



From the Office of the President & CEO

November 24, 2009

IASB Foundation
c/o Tamara Oyre
Assistant Corporate Secretary

By Email: toyre@iasb.org

Re: Proposals for IASCF Constitutional Review part-II

Dear Sir/Madam:

The Certified General Accountants Association of Canada (CGA-Canada) welcomes the opportunity to comment on the **Proposals for IASCF Constitutional Review part-II**. CGA-Canada considers sound corporate governance, inclusive of enhanced public accountability, a necessary precondition for the evolution of the International Accounting Standards Board (IASB) as a global standard setter. As such we appreciate the work of the IASB, the efforts of the International Accounting Standards Committee Foundation Monitoring Board, and the resolve of the International Accounting Standards Committee Foundation (IASCF) to undertake a comprehensive Constitutional review in order to achieve those ends.

While responding to the specific questions, we have evaluated the proposals on the basis of the following generally accepted principles of good corporate governance for a publicly accountable not-for-profit organization.

- Interests of stakeholders and of the public;
- Independence and quality;
- Role and responsibilities of the trustees and other office holders;
- Integrity and ethical behavior; and,
- Disclosure and transparency.

In addition to the comments to specific questions, we provide also additional comments on certain related matters.

Question 1

The Trustees seek views on the proposal to change the name of the organisation to the 'International Financial Reporting Standards Foundation', which will be abbreviated to 'IFRS Foundation'.

The Trustees also seek views on the proposal to mirror this change by renaming the International Accounting Standards Board (IASB) as the International Financial Reporting Standards Board, which will be abbreviated to 'IFRS Board'.

Do you support this change in name? Is there any reason why this change of name might be inappropriate?

Comments

CGA-Canada believes that the proposed name changes are logical and consistent with the objectives of the organisation as described in the section 2 of the Constitution. However, we note that the term “financial reports” is not defined in the Constitution and it is not overtly obvious what other reports in addition to financial statements could be properly described as financial reports. Also, for certain reports like “Management Commentary”; it is conceivable that the IASB may issue a guidance document instead of an IFRS. Consequently, the Constitution should be well served to clarify the term “financial reports” and amendments made to section 2 of the Constitution to include guidance documents in addition to IFRSs.

Question 2

The Trustees seek views on the proposal to replace all references to ‘accounting standards’ with ‘financial reporting standards’ throughout the Constitution. This would accord with the name change of the Foundation, the Board and the formal standards developed by the IASB—International Financial Reporting Standards (IFRSs).

Do you support this change?

Comments

Subject to comments on Question 1, CGA-Canada also endorses the proposed changes in references to International Accounting Standards and Interpretations developed by IFRIC or its predecessor body as IFRSs.

Question 3

The Trustees seek views on their proposal to change section 2 as follows:

The objectives of the ~~IASB~~ IFRS Foundation are:

- (a) to develop, in the public interest, a single set of high quality, understandable, ~~and enforceable and~~ globally accepted accounting-financial reporting 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 emerging economies ~~and, 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 (IFRSs, being the standards and interpretations issued by the IFRS Board) to high quality solutions.

Do you support the changes aimed at clarity?

Comments

CGA-Canada agrees with the decision to retain emphasis on the “participants in the world’s capital markets” but nevertheless encourages the Trustees to consider articulating, by way of objective, the mechanisms by which it intends to accommodate the International Public Sector Accounting Standards Board’s (IPSASB) pursuit to converge International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the IASB. While perhaps beyond the immediate remit of the IASB, the opportunity for increased collaboration may well be before the Board.

We further contend that emphasis need be introduced, conceivably in the form of an objective, around the IASB’s responsiveness to the needs and capabilities of small and medium-sized entities (SMEs) which account for an estimated 95 percent of the companies around the world.

We suggest also the following changes to section 2 of the Constitution:

- In section 2(a), the emphasis on helping users make “economic decision” should be substituted by “providing decision useful information” because in many jurisdictions, in addition to the providers of capital, regulators and other stakeholders rely on GAAP compliant financial reports. Accordingly, we suggest the following reworded section 2(a): **to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to provide participants in the world’s capital markets and other users decision useful information;**
- In section 2(c), in addition to ‘emerging economies’, a reference to the “frontier economies” should also be made. These are the least developed economies at present and also important stakeholders of the IASB in addition to the “developed economies” and “emerging economies”. Accordingly, we suggest the following reworded section 2(c): **in fulfilling the objectives associated with (a) and (b), to take account of emerging economies, frontier economies and, as appropriate, the special needs of small and medium-sized entities; and**
- In section 2(d), the clarification on the meaning of IFRSs should also include reference to the guidance documents that might be issued by IASB. Accordingly, we suggest the following reworded section 2(d): **to bring about convergence of national accounting standards and International Financial Reporting Standards (IFRSs, being the standards, interpretations and guidance documents issued by the IFRS Board) to high quality solutions.**

Question 4

The Trustees seek views on the proposal to amend section 3 of the Constitution as follows:

The governance of the IASB IFRS Foundation shall primarily rest with the Trustees and such other governing organs as may be appointed by the Trustees in accordance with the provisions of this Constitution. A Monitoring Board (described further in sections 18–23) shall provide a formal link between the Trustees and public authorities. The Trustees shall use their best endeavours to ensure that the requirements of this Constitution are observed; however, they ~~are empowered to~~ may make minor variations in the interest of feasibility of operation if such variations are agreed by 75 per cent of all the Trustees.

Do you support this clarifying amendment?

Comments

The opening sentence in the proposed amended section 3 of the Constitution employs the adverb “primarily” and also refers to the “other governing organs”. We believe that these amendments introduce greater confusion than clarification. The Constitution should specifically identify the governing organs with their respective jurisdictions or otherwise make reference to the source(s) where such clarification can be found. Moreover, the opportunity may reside in clarifying, within the Constitution, how the IASCF expects to work with regulators.

Question 5

The Trustees seek views on the proposal to amend section 6 of the Constitution as follows to include one Trustee from each of Africa and South America:

All Trustees shall be required to show a firm commitment to the IFRS IASC Foundation and the IFRS Board 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~~ financial reporting 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) one Trustee appointed from Africa;
- (e) one Trustee appointed from South America; and
- ~~(f)(d) two four~~ Trustees appointed from any area, subject to maintaining ~~establishing~~ overall geographical balance.

Do you support the specific recognition of Africa and South America?

Comments

CGA-Canada welcomes the specific recognition of Africa and South America and the proposal to include representation from each of these regions. We believe that this proposal enhances fairness and that it will enhance legitimacy of the IASCF while serving to foster equilibrium. Recognizing that the consensus developed by a geographically diverse and balanced group of Trustees will contribute to increased global acceptance and answerability, we trust that relative representation will mirror the domestic adoption of, or convergence with, IFRS and adapt as emerging economies mature.

Question 6

The Trustees seek views on the proposal to amend section 10 of the Constitution as follows to allow up to two Trustees to be appointed as vice-chairmen of the Trustees.

The Chairman of the Trustees, and up to two Vice-Chairmen, 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 or a Vice-Chairman for a term of three years, renewable once, from the date of appointment as Chairman or Vice-Chairman.

Do you support the Constitutional language providing for up to two Vice-Chairmen?

Comments

CGA-Canada suggests making appointments of two Vice-Chairmen obligatory instead of discretionary if justified by the workload. Also, the functions and obligations of them should be clearly spelled out in the constitution. We further contend that the terminology of “Chair” and of “Vice-Chair(s)” might be more fitting than “Chairman” and “Vice-Chairmen”.

Question 7

The Trustees seek views on the proposal to make no specific amendments to sections 13 and 15, but to address the valid and important concerns raised by commentators by way of enhanced accountability, consultation, reporting and ongoing internal due process improvements.

Comments

CGA-Canada welcomes the steps already taken by the IASCF for further enhancements in the oversight process of the IASB. However, we believe that as a sound corporate governance practice, the obligation of the IASCF for the effective oversight of the IASB should be stipulated in the constitution for ensuring consistency and continuity. The practice, as well as appearance of independence and of public accountability, is crucial for the IASB to succeed as a truly global standard setter. Public accountability is one of the key milestones specified by US Securities and Exchange Commission (SEC) for future transitioning to IFRS. We draw attention to the following quotes from the SEC document: *Roadmap for the Potential Use of Financial Statements Prepared in accordance with International Financial Reporting Standards by U.S. Issuers*¹

“The Commission believes that effective oversight is critical to mandating that U.S. issuers prepare financial statements in accordance with IFRS. Based on the progress of the discussions among securities regulators, as well as the IASC Foundation’s timetable for adopting the relevant changes to its Constitution, the Commission assumes that the Monitoring Group will have been established and be functioning by the time the Commission considers mandating the use of IFRS for U.S. issuers. We will evaluate the effectiveness of the oversight mechanism (including the functioning of the multilateral nature of the Monitoring Group) in making the determination whether mandating IFRS is in the public interest for the protection of investors and our markets”.

In view of what is stated above, CGA-Canada suggests making specific amendments to sections 13 and 15 of the Constitution (as required) to address the concerns raised on the independence, transparency and public accountability of the IASB. Importantly, the mission of the Monitoring Board could be referenced as too could be the Monitoring Board’s determination to help ensure the public accountability of the IASCF through observance and bolstering of the IASCF’s public interest oversight function.

Question 8

Section 28 would be amended as follows:

The IASB IFRS Board will, in consultation with the Trustees, be expected to establish and maintain liaison with national standard-setters and other official bodies ~~concerned~~ with an interest in standard-

¹ <http://www.sec.gov/rules/proposed/2008/33-8982.pdf>

setting in order to assist in the development of IFRSs and to promote the convergence of national accounting standards and ~~International Accounting Standards and International Financial Reporting Standards~~ IFRSs.

Do you support the changes aimed at encouraging liaison with a broad range of official organisations with an interest in accounting standard-setting?

Comments

CGA-Canada endorses the proposed changes to Section 28 and believes that such inclusive approach and broad-based consultative process will enhance acceptance, legitimacy, quality, and of IFRSs. However, we believe that this process should be integrated with the functioning of the Standards Advisory Committee (SAC) so as to create synergy and avoid duplication.

Question 9

The Trustees seek views on the proposal to amend section 30 of the Constitution as follows to permit the appointment of up to two Board members to act as vice chairmen of the IASB.

The Trustees shall appoint one of the full-time members as Chairman of the ~~IASB IFRS Board~~, who shall also be the Chief Executive of the ~~IASB IFRS Foundation~~. ~~One~~ Up to two of the full-time members of the ~~IASB-IFRS Board~~ shall ~~may~~ also be designated by the Trustees as a Vice-Chairman, whose role shall be to chair meetings of the ~~IASB-IFRS Board~~ in the absence of the Chairman ~~or to represent the Chairman in external contacts 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 member (or members)~~ concerned is ~~(or are)~~ the Chairman-elect.

Comments

Consistent with comments to Question 6 above, CGA-Canada suggests making appointments of two Vice-Chairmen obligatory instead of discretionary if justified by the workload. Also, the functions and obligations of them should be clearly spelled out in the constitution. CGA-Canada does believe however that the envisioned dual role of Chairman of the IFRS Board and Chief Executive of the IFRS Foundation does, at minimum, create a perceived conflict of interest.

Question 10

The Trustees seek views on the proposal to amend section 31 to allow for altered terms of appointment for IASB members appointed after 2 July 2009.

The proposed amendment is to allow for Board members to be appointed initially for a term of five years, with the option for renewal for a further three-year term. This will not apply to the Chairman and Vice-Chairman, who may be appointed for a second five-year term. The Chairman or Vice-Chairman may not serve for longer than ten consecutive years.

The proposed amendments to section 31 are as follows:

Members of the ~~IASB IFRS Board~~ appointed before 2 July 2009 shall be appointed for a term of up to five years, renewable once for a further term of five years. Members of the IFRS Board appointed after 2 July 2009 shall be appointed initially for a term of up to five years. Terms are renewable once for a further term of three years, with the exception of the Chairman and a Vice-Chairman. The Chairman and a Vice-Chairman may serve a second term of five years, but may not exceed ten years in total length of service as a member of the IFRS Board.

Do you support the change in proposed term lengths?

Comments

CGA-Canada agrees with the goal of infusing the IASB with members having recent practical experience in IFRSs. We believe however that given the expected pace of developments in new technologies, business models, corporate governance and the regulatory environment, the proposed terms for IASB members are rather long drawn out. CGA-Canada is of the opinion that the terms of IASB members should not exceed four consecutive years and that of the Chairman and a Vice-Chairman should not exceed six consecutive years.

Question 11

The Trustees seek views on the proposal to insert in section 37 (to become section 38) of the Constitution an additional subsection as follows to allow the Trustees, in exceptional circumstances, to authorise a shorter due process period. Authority would be given only after the IASB had made a formal request. The due process periods could be reduced but never dispensed with completely.

The IASB IFRS Board shall:

- (a) ...
- (b) ...
- (c) in exceptional circumstances, and only after formally requesting and receiving prior approval from the Trustees, reduce, but not eliminate, the period of public comment on an exposure draft below that described as the minimum in the Due Process Handbook.

Comments

CGA-Canada does not endorse the proposal to reduce the period of public comment on an exposure draft below that prescribed as the minimum in the Due Process Handbook. We believe that in the presence of well conceived, high quality accounting standards, there would be no need for such provision. Accounting is the language of business for communicating the decision useful information to stakeholders. Economic or financial crisis should not be misinterpreted as crisis of accounting standards and should not be permitted to unnecessarily pre-empt the intended processes. High-quality accounting standards should be invariant with respect to business or economic cycles. We believe that if pursued, this proposal could unintentionally defeat the goal of maintaining the independence and integrity of the standard setting process.

Question 12

The Trustees seek views on the proposal to amend section 37(d) (to become section 38) of the Constitution as follows to expressly provide that the IASB must consult the Trustees and the SAC when developing its technical agenda.

The IASB IFRS Board shall:

- ~~(e)~~ (d) have full discretion in developing and pursuing the technical agenda of the IASB-IFRS Board, after consulting the Trustees (consistently with section 15(c)) and the SAC (consistently with section 44(a)), and over project assignments on technical matters: in organising the conduct of its work, the IASB IFRS Board may outsource detailed research or other work to national standard-setters or other organisations;

Comments

CGA-Canada welcomes the proposed amendment to section 37(d) and believes that consulting with the Trustees and the SAC when developing technical agenda will enhance and enrich the standard setting process of the IASB. However, we believe that provision should also be made to consult other stakeholders and organizations as required and as appropriate. Also, we note that the mechanism for such consultation is not formally articulated in the Constitution. We suggest including specific provisions in the Constitution describing such mechanism so as to make the consulting process incontrovertible.

Question 13

Trustees seek views on the proposal to make no amendment to sections 44 and 45 (renumbered as 45 and 46), which are the provisions relating to the SAC, at this time.

Comments

We agree with the Trustees' decision of not making premature and significant constitutional changes to SAC. However, we believe that SAC should meet more frequently (at least four times in a year) and that the geographic and professional diversification of SAC should be articulated in the Constitution as it is in the case of the IASCF and the IASB.

Question 14

The Trustees seek views on the proposal to amend section 48 by removing specific staff titles and replacing it with the term 'the senior staff management team'. Accordingly section 49 should be deleted.

The Trustees also seek comment on the proposal to update the Constitution by removing all historical references that relate to when the organisation was established in 2001.

Comments

CGA-Canada agrees with the proposed changes to section 48 and the deletion of section 49 subject to comments made in response to Question 9.

Additional Comments

CGA-Canada believes that one of the most critical aspects of governance missing from the Constitution is regarding the proposals for an **independent** and **sustainable** long term funding of IASCF and IASB activities. We believe that such provision is *sine qua non* for establishing legitimacy, credibility and acceptability of the IASCF and the IASB as the global standards-setters. In that spirit, we applaud the accord between the IASCF and the Monitoring Board espousing the desire to "help strengthen this independence by supporting the establishment of a non-voluntary, transparent and stable funding platform for the IASCF" as contained in the Memorandum of Understanding.

Appreciative that the IASB is deemed to be overseen by an independent body; the IASCF which is charged with serving the public interest, and that the Monitoring Board serves as a medium for IASCF accountability, CGA-Canada is mindful that the IASCF must be guided by principles of transparency, fairness and accountability. The Monitoring Board, and by virtue of its membership (IOSCO, JFSA, SEC) with Basel Committee participation, will serve effectively to enhance the global credibility of the IASCF. To reinforce that theme, CGA-Canada believes however that additional prospect can be afforded through

a deliberate approach to the manner in which the IASCF and the IASB will liaise with regulators, standards-setters, and other stakeholders with an interest in standards-setting.

Also, in order to enhance the quality of IFRSs, best practices like field-testing should be made mandatory. We further believe that all meetings of the IASCF, the IASB, and the SAC should be open to the public except those related to personnel matters and that all of the output of these bodies including standards, basis of conclusions, dissenting opinions, and research should be electronically disseminated without cost. We also note that section 21 of the Constitution does not provide as geographically balanced initial composition of the Monitoring Board as in the case of the IASCF or the IASB.

Should you wish to discuss the contents of this comment paper or require further elaboration on any of the items presented herein, please do not hesitate to contact Lyle Handfield at lhandfield@cga-canada.org or alternatively the undersigned at aariganello@cga-canada.org.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Ariganello', with a stylized flourish at the end.

Anthony Ariganello, CPA (Delaware), FCGA
President and Chief Executive Officer