideration of changing the geographical distribution of Trustees in response to changing global economic conditions, and publishing the proposals of that review for public comment, the review commencing three years after the coming into force of this Constitution, with the objective of implementing any agreed changes five years after the coming into force of this Constitution (6 February 2006, five years after the date of the incorporation of the IASC Foundation [Section 17(b)], and a similar review subsequently every five years. [(Section 17(c)]

The previous review was concluded in June 2005, which was earlier than required by the Constitution. As a result, the second Constitution Review must be complete by June 2010.
- 3 Consistently with these requirements, the Trustees formally initiated their second five-yearly review of the organisation's constitutional arrangements in February 2008. In launching this second review, the Trustees agreed to draw heavily on a strategic review completed in 2007. In the light of the rapid advance of IFRS adoption and increased interaction with external parties, the Trustees believed that a long-term assessment of the organisation's objectives and future would be useful in preparing for the Constitution Review that is now under way. As part of the review process, the Trustees met prominent stakeholders from around the world with an interest in accounting standard-setting, including regulators, accounting and business organisations, and the Standards Advisory Council.
- 4 The strategy review in 2007 highlighted the need to enhance the public accountability of the IASC Foundation, if the IASB is to become the world's accounting standard-setter, a clear organisational objective. The strategy review also emphasised the practical benefits that would be associated with the expansion of the IASB to 16 members and the addition of provisions related to the IASB's geographical diversity. The expansion of the IASB would enable it to engage more efficiently and effectively with interested parties throughout the world and bring new perspectives to its deliberations. Furthermore, the addition of a geographical component would strengthen the legitimacy of the IASB in the view of the countries choosing to adopt IFRSs. The relevance of these priorities were confirmed when a group of regulators (the International Organization of Securities Commissions, the European Commission, the Japan Financial Services Agency, and the US Securities and Exchange Commission) issued in November 2007 a press release regarding the IASC Foundation's public accountability.
- 5 Therefore, the Trustees believed that addressing this issue of public accountability should be a priority for the Constitution Review in October 2007. They therefore split the review into two parts—the first, focusing on issues of public accountability and the IASB's size and composition, and the second, providing an opportunity for consideration of broader issues concerning the IASC Foundation's governance arrangements and operations. This report summarises the conclusions of the first part of the review. A summary of the process undertaken is provided as Appendix 1.

- 6 In conducting the first part, the Trustees consulted relevant stakeholders with an interest in the development of accounting standards. Furthermore, the Trustees held a series of round-table meetings on 19 June 2008 with thirty participating organisations. As a result of those discussions the Trustees revised and clarified their proposals, so as to ensure that the consultation document and the proposed amendments were relevant and necessary. The Trustees' proposals were also based upon consultations they had with members of the proposed Monitoring Board and the Standards Advisory Council (the organisation's primary advisory group) on two occasions.
- 7 To help focus comment regarding the proposals on public accountability and the IASB's size and composition, in July 2008 the Trustees published *Review of the Constitution: Public Accountability and the Composition of the IASB—Proposals for Change*. The Trustees asked seven questions, which are listed below:

### **Questions on the creation and terms of reference of the Monitoring Group**

- Q1 Do you support the creation of a link to a Monitoring Group in order to create a direct link of public accountability to official institutions?
- Q2 The proposals contemplate a Monitoring Group comprising representatives of seven public authorities and international organisations with a link to public authorities. While recognising that the Monitoring Group is an autonomous body, the Trustees would welcome comments regarding the Monitoring Group's membership and whether other organisations accountable to public authorities and with an interest in the functioning of capital and other financial markets should be considered for membership.
- Q3 The Trustees will remain the body primarily responsible for the governance of the organisation and the oversight of the IASB. Their responsibility to a Monitoring Group will enable regulatory and other authorities responsible for the adoption of IFRSs to review the Trustees' fulfilment of their constitutional duties. Does the formulation of the Monitoring Group's mandate and the Trustees' reporting responsibilities, as described in the proposed Section 19, appropriately provide that link, while maintaining the operational independence of the IASC Foundation and the IASB?
- Q4 Given the proposed creation of a Monitoring Group, would there be a continued need for the Trustee Appointments Advisory Group in the selection of Trustees? If so, what should be the role and composition of the Trustee Appointments Advisory Group?

### **Questions on the composition, size and voting procedures of the IASB**

- Q5 Do you support the principle behind expanding the IASB's membership to 16 members in order to ensure its diversity, its ability to consult, liaise and communicate properly across the world, and its legitimacy?
- Q6 Do you agree with the geographical formulation suggested by the Trustees?
- Q7 The Trustees are suggesting that the Constitution should provide flexibility on the matter of part-time membership. Do you support that proposal?
- 8 The IASC Foundation received 72 comment letters. A list of the comment letters received and the date upon which they were received with a link to the comment letter can be found on the IASC Foundation's website at [www.iasb.org](http://www.iasb.org). An analysis of the comment letters is also available on the website.

- 9 The Trustees' discussion and their conclusions on the issues related to each of the questions are set out below:

### **Questions on the creation and terms of reference of the Monitoring Group**

**Q1 Do you support the creation of a link to a Monitoring Group in order to create a direct link of public accountability to official institutions?**

- 10 As discussed above, the Trustees identified the need to enhance the public accountability of the IASC Foundation as a priority for the first part of the Constitution Review. In determining how to consider accountability in the context of their responsibilities, the Trustees are guided by the organisation's objectives, as laid out in the Constitution. The Constitution states:
- The objectives of the IASC Foundation are:
- (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 and other financial reporting to help participants in the world's capital markets and other users make economic decisions;
  - (b) to promote the use and rigorous application of those standards;
  - (c) in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and
  - (d) to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions.
- 11 In fulfilling those objectives, the Trustees have recognised that they are accountable not to a single group, but to the wide range of international stakeholders that have an interest in the IASC Foundation's efforts to achieve its objectives. They, and the IASB as the main operating body, have provided accountability through the established and publicly agreed due process, transparency requirements, and regular contact with stakeholder groups and mechanisms to receive input outside formal consultations. These stakeholder groups include official organisations, policymakers, investor groups and private sector institutions from around the world. Furthermore, the Trustees and the IASB have established the Standards Advisory Council, the organisation's formal advisory body, and other working groups.
- 12 The Trustees have emphasised the relevance of stakeholder outreach and input and due process requirements. However, their strategy review in 2007 concluded that the Trustees should undertake further steps to ensure the organisation's public accountability through enhanced governance mechanisms.
- 13 The basic governance structure of the IASC Foundation was agreed as a result of a broad international consultation and negotiation among public authorities in 2000. The Trustees reaffirmed this structure in 2005 as part of the first Constitution Review. Thus, international accounting standards are developed by an independent IASB, and an independent and geographically diverse body of Trustees oversees the IASB.
- 14 This basic approach to the architecture of governance is similar to that in place historically in many national jurisdictions for accounting standard-setters. What distinguished the IASC Foundation and the IASB from national standard-setting bodies was that the IASC Foundation, as an international and private sector body, had no direct formal linkage to public authorities. It was for this reason that the Trustees proposed constitutional amendments to create a link between the Trustees and a 'Monitoring Group' in their consultation document in July 2008. Importantly for the purposes of the IASC Foundation's public accountability, the original proposal called for the members of a Monitoring Group to be representatives of public authorities and of international organisations that have requirements for accountability to public authorities.

15 The July 2008 proposal set out the following responsibilities for the Monitoring Group:

The responsibilities of the Monitoring Group shall be:

- (a) to participate in the process for appointing Trustees and to approve the appointment of Trustees according to the guidelines in Sections 5-8.
- (b) to review and provide advice to the Trustees on their fulfilment of the responsibilities set out in Sections 13 and 15.<sup>†</sup> The Trustees shall make an annual written report to the Monitoring Group.

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\* Section 8

Trustees shall normally be appointed for a term of three years, renewable once: in order to provide continuity, some of the initial Trustees will serve staggered terms so as to retire after four or five years.

† Section 13

The Trustees shall:

- (a) assume responsibility for establishing and maintaining appropriate financing arrangements;
- (b) establish or amend operating procedures for the Trustees;
- (c) determine the legal entity under which the IASC Foundation shall operate, provided always that such legal entity shall be a Foundation or other body corporate conferring limited liability on its members and that the legal documents establishing such legal entity shall incorporate provisions to achieve the same requirements as the provisions contained in this Constitution;
- (d) review in due course the location of the IASC Foundation, both as regards its legal base and its operating location;
- (e) investigate the possibility of seeking charitable or similar status for the IASC Foundation in those countries where such status would assist fundraising;
- (f) open their meetings to the public but may, at their discretion, hold certain discussions (normally only about selection, appointment and other personnel issues, and funding) in private; and
- (g) publish an annual report on the IASC Foundation's activities, including audited financial statements and priorities for the coming year.

Section 15

In addition to the duties set out in Part A, the Trustees shall:

- (a) appoint the members of the IASB and establish their contracts of service and performance criteria;
- (b) appoint the members of the International Financial Reporting Interpretations Committee and the Standards Advisory Council;
- (c) review annually the strategy of the IASC Foundation and the IASB and its effectiveness, including consideration, but not determination, of the IASB's agenda;
- (d) approve annually the budget of the IASC Foundation and determine the basis for funding;
- (e) review broad strategic issues affecting accounting standards, promote the IASC Foundation and its work and promote the objective of rigorous application of International Accounting Standards and International Financial Reporting Standards, provided that the Trustees shall be excluded from involvement in technical matters relating to accounting standards;
- (f) establish and amend operating procedures, consultative arrangements and due process for the IASB, the International Financial Reporting Interpretations Committee and the Standards Advisory Council;
- (g) review compliance with the operating procedures, consultative arrangements and due process as described in (f);
- (h) approve amendments to this Constitution after following a due process, including consultation with the Standards Advisory Council and publication of an Exposure Draft for public comment and subject to the voting requirements given in Section 14;
- (i) exercise all powers of the IASC Foundation except for those expressly reserved to the IASB, the International Financial Reporting Interpretations Committee and the Standards Advisory Council; and
- (j) foster and review the development of educational programmes and materials that are consistent with the IASC Foundation's objectives.

- (c) to meet the Trustees or a subgroup of the Trustees at least once annually, and more frequently as appropriate. The Monitoring Group shall have the authority to request meetings with the Trustees or separately with the chairman of the Trustees (with the chairman of the IASB as appropriate) about any area of work of either the Trustees or the IASB. These meetings may include discussion of, and any IASC Foundation or IASB proposed resolution of, issues that the Monitoring Group has referred for timely consideration by the IASC Foundation or the IASB.
- 16 The great majority of respondents supported the creation of some form of a monitoring body and recognised the value of providing a link between the Trustees and public authorities as a way to enhance public accountability. Commentators argued that such a link would be a significant step towards improving the overall governance framework of the IASC Foundation. Many highlighted the importance of such an improvement in strengthening public confidence in IFRSs, because the adoption of IFRSs meant in effect the delegation of authority over accounting standards to a private sector body, which up until this point had no formal tie to public institutions.
- 17 In supporting the idea of a monitoring body generally, interested parties believed that it would be very helpful to have a high level, highly knowledgeable, and respected body of members who can both (a) assist in the conduct of liaison activities with governmental and other organisations, and (b) monitor the functioning of the Trustees to ensure that their objectives are being met.
- 18 A small minority did not support the creation of the Monitoring Board at all, because of concerns regarding political interference in the standard-setting process. However, such concerns were expressed more often in terms of the composition of a monitoring body, rather than on the broader question of whether such a body should exist.
- 19 Many suggested that the name of the body should be Monitoring Board rather than Monitoring Group.
- 20 Given the overall support for the creation of a monitoring body, at their meeting in New Delhi, India, in January 2009 the Trustees concluded that it was appropriate to establish a link to a Monitoring Board. The relevance of such a link was further highlighted when, in November 2008, the G20 leaders concluded
- With a view toward promoting financial stability, the governance of the international accounting standard setting body should be further enhanced, including by undertaking a review of its membership, in particular in order to ensure transparency, accountability, and appropriate relationship between this independent body and the relevant authorities.
- 21 The Trustees agreed that the title of this body should be Monitoring Board rather than Monitoring Group. It was noted that the name 'Monitoring Group' was already in use by the International Federation of Accountants (IFAC).

**Q2 The proposals contemplate a Monitoring Group comprising representatives of seven public authorities and international organisations with a link to public authorities. While recognising that the Monitoring Group is an autonomous body, the Trustees would welcome comments regarding the Monitoring Group's membership and whether other organisations accountable to public authorities and with an interest in the functioning of capital and other financial markets should be considered for membership.**

- 22 As discussed above, the original proposal called for the Monitoring Board to comprise representatives of public authorities and of international organisations that have requirements for accountability to public authorities. The Trustees proposed the following membership:
- (a) the responsible member of the European Commission,

- (b) the managing director of the International Monetary Fund,
- (c) the chair of the IOSCO Emerging Markets Committee,
- (d) the chair of the IOSCO Technical Committee (or vice chair or designated securities commission chair in cases where either the chairman of an EU securities regulator, commissioner of the Japan Financial Services Agency or chairman of the US Securities and Exchange Commission is the chair of the IOSCO Technical Committee),
- (e) the commissioner of the Japan Financial Services Agency,
- (f) the chairman of the US Securities and Exchange Commission, and
- (g) the president of the World Bank.

23 There was a diversity of views—often conflicting—regarding the membership of the Monitoring Board. Most supported the proposition that the Monitoring Board should broadly reflect the world's capital markets and that it should have the most senior level of representation from the designated organisations. At the same time, many interested parties called for a broadening or reshaping of the Monitoring Board and urged the IASC Foundation to consider its link and duty to some of its other major stakeholders. There was also a recognition that the Monitoring Board's size would have to be limited to allow for efficiency and operational functionality.

24 Suggested changes to the proposals fall in the following categories:

- **Clearer criteria for membership:** Many of the commentators, even those supportive of the proposed composition, claimed that the proposals needed to set out clearer criteria for membership. In the view of these commentators, it was not clear why certain groups were included and others were not. Some mentioned the need to define the rules for amending membership at a later date and a recommendation that the Constitution should expressly provide for a safeguard that would prevent any one group within the Monitoring Board from becoming dominant in the future.
- **Inclusion of investor representatives:** A number from the investor community pointed out that investors were the primary users of information resulting from accounting standards and therefore called for specific investor representation on the Monitoring Board.
- **Inclusion of SME representatives:** Some commentators noted that the IASC Foundation's Constitution specifically requires the Trustees to consider the needs of small and medium-sized entities and that as such the Monitoring Board should have greater representation from this sector.
- **Inclusion of banking and insurance supervisors:** Representatives from banking and insurance supervisors urged consideration broadening the membership to include banking and insurance supervisors to reflect their interest in accounting standards.
- **Other regulator perspectives:** Some commentators called for the inclusion of prudential regulators on the Monitoring Board in the light of the important role that prudential regulators play in standards adoption, particularly in emerging economies. The Committee of European Securities Regulators (CESR) also argued that, on the basis of the current criteria, it should be included in the membership of the Monitoring Board.
- **Regional diversity of the members:** Some commentators urged regional diversity of the Monitoring Board so as to ensure that there would not be dominance of one region over another. Concern was expressed that those traditionally representing industrialised English-speaking nations might maintain dominance on the Monitoring Board.

- 25 In reaching a conclusion on the membership of the Monitoring Board, the Trustees agreed with the concern expressed by many that the membership criteria required clarification. The original proposal seemed to include organisations with differing interests in accounting standard-setting. Therefore, the Trustees and the relevant public authorities agreed on the following formulation. The intention of the link to a Monitoring Board had been and is to replicate the link to those public authorities that have generally overseen accounting standard-setters. In this manner, those authorities could fulfil their public mission to help ensure the accuracy, transparency, comparability and effectiveness of financial reporting and the protection of investor interests. This meant that bodies that are not public authorities or those with no formal authority for financial reporting should not serve on the Monitoring Board.
- 26 In order to replicate the historical relationship between accounting standard-setters and capital market authorities, the Trustees amended the original proposal and agreed to the link to the following bodies (which themselves will create the Monitoring Board):
- the European Commission,
  - the Emerging Markets Committee and the Technical Committee of the International Organization of Securities Commissions (IOSCO);
  - the Financial Services Agency of Japan; and
  - the US Securities and Exchange Commission.

The Basel Committee on Banking Supervision would serve as an observer to reflect the interest of banking supervisors in the establishment of accounting standards.

- 27 The Trustees also noted that the G20 leaders, in their November 2008 communiqué, agreed that international bodies should reflect concerns of emerging economies. The Monitoring Board seeks to do so by having direct participation by the chairman of the IOSCO Emerging Markets Committee. However, as a topic to address in the near future, the Monitoring Board and Trustees will consider whether the current composition takes sufficient account of the perspectives of emerging markets.
- 28 The Trustees also appreciated the call by many investors for a greater voice in the IASC Foundation's activities. The Trustees reiterated their commitment to identifying more investors to serve on the Trustees and the IASB. Furthermore, in addition to approving the Constitutional changes, the Trustees have appointed a new Standards Advisory Council that includes enhanced investor participation. The new SAC includes eight national or international investment organisations and has a vice-chair from the investment profession. The Trustees have agreed to meet and consult this body regularly on governance matters as a subgroup of the SAC (as with other subgroups of the SAC being formed).

**Q3 The Trustees will remain the body primarily responsible for the governance of the organisation and the oversight of the IASB. Their responsibility to a Monitoring Group will enable regulatory and other authorities responsible for the adoption of IFRSs to review the Trustees' fulfilment of their constitutional duties. Does the formulation of the Monitoring Group's mandate and the Trustees' reporting responsibilities, as described in the proposed Section 19, appropriately provide that link, while maintaining the operational independence of the IASC Foundation and the IASB?**

- 29 The link between the Trustees and the Monitoring Board attempts to replicate the historical relationship between accounting standard-setters and the Trustees. Paragraph 16 above set out the proposed mandate of the Monitoring Board. The proposed mandate gave the Monitoring Board the right of approval of Trustee appointments and reappointments, after an agreed

process conducted by the Trustees, and required the Trustees to report regularly on their activities. At the same time, the proposed mandate continued to emphasise the independence of the IASB's standard-setting process. The original consultation document noted that the Trustees and the Monitoring Board would publish a Memorandum of Understanding describing the responsibilities of the Monitoring Board and the Trustees.

- 30 Commentators emphasised the need to maintain the independence and integrity of the Trustees and the IASB. They called for the Trustees to continue their overall responsibility for the governance of the organisation and their oversight of the IASB. The view was expressed that this should be made explicit in the Constitution.
- 31 Some interested parties commented on the lack of clarity of the role of the Monitoring Board and the potential for overlap of responsibility between the Monitoring Board and the Trustees. Some were concerned that the Monitoring Board would have the ability to nominate Trustees because they feared that this could politicise the organisation and the IASB's agenda. Consequently, many were in support of a Memorandum of Understanding setting out more clearly the relationship between the Trustees and the Monitoring Board.
- 32 There was considerable concern that there could be any link between the Monitoring Board and the IASB. The overwhelming view was that the IASB should have a link only to the Trustees and nothing more and that in this way the independence of the IASB should be assured.
- 33 There was a view expressed by many that by giving ultimate accountability only to public authorities, subject to political pressures, the link to the Monitoring Board could risk the politicisation of the standard-setting process and thereby impair the independence of the IASB. Those expressing this view called for an explicit recognition of the independence of the IASB to pursue its technical work programme.
- 34 There was strong support for the proposal that any report from the Trustees to the Monitoring Board should be made public and the Monitoring Board itself should provide an annual report that would be made public. There was also the suggestion that the minutes of the meetings between the Monitoring Board and the Trustees should be publicly available.
- 35 The Trustees believe that the careful drafting of the Memorandum of Understanding and the strong commitment of both the Trustees and the members of the Monitoring Board to the independence of the IASB's decision-making within the new governance framework make the risks described above less likely to appear. In publishing the Memorandum of Understanding, the Trustees and the members of the Monitoring Board have provided additional clarity regarding the relationship between the Trustees and the Monitoring Board.
- 36 Specifically, the Memorandum of Understanding calls for the establishment of the Monitoring Board:
- to serve as a mechanism for formal interaction between capital markets authorities and the IASCF, thereby facilitating the ability of capital market authorities that allow or require the use of IFRSs in their jurisdictions to effectively discharge their mandates relating to investor protection, market integrity and capital formation.
  - to help ensure the public accountability of the IASCF by monitoring and reinforcing the public interest oversight function of the IASCF,
  - to promote the continued development of IFRSs as a high quality set of global accounting standards.
  - to participate in the Trustee nomination process;

- to review the adequacy and appropriateness of Trustee financing arrangements; and
- to review the Trustees' oversight of the IASB.

37 The Trustees and the members of the Monitoring Board also have emphasised the importance of transparency in their relationship. Meetings of the Trustees and the Monitoring Board will be open to the public, with the exception of discussions related to personnel matters and administrative affairs. The Trustees will make their report to the Monitoring Board available to the public as well.

**Q4 Given the proposed creation of a Monitoring Group, would there be a continued need for the Trustee Appointments Advisory Group in the selection of Trustees? If so, what should be the role and composition of the Trustee Appointments Advisory Group?**

38 There were mixed views on this topic. Some thought that the Trustee Appointments Advisory Group was no longer required since its responsibilities would be overtaken by the proposed Monitoring Board. However, others believed that the Group still had a valuable role to play. The most frequently raised argument for maintaining the Group was that its existence would facilitate the identification of appropriate candidates to serve on the Trustees.

39 After considering the merits of the various arguments, the Trustees concluded that the Monitoring Board, with an explicit mandate to approve Trustee appointments, makes the Trustee Appointments Advisory Group redundant. The Group was an attempt to provide a venue for public input on the Trustee nominations process, a role that is now explicitly given to the Monitoring Board. The Trustees, however, concluded that they would still seek nomination ideas from the former members of the Group.

### **Questions related to the IASB's composition, size, and voting procedures**

**Q5 Do you support the principle behind expanding the IASB's membership to 16 members in order to ensure its diversity, its ability to consult, liaise and communicate properly across the world, and its legitimacy?**

**Q6 Do you agree with the geographical formulation suggested by the Trustees?**

40 As part of the Constitution Review completed in 2005, the Trustees considered the question of the size and composition of the IASB. The Trustees concluded at that time that they should maintain the size of the IASB at 14 members, two of whom are part-time. The Trustees decided to maintain the constitutional language on geographical issues—"The selection of members of the IASB shall not be based on geographical criteria, but the Trustees shall ensure that the IASB is not dominated by any particular constituency or geographical interest."

41 In publishing their proposals in July 2008, the Trustees highlighted that the Constitution's emphasis on 'professional competence and practical experience' should remain paramount. Furthermore, the Trustees reaffirmed the relevance of the eight criteria for IASB members in the Annex of the Constitution.\*

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\* see page 41

- 42 At the same time, with a growing number of countries adopting IFRSs, the Trustees concluded that they should amend the Constitution relating to the IASB's size and geographical diversity. In making the proposals, the Trustees put forward the following reasons to expand the IASB to 16 members:
- **IASB members needed for liaison:** As the IASB becomes the global standard-setter, the consultation, liaison and communications task for IASB members continues to grow. This needs to be shared broadly, while permitting time for IASB members to work with staff and relevant internal working groups in developing international accounting standards.
  - **Diversity as providing legitimacy:** While professional competence (particularly technical expertise) and practical experience are the foremost criteria for IASB members.
  - **Diversity as enabling new perspectives:** The introduction of IASB members from different backgrounds has enabled the IASB to account for issues that may not have been raised in the past.
- 43 In expanding the IASB to 16 members, the Trustees called for the Constitution to introduce guidance regarding drawing the most competent person from the deepest and broadest geographical pool possible. Therefore, the Trustees decided that normally the IASB should comprise:
- (a) four members from the Asia/Oceania region;
  - (b) four members from Europe;
  - (c) four members from North America;
  - (d) one member from Africa;
  - (e) one member from South America; and
  - (f) two members appointed from any area, subject to maintaining overall geographical balance.
- 44 The Trustees believed that they could identify qualified candidates from each of the regions, in line with the constitutional emphasis on professional competence, practical experience and diversity of professional backgrounds. The Constitution, before the agreed changes, already stated, '... the Trustees shall ensure that the IASB is not dominated by any particular constituency or geographical interest.' At the same time, the Trustees recognise the practical benefits arising from diversity of IASB membership described above, while providing stronger assurance that the IASB will be global in drawing its resources.
- 45 In setting out the proposals of July 2008, the Trustees held the view that geographical considerations for selecting IASB members would not diminish the importance of the other criteria for IASB membership, including that each IASB member must contractually agree to 'act in the public interest ... in deciding on and revising standards.'<sup>\*</sup> Geographical considerations would not change this. Geographical diversity should not lead to IASB members acting as if they represent a geographical constituency.
- 46 Finally, the Trustees held the view that expanding the IASB's membership would not impair the IASB's ability to make decisions in a timely fashion, but would benefit the IASB in its ability to consult interested parties throughout the world.

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\* See Section 23 of the Constitution.

- 47 The proposal to expand the IASB membership to 16 members and to add some geographical guidelines generated mixed views. Whilst many understood the reasons for proposing an increase in the size of the IASB, many were of the view that the proposed expansion of the IASB to 16 members would make it more unwieldy, less effective and hamper its decision-making ability. A small minority said that they strongly disagreed with this proposal.
- 48 Some expressed the view that whilst the proposed increase in the size of the IASB would allow the Board to carry out its required consultation, it was not considered an essential part of the IASB's duties. Those who expressed an opinion on this subject were of the view that consultation should be carried out by senior technical staff for and on behalf of the IASB.
- 49 On the other hand, some respondents questioned how 16 members could manage effective consultation and requested further consideration of the proposed size. Reference was made to other organisations with a board composed of 18 members, indirectly suggesting that 16 members were insufficient. Some respondents, especially those representing European stakeholders, expressed the view that IASB consultation and liaison were essential and that IASB members should be exposed to wider perspectives.
- 50 Regarding the possible geographical guidelines, many were in broad support for the geographical formulations suggested, provided always that 'professional competence and practical experience' as set out in the Criteria for IASB members, as annexed to the Constitution, remained the paramount criteria.
- 51 Others, however, were strongly against the geographical composition suggested: they thought it would detract from the Trustees' ability to appoint competent and experienced members to the IASB and risked diluting the overall quality of the Board. Concern was also expressed that by delineating the IASB along geographical lines there was a strong risk that the IASB members would become geographical representatives rather than acting in the professional capacity, which was pivotal.
- 52 A number of commentators pointed out that the Trustees had not designated Africa and South America in the geographical guidelines, and urged that those areas should be specifically mentioned.
- 53 The Trustees weighed the strong arguments both in favour of and against the proposed changes. They noted that even those opposed to the proposals generally understood the rationale behind the proposals. The Trustees therefore concluded that they should implement the proposed changes for the reasons that were originally expressed in the consultation document, with one modification. The Trustees agreed to make a specific mention of the desirability of one IASB member from Africa and another from South America.

**Q7 The Trustees are suggesting that the Constitution should provide flexibility on the matter of part-time membership. Do you support that proposal?**

- 54 The Trustees proposed the possible expansion of part-time members up to three, but there would be flexibility in the Constitution regarding these requirements. There was general support for part-time membership of the IASB, because most of the respondents were of the view that it would assist in achieving an improved level of practitioner representation on the Board. However, concern was expressed how this might be achieved in practice, given the competing time requirements on a part-time member. On the other hand, a minority of respondents called for abandoning part-time membership on the grounds that part-time members reduce the IASB's independence and ability to consult and liaise.

- 55 Given the general support for the proposals and the previous success in using part-time positions to identify candidates to serve on the IASB, the Trustees concluded that a provision for flexibility should be introduced for the reasons set out in the consultation document. Furthermore, the Trustees were of the view that in a changing and increasingly complex world, the need for improved levels of practitioner representation on the Board remains important.

**The Trustees would welcome additional comments on the proposals.**

### **Voting of the IASB**

- 56 In making the proposals regarding the IASB's composition and size, the Trustees considered the consequences for voting majorities. Consistently with the existing supermajority requirements, the Trustees proposed that the requirement for voting in the Constitution should rise to 10 of 16 members.
- 57 Some respondents commented on the voting majorities proposed in Section 36 of the Constitution, and said that they were too low. A number of respondents said that the minimum requirements should be reconsidered. Various suggestions were put forward and ranged from a simple majority to as much as a two-thirds majority.
- 58 The Trustees believed that the proposal regarding voting remained appropriate and kept the requirement to approve a standard roughly in line with the existing requirements.

## APPENDIX 1

### Process for the Constitution Review

#### Organising the Constitution Review in a transparent and open way

- 1 Though emphasising early on the priority of public accountability, the Trustees conducted a thorough and transparent Constitution Review that enabled interested parties to raise any issues they wished the Trustees to consider and provided opportunities to comment on proposals. This appendix describes how the Trustees conducted the review.
- 2 The Trustees established a Constitution Committee, which comprised the following Trustees:
  - Gerrit Zalm, Chairman of the Trustees
  - Philip Laskawy, Vice Chairman of the Trustees
  - Bertrand Collomb
  - Samuel DiPiazza
  - Aki Fujinuma
  - Pedro Malan
  - Antonio Vegezzi.
- 3 The Trustees, as a group, reached conclusions on the first part of the Constitution Review and the Constitution Committee helped manage the process. The Trustees established the following procedures to help ensure an efficient and transparent process:
  - The Constitution Committee made non-binding recommendations to the Trustees.
  - Any discussions related to the Constitution during the full Trustees' meetings were held during the public sessions of Trustees' meetings.
  - The Constitution Committee engaged in intensive public consultations before making recommendations to the full Trustees. The consultations included:
    - discussions with interested parties
    - a round-table public meeting held in London on 19 June 2008
    - the publication of papers to assist those that attended the public discussions of the Trustees or the Committee in following the deliberations.
    - the publication of all proposals with a period for public comment before the Trustees reached a conclusion.
- 4 In launching the Constitution Review, the Trustees sought to balance their immediate priority—addressing issues related to public accountability—and the need to have a thorough and inclusive process on other elements of the Constitution. Therefore, the Trustees advanced the Constitution Review in two parts. First, the Trustees made proposals aimed at the organisation's public accountability and issues of size and geographical diversity of the standard-setting body, the IASB. This review was concluded at the Trustees' meeting in January 2009 and this report is the conclusion of that part of the review. Second, the Trustees will proceed with the review of other issues in the Constitution. That consultation document was issued in November 2008 and the deadline for comments is 31 March 2009.

5 On that basis, the Trustees followed the time line below:

Date	Action step
<b>March–April 2008</b>	Trustees developed preliminary proposals and document for Constitution Review.
<b>May–June 2008</b>	Trustees met interested parties to discuss proposals.
<b>June–July 2008</b>	Publication of proposals concerning public accountability and IASB size/geographical diversity—the first part of the Constitution Review. Round-table meeting held in London on 19 June 2008. Public consultation document published July 2008. Comment period ended in September 2008.
<b>June–August 2008</b>	Trustees met interested parties to discuss proposals on the first part.
<b>September 2008</b>	Constitution Committee developed proposals to present to the full Trustees, based upon analysis of comment letters and other input on the proposals in the first part.
<b>October 2008</b>	Trustees considered the proposals at their meeting in Beijing. They resolved to consult further in order to agree upon the details of the proposed changes to the first part of the Constitution.
<b>October–December 2008</b>	Trustees consulted further and finalised the detail of the proposed changes.
<b>January 2009</b>	Trustees approved the changes arising from the first part of the Constitution Review at their meeting in New Delhi.

## APPENDIX 2

### Individuals and organisations that responded to the Trustees' consultation paper

#### Review of the Constitution Public Accountability and the Composition of the IASB, Proposals for change, July 2008

##### Africa

Institute of Certified Public Accountants of Kenya  
South African Institute of Public Accountant (SAICA)

##### Asia/Oceania

Accounting Standards Board of the Institute of Chartered Accountants of India  
Australian Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)  
China Accounting Standards Committee (CASC)  
CPA Australia  
Group of 100 (G100)  
Hong Kong Institute of CPAs  
The Japanese Institute of Certified Public Accountants  
Korea Accounting Standards Board  
Life Insurance Association of Japan  
Nippon Keidanren  
Parliament of Australia  
Singapore Accounting Standards Council

##### Europe

Accounting Standards Committee of Germany (ASCG) and the German Accounting Standards Board (GASB)  
ACTEO, AFEP & MEDEF  
Association of Chartered Certified Accountants (ACCA)  
The Association of Investment Companies (AIC)  
Association for the Participation in the Development of Accounting Regulations for Family-owned Entities (VMEBF)  
Audit Commission  
British Bankers' Association  
BUSINESSEUROPE  
Compagnie Nationale des Commissaires aux Comptes (CNCC) & Conseil Supérieur de l'Ordre des Experts-comptables (CSOEC)  
Confederation of British Industry (CBI)  
Conseil National de la Comptabilité (CNC)  
Corporate Reporting Users' Forum (CRUF)

Council of Institutional Investors  
Dutch Accounting Standards Board (DASB)  
European Association of Cooperative Banks (EACB)  
European Financial Reporting Advisory Group (EFRAG)  
Fédération des Experts Comptables Européens - Federation of European Accountants (FEE)  
Financial Reporting Council  
Group Caisse d'Épargne  
Hermes Equity Ownership Services Limited  
Institute of Chartered Accountants in England and Wales  
Institute of Chartered Accountants of Scotland  
Institut der Wirtschaftsprüfer (IDW)  
Investment Management Association (IMA)  
International Organization of Securities Commissions (IOSCO)  
Investors Technical Advisory Committee (ITAC)  
London Investment Banking Association  
Morley Fund Managers, Barclays Global Investors Limited, F&C Management Limited, and APG Investments  
Norsk RegnskapsStiftelse  
The Quoted Companies Alliance (QCA)  
Standard Life Investments, Railpen Investments, Co-operative Asset Management  
Swedish Financial Reporting Board  
Swiss GAAP FER  
SwissHoldings  
Zentraler Kreditausschuss

## **North America**

ACLI, American Insurance Association, The Life Insurance Association of Japan, GNAIE, NAMIC, PCI, RAA  
American Institute of Certified Public Accountants (AICPA)  
British Columbia Ministry of Finance  
California Public Employees' Retirement System  
Canadian Accounting Standards Board and the Accounting Standards Oversight Council's Strategy Committee  
Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera (CINIF)  
National Association of State Boards of Accountancy (NASBA)

## **International**

BDO International  
BP  
Chartered Financial Analysts Institute  
Deloitte Touche Tohmatsu  
Grant Thornton International

International Actuarial Association (IAA)  
International Banking Federation  
International Corporate Governance Network (ICGN)  
International Federation of Accountants (IFAC)  
International Swaps and Derivatives Association (ISDA)  
KPMG IFRG Limited  
Mazars  
PricewaterhouseCoopers LLP  
Roche  
UBS AG

**Individual**

Professor Hannu Schadewitz

## **APPENDIX 3**

### **Memorandum of Understanding between the Monitoring Board and the Trustees of the International Accounting Standards Committee Foundation**

#### **MEMORANDUM OF UNDERSTANDING TO STRENGTHEN THE INSTITUTIONAL FRAMEWORK OF THE INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE FOUNDATION**

##### **PREAMBLE**

The European Commission, the Emerging Markets and Technical Committees of the International Organization of Securities Commissions, the Financial Services Agency of Japan, and United States Securities and Exchange Commission (collectively referred to as “capital markets authorities” for the purposes of this Memorandum of Understanding), which together represent authorities responsible for setting the form and content of financial reporting in the majority of the world’s capital markets, and the Trustees of the International Accounting Standards Committee Foundation (“IASCF”):

Considering that capital markets authorities are generally charged with the development and administration of accounting standards;

Considering that capital markets authorities historically have looked to private or stand-alone bodies to assist in establishing accounting standards;

Considering that capital markets authorities generally oversee national accounting standard setters to ensure that they are capable of improving the accuracy, transparency, comparability and effectiveness of financial reporting and the protection of investor interests;

Considering that accounting standard-setters should strive to keep their standards current to reflect changes in the business environment, as well as consider promptly emerging accounting issues and changing business practices;

Recognizing that the International Accounting Standards Board (“IASB”) is a stand-alone international accounting standard-setter committed to developing, in the public interest, a single set of high quality, understandable and enforceable global standards, also known as International Financial Reporting Standards (“IFRS”);

Recognizing that the IASB develops accounting standards for use by companies from developed and developing economies;

Recognizing that IFRS are increasingly used around the world, yet the IASCF has no formal relationship to capital markets authorities;

Asserting that establishing a formal relationship between capital markets authorities and the IASCF will facilitate the ability of these authorities to effectively discharge their mandates relating to investor protection, market integrity and capital formation;

Recognizing that the IASB is overseen by an independent body, the IASCF, which is charged with serving the public interest;

Desiring to further enhance the public accountability of the IASCF to support the increasing use of IFRS around the world;

Recognizing that the IASCF has changed its constitution to recognize the role of the IASCF Monitoring Board in reinforcing the public accountability of the IASCF Trustees;

Affirming and supporting the independence of the IASCF in setting high-quality accounting standards, through the IASB, for use around the world, and

Desiring to help strengthen this independence by supporting the establishment of a non-voluntary, transparent and stable funding platform for the IASCF;

Have reached the following understanding:

## **Article I: Definitions**

For purposes of this Memorandum of Understanding (“MOU”),

1 “IASCF Monitoring Board” or “Monitoring Board” means a body established by agreement among its members, the mission and operation of which are described in its charter. Its relationship to the IASCF is described in this MOU. Its initial members are:

- The European Commission;
- The Emerging Markets Committee and the Technical Committee of the International Organization of Securities Commissions (“IOSCO”);
- The Financial Services Agency of Japan; and
- The US Securities and Exchange Commission.

The Basel Committee on Banking Supervision shall participate in the IASCF Monitoring Board as an observer with voice but no vote.

2 “IASCF Constitution” means the \_\_\_\_\_ 2008 Constitution of the IASCF, as amended from time to time.\*

3 “Trustees” means the Trustees of the IASCF, whose roles are described in the IASCF Constitution.

## **Article II: General Provisions**

4 The IASCF Monitoring Board and the Trustees agree to collaborate in the manner specified in this MOU.

5 This MOU does not alter the terms of the relationship between the Trustees and the IASB. This MOU also does not alter the Trustees’ responsibilities as described in the IASCF Constitution.

## **Article III: Purpose and Duties of the IASCF Monitoring Board**

### **6 Purpose of the IASCF Monitoring Board**

The primary purpose of the IASCF Monitoring Board is to serve as a mechanism for formal interaction between capital markets authorities and the IASCF, thereby facilitating the ability of capital market authorities that allow or require the use of IFRS in their jurisdictions to effectively discharge their mandates relating to investor protection, market integrity and capital formation. The IASCF Monitoring Board will help ensure the public accountability of the IASCF by monitoring and reinforcing the public interest oversight function of the IASCF, as well as to promote the continued development of IFRS as a high-quality set of global accounting standards.

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\* Located at [www.iasb.org](http://www.iasb.org).

**7 Duties of the IASCF Monitoring Board**

The principal responsibilities of the IASCF Monitoring Board are to:

- i) Participate in the Trustee nominations process;
- ii) Approve Trustee nominees;
- iii) Review the adequacy and appropriateness of Trustee arrangements for financing the IASB;
- iv) Review the Trustees' oversight of the IASB's standard setting process, in particular with respect to its due process arrangements;
- v) Confer with the Trustees regarding their responsibilities, in particular in relation to the regulatory, legal and policy developments that are pertinent to the IASCF's oversight of the IASB; and
- vi) Refer matters of broad public interest related to financial reporting for consideration by the IASB through the IASCF.

**8 Trustee Selection**

- A. Criteria for the selection or reappointment of a Trustee are those contained in the IASCF Constitution.
- B. In accordance with paragraph 7 of the IASCF Constitution, the Trustees shall establish procedures to invite applications for Trustee positions, including advertising vacant positions. These procedures shall be agreed by the IASCF Monitoring Board. The selection process will be administered by the Trustees in a transparent manner.
- C. The Trustees will propose a candidate for each open Trustee position. The Trustees shall provide the reasoning behind their choice of candidate. The IASCF Monitoring Board may submit names for the Trustees' consideration.
- D. Each Trustee candidate must be approved by the IASCF Monitoring Board.
- E. The Trustees will nominate a Chair from among their members, subject to the approval of the IASCF Monitoring Board.

**9 IASB Oversight, Due Process and Funding**

- A. The IASCF Monitoring Board will confer with the Trustees regarding their oversight responsibilities in the following principal areas:
  - i. procedures relating to the due process and general oversight of the IASB;
  - ii. the IASB's agenda-setting process and work program, including the adequacy of the IASB's resources in the light of its work program;
  - iii. the adequacy of the IASB's procedures to ensure prompt and fair consideration of changes to IFRS accounting principles and standards so as to take into account emerging accounting issues and changing business practices;
  - iv. the IASB's due process, including the process for carrying out impact assessments and cost-benefit analyses;
  - v. the IASB's efforts to improve the accuracy and effectiveness of financial reporting and to protect investors; and

- vi. the adequacy and appropriateness of the sources of funding and any other revenue arrangements of the IASCF, as well as the annual budget of the IASCF.
- B. The IASCF Monitoring Board may refer accounting issues to, and will confer regarding these issues with, the Trustees and the IASB Chair.
  - i The Trustees will work with IASB to ensure these issues are addressed in a timely manner.
  - ii If the IASB determines that consideration of the issue(s) identified by the IASCF Monitoring Board is not advisable or that the issue(s) cannot be resolved within the time frame suggested by the Monitoring Board, the Trustees should:
    - 1 call on the IASB to undertake all reasonable efforts to consider issue(s) in a manner that is consistent with the public interest, taking into account the protection of investors.
    - 2 call on the IASB to explain its position through the Trustees regarding the IASB's position on the issue(s); and
    - 3 promptly notify the IASCF Monitoring Board of the IASB's position.

#### **Article IV: Communication between the IASCF Monitoring Board and the Trustees**

- 10 The Trustees shall communicate with the IASCF Monitoring Board regarding their work, including in the following ways:
- A. The Trustees shall report on the work of the IASCF annually in writing;
  - B. The Trustees shall meet regularly with the IASCF Monitoring Board to discuss its work. By common agreement of the two Chairpersons, other organizations with public policy responsibilities related to financial reporting may be invited to participate in these meetings on an *ad hoc* basis;
  - C. Upon request of the IASCF Monitoring Board, the Trustees, the Chairman of the Trustees, or the Chairpersons of the Trustees and the IASB shall meet with the IASCF Monitoring Board regarding any area of work of either the IASCF or the IASB. Without limitation, these discussions may cover the status of any matter that the IASCF Monitoring Board has referred for timely consideration by the IASCF and/or the IASB.
  - D. The IASCF Monitoring Board members shall update the IASCF and/or its staff on significant events in the regulatory environment (including those that relate to audit requirements and practices), or other areas to assist the IASCF in carrying out its responsibilities.
  - E. From time to time, the IASCF Monitoring Board and the Trustees shall discuss the functioning of this MOU and discuss whether changes are appropriate. Changes must be approved by a consensus among all signatories to this MOU.

#### **Article V: Termination**

- 11 The IASCF Monitoring Board or the Trustees may terminate this MOU upon 60 days written notice.

## **APPENDIX 4**

### **IASC Foundation Constitution**

#### **Preface**

This Constitution was approved in its original form by the Board of the former International Accounting Standards Committee (IASC) in March 2000 and by the members of IASC at a meeting in Edinburgh on 24 May 2000.

At its meeting in December 1999, the IASC Board had appointed a Nominating Committee to select the first Trustees. Those Trustees were nominated on 22 May 2000 and took office on 24 May 2000 as a result of the approval of the Constitution. In execution of their duties under the Constitution, the Trustees formed the International Accounting Standards Committee Foundation on 6 February 2001. As a consequence of a resolution by the Trustees, Part C of the revised Constitution approved on 24 May 2000 ceased to have effect and was deleted.

Reflecting the Trustees' decision to create the International Financial Reporting Interpretations Committee, and following public consultation, the Constitution was revised on 5 March 2002. Subsequently the Trustees amended the Constitution, with effect from 8 July 2002, to reflect other changes that had taken place since the formation of the IASC Foundation.

The Constitution requires the Trustees to review the Constitution every five years. The Trustees initiated the first review in November 2003 and following extensive consultation completed the review in June 2005. The changes were adopted and approved by the Trustees on 21 June 2005 and came into effect on 1 July 2005. Further amendments were adopted and approved by the Trustees on 31 October 2007 for immediate effect.

The Trustees formally initiated their second five-yearly review of the organisation's constitutional arrangements in February 2008. This version reflects changes adopted after the first part of that review, which focused on public accountability and the composition and size of the International Accounting Standards Board. The Trustees approved the changes on 15 January 2009 for effect on 1 February 2009.

## IASC Foundation Constitution

(approved by the Members of IASC at a meeting in Edinburgh, Scotland on 24 May 2000 and revised by the IASC Foundation Trustees on 5 March and 8 July 2002, 21 June 2005, 31 October 2007 and 15 January 2009)

This Constitution consists of Part A and Part B. Part A deals with the organisation's name and objectives, and the membership and appointment of Trustees. Part B sets out the provisions that came into effect when the Trustees formed the International Accounting Standards Committee Foundation on 6 February 2001, following a Trustees' Resolution.

### Part A

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#### Name and objectives

- 1 The name of the organisation shall be the International Accounting Standards Committee Foundation (abbreviated as 'IASC Foundation'). The International Accounting Standards Board (abbreviated as 'IASB'), whose structure and functions are laid out in Sections 24–38, shall be the standard-setting body of the IASC Foundation.
- 2 The objectives of the IASC Foundation are:
  - (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 and other financial reporting to help participants in the world's capital markets and other users make economic decisions;
  - (b) to promote the use and rigorous application of those standards;
  - (c) in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and
  - (d) to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions.

#### Governance of the IASC Foundation

- 3 The governance of the IASC Foundation shall rest with the Trustees and such other governing organs as may be appointed by the Trustees in accordance with the provisions of this Constitution. The Trustees shall use their best endeavours to ensure that the requirements of this Constitution are observed; however, they are empowered to make minor variations in the interest of feasibility of operation if such variations are agreed by 75 per cent of all the Trustees.

#### Trustees

- 4 The Trustees shall comprise twenty-two individuals.

- 5 The Monitoring Board (described further in Sections 18–23) shall be responsible for the approval of all Trustee appointments and reappointments. In approving such selection, the Monitoring Board shall be bound by the criteria set out in Sections 6 and 7. The Trustees and the Monitoring Board shall agree a nomination process that will entitle the Monitoring Board to recommend candidates and provide other input. In administering the nomination process and putting forward nominations to the Monitoring Board for approval, the Trustees shall consult international organisations as set out in Section 7.
- 6 All Trustees shall be required to show a firm commitment to the IASC Foundation and the IASB as a high quality global standard-setter, to be financially knowledgeable, and to have an ability to meet the time commitment. Each Trustee shall have an understanding of, and be sensitive to, the challenges associated with the adoption and application of high quality global accounting standards developed for use in the world's capital markets and by other users. The mix of Trustees shall broadly reflect the world's capital markets and diversity of geographical and professional backgrounds. The Trustees shall be required to commit themselves formally to acting in the public interest in all matters. In order to ensure a broad international basis, there shall be:
- (a) six Trustees appointed from the Asia/Oceania region;
  - (b) six Trustees appointed from Europe;
  - (c) six Trustees appointed from North America; and
  - (d) four Trustees appointed from any area, subject to establishing overall geographical balance.
- 7 The Trustees shall comprise individuals that as a group provide an appropriate balance of professional backgrounds, including auditors, preparers, users, academics, and other officials serving the public interest. Normally, two of the Trustees shall be senior partners of prominent international accounting firms. To achieve such a balance, Trustees should be selected after consultation with national and international organisations of auditors (including the International Federation of Accountants), preparers, users and academics. The Trustees shall establish procedures for inviting suggestions for appointments from these relevant organisations and for allowing individuals to put forward their own names, including advertising vacant positions.
- 8 Trustees shall normally be appointed for a term of three years, renewable once: in order to provide continuity, some of the initial Trustees will serve staggered terms so as to retire after four or five years.
- 9 Subject to the voting requirements in Section 14, the Trustees may terminate the appointment of an individual as a Trustee on grounds of poor performance, misbehaviour or incapacity.
- 10 The Chairman of the Trustees shall be appointed by the Trustees from among their own number, subject to the approval of the Monitoring Board. With the agreement of the Trustees, regardless of prior service as a Trustee, the appointee may serve as the Chairman for a term of three years, renewable once, from the date of appointment as Chairman.
- 11 The Trustees shall meet at least twice each year and shall be remunerated by the IASC Foundation with an annual fee and a per-meeting fee, commensurate with the responsibilities assumed, such fees to be determined by the Trustees. Expenses of travel on IASC Foundation business shall be met by the IASC Foundation.

- 12 In addition to the powers and duties set out in Section 13, the Trustees may make such operational commitments and other arrangements as they deem necessary to achieve the organisation's objectives, including, but without limitation, leasing premises and agreeing contracts of employment with IASB members.
- 13 The Trustees shall:
- (a) assume responsibility for establishing and maintaining appropriate financing arrangements;
  - (b) establish or amend operating procedures for the Trustees;
  - (c) determine the legal entity under which the IASC Foundation shall operate, provided always that such legal entity shall be a Foundation or other body corporate conferring limited liability on its members and that the legal documents establishing such legal entity shall incorporate provisions to achieve the same requirements as the provisions contained in this Constitution;
  - (d) review in due course the location of the IASC Foundation, both as regards its legal base and its operating location;
  - (e) investigate the possibility of seeking charitable or similar status for the IASC Foundation in those countries where such status would assist fundraising;
  - (f) open their meetings to the public but may, at their discretion, hold certain discussions (normally only about selection, appointment and other personnel issues, and funding) in private; and
  - (g) publish an annual report on the IASC Foundation's activities, including audited financial statements and priorities for the coming year.
- 14 There shall be a quorum for meetings of the Trustees if 60 per cent of the Trustees are present in person or by telecommunications: Trustees shall not be represented by alternates. Each Trustee shall have one vote, and a simple majority of those voting shall be required to take decisions on matters other than termination of the appointment of a Trustee, amendments to the Constitution, or minor variations made in the interest of feasibility of operations, in which cases a 75 per cent majority of all Trustees shall be required; voting by proxy shall not be permitted on any issue. In the event of a tied vote, the Chairman shall have an additional casting vote.

## Part B

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### Trustees

- 15 In addition to the duties set out in Part A, the Trustees shall:
- (a) appoint the members of the IASB and establish their contracts of service and performance criteria;
  - (b) appoint the members of the International Financial Reporting Interpretations Committee and the Standards Advisory Council;
  - (c) review annually the strategy of the IASC Foundation and the IASB and its effectiveness, including consideration, but not determination, of the IASB's agenda;
  - (d) approve annually the budget of the IASC Foundation and determine the basis for funding;

- (e) review broad strategic issues affecting accounting standards, promote the IASC Foundation and its work and promote the objective of rigorous application of International Accounting Standards and International Financial Reporting Standards, provided that the Trustees shall be excluded from involvement in technical matters relating to accounting standards;
  - (f) establish and amend operating procedures, consultative arrangements and due process for the IASB, the International Financial Reporting Interpretations Committee and the Standards Advisory Council;
  - (g) review compliance with the operating procedures, consultative arrangements and due process as described in (f);
  - (h) approve amendments to this Constitution after following a due process, including consultation with the Standards Advisory Council and publication of an exposure draft for public comment and subject to the voting requirements given in Section 14;
  - (i) exercise all powers of the IASC Foundation except for those expressly reserved to the IASB, the International Financial Reporting Interpretations Committee and the Standards Advisory Council; and
  - (j) foster and review the development of educational programmes and materials that are consistent with the IASC Foundation's objectives.
- 16 The Trustees may terminate the appointment of a member of the IASB, the International Financial Reporting Interpretations Committee or the Standards Advisory Council, on grounds of poor performance, misbehaviour, incapacity or other failure to comply with contractual requirements, and the Trustees shall develop procedures for such termination.
- 17 The accountability of the Trustees shall be ensured *inter alia* through:
- (a) a commitment made by each Trustee to act in the public interest;
  - (b) their commitment to report to and engage with the Monitoring Board according to the terms described in Sections 18-23.
  - (c) their undertaking a review of the entire structure of the IASC Foundation and its effectiveness, such review to include consideration of changing the geographical distribution of Trustees in response to changing global economic conditions, and publishing the proposals of that review for public comment, the review commencing three years after the coming into force of this Constitution, with the objective of implementing any agreed changes five years after the coming into force of this Constitution (6 February 2006, five years after the date of the incorporation of the IASC Foundation); and
  - (d) their undertaking a similar review subsequently every five years.

### **The Monitoring Board**

- 18 A Monitoring Board will provide a formal link between the Trustees and public authorities. This relationship seeks to replicate, on an international basis, the link between accounting standard-setters and those public authorities that have generally overseen accounting standard-setters. A Memorandum of Understanding will be agreed between the Monitoring Board and the Trustees describing the interaction of the Monitoring Board with the Trustees. This Memorandum of Understanding will be made available to the public.

- 19 The responsibilities of the Monitoring Board shall be:
- (a) to participate in the process for appointing Trustees and to approve the appointment of Trustees according to the guidelines in Sections 5-8.
  - (b) to review and provide advice to the Trustees on their fulfilment of the responsibilities set out in Sections 13 and 15. The Trustees shall make an annual written report to the Monitoring Board.
  - (c) to meet the Trustees or a subgroup of the Trustees at least once annually, and more frequently as appropriate. The Monitoring Board shall have the authority to request meetings with the Trustees or separately with the Chairman of the Trustees (with the Chairman of the IASB as appropriate) about any area of work of either the Trustees or the IASB. These meetings may include discussion of, and any IASC Foundation or IASB proposed resolution of, issues that the Monitoring Board has referred for timely consideration by the IASC Foundation or the IASB.
- 20 The Monitoring Board shall develop a charter that sets out its organisational, operating and decision-making procedures. The charter shall be made public.
- 21 Initially, the Monitoring Board shall comprise:
- (a) the responsible member of the European Commission,
  - (b) the chair of the IOSCO Emerging Markets Committee,
  - (c) the chair of the IOSCO Technical Committee (or vice chair or designated securities commission chair in cases where either the chairman of an EU securities regulator, commissioner of the Japan Financial Services Agency or chairman of the US Securities and Exchange Commission is the chair of the IOSCO Technical Committee),
  - (d) the commissioner of the Japan Financial Services Agency,
  - (e) the chairman of the US Securities and Exchange Commission, and
  - (f) as an observer, the chairman of the Basel Committee on Banking Supervision.
- 22 The Monitoring Board shall reconsider its composition from time to time relative to its objectives.
- 23 The Monitoring Board shall reach decisions to approve the appointment of Trustees and establish any common positions by consensus.

## **IASB**

- 24 The IASB shall comprise fourteen members, increasing to sixteen members at a date no later than 1 July 2012. The members of the IASB are appointed by the Trustees under Section 15(a). Up to three members may be part-time members (the expression 'part-time' meaning that the members concerned commit most of their time in paid employment to the IASC Foundation) and shall meet appropriate guidelines of independence established by the Trustees. The remaining members shall be full-time members (the expression 'full-time' meaning that the members concerned commit all of their time in paid employment to the IASC Foundation). The work of the IASB shall not be invalidated by its failure at any time to have a full complement of members, although the Trustees shall use their best endeavours to achieve a full complement.

- 25 The main qualifications for membership of the IASB shall be professional competence and practical experience. The Trustees shall select members of the IASB, consistently with the Criteria for IASB Members set out in the Annex to the Constitution, so that it will comprise a group of people representing, within that group, the best available combination of technical expertise and diversity of international business and market experience in order to contribute to the development of high quality, global accounting standards. The members of the IASB shall be required to commit themselves formally to acting in the public interest in all matters. No individual shall be both a Trustee and an IASB member at the same time.
- 26 In a manner consistent with the Criteria for IASB Members as set out in the Annex to the Constitution and in order to ensure a broad international basis, there shall normally be, by 1 July 2012:
- (a) four members from the Asia/Oceania region;
  - (b) four members from Europe;
  - (c) four members from North America;
  - (d) one member from Africa;
  - (e) one member from South America; and
  - (f) two members appointed from any area, subject to maintaining overall geographical balance.
- The work of the IASB shall not be invalidated by its failure at any time to have a full complement of members according to the above geographical allocation, although the Trustees shall use their best endeavours to achieve the geographical allocation.
- 27 The Trustees shall select IASB members so that the IASB as a group provides an appropriate mix of recent practical experience among auditors, preparers, users and academics.
- 28 The IASB will, in consultation with the Trustees, be expected to establish and maintain liaison with national standard-setters and other official bodies concerned with standard-setting in order to promote the convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards.
- 29 Each full-time and part-time member of the IASB shall agree contractually to act in the public interest and to have regard to the IASB *Framework* (as amended from time to time) in deciding on and revising standards.
- 30 The Trustees shall appoint one of the full-time members as Chairman of the IASB, who shall also be the Chief Executive of the IASC Foundation. One of the full-time members of the IASB shall also be designated by the Trustees as Vice-Chairman, whose role shall be to chair meetings of the IASB in the absence of the Chairman in unusual circumstances (such as illness). The appointment of the Chairman and the designation as Vice-Chairman shall be for such term as the Trustees decide. The title of Vice-Chairman would not imply that the individual concerned is the Chairman-elect.
- 31 Members of the IASB shall be appointed for a term of up to five years, renewable once. The Trustees shall develop rules and procedures to ensure that the IASB is, and is seen to be, independent, and, in particular, on appointment, full-time members of the IASB shall sever all employment relationships with current employers and shall not hold any position giving rise to economic

incentives which might call into question their independence of judgement in setting accounting standards. Secondments and any rights to return to an employer would therefore not be permitted. Part-time members of the IASB would not be expected to sever all other employment arrangements.

- 32 The terms of appointment of members of the IASB shall be staggered so that not all members retire at once. To accomplish this, the Trustees shall consider initial terms of three years for some members, four years for others and a full five years for the remaining initial members.
- 33 Full-time and part-time members of the IASB shall be remunerated at rates commensurate with the respective responsibilities assumed: such rates shall be determined by the Trustees. Expenses of travel on IASB business shall be met by the IASC Foundation.
- 34 The IASB shall meet at such times and locations as it determines: meetings of the IASB shall be open to the public, but certain discussions (normally only about selection, appointment and other personnel issues) may be held in private at the discretion of the IASB.
- 35 Each member of the IASB shall have one vote. On both technical and other matters, proxy voting shall not be permitted nor shall members of the IASB be entitled to appoint alternates to attend meetings. In the event of a tied vote, on a decision that is to be made by a simple majority of the members of the IASB present at a meeting in person or by telecommunications, the Chairman shall have an additional casting vote.
- 36 The publication of an exposure draft, or an International Financial Reporting Standard (including an International Accounting Standard or an Interpretation of the International Financial Reporting Interpretations Committee) shall require approval by nine members of the IASB, if there are fewer than 16 members, or by ten members if there are 16 members. Other decisions of the IASB, including the publication of a discussion paper, shall require a simple majority of the members of the IASB present at a meeting that is attended by at least 60 per cent of the members of the IASB, in person or by telecommunications.
- 37 The IASB shall:
- (a) have complete responsibility for all IASB technical matters including the preparation and issuing of International Accounting Standards, International Financial Reporting Standards and exposure drafts, each of which shall include any dissenting opinions, and final approval of Interpretations by the International Financial Reporting Interpretations Committee;
  - (b) publish an exposure draft on all projects and normally publish a discussion document for public comment on major projects;
  - (c) have full discretion in developing and pursuing the technical agenda of the IASB and over project assignments on technical matters: in organising the conduct of its work, the IASB may outsource detailed research or other work to national standard-setters or other organisations;

- (d) (i) establish procedures for reviewing comments made within a reasonable period on documents published for comment,
- (ii) normally form working groups or other types of specialist advisory groups to give advice on major projects,
- (iii) consult the Standards Advisory Council on major projects, agenda decisions and work priorities, and
- (iv) normally issue bases for conclusions with International Accounting Standards, International Financial Reporting Standards, and exposure drafts;
- (e) consider holding public hearings to discuss proposed standards, although there is no requirement to hold public hearings for every project;
- (f) consider undertaking field tests (both in developed countries and in emerging markets) to ensure that proposed standards are practical and workable in all environments, although there is no requirement to undertake field tests for every project; and
- (g) give reasons if it does not follow any of the non-mandatory procedures set out in (b), (d)(ii), d(iv), (e) and (f).

38 The authoritative text of any exposure draft or International Accounting Standard or International Financial Reporting Standard or draft or final Interpretation shall be that published by the IASB in the English language. The IASB may publish authorised translations or give authority to others to publish translations of the authoritative text of exposure drafts and International Accounting Standards and International Financial Reporting Standards and draft and final Interpretations.

### **International Financial Reporting Interpretations Committee**

39 The International Financial Reporting Interpretations Committee shall comprise fourteen voting members, appointed by the Trustees under Section 15(b) for renewable terms of three years. The Trustees shall select members of the Committee so that it comprises a group of people representing, within that group, the best available combination of technical expertise and diversity of international business and market experience in the practical application of International Financial Reporting Standards (IFRSs) and analysis of financial statements prepared in accordance with IFRSs. Expenses of travel on Committee business shall be met by the IASC Foundation.

40 The Trustees shall appoint a member of the IASB, the Director of Technical Activities or another senior member of the IASB staff, or another appropriately qualified individual, to chair the Committee. The Chair has the right to speak to the technical issues being considered but not to vote. The Trustees, as they deem necessary, shall appoint as non-voting observers representatives of regulatory organisations, who shall have the right to attend and speak at meetings.

41 The Committee shall meet as and when required and ten voting members present in person or by telecommunications shall constitute a quorum: one or two IASB members shall be designated by the IASB and shall attend meetings as non-voting observers; other members of the IASB may attend and speak at the meetings. On exceptional occasions, members of the Committee may be allowed to send non-voting alternates, at the discretion of the Chair of the Committee. Members

wishing to nominate an alternate should seek the consent of the Chair in advance of the meeting concerned. Meetings of the Committee shall be open to the public, but certain discussions (normally only about selection, appointment and other personnel issues) may be held in private at the Committee's discretion.

- 42 Each member of the Committee shall have one vote. Members vote in accordance with their own independent views, not as representatives voting according to the views of any firm, organisation or constituency with which they may be associated. Proxy voting shall not be permitted. Approval of draft or final Interpretations shall require that not more than four voting members vote against the draft or final Interpretation.
- 43 The Committee shall:
- (a) interpret the application of International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) and provide timely guidance on financial reporting issues not specifically addressed in IASs and IFRSs, in the context of the IASB *Framework*, and undertake other tasks at the request of the IASB;
  - (b) in carrying out its work under (a) above, have regard to the IASB's objective of working actively with national standard-setters to bring about convergence of national accounting standards and IASs and IFRSs to high quality solutions;
  - (c) publish after clearance by the IASB draft Interpretations for public comment and consider comments made within a reasonable period before finalising an Interpretation; and
  - (d) report to the IASB and obtain the approval of nine of its members for final Interpretations.

### **Standards Advisory Council**

- 44 The Standards Advisory Council, whose members shall be appointed by the Trustees under Section 15(b), provides a forum for participation by organisations and individuals, with an interest in international financial reporting, having diverse geographical and functional backgrounds, with the objective of:
- (a) giving advice to the IASB on agenda decisions and priorities in the IASB's work,
  - (b) informing the IASB of the views of the organisations and individuals on the Council on major standard-setting projects and
  - (c) giving other advice to the IASB or the Trustees.
- 45 The Council shall comprise thirty or more members, having a diversity of geographical and professional backgrounds, appointed for renewable terms of three years. The Chairman of the Council shall be appointed by the Trustees, and shall not be a member of the IASB or a member of its staff. The Trustees shall invite the Chairman of the Council to attend and participate in the Trustees' meetings, as appropriate.
- 46 The Council shall normally meet at least three times a year. Meetings shall be open to the public. The Council shall be consulted by the IASB in advance of IASB decisions on major projects and by the Trustees in advance of any proposed changes to this Constitution.

### **Chief Executive and staff**

- 47 As provided under Section 24, the Chairman of the IASB shall also be the Chief Executive of the IASC Foundation, and shall be subject to supervision by the Trustees.

- 48 The Chief Executive shall be responsible for the staffing of the IASB, which shall include a Director of Technical Activities appointed by the Chief Executive in consultation with the Trustees: the Director of Technical Activities, while not a member of the IASB, shall be entitled to participate in the debate but not to vote at meetings of the IASB and the International Financial Reporting Interpretations Committee.
- 49 A Director of Operations and a Commercial Director shall also be appointed by the Chief Executive in consultation with the Trustees. They shall have responsibility for publications and copyright, communications, administration, and finance under the supervision of the Chief Executive and for fundraising under the supervision of the Trustees.

### **Administration**

- 50 The administrative office of the IASC Foundation shall be located in such location as may be determined by the Trustees in accordance with Section 13(d).
- 51 The IASC Foundation shall be a legal entity as determined by the Trustees and shall be governed by this Constitution and by any laws which apply to such legal entity, including, if appropriate, laws applicable because of the location of its registered office.
- 52 The IASC Foundation shall be bound by the signature(s) of such person or persons as may be duly authorised by the Trustees.

## ANNEX

### International Accounting Standards Committee Foundation

#### Criteria for IASB Members

The following would represent criteria for IASB membership:

- 1 **Demonstrated Technical Competency and Knowledge of Financial Accounting and Reporting.** All members of the IASB, 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 IASB 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.** IASB 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 IASB 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 **Judicious Decision-making.** IASB 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. IASB members should have an understanding of the global economic environment in which the IASB operates. This global awareness should include awareness of business and financial reporting issues that are relevant to, and affect the quality of, transparent financial reporting and disclosure in the various capital markets worldwide, including those using International Financial Reporting Standards.
- 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 IASB's objective of developing high quality and transparent financial reporting. Members must be able to put the objective of the IASB 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 IASB 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 the IASC Foundation's Mission and Public Interest.** Members should be committed to achieving the objective of the IASC Foundation of establishing international accounting and financial reporting standards that are of high quality, comparable, and transparent. A candidate for the IASB also should be committed to serving the public interest through a private standard-setting process.