



M A Z A R S

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CC: Tamara Oyre, Assistant Corporate Secretary  
International Accounting Standards Committee  
Foundation

26 November 2009

## **Part 2 of the Constitution Review – Proposals for Enhanced Public Accountability**

Dear Mr Zalm,

Mazars welcomes the opportunity to comment on part 2 of the IASCF Constitution review. Our detailed responses to the specific questions included in the discussion document are attached to this letter.

We appreciate the efforts made when revising a text such as the Constitution, trying to improve it while sticking to principles and avoiding bureaucracy in a world of cultural differences. Thus, we welcome the fact that the Constitution, as revised, remains short and understandable, the detailed functioning being dealt with in-side documents.

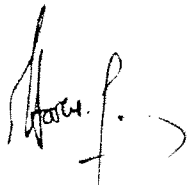
Nevertheless, we have some concerns regarding the proposed wording and its practical implementation:

- We regret that no reference is made in the objectives of the IASCF to developing a set of principle-based standards with a view to reducing complexity. The growing complexity of our economic and finance world is currently pushing the Board, in our view, towards the route of more and more rule-based standards, willingly or not. It is therefore urgent to reaffirm that the IFRSs are a principle-based set of accounting standards, even though we recognise defining what principle-based is could be a difficult exercise.

- We would wish a larger and public consultation process on the IASB technical agenda. The discussion document is mentioning that the SAC papers proposed by the Board on this subject would be available for public input in advance of SAC meetings. We feel that this should be included in the Constitution with a formal due process for public consultation thus committing the Board to apply this process.
- While we agree that there is no need to any change in the Constitution to permit the Trustees oversight, we feel that this oversight is essential. We thus urge the Trustees to use fully all the existing mechanisms to ensure a proper public accountability on the Board's effectiveness.

We would be pleased to discuss our comments with you and stay at your disposal should you require further clarification or additional information.

Yours sincerely



**Michel Barbet-Massin**

*Head of Financial Reporting Technical support*

### 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?*

**We have no objection on the proposal to rename the International Accounting Standards Board as the International Financial Reporting Standards Board. Nevertheless, we would like to point out that there are many successful organisations that have not changed their name for decades while they have changed their business.**

### 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?*

**We agree with the proposal.**

### Question 3

*The Trustees seek views on their proposal to change section 2 so that it reads as follows:*

*“The objectives of the IFRS Foundation are:*

*(a) to develop, in the public interest, a single set of high quality, understandable, ~~and~~ enforceable, and globally accepted 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?*

In our view, the consequences of this proposal are:

- No express reference to principle-based standards is made in the Constitution.
- Emphasis is kept on helping “participants in the world’s capital markets and other users that make economic decisions”
- The special needs for small and medium entities are considered and distinguished from those of entities in emerging economies
- No reference is made to public and not-for-profit entities

**As mentioned in our cover letter, we would have preferred the Constitution to make express reference to principle-based standards. We agree with the other objectives of the Trustees.**

#### Reference to principle-based standards

We believe that a rule-based approach will lead to complex rules that will not be able to deal with every economic situation. It will allow some entities to structure operations in order to circumvent the aforementioned accounting rules. On the opposite, a principle-based approach can apply in every situation, each preparer using its professional judgment in applying the accounting standard.

The growing complexity of our economic and finance world is currently pushing the Board, in our view, towards the route of more and more rule-based standards, willingly or not. It is therefore urgent for the Trustees to state in the Constitution that the IFRSs are a principle-based set of accounting standards, even though we recognise defining what principle-based is could be a difficult exercise.

#### Emphasis on helping “participants in the world’s capital markets and other users that make economic decisions”

In our view, the objective of accounting is to provide transparent and comparable financial information of an entity. This information is primarily directed to investors, suppliers, banks and other stakeholders since they are the main users of this information. As a consequence, we support the Trustee’s proposal to keep the emphasis on helping “participants in the world’s capital markets and other users make economic decisions”. Nevertheless we are of the few view that the other stakeholders should not be forgotten especially the preparers as we consider the way entities report to the market should reflect their business model.

#### Needs of small and medium sized entities

The IASB standard “IFRS for SMEs” is consistent with the Constitution emphasis on addressing the special needs of SMEs. In 2007, Mazars has conducted a survey on current practices and expectations of European SMEs after the IASB published a draft standard entitled “IFRS for SMEs”. European SMEs would warmly welcome the adoption of a common accounting framework. Only 4% of the companies surveyed would be against the use of a common accounting framework. But the SMEs surveyed see three major drawbacks to adopting a common accounting framework: the difficulty in interpreting the standards, an increase in accounting costs and an increased need for skilled personnel. Therefore, the IASCF is right to address the special needs of SMEs and to take into account their specific constraints.

We also agree with the proposal to distinguish emerging economies from small and medium sized entities.

#### Public and Not-for-profit entities

In the long term, we believe that the accounting framework developed by the IASB aims at being used by all entities, including not-for-profit entities and entities acting in the public sector. Nevertheless, given the current workload of the IASB, we consider that this objective is not feasible in the near future.

We agree that the IASB should not extend its remit on this matter.

We recommend the IASB to reconsider this matter in the next Constitution review, i.e. in 2015 when there will exist a stable accounting standards platform.

#### **Question 4**

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

*The governance of the IASC 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) will 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~~ 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?*

**We noted that a description of the responsibilities of the Monitoring Group has been included in the 1 February 2009 version of the Constitution. Therefore, we agree with the proposal.**

Nevertheless, we understand that a Memorandum of Understanding has been agreed between the Monitoring Board and the Trustees describing the interactions of the Monitoring Board and the Trustees. Since this document is fundamental regarding the IASB governance, we recommend this document to be published for public comment.

## Question 5

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

*All Trustees shall be required to show a firm commitment to the IFRS IASB 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 diversity of geographical and professional backgrounds. The Trustees shall be required to commit themselves formally to acting in the public interest in all matter. 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?*

**While we agree with the proposed inclusion of Africa and South America in the composition of the Trustees, we would have preferred a more flexible rule enabling the Monitoring Board to choose high calibre individuals with a strong experience in financial and accounting matters. This objective could for instance be achieved by defining ranges rather than fixed numbers for each geographic allocation. We also consider that the composition of the Trustees and the Board should give priority to members coming from regions or countries that already apply IFRSs.**

## Question 6

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

*The section would therefore read as follows:*

*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?*

**We have no objection to the appointment of up to two vice-chairmen of the Trustees. However, proposed wording regarding the Trustees is unclear concerning the length of their appointment and could allow a vice-chairman becoming chairman to stay within the Trustees up to 12 years. This should be clarified.**

## 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*

**We agree with the proposal not to make specific amendments to sections 13 and 15.**

Indeed, we consider that the current Constitution already defines the responsibilities of the Trustees on the oversight function over the IASB and other IASC Foundation activities, such as:

- “[...] review annually the strategy of the IASC Foundation and the IASB and its effectiveness, including consideration, but not determination of the IASB’s Agenda [...]
- review compliance with the operating procedures, consultative arrangements and due process [...]”

(Section 15 of the Constitution)



We feel that the Trustees are not totally fulfilling these functions in practice. In particular, regarding the due process, we believe the Trustees should ensure that main constituents' comments are taken into account by the Board. They also should ascertain that lack of re-exposure is justified. Therefore, we strongly support the Trustees commitment to address this concern and to be more implicated in these functions.

### Question 8

*As amended, section 28 would read 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-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?*

### **We agree with the proposal.**

Since the IFRSs are becoming the worldwide accepted set of international accounting standards, enhancing public accountability is fundamental and has been improved by the creation of a Monitoring Board. Given this objective, we support a closer collaboration with a wider range of organisations. We especially believe that an institutionalized collaboration of the IASB with the National Standard Setters and official organisations ensuring prudential supervision over regulated financial industries is needed. This link will enhance the credibility of the IASCF, the IASB and the IFRIC and give a better legitimacy to their work.

## Question 9

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

*This section would read as follows:*

*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 the 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.*

**We have no objection to the appointment of up to two vice-chairmen of the Board.**

## 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 section would read 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?*

**We consider that the choice of Board members with a wide range of recent practical experience on financial and accounting matters is key to the credibility of the IASB. Therefore, we agree with the proposal to reduce the maximum length of the Board member's term.**

### **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 section would read as follows:*

*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.*

**We agree with the proposal.**

In September 2008, the amendment to IAS 39 and IFRS 7 relating to the reclassification of financial assets has not respected the due process. Indeed, given the requests to address this issue urgently in the light of market conditions, the Board decided to proceed directly to issuing the amendments with a very short comment period. We believe this procedure was justified by the urgency of the financial crisis. Therefore, we welcome the proposal of a shortened due process. We also agree that due process periods could be never dispensed with completely and that the procedure should remain under the control of the Trustees.

## Question 12

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

*The section would read as follows:*

*The IASB IFRS Board shall: [...]*

*(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 organizing the conduct of its work, the IASB IFRS Board may outsource detailed research or other work to national standard-setters or other organizations.*

**We do not fully agree with the changes proposed in section 38(d) since we would wish a larger and public consultation process concerning the Board's agenda setting process.**

As the Board is being criticized for its lack of transparency in this domain, we welcome the fact that the SAC and the Trustees will be consulted on the agenda, even though this was already organised in other sections of the Constitution. Moreover, the staff paper is mentioning that the SAC papers proposed by the Board would be available for public input in advance of SAC meetings. We feel that this should be included in the Constitution with a formal due process for public consultation thus committing the Board to apply this process.



### Question 13

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

**We think it is too early at present to assess the efficiency of this committee. Therefore, we agree with the Trustees proposal to make no amendment to sections 44 and 45, which are the provisions relating to the SAC.**

We also recommend the Trustees to monitor the performance of the SAC in the near future to ensure it has fulfilled its intended role following its reorganisation.

### 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.*

**We agree with the proposals.**