

Tamara Oyre
Assistant Corporate Secretary
IASC Foundation
30 Cannon Street
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31 March 2009

Dear Ms Oyre

Review of the Constitution – Identifying Issues for Part 2 of the Review

ACCA (the Association of Chartered Certified Accountants) is pleased to have this opportunity to comment on the above discussion document. The document was considered by ACCA's Financial Reporting Committee and I am writing to give you their views.

General comments

As indicated in our letter dated 19 September 2008, we believe that it is essential that the IASC Foundation is perceived to operate under the highest quality governance processes. The standards published by the IASB already have a wide international application. Through sound transparency and accountability in the overall standard-setting process, we believe that the Board and Foundation will benefit from greater confidence and therefore acceptance of their standards in the future.

While it is imperative that Trustees and Board members have appropriate 'professional competence and practical experience' we believe that equitable representation both in terms of geographical diversity and the type of practical experience, will help to ensure their legitimacy.

ACCA remain committed to supporting the development of high quality, global accounting standards. We believe that it is in the interests of all stakeholders, that the standards developed are principles-based and do not add excessive complexity to the financial reporting process. The growing complexity in

business transactions themselves necessarily mean that the preparation, auditing and comprehension of financial reports can be difficult. We therefore believe that it is essential that the standards developed by the IASB carefully consider the impact they will have on all stakeholders. Proposals for new standards and significant changes to existing standards should be fully supported by relevant field-testing and analysis. Equally, the cost-benefit of relatively minor changes should also be considered carefully. There can be considerable cost for many stakeholders in terms of understanding and applying changes to standards, and it is essential that the benefits are evident, before they are considered.

In this respect, we also believe that it would also be in the public interest and that of constituents to allow for greater input into the IASB Work Plan. To ensure that the projects undertaken by the IASB are considered to be significant enough to warrant attention and are relevant to the widest range of stakeholders, we believe that an annual review and consultation on the Work Plan should be an integral part of the due process. Clearly, the Board should retain the ability to put forward emergency or urgent issues during the year, as required.

ACCA's answers to IASB's specific questions

Objectives of the organisation

Question 1 Does the emphasis on helping 'participants in the world's capital markets and other users make economic decisions', with consideration of 'the special needs of small and medium-sized entities and emerging economies', remain appropriate?

In July 2008, the IASB issued an exposure draft which constituted Phase A of the Conceptual Framework project, which included a chapter on the objectives of financial reporting. In our response to the IASB's exposure draft, dated 27 September 2009, we emphasised the need for the aims of financial reporting to include the stewardship of management and their accountability to owners, as well as the primary stated aim of providing economic decision-useful information to capital providers.

In this respect we certainly believe that the Constitution, which should be wholly consistent with the Framework, should also emphasise this objective.

While we understand the main focus will remain large, listed companies, we certainly agree that the needs of small and medium-sized entities (SMEs) should be explicitly addressed in the Constitution. However, we remain uncertain as to what the connection is between SME needs and those of 'emerging economies', and why they appear to be treated as one in paragraph 2(c) of the constitution. The objectives regarding SMEs should be clarified.

Question 2 In the opinion of the Trustees, the commitment to drafting standards based upon clear principles remains vitally important and should be enshrined in the Constitution. Should the Constitution make specific reference to the emphasis on a principle-based approach?

We firmly believe that the ultimate objectives of financial reporting require high quality standards which are principle-based. As it is clear that both the IASB and IASCF fully support such an approach, we believe that reference to a principle-based approach should be made both in the Constitution and the Framework. The reference should indicate what such an approach entails and the benefits of using such an approach instead of using detailed rules to mitigate a host of potential possibilities. Not only will this give confidence to the users of IFRS, but also give creditability to the work being conducted by the Trustees and the Board.

Question 3 The Constitution and the IASB's Framework place priority on developing financial reporting standards for listed companies. During the previous review of the Constitution some commentators recommended that the IASB should develop financial reporting standards for not-for-profit entities and the public sector. The Trustees and the IASB have limited their focus primarily to financial reporting by private sector companies, partly because of the need to set clear priorities in the early years of the organisation. The Trustees would appreciate views on this point and indeed whether the IASB should extend its remit beyond the current focus of the organisation.

Essentially, financial reporting standards for most entities should be based on the same principles, and therefore it would not be inappropriate for all financial reporting standards to be developed by one standard-setting body. While we can envisage the IASB as being well placed to fulfil this role, we do not believe that this viable in the near future.

As well as the significant demands on the Board from the current Work Plan, we also note the positive work already being conducted by the IPSASB

regarding the development of public sector accounting standards. There appears to be a welcome level of cooperation between the IASB and IPSASB, and it is important to ensure that there continues to be mutual recognition and the promotion of consistent principles between standard-setters.

We also note that the 'application to not-for-profit entities' is included in a phase of the Conceptual Framework project. We believe that this is appropriate, and that the IASB should not limit their focus to private sector companies.

Question 4 There are other organisations that establish standards that are either based upon or have a close relationship with IFRSs. The IASC Foundation already recognises the need to have close collaboration with accounting standard-setting bodies. Should the Constitution be amended to allow for the possibility of closer collaboration with a wider range of organisations, whose objectives are compatible with the IASC Foundation's objectives?

If so, should there be any defined limitations?

We certainly believe that the IASB benefits from its relationship with national standard-setters and other official bodies, and that this is vital for the continued acceptance and development of IFRS. Paragraph 22 appropriately reflects this. Clearly, the IASB should also maintain close collaboration with other specialised organisations that deal with quasi accounting issues and provide significant guidance in areas which are off-shoots of accounting requirements. However, we do not believe that such relationships need to be considered in the Constitution itself.

Governance of the organisation

Question 5 The first part of the review of the Constitution proposed the establishment a formal link to a Monitoring Group. Under this arrangement, the governance of the organisation would still primarily rest with the Trustees. Although the first part of the review has not yet been completed, the Trustees would welcome views on whether the language of Section 3 should be modified to reflect more accurately the creation of the Monitoring Group and its proposed role.

As we stated in our response to the 'Review of the Constitution – Public Accountability and the Composition of the IASB' consultation (dated 19 September 2008), we believe that a formal link between the Trustees and the

Monitoring Group is important. The enhanced links with public authorities provides a safeguard which is especially significant in terms of public accountability, given that adoption of IFRS effectively means the surrender of sovereignty over accounting standards for a jurisdiction.

We certainly believe that the Trustees should retain their current governance responsibilities with the regards the IASCF, and that this should be made explicit in the Constitution.

It should also made clear that the Monitoring Group does not impede the standard setting and operational processes of the Trustees and the technical agenda of the Board.

Trustees

Question 6 The Trustees are appointed according to a largely fixed geographical distribution. Is such a fixed distribution appropriate, or does the current distribution need review?

We fully support a broad international basis for the appointment of Trustees, while maintaining the integrity of the core competences for such a role. We also understand that the current balance is driven by considerations of economic significance and future harmonisation. However, these factors are subject to change, and it is therefore important that this aspect is reviewed on a more regular basis than the Constitution as a whole.

Question 7 Sections 13 and 15 set out the responsibilities of the Trustees. The intention of these provisions is to protect the independence of the standard-setting process while ensuring sufficient due process and consultation—the fundamental operating principle of the organisation. In addition to these constitutional provisions, the Trustees have taken steps to enhance their oversight function over the IASB and other IASC Foundation activities. The Trustees would welcome comments on Sections 13 and 15, and more generally on the effectiveness of their oversight activities.

We do not have any significant concerns regarding the Trustees and their duties as set out in Sections 13 and 15 in so far as they reflect what we believe to be main objectives of the Trustees.

Question 8 The Trustees are responsible for ensuring the financing of the IASC Foundation and the IASB. Since the completion of the previous review of the Constitution, the Trustees have made progress towards the establishment of a broad-based funding system that helps to ensure the independence and sustainability of the standard-setting process.
<http://www.iasb.org/About+Us/About+the+IASC+Foundation/Funding.htm>.

However, the Trustees have no authority to impose a funding system on users of IFRSs. The Trustees would welcome comments on the progress and the future of the organisation's financing.

It is vital that any funding system allows the IASB to continue (and commit to) its Work Plan. It is also important for the Foundation to consider how the structure of that funding is perceived to reflect the transparency and accountability of the standard-setting process.

We note that the current IASC Foundation's long term funding commitments are essentially based on voluntary contributions. While these are substantial and fundamental for the on-going financing of the Foundation and the activities of the IASB, we have concerns as to whether they are sustainable in the long term, and whether they could pose (or perceive to pose) a conflict of interest.

We also believe that in principle, all countries that use IFRS or where implementation is imminent, should contribute.

We therefore believe that a non-voluntary system should be considered, with a levy-type system put in place, which considers the level of use of IFRS in each jurisdiction. For listed company participation this could be supported by the national stock-exchange and regulators, similar to that for the system in place for contributions from Spain in the current funding commitments.

International Accounting Standards Board

Question 9 Commentators have raised issues related to the IASB's agenda-setting process. The Constitution gives the IASB 'full discretion in developing and pursuing its technical agenda'. The Trustees have regularly reaffirmed that position as an essential element of preserving the independence of the standard-setting process. However, they would welcome views on the IASB's agenda-setting process and would appreciate it if, in setting out views, respondents would discuss any potential impact on the IASB's independence.

Given the IASB produces accounting standards for a significant level of publicly accountable entities, we believe that there should be appropriate consultation regarding the IASB Work Plan.

We believe that the views of constituents would be extremely helpful in terms of prioritising the Work Plan, and would therefore propose a regular public consultation, which not only considers future projects, but also the necessity of existing projects. This could be an annual exercise, to ensure that the agenda's relevance to stakeholders is maintained.

Public consultation would also ensure that the process is not hampered by issues of politicisation and independence, which could be the case for a stand-alone group or committee.

We do note that the Board has been highly pragmatic recently in terms of reacting to financial reporting issues relating to the credit crisis. While the Board has clearly attempted to take into account public interest considerations, we would stress the importance of maintaining due process, as well as maintaining independence from undue influence from any one group of stakeholders.

As mentioned in our response to Question 11 below, we believe that it is important that the Board is able to positively react to urgent issues in a timely manner. With appropriate due process in such circumstances, we see this as supplementing an annual work plan consultation.

Question 10 The Constitution describes the principles and elements of required due process for the IASB. The IASB's procedures are set out in more detail in the IASB Due Process Handbook. If respondents do not believe the procedures laid out in the Constitution are sufficient, what should be added? If respondents believe that the procedures require too much time, what part of the existing procedures should be shortened or eliminated? The Trustees would also welcome comments on recent enhancements in the IASB's due process (such as post-implementation reviews, feedback statements, and effect analyses) and on the IASB Due Process Handbook

We have consistently stressed the importance of only making important changes to financial reporting standards, given the added complexity and costs that can result. However, we do believe that constant review of existing standards is merited, in that it ensures standards remain relevant and are

striking an appropriate balance between the needs of users and the costs to preparers. We therefore believe that the recent enhancements are a positive step.

Similarly, in terms of major or contentious proposals, we believe that consultation documents should evenly address all appropriate options, which are supported by relevant and robust field-testing. We note that Paragraph 31(f) of the Constitution suggests that field tests should be considered, with paragraph 31(g) requiring reasons for not using any of the non-mandatory procedures. We believe that for all significant proposals field-testing should be mandatory. This will provide clear evidence to support proposals, as well as allowing for the assessment of their impact from a practical perspective.

Question 11 Should a separate ‘fast track’ procedure be created for changes in IFRSs in cases of great urgency? What elements should be part of a ‘fast track’ procedure?

We realise that the Board can be faced with a difficult balance of reacting in an appropriate and timely manner to urgent issues, while attempting to manage appropriate due process. In this respect we supported the IASB’s decision to publish the amendments to IAS39 and IFRS7, which many believed would level the playing field for financial institutions reporting under IFRS.

While we do therefore acknowledge that there are extreme cases where the due process has to be compromised, we do believe that a ‘fast-track’ procedure would be beneficial. This fast track procedure should provide for a minimum due process, which would include an appropriate consultation period, along with when it would be applicable.

Standards Advisory Council

Question 12 Are the current procedures and composition, in terms of numbers and professional backgrounds, of the Standards Advisory Council (SAC) satisfactory? Is the SAC able to accomplish its objectives as defined in Section 38?

We note that one of the main objectives of the SAC is input into the agenda and work programmes of the IASB. As noted in our response to Question 9, we believe that there should be an element of public consultation in this. We

therefore believe that a thorough review of the effectiveness of the SAC should be carried out, which would include the current procedures and composition. This will provide a more useful basis with which to assess their appropriateness as well as the terms of reference.

Question 13 Attached to this discussion document are the terms of reference for the SAC, which describe the procedures in greater detail. Are there elements of the terms of reference that should be changed?

Please see our response to Question 12.

Other issues

Question 14 Should the Trustees consider any other issues as part of this stage of their review of the Constitution?

The main issues we would wish the Trustees to consider at this stage are outlined in the body of our letter.

If there are matters arising from any of the above please do contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read "Aziz Tayyebi".

Aziz Tayyebi

Financial reporting officer

ACCA

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