

WRITTEN EVIDENCE OF SIR DAVID TWEEDIE
CHAIRMAN, INTERNATIONAL ACCOUNTING STANDARDS BOARD
TO THE
TREASURY COMMITTEE
5 APRIL 2002

In response to the Committee's letter of 22 March, I am glad to take this opportunity to comment on some accounting matters that have become the focus of much attention recently. I am the chairman of the International Accounting Standards Board (IASB). Before joining the IASB, I spent ten years as the chairman of the United Kingdom Accounting Standards Board (ASB). Most of this note is drawn from my testimony before a committee of the United States Senate on 14 February. The press reports new information about the Enron affair every day. However, I have seen nothing that leads me to change the views that I expressed in February.

The IASB's objective is to work towards a single set of high quality global financial reporting standards, produced in the private sector under principles of transparency, open meetings, and full due process. We have no intention to 'water down' existing standards in any jurisdiction. Instead, we plan to build a set of financial reporting standards that are the 'gold standard'. I cannot overemphasise the importance of high quality accounting rules that give investors confidence that published financial statements show a full and accurate picture of a company's performance and position.

This note does not comment directly on specific accounting and auditing issues surrounding Enron, although there are many. None of us knows enough about the specifics of the transactions, the information available to the auditors, and the judgements involved to form a solid professional conclusion. As we learn more, we may find that the US accounting standards should be improved. If so, we plan to learn from this case and to make sure that the IASB's standards do not have similar problems.

I would, however, offer two observations. First, history is full of examples of those who said "it couldn't happen here" and came to regret it. I do not plan to repeat that mistake. Second, long experience as a chartered accountant and as an accounting standard-setter tells me that

business failures seldom have a single simple cause. They are usually much more complex than they first seem and the rush to a single easy answer is usually wrong.

Let me turn then to answer some questions that you may have about the future of standard-setting and the role of the IASB and international financial reporting standards in assuring investor confidence.

Why have an international accounting standard-setter?

There are four answers to that question:

First, there is a recognised and growing need for international accounting standards. A large number of sets of national standards, each different from the others to some (often significant) degree, imposes an unacceptable cost on the capital markets. Some of that cost is direct and is borne by companies that must meet multiple standards if they seek to raise capital in different markets. There is a more important cost—a systematic increase in the cost of capital. Markets demand a price for uncertainty, including uncertainty about the accounting standards that govern reported information. The existence of multiple, and sometimes unknown, sets of accounting standards increases that uncertainty and drives up the cost of capital. We have seen situations in which a lack of confidence in reported financial information causes investors to leave markets and refuse to invest at any price. Even if there was no systematic increase in the overall cost of capital, the uncertainty created by multiple sets of national financial reporting standards would be likely to lead to a misallocation of capital among market participants.

Second, no individual standard-setter has a monopoly on the best solutions to accounting problems. At the IASB, our goal is to identify the best in standards around the world and establish a body of accounting standards that build on the best. We call this goal *convergence* to the highest level.

Third, no national standard-setter is in a position to set accounting standards that can gain acceptance around the world. There are several excellent national standard-setters, including the UK ASB and US Financial Accounting Standards Board (FASB). However, each of the national standard-setters operates in its own national setting. Leaders of the accounting world have come

to see that *international* standards must be set by a group with an international makeup and an international outlook.

Lastly, there are many areas of financial reporting in which a national standard-setter finds it difficult to act alone. Constituents often complain that a 'tough' standard would put local companies at a competitive disadvantage relative to companies outside of their jurisdiction. Local political pressures and policies may work against individual national standard-setters. An international standard-setter can establish financial reporting standards that would (we hope) apply to all companies in all jurisdictions, thus eliminating perceived disadvantages.

Having explained the need for an international standard setter, I should also explain that national standard-setters are a critical part of our activities. We look to the national standard-setters for research and counsel, for help in alerting us to particular local problems, and for help in our due process. Most importantly, we look to the national standard-setters as partners in several of our projects, enabling us to make use of their resources. Seven of our Board members have direct responsibility for liaison with the national standard-setters in Australasia, Canada, France, Germany, Japan, the UK and the USA. We expect that our liaison Board members will spend as much as half their time in direct contact with their assigned national standard-setter, thus bringing the collective wisdom of each country's financial community to our debates.

How do International Financial Reporting Standards differ from US standards?

This may seem an odd question to raise in response to an inquiry into regulation in the UK. However, Enron was a US company and thus the relationship between international and US standards is worth exploring. Many of the international standards that the IASB inherited from our predecessor body are similar to their US equivalents. Both international and US standards strive to be principles-based, in that they both look to a body of accounting concepts. US standards tend, on the whole, to be more specific in their requirements and include much more detailed implementation guidance.

In my view, the US approach is a product of the environment in which US standards have been set. Simply put, US accounting standards are detailed and specific because the FASB's

constituents have asked for detailed and specific standards. Companies want detailed guidance because those details eliminate uncertainties about how transactions should be structured. Auditors want specificity because those specific requirements limit the number of difficult disputes with clients and may provide a defence in litigation. Securities regulators want detailed guidance because those details are thought to be easier to enforce.

The IASB has concluded that a body of detailed guidance (sometimes referred to as *bright lines*) encourages a rule-book mentality of “where does it say I can’t do this?” We take the view that this is counter-productive and helps those who are intent on finding ways around standards more than it helps those seeking to apply standards in a way that gives useful information. Put simply, adding the detailed guidance may obscure, rather than highlight, the underlying principle. The emphasis tends to be on compliance with the letter of the rule rather than on the spirit of the accounting standard.

We favour an approach that requires the company and its auditor to take a step back and consider whether the accounting suggested is consistent with the underlying principle. This is not a soft option. Our approach requires both companies and their auditors to exercise professional judgement in the public interest. Our approach requires a strong commitment from preparers to financial statements that provide a faithful representation of all transactions and a strong commitment from auditors to resist client pressures. It will not work without those commitments. There will be more individual transactions and structures that are not explicitly addressed. We hope that a clear statement of the underlying principles will allow companies and auditors to deal with those situations without resorting to detailed rules.

What is the IASB’s work plan?

The IASB is a small organisation. We must therefore set our priorities with care. We have twelve full-time Board members, including myself and another from the UK, and two part-time members. We have a professional staff of 17 that includes highly skilled people from Australia, Bermuda, Canada, France, New Zealand, Russia, Sweden, the UK and the USA.

The active agenda

Our agenda includes nine active projects that we divide into three groups:

Projects intended to provide leadership and promote convergence include:

- (a) Accounting for insurance contracts
- (b) Business combinations
- (c) Performance reporting (a joint project with the UK standard-setter)
- (d) Accounting for share-based payment

Projects intended to provide for easier application of International Financial Reporting Standards include:

- (e) Guidance on first-time application of International Financial Reporting Standards (a joint project with the French national standard-setter)
- (f) Financial activities: disclosure and presentation

Projects intended to improve existing international standards include:

- (g) Preface to International Financial Reporting Standards
- (h) Improvements to existing International Accounting Standards
- (i) Amendments to IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*.

Details of the projects on our agenda, including a summary of all tentative decisions to date, can be found on the IASB's Website at www.iasb.org.uk.

The research agenda

In addition to the active agenda, there are 16 other issues that we refer to as our research agenda. Each is being worked on by one or more of our national standard-setting partners. The IASB will be working with these partners, or at least monitoring their efforts, in order to ensure that any differences among national standard-setters or with the IASB are identified and resolved as quickly as possible. We expect to move some of these issues to our active agenda as time and resources permit.

The 16 issues on our research agenda are:

Accounting measurement	Accounting by extractive industries
Accounting for financial instruments, comprehensive project	Accounting for leases
Accounting by small and medium entities and in emerging economies	Accounting for taxes on income (convergence topics)*
Business combinations, phase II (a joint project with the FASB)	Consolidation policy
Definitions of elements of financial statements	Derecognition issues, other than those addressed in IAS 39
Employee benefits (convergence topics)*	Impairment of assets (convergence topics)*
Intangible assets	Liabilities and revenue recognition
Management's discussion and analysis	Revaluations of certain assets

Consolidations

Of the 16 topics on our research agenda, one warrants special mention here. For several years, there has been an international debate on the topic of *consolidation policy*. The failure to consolidate some entities has been identified as a significant issue in the restatement of Enron's financial statements.

Accountants use the term *consolidation policy* as shorthand for the principles that govern the preparation of consolidated financial statements that include the assets and liabilities of a parent company and its subsidiaries. For an example of consolidation, consider the simple example known to every accounting student. Company A operates a branch office in Edinburgh. Company B also operates a branch office in Edinburgh, but organises the branch as a corporation owned by Company B. Every accounting student knows that the financial statements of each

* This project contemplates a review of differences between existing standards, rather than a comprehensive review of the topic.

company should report all of the assets and liabilities of their respective Edinburgh operations, without regard to the legal form surrounding those operations.

Of course, real life is seldom as straightforward as textbook examples. Companies often own less than 100 per cent of a company that might be included in the consolidated group. Some *special purpose entities* (SPEs) may not be organised in traditional corporate form. The challenge for accountants is to determine which entities should be included in consolidated financial statements.

There is a broad consensus among accounting standard-setters that the decision to consolidate should be based on whether one entity controls another. However, there is much disagreement over how control should be defined and translated into accounting guidance. In some jurisdictions accounting standards and practice seem to have gravitated toward a legal or ownership notion of control, usually based on direct or indirect ownership of over 50 per cent of the outstanding voting shares. In contrast, both international standards and the standards in some national jurisdictions are based on a broader notion of control that includes ownership, but extends to control over financial and operating policies, power to appoint or remove a majority of the board of directors, and power to cast a majority of votes at meetings of the board of directors.

A number of commentators, including many in the USA, have questioned whether the control principle is consistently applied. The IASB and its partner standard-setters are committed to an ongoing review of the effectiveness of our standards. If they do not work as well as they should, we want to find out why and fix the problem. Last summer we asked the UK ASB to help us by researching the various national standards on consolidation and identifying any inconsistencies or implementation problems. It has completed the first stage of that effort and is moving now to more difficult questions.

The particular consolidation problems posed by SPEs were addressed by the IASB's former Standing Interpretations Committee in SIC-12. There are some kinds of SPE that pose particular problems for both an ownership approach and a control-based approach to consolidations. It is not uncommon for SPEs to have minimal capital, held by a third party, that bears little if any of the risks and rewards usually associated with share ownership. The activities of some SPEs are

so precisely prescribed in the documents that establish them that no active exercise of day-to-day control is needed or allowed. These kinds of SPEs are commonly referred to as running on 'auto-pilot'. In these cases, control is exercised in a passive way. To discover who has control it is necessary to look at which party receives the benefits and risks of the SPE.

SIC-12 sets out four particular circumstances that may indicate that an SPE should be consolidated:

- (a) in substance, the activities of the SPE are being conducted on behalf of the enterprise according to its specific business needs so that the enterprise obtains benefits from the SPE's operation.
- (b) in substance, the enterprise has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the enterprise has delegated these decision-making powers.
- (c) in substance, the enterprise has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE.
- (d) in substance, the enterprise retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The IASB recognises that we may be able to improve our approach to SPEs. With this in mind, we have already asked our interpretations committee if there are any ways in which the rules need to be strengthened or clarified.

Current criticisms and concerns about financial reporting

There some common threads that pass through most of the topics on our active and research agendas. Each represents a broad topic that has occupied the best accounting minds for several years. It is time to bring many of these issues to a conclusion.

Off balance sheet items

When a manufacturer sells a car or a dishwasher, the inventory is removed from the balance sheet (a process that accountants refer to as *derecognition*) because the manufacturer no longer

owns the item. Similarly, when a company repays a loan, it no longer reports that loan as a liability. However, the last 20 years have seen a number of attempts by companies to remove assets and liabilities from balance sheets through transactions that may obscure the economic substance of the company's financial position. There are four areas that warrant mention here, each of which has the potential to obscure the extent of a company's assets and liabilities.

Leasing transactions

A company that owns an asset, say an aircraft, and finances that asset with debt reports an asset (the aircraft) and a liability (the debt). Under existing accounting standards in most jurisdictions (including ASB and IASB standards), a company that operates the same asset under a lease structured as an *operating lease* reports neither the asset nor the liability. It is possible to operate a company, say an airline, without reporting any of the company's principal assets (aircraft) on the balance sheet. A balance sheet that presents an airline without any aircraft is clearly not a faithful representation of economic reality.

Our predecessor body, working in conjunction with our partners in Australia, Canada, New Zealand, the UK and the USA, published a research paper that invited comments on accounting for leases. The UK ASB is continuing work on this topic and we are monitoring its work carefully. As noted above, we expect to move accounting for leases to our active agenda at some point in the future. There is a distinct possibility that such a project would lead us to propose that companies recognise assets and related lease obligations for all leases.

Securitisation transactions

Under existing accounting standards in many jurisdictions, a company that transfers assets (like loans or credit-card balances) through a securitisation transaction recognises the transaction as a sale and removes the amounts from its balance sheet. Some securitisations are appropriately accounted for as sales, but many continue to expose the transferor to many of the significant risks and rewards inherent in the transferred assets. In our project on improvements to IAS 39 (page 5), we plan to propose an approach that will clarify international standards governing a company's ability to derecognise assets in a securitisation. Our approach, which will not allow sale treatment when the 'seller' has a continuing involvement with the assets, will be significantly different from the one found in the existing standards of most jurisdictions.

Creation of unconsolidated entities

Under existing accounting standards in many jurisdictions, a company that transfers assets and liabilities to a subsidiary company must consolidate that subsidiary in the parent company's financial statements (see page 6). However, in some cases (often involving the use of an SPE), the transferor may be able (in some jurisdictions) to escape the requirement to consolidate. Standards governing the consolidation of SPEs are described on page 7.

Pension obligations

Under existing standards in many jurisdictions (including existing international standards) a company's obligation to a defined benefit pension plan is reported on the company's balance sheet. However, the amount reported is not the current obligation, based on current information and assumptions, but instead represents the result of a series of devices designed to spread changes over several years. In contrast, the UK standard (FRS 17) has attracted significant recent attention because it does not include a smoothing mechanism. The IASB plans to examine the differences among the various national accounting standards for pensions (in particular, the smoothing mechanism), as part of our ongoing work on convergence.

Items not included in the profit and loss account

Under existing accounting standards in some jurisdictions, a company that pays for goods and services through the use of its own shares, options on its shares, or instruments tied to the value of its shares may not record any cost for those goods and services. The most common form of this share-based transaction is the employee share option. In 1995, after what it called an "extraordinarily controversial" debate, the FASB issued a standard that, in most cases in the USA, requires disclosure of the effect of employee share options but does not require recognition in the financial statements. In its Basis for Conclusions, the FASB observed:

The Board chose a disclosure-based solution for stock-based employee compensation to bring closure to the divisive debate on this issue—not because it believes that solution is the best way to improve financial accounting and reporting.

Most jurisdictions, including the UK, do not have **any** standard on accounting for share-based payment, and the use of this technique is growing outside of the USA. There is a clear need for international accounting guidance. Last autumn, the IASB reopened the comment period on a discussion document *Accounting for Share-based Payment*. This document was initially

published by our predecessor, in concert with standard-setters from Australia, Canada, New Zealand, the UK and the USA. We have now considered the comments received and have begun active deliberation of this project.

Accounting measurement

Under existing accounting standards in most jurisdictions, assets and liabilities are reported at amounts based on a mixture of accounting measurements. Some measurements are based on historical transaction prices, perhaps adjusted for depreciation, amortisation, or impairment. Others are based on fair values, using either amounts observed in the marketplace or estimates of fair value. Accountants refer to this as the *mixed attribute model*. It is increasingly clear that a mixed attribute system creates complexity and opportunities for accounting arbitrage, especially for derivatives and financial instruments. Some have suggested that financial reporting should move to a system that measures all financial instruments at fair value.

Our predecessor body participated in a group of ten accounting standard-setters (the Joint Working Group or JWG) to study the problem of accounting for financial instruments. The JWG proposal (which recommended a change to measuring all financial assets and liabilities at fair value) was published at the end of 2000. Earlier this year the Canadian Accounting Standards Board presented an analysis of comments on that proposal. The IASB has just begun to consider how this effort should move forward.

Intangible assets

Under existing accounting standards in most jurisdictions, the cost of an intangible asset (a patent, copyright, or the like) purchased from a third party is capitalised as an asset. This is the same as the accounting for acquired tangible assets (buildings and machines) and financial assets (loans and accounts receivable). Existing accounting standards extend this approach to self-constructed tangible assets, so a company that builds its own building capitalises the costs incurred and reports that as the cost of its self-constructed asset. However, a company that develops its own patent for a new drug or process is prohibited from capitalising much (sometimes all) of the costs of creating that intangible asset. Many have criticised this inconsistency, especially at a time when many view intangible assets as significant drivers of company performance.

The accounting recognition and measurement of internally generated intangibles challenges many long-cherished accounting conventions. Applying the discipline of accounting concepts challenges many of the popular conceptions of intangible assets and 'intellectual capital'.

We have this topic on our research agenda. We also note the significant work that the FASB has done on this topic and its recent decision to add a project to develop proposed disclosures about internally generated intangible assets. We plan to monitor those efforts closely.

Conclusion

As noted earlier, the IASB's objective is to work toward a single set of high quality international financial reporting standards, produced in the private sector under principles of transparency, open meetings, and full due process. The international financial markets clearly want a single set of accounting standards that apply worldwide. We have no intention to 'water down' existing standards in any jurisdiction. Instead, we plan to build a set of financial reporting standards that are the 'gold standard'. In pursuit of that goal, we plan to build on the best of available standards produced by national standard-setters.

No single group has a monopoly on the best in accounting, and we expect to learn from our colleagues. To the extent that the underlying rationale in UK or US standards, or any other, is the best available and of high quality, we intend to incorporate that rationale into international standards. To the extent that another standard has a superior approach, we intend to adopt it. If no national standard adequately addresses the problem, as may be the case in accounting for leases or share-based payment, then we plan to work towards an international standard that does. We plan to develop standards based on clear principles, rather than rules that attempt to cover every eventuality. I hope that we can keep to that plan, but its success will depend on the professionalism and judgement of financial statement preparers, auditors, and securities regulators.

Our work will probably require tough decisions and unpopular standards. Assets and liabilities that companies have moved 'off balance sheet' may move back 'on balance sheet'. Expenses that today go unrecognised may be recognised in companies' income statements. Measurements may move from historical to more up-to-date information.

The whole world has been shocked by the scale and speed of the Enron collapse. We who are on the outside learn a little more every day, but it still remains to be seen whether the financial reporting that preceded Enron's collapse was a result of flawed accounting standards, the incorrect application of existing standards, auditing mistakes, or plain deceit. We owe an obligation to the investors, employees, and others who have suffered to ensure, to the best of our ability, that the lessons are learned. If there are weaknesses in accounting standards, we should acknowledge that fact and come forward with improvements.

In partnership with the UK ASB and others, we intend to change financial reporting. In some cases, that change will be dramatic, especially for countries without the advanced standards and financial infrastructure found in the UK and the USA. Most of those changes will be controversial. Global accounting standards do not create a national disadvantage, and we have to work towards answers that investors can trust.

Appendix—background information on the IASB

Introduction

The International Accounting Standards Board (IASB), based in London, began operations in 2001. It is funded by contributions from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The fourteen Board members (twelve of whom are full-time) reside in nine countries and have a variety of functional backgrounds. The Board is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the Board cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world.

Trustees

Board members are appointed by the Trustees of the International Accounting Standards Committee (IASC) Foundation. Under the IASC Foundation's Constitution, the Trustees also appoint the Standards Advisory Council and the Standing Interpretations Committee (recently reconstituted and renamed the International Financial Reporting Interpretations Committee). The Trustees also monitor the IASB's effectiveness, raise funds for the IASB, approve the IASB's budget and have responsibility for constitutional changes. The Trustees are individuals of diverse geographical and functional backgrounds. Under the Constitution, the Trustees were appointed so that initially there were six from North America, six from Europe, four from Asia Pacific, and three others from any area, as long as geographical balance was maintained. Five of the nineteen Trustees represent the accounting profession, and international organisations of preparers, users, and academics are each represented by one Trustee. The remaining eleven Trustees were 'at-large' appointments, in that they were not selected through the constituency nomination process. The existing Trustees will follow similar procedures in selecting subsequent Trustees to fill vacancies.

Board

The Board consists of fourteen individuals (twelve full-time members and two part-time members) and has sole responsibility for setting accounting standards. The foremost

qualification for Board membership is technical expertise and the Trustees exercised their best judgement to ensure that any particular constituency or regional interest does not dominate the Board. The Constitution requires that at least five Board members have a background as practising auditors, at least three have a background in the preparation of financial statements, at least three have a background as users of financial statements, and at least one has an academic background. Seven of the fourteen Board members have direct responsibility for liaison with one or more national standard-setters. The publication of a Standard, Exposure Draft, or final IFRIC Interpretation requires approval by eight of the Board's fourteen members. At 1 April 2002, the Board members were:

Sir David Tweedie, <i>Chairman</i>	Thomas E Jones, <i>Vice-Chairman</i>
Professor Mary E Barth (<i>Part-time</i>)	Hans-Georg Bruns (<i>Liaison with the German standard-setter</i>)
Anthony T Cope	Robert P Garnett
Gilbert Gélard (<i>Liaison with the French standard-setter</i>)	Robert H Herz (<i>Part-time</i>)
James J Leisenring (<i>Liaison with the US standard-setter</i>)	Warren McGregor (<i>Liaison with the Australian and New Zealand standard-setters</i>)
Patricia O'Malley (<i>Liaison with the Canadian standard-setter</i>)	Harry K Schmid
Geoffrey Whittington (<i>Liaison with the UK standard-setter</i>)	Tatsumi Yamada (<i>Liaison with the Japanese standard-setter</i>)

Upon its inception the IASB adopted the body of International Accounting Standards (IASs) issued by its predecessor, the International Accounting Standards Committee. The accounting standards developed by the Board will be styled *International Financial Reporting Standards* (IFRSs).

Standards Advisory Council

The Standards Advisory Council (SAC) provides a formal vehicle for further groups and individuals to give advice to the IASB and, at times, to advise the Trustees. The Trustees attach

particular importance to the perspective that the Council can bring to the IASB's role and mandate. The Council comprises about fifty members, having diverse geographical and functional backgrounds and the expertise required to contribute to the formulation of accounting standards. It has the objective of (a) giving advice to the IASB on priorities in the IASB's work, (b) informing the IASB of the implications of proposed standards for users and preparers of financial statements and (c) giving other advice to the IASB or the Trustees. The Council normally meets at least three times a year. It is to be consulted by the IASB on all major projects and its meetings are to be open to the public. The Trustees appointed the initial members of the Council in June 2001.

International Financial Reporting Interpretations Committee (formerly the Standing Interpretations Committee)

The Standing Interpretations Committee was formed in 1997 and reconstituted in December 2001. Subsequently the Trustees amended the Constitution in order to change the name of the Committee to the International Financial Reporting Interpretations Committee and to give it the following mandate:

- (a) interpret the application of International Financial Reporting Standards (IFRSs) and provide timely guidance on financial reporting issues not specifically addressed in IFRSs or IASs, in the context of the IASB's framework, and undertake other tasks at the request of the Board;
- (b) in carrying out its work under (a) above, have regard to the Board's objective of working actively with national standard-setters to bring about convergence of national accounting standards and IFRSs to high quality solutions;
- (c) publish after clearance by the Board Draft Interpretations for public comment and consider comments made within a reasonable period before finalising an Interpretation; and
- (d) report to the Board and obtain Board approval for final Interpretations.

The IFRIC consults similar national interpretative bodies around the world, in particular those in partner jurisdictions.

The Committee has twelve voting members, appointed by the Trustees for a renewable term of three years. The International Organization of Securities Commissions (IOSCO) and the European Commission are non-voting observers. In the changes to the Constitution, the Trustees

have also agreed that a member of the IASB, the Director of Technical Activities or another senior member of the IASB staff, or another appropriately qualified individual be appointed to chair the Committee. The Chair will have the right to speak to the technical issues being considered but not to vote.

The IFRIC deals with issues of reasonably widespread importance, not issues of concern to only a small number of enterprises. The interpretations cover both:

- (a) mature issues (areas where there is unsatisfactory practice within the scope of existing International Accounting Standards); and
- (b) emerging issues (new topics relating to an existing International Accounting Standard but not considered when the Standard was developed).

The IASB publishes a report on IFRIC decisions immediately after each IFRIC meeting.

This report is made available (in electronic format) as soon as possible to subscribers and subsequently posted to the IASB Website.

IASB staff

A staff based in London, headed by the chairman of the IASB, supports the Board. The present technical staff and other project managers include people from Australia, Bermuda, Canada, France, New Zealand, the Russian Federation, Sweden, the UK and the USA.

Due process

The IASB published its proposed due process in an exposure draft of the *Preface to International Financial Reporting Standards* in November 2001. That proposed due process, which and may be changed as a result of comments received on the exposure draft, is as follows.

IASB due process

IFRSs are developed through an international due process that involves accountants, financial analysts and other users of financial statements, the business community, stock exchanges, regulatory and legal authorities, academics and other interested individuals and organisations from around the world. The Board consults the SAC about the projects it should add to its agenda and discusses technical matters in meetings that are open to public observation.

Due process for projects normally, but not necessarily, involves the following steps (the steps that are required under the terms of the Constitution are indicated by an asterisk*):

- (a) staff work to identify and review all the issues associated with the topic and to consider the application of the IASB's Framework to the issues;
- (b) study of national accounting requirements and practice and an exchange of views about the issues with national standard-setters;
- (c) consultation with the SAC about the advisability of adding the topic to the Board's agenda;*
- (d) formation of an advisory group to give advice to the Board on the project;
- (e) publishing for public comment a discussion document;
- (f) publishing for public comment an Exposure Draft approved by at least eight votes of the Board, including any dissenting opinions held by Board members and a basis for conclusions;*
- (g) consideration of all comments received on discussion documents and Exposure Drafts;*
- (h) consideration of the desirability of holding a public hearing and of the desirability of conducting field tests and, if considered desirable, holding such hearings and conducting such tests; and
- (i) approval of a Standard by at least eight votes of the Board and inclusion in the published Standard of any dissenting opinions and a basis for conclusions, explaining, among other things, how the Board dealt with public comments on the Exposure Draft.*

IFRIC due process

Interpretations of IFRSs are developed through an international due process that involves accountants, financial analysts and other users of financial statements, the business community, stock exchanges, regulatory and legal authorities, academics and other interested individuals and organisations from around the world. The IFRIC discusses technical matters in meetings that are open to public observation. The due process for each project normally, but not necessarily, involves the following steps (the steps that are required under the terms of the Constitution are indicated by an asterisk*):

- (a) staff work to identify and review all the issues associated with the topic and to consider the application of the IASB's Framework to the issues;
- (b) study of national accounting requirements and practice and an exchange of views about the issues with national standard-setters, including national committees that have responsibility for interpretations of national standards;
- (c) publication of a draft Interpretation for public comment if no more than three of the IFRIC's members have voted against the proposal;*

- (d) consideration of all comments received on a draft Interpretation within a reasonable period of time;*
- (e) approval by the IFRIC of an Interpretation if no more than three of the IFRIC's members have voted against the Interpretation after considering public comments on the draft Interpretation;* and
- (f) approval of the Interpretation by at least eight votes of the Board.*

Voting

Each Board member has one vote on technical and other matters. The publication of a Standard, Exposure Draft, or final IFRIC Interpretation requires approval by eight of the Board's fourteen members. Other decisions, including the publication of a Draft Statement of Principles or a Discussion Paper and agenda decisions, requires a simple majority of the Board members present at a meeting attended by 50 per cent or more of the Board. The Board has full control over its technical agenda.

Each member of the IFRIC has one vote on an Interpretation. Eight voting IFRIC members constitute a quorum. Approval of Interpretations requires that no more than three IFRIC members present at the meeting vote against the proposal.

Openness of meetings

- (a) IASB and IFRIC meetings are open to public observation. However, certain discussions (primarily selection of items for the technical agenda and appointment and other personnel issues) are, at the Board and IFRIC's discretion, held in private. Portions of the Trustees' meetings are also open to the public, at the discretion of the Trustees.
- (b) The IASB continues to explore the use of recent technology (such as the Internet and electronic observation of meetings) to overcome geographical barriers and the logistical problems for members of the public in attending open meetings.
- (c) The IASB publishes in advance on its Internet site the agenda for each meeting of the Trustees, IASB, SAC and IFRIC and publishes promptly a summary of the technical decisions made at IASB and IFRIC meetings and, where appropriate, decisions of the Trustees.
- (d) When IASB issues a standard, it publishes a Basis for Conclusions to explain publicly how it reached its conclusions and to give background information that may help users of IASB standards to apply them in practice. The IASB also publishes dissenting opinions.

Comment periods

The Board publishes each Exposure Draft of a Standard and discussion documents for public comment, with a normal comment period of 90-120 days. In certain circumstances, the Board may expose proposals for a much shorter period. However, such limited periods would be used only in extreme circumstances. Draft IFRIC Interpretations are normally exposed for a 60-day comment period.

Coordination with national due process

The Board meets the chairmen of its partner national standard-setters at least three times a year. Close coordination between the IASB's due process and the due process of national standard-setters is important to the success of the IASB. As far as possible, the IASB would integrate its due process with national due process. Such integration may grow as the relationship between the IASB and national standard-setters evolves. In addition, those Board members having liaison responsibilities with a national standard-setter provide a mechanism for more regular contact.

Opportunities for input

The development of an International Financial Reporting Standard involves an open, public process of debating technical issues and evaluating input sought through several mechanisms. Opportunities for interested parties to participate in the development of standards would include, depending on the nature of the project:

- (a) participation in the development of views as a member of the Standards Advisory Council;
- (b) participation in advisory groups;
- (c) submission of a comment letter in response to a discussion document;
- (d) submission of a comment letter in response to an Exposure Draft;
- (e) participation in public hearings; and
- (f) participation in field visits and field tests.

The IASB publishes, within the IASC Foundation's Annual Report, a report on its activities during the past year and priorities for the next year. This report provides a basis and opportunity for comment by interested parties.

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