

Response from Professor Stella Fearnley to IASC Foundation Constitutional Review Consultation

I apologise that this submission is three days late and I trust that it will be considered and put on the IASC Foundation Website.

I have an overall concern about the consultation in that it does not address the fundamental problems within the current structure of the organisation. The organisation has been subject to various minor changes over time and now more radical change from first principles is needed to the structure and the governance than what is proposed. I set out my concerns and suggestions below.

Independence of Board Members

There is a major concern within the organisation about independence of IASB board members but where standard setting board members are full time they are not independent of their own desire to retain their positions and status. This appears to manifest itself in the lengthy periods of time that terms of office are recommended for board members and chairs. Is this in the public interest? This comment about regulators does not just apply to the IASB. It is a more widespread problem. Independence is less important than effectiveness and strong board members will easily detect if their peers are not acting in the public interest.

There has been criticism of the lack of engagement of the IASB with current business practice. This becomes a much more serious issue when board members who are already standard setters in various jurisdictions are then appointed to the IASB. Such individuals may not have applied accounting standards or had business experience for many years before their appointment.

It is totally inappropriate that the chair of the IASB should be the Chief Executive of the IASC Foundation, the body which appoints IASB board members.

Restructuring the IASB Board

There are too many bodies overseeing various aspects of the IASB activities which is both time wasting and inefficient and dilutes the IASB's accountability. It would be far preferable for the IASB board itself to consist of part time stakeholders with recent business experience who set the agenda and to whom a technical committee should be accountable. A technical committee could be composed of individuals similar to those who are currently members of the IASB. The IASB itself should be concerned with principles not detailed rules. Having a small number of part time members on the current IASB board when it engages with so much technical detailed material is ineffective.

Consultation

The most significant decision taken by the IASB in recent years was the decision to converge its standards with US GAAP. This was not subject to public consultation. All strategic decisions of this kind should be consulted. Funds should be allocated to an independent body to seek views on all consultations, even if this is more costly than the present regime, to ensure that a balanced view is obtained from all stakeholder groups, not just those with a vested interest in particular issues or the resources to respond.. IASB should also be required to consider the unintended

consequences and cost benefit of their standards. The fair value problem is a clear manifestation of failure to assess the possible impact of the outcome.

There is no definition of users. Who are they? Preparers are also users also and the model seems to focus on investors for decision making. The importance of stewardship in financial reporting is still not adequately recognised.

Trustees

A transparent process for appointing trustees is needed. The trustees should be replaced by the current Monitoring Board and other 'oversight' bodies abolished. It would be a good thing if governments or government agencies were the channel for funding IASB and then it is appropriate that their representatives should be trustees. In any event the current model is not acceptable.

The requirement that the Trustees should have a firm commitment to objectives of the IASC Foundation and the IASB Board is restrictive and should be removed. The Trustees, in the public interest, should not be beholden to the objectives of the organisation if the objectives turn out to be misdirected. This requirement does not encourage independent thought.

Accelerated due process

Where unintended consequences manifest themselves, accelerated due process is essential to deal with the issues. This should not be restricted to emergencies.

smf 3 December 2009