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30 Cannon Street  
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Our ref MT/288  
Contact Mary Tokar

15 September 2008

Dear Ms Oyre

**International Accounting Standards Committee Foundation Discussion Document**  
***Review of the Constitution: Public Accountability and the Composition of the IASB –***  
***Proposals for Change***

We appreciate the opportunity to comment on the International Accounting Standards Committee (IASC) Foundation's Discussion Document *Review of the Constitution: Public Accountability and the Composition of the IASB – Proposals for Change*. This letter expresses the views of the international network of KPMG member firms.

We support the proposed creation of a "Monitoring Group" to establish a direct link of public accountability between the IASC Foundation and official institutions in order to enhance the public accountability of the Foundation.

We do not object to the proposed expansion of the International Accounting Standards Board (IASB or Board) to 16 members if the Trustees of the Foundation, after consultation with the Board members, believe that this expansion is necessary in order to fulfil the Board's liaison responsibilities effectively.

We question the geographical distribution requirement that is proposed for Board membership. While we acknowledge the importance of geographical balance on the Board and we also understand that for global credibility a global standard setter needs to be seen to be acting in the best interests of stakeholders in all parts of the world, we do not support a mechanical distribution requirement.

In our view, the objective of enhanced consultative ability and the Trustees' commitment to a truly international Board can be met in the Foundation's execution of its recruitment without self-imposed limits that may create unnecessary constraints in future recruiting and discourage qualified candidates from coming forward.



*KPMG IFRG Limited*  
*IASCF Constitutional review*  
*15 September 2008*

This covering letter contains our high-level comments on the proposals. Appendix 1 to this letter contains our responses to the specific questions asked by the Trustees and some comments on other aspects of the proposals.

We look forward to providing comments in the future on other elements of the Constitution as part of the second part of the Constitution Review.

Please contact Mary Tokar at +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours faithfully

*KPMG IFRG Limited*

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## **Appendix 1**

### **Questions related to the Monitoring Group**

We support the IASC Foundation's objective of enhancing the perceived and actual public accountability of the Foundation and the Trustees' plan to achieve this by strengthening links with public institutions. We support the creation of an autonomous Monitoring Group in order to achieve this objective. We strongly support the view that it is important that these changes safeguard rather than undermine the independence of the standard setting process and that neither the Monitoring Group nor the Trustees should, in their oversight, intervene in the Board's standard-setting process, as stated in paragraph 17 of the consultation document. We recommend that a statement to this effect is added to the Constitution.

We believe that for the Monitoring Group to be effective it should be a relatively small group rather than an all-inclusive representational body. We note that stakeholders other than public institutions have the ability to participate more directly in the IASC Foundation's structure via membership in the Trustees; participation in the Standards Advisory Council; and involvement in the Board's consultation process. Therefore we believe that membership of the Monitoring Group should focus on public institutions with responsibility for setting financial reporting requirements for capital markets.

While we do not object to the seven public authorities proposed as the initial members of the Monitoring Group, we believe that it would be helpful if an explanation of the rationale for selecting those seven organisations was provided. This statement of objectives should be a useful reference when membership is being reviewed and revised in future.

We support the proposal that the Monitoring Group approves the Trustee appointments; we understand that this will occur by the Trustees proposing candidates for approval after conducting a selection process, rather than the Monitoring Group being involved directly in the recruitment, evaluation and selection of proposed candidates. We believe that such a separation would produce an appropriate balance of responsibilities, without precluding nominations from members of the Monitoring Group.

We believe that, if the Trustee Appointments Advisory Group has proved helpful in identifying, evaluating and recruiting candidates, then it should be retained after creation of the Monitoring Group, although any overlap in membership with the Monitoring Group should be removed.

### ***Other comments on the Monitoring Group***

The discussion document proposes that the terms of reference for the Monitoring Group would be set out in a Memorandum of Understanding that would be developed following the establishment of the Monitoring Group and would be made public when completed. We believe that this Memorandum of Understanding should be exposed for public comment prior to being finalised. We believe that this is desirable given the importance of the Monitoring Group. It also would enhance the transparency of and public confidence in the Monitoring Group.

We believe that at the time of the next review of the IASC Foundation's Constitution in five years, the interaction between the Monitoring Group and the Foundation should be considered as part of the Constitution Review.

#### **Questions related to the IASB's composition**

We do not object to the proposed expansion of the Board to 16 members from 14 if the Trustees, after consultation with the Board members, believe that this expansion is necessary in order to fulfil the Board's liaison responsibilities effectively. However, we note that as use of International Financial Reporting Standards grows it is unlikely that Board members alone will be able to handle all liaison responsibilities directly even if the Board is expanded to 16. We encourage the Board and Trustees to work together to consider how to handle liaison most effectively, including reconsideration of the role of senior staff members, and whether regional and / or functional groupings of stakeholders should be organised by the IASC Foundation in order to facilitate more effective communication. This broader consideration of consultation mechanisms is likely to be outside the scope of the current Constitutional review but we believe that it is a priority issue for the IASC Foundation and Board to build capacity for the future.

A Board of 16 seems to be at the maximum size for the organisation to function effectively as a single group for standard setting. The transparency and credibility of the Board requires that not only its decision making but also its debate occurs in public meetings; too large a Board is likely to drive substantive discussions into informal working groups that meet outside of public meetings, with Board meetings becoming more a ratification of agreements reached privately. Such a move would be counterproductive for the Board's credibility and accountability. Therefore we believe that the desire to enhance resources for liaison needs to be balanced very carefully against the primary mission of the Board as the standard setting body working in public to establish standards.

If the Board size is increased, then we support the proposals to "scale" both the maximum number of part-time Board members and the voting requirements. We also support the proposals to use a transition period of up to four years for achieving the planned expansion in Board size.

We have concerns with the geographical distribution requirement that is proposed for Board membership. We strongly support the requirement for the Board to act in the best interests of all stakeholders in all regions and not be dominated by one constituency and to enable the Board to realise this objective we acknowledge the importance of geographical balance on the Board. However, we do not support a mechanical distribution requirement as the means to achieve this objective. We note that the IASC Foundation has taken pains to note that geographic requirements at the Board level will not create problems:

- The proposed revisions to the Constitution retain the current overarching objective that the selection of IASB members shall seek to achieve a mix that comprises the best available combination of technical expertise and diversity of experience.

- The consultation document notes that the requirement for Board members to act in the public interest and not as representatives of constituencies would be retained.

We understand that geographical balance is important at Board level so that the experience of Board members is sufficiently diverse to enable the Board as a whole to understand a wide range of transactions, cultures, legal systems and practices around the world. We believe that the existing Constitutional requirement for diversity of experience on the Board adequately covers this as diversity of experience includes geographical experience. In our view, a mechanical application of a regional quota system may hamper rather than help the IASB in finding the right candidates for the Board. Therefore, on balance, we recommend against introducing such a distribution requirement. Instead, we support strengthening the focus on diversity of experience, including geographical experience, when recruiting at Board and staff level.

The Trustees' consideration in the consultation document of the expected benefits from introducing geographic diversity focused on an enhanced ability to consult interested parties (see paragraph 29).

We believe that it would be more appropriate for the Trustees to affirm their commitment to the current Constitutional requirement noted above – that Board members are appointed to give the best available combination of technical expertise and diversity of experience – rather than relying on a mechanical distribution requirement.