



March 23, 2009

CLIFF #: 216466
Website: www.iasb.org
280-20

Tamara Oyre
Assistant Corporate Secretary
IASC Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Tamara:

RE: Response to: Review of the Constitution – Identifying Issues for Part 2 of the Review Discussion Document

Thank you for the opportunity to provide feedback on the discussion document regarding Part 2 of the review of the International Accounting Standards Committee Foundation's constitution.

The long-term feasibility and success of the foundation as an effective global governance organization depends on its acceptance by the stakeholders of the jurisdictions that adopt the accounting standards, and depends on its independence from all parties. We are concerned that this independence is not assured by the constitution, and recommend that independence be enshrined in the constitution as a fundamental part of the governance framework. In addition, we recommend that the foundation support the long-term feasibility of its activities by ensuring that back-up plans are in place in the case of business interruption.

We believe that the foundation should consider the impact on public sector entities that may be required to follow IFRS, in addition to private sector entities. In our jurisdiction, and in jurisdictions that use the standards of the International Public Sector Accounting Standards Board and have government business enterprises (GBEs), GBEs will be required to follow IFRS commencing January 1, 2011. GBEs are not profit maximizers and the objectives of financial reporting in the public sector are more diverse than in the private sector.

Ministry of Finance

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Responses to specific questions posed in the exposure draft are attached. Should you have any comments or questions, please contact me at (250) 387-6692 or by e-mail: Cheryl.Wenezenki-Yolland@gov.bc.ca, or Carl Fischer, Executive Director, Financial Reporting and Advisory Services Branch, at (250) 356-9272 or by e-mail: Carl.Fischer@gov.bc.ca.

Sincerely,

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

Cheryl Wenezenki-Yolland, CMA, FCMA
Comptroller General
Province of British Columbia, Canada

cc: Graham Whitmarsh, Deputy Minister
Ministry of Finance

Nick Paul, Deputy Secretary to the Treasury Board
Ministry of Finance

Carl Fischer, Executive Director
Financial Reporting and Advisory Services
Office of the Comptroller General

Objectives of the organization

Question 1

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Question 1

The Constitution defines the organisation's primary objective in the following manner:

to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting 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

In fulfilling that objective, the organisation is to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies.

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?

This emphasis remains appropriate, and the definition of and consideration of "other users" should be expanded on.

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 agree that clear principles are important, and support the inclusion of a reference to principles-based standard setting in the constitution.

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.

Governments are unique and IFRS, with its focus on the capital markets, cannot meet the needs of government accountability to the public. The IASB should recognize the

IPSASB as the standard setter for the public sector. A process should be initiated to determine whether not-for-profits are more properly directed to IFRS, standards for small and medium-sized enterprises, IPSASB, local standards, or some other standard. IFRS are not appropriate for GBEs.

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?

The foundation should collaborate closely with as wide a range of other organizations as possible to help it achieve its goal of creating private sector global accounting standards, avoid duplication of work, avoid confusion among standards and standard setters, and to enhance accounting as a global profession.

Governance of the organisation

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.

Section 3 should be revised because the Monitoring Group (MG) has been approved. The role and responsibilities of the MG should be clearly established. We recommend that the membership of the MG be broadened to include representatives from all political and social regions, and recommend that the accountabilities of the MG members back to their own organizations also be monitored for appropriateness.

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?

This distribution (six each from North America, Europe, Asia/Oceania, and four from any area) represents the major capital exporting regions, but to achieve global acceptance it is essential to include some representation from all regions, particularly if

countries in those regions use IFRS. As noted in our response for part I, regional (rather than local) representation may not encompass all political or social groups or systems of finance.

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.

Fundamentally, the trustees should ensure that the independence of the standard setters is maintained. Current events indicate that the IASB has been swayed by political pressure from individual stakeholder groups, a situation that could lead to the eventual failure of the foundation if it is allowed to continue. The Monitoring Group should lead the way in evaluating the effectiveness of oversight.

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. (For an update on the funding status, see <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.

Governments should not provide funding for the IASB. We recommend that the foundation fund its activities from mandatory payments (similar to how FASB is funded) made by the companies listed on the world's major stock exchanges that use IFRS.

We agree with the four principles: broad-based, compelling, open-ended and country specific. There should be an explicit statement that funding will not impair independence – the language used on the website is not strong enough: “should be open-ended” must be changed to “*must* be open-ended.” We note that the continuance of the foundation and its activities depends on long-term funding, and that some sort of back-up plan will be needed.

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.

The IASB should have discretion about the strategic direction of standard setting, as well as technical matters, because the success of the strategic direction depends on sound technical knowledge, as well as a thorough understanding of the environment.

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 DueProcess Handbook.

We have noted that the IASB's due process is the most open that we know of, and any steps taken should not be to take away from it.

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?

There should be a fast track procedure for situations where standards have unintended consequences that need to be fixed quickly. Any use of a fast track should be accompanied by a public review of what caused the incident, and a statement of what was learned through the need for using the fast track and what will be changed to minimize future need to use the fast track.

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?

The newly reconstituted SAC has a fairly broadly-based membership. Its progress as an advisory group should be monitored and reported to the public, with opportunity for feedback and improvement. While an emphasis on investor groups is understandable in the current context of IFRS users, we strongly encourage the IASCF to include as wide a representation as possible from all stakeholder groups.

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?

The terms of reference include the statement that “in SAC meetings members are expected to express their individual views... (section 7).” We caution that there is a chance that the usefulness of having a broadly based group of member organizations could be reduced by the personal views of the representatives.

Other issues

Question 14

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

Yes, please see our comments in the body of the letter.