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Dear Mr. Zalm

Re.: 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 discussion document mentioned above and welcome the IASCF recognising the need to demonstrate the organisation's public accountability. Likewise, we appreciate the Trustees addressing this issue as a fast-track priority for the Constitution Review. We would like to submit our detailed comments as follows:

Q.1

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?

In our view, public accountability of the IASB is of crucial importance. This holds especially true from the European perspective, because IFRSs become part of the legal framework in the European Union through the endorsement mechanism. We believe that the establishment of the Monitoring Group and the creation of a link between the Trustees and the proposed new body is an appropriate measure to establish an element of democratic surveillance and to enhance the credibility of both the IASCF and the IASB. The Monitoring Group as proposed can contribute to an ongoing dialogue between the Trustees and official international and regional organisations with an interest in the adoption or recognition of financial reporting standards and the development and effective functioning of capital markets, respectively.

GESCHÄFTSFÜHRENDER VORSTAND:
Prof. Dr. Klaus-Peter Naumann,
WP StB, Sprecher des Vorstands;
Dr. Klaus-Peter Feld, WP StB CPA;
Manfred Hamann, RA

Q.2

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.

We support the proposals regarding the Monitoring Group's composition as set out in the proposed paragraph 21 of the Constitution (page 14) in principle. We agree with the selected organisations as well as with the level of the members. However, we would prefer if paragraph 21(a) which refers to "the responsible member of the European Commission" were more specific and propose "the European Commissioner with responsibility for financial reporting" instead.

Q.3

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?

The Monitoring Group will be responsible for approving the appointment of Trustees after an agreed nomination process, reviewing and providing advice to the Trustees on the fulfilment of their responsibilities and meeting the Trustees regularly. In our opinion, the tasks of the Monitoring Group are defined appropriately and constitute the right balance in relation to the tasks of the Trustees. Especially, against the background of the numerous (European) calls for enhanced public accountability, we support that the Monitoring Group will approve the appointment of Trustees because in doing so the frequently expressed criticism pertaining to the current system of self-appointment is abolished. There should not rest any additional tasks with the Monitoring Group. In particular, the Constitution, the Memorandum of Understanding agreed between the Monitoring Group and the Trustees as well as the Monitoring Group's charter should ensure that the new body may not directly influence the IASB's technical decisions. Instead, the governance of the IASCF should lie with the Trustees and the responsibilities of the Trustees remain unaltered (apart from those already proposed in this context). In particular, the annual review of the IASB's strategy and effectiveness, including consideration of its agenda, should continue to be the Trustees' responsibility.

Q.4

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 Trustees Appointments Advisory Group?

Notwithstanding our support for the proposed creation of a Monitoring Group, we believe that the Trustee Appointments Advisory Group should be maintained as long as in this body other constituents are involved compared with the Monitoring Group.

The Trustees would welcome any additional comments related to the Monitoring Group proposal.

We understand from paragraph 16 of the discussion document that the submission of the Memorandum of Understanding for public consultation before its completion is just a recommendation. It is not clear to us whether the same holds true pertaining to the Monitoring Group's charter. We would appreciate a clear requirement to publish drafts for both the Memorandum of Understanding and the charter in order to enable the constituents to comment on them because we believe that a body that is set up for the purpose of increasing transparency and public accountability should itself be a role model for that.

Proposed paragraph 22 of the Constitution (page 14) requires the Monitoring Group reconsider its composition from time to time relative to its objectives. We would like to suggest the Trustees also reconsider the size of the Monitoring Group in the course of its Constitution Reviews in order to ensure that the composition and size of the body remain appropriate.

Q.5

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

We support the principle behind expanding the IASB's membership from 14 to 16 members. However, we believe that the number of members should not be increased any further in the future, given the fact that most developed and emerging countries have already adopted IFRSs or announced such a step and are already sufficiently represented in a Board of 16 members. Instead, we encourage the Trustees to consider whether it might be necessary to provide for mechanisms to improve the Board's capability of reaching decisions when reviewing the Constitution next time.

Q.6

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

We support the guidance regarding bringing in the most competent persons from the deepest and broadest geographical pool possible in principle as this will improve the diversity and legitimacy of the Board and its ability to consult, liaise and communicate properly across the world. This aim can be achieved best by sufficient geographical spread. In our view, this does not detract from the Constitution's emphasis on "professional competence and practical experience". Rather, the latter can be viewed as an additional condition only, because in each of the regions mentioned, there are sufficient people who fulfil the requirements.

However, we are not convinced that the proposal to have four members from North America is really conducive. In our view, there is a danger that it could lead to a one-country dominance in the Board composition. As several countries in Latin America are moving towards the adoption of IFRSs we suggest that paragraph 26(c) of the discussion document and of the proposed Constitution, respectively, should refer to four IASB members appointed from the Americas. Consequently, paragraph 26(e) could be deleted and paragraph 26(f) refer to three members appointed from any area.

We would also like to point out that the real divide in financial reporting practice and tradition is between common law and civil law jurisdictions. Geographic balance does not entirely take this difference in perspective into account. Civil law jurisdictions represent about half of the world's population and about half of its GDP. For this reason, we believe that the geographic criteria ought to be supplemented by a requirement that there ought to be a balance between representatives from the major common law and civil law jurisdictions.

Q.7

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

We agree with the Trustees that the IASB should largely remain a full-time board for operational reasons. We believe that it is extremely difficult for part-time members to cope with the demanding workload. Nonetheless, we support the increased flexibility on the matter of part-time membership in principle. But we believe that the main criterion for the selection of boardmembers should clearly remain their professional competence and practical experience and not the fact whether they will be available as part-time or full-time members.

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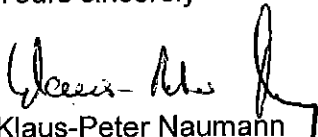
to the discussion document: Review of the Constitution 03.09.2008 to Mr. Gerrit Zalm, IASCF, London

The Trustees would welcome additional comments on the proposals.

The importance and use of IFRSs are permanently increasing. Financial reporting standards have a significant economic and legal impact on the stakeholders. Therefore, in order to enhance the acceptance and technical quality of IFRSs, it is essential to have an adequate support in the Board for the publication of an exposure draft or IFRS. Especially controversial issues should be carefully considered and based on broad support within the IASB before being published. Thus, we would appreciate the IASCF require a sufficiently large majority for exposure drafts and standards. Accordingly, a clearer supermajority should be required for voting on exposure drafts or IFRSs. We suggest to augment the supermajority to 11 out of 16 members instead of only 10 out of 16.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely



Klaus-Peter Naumann
Chief Executive Officer



Norbert Breker
Technical Director
Accounting and Auditing