

For the attention of Ms Tamara Oyre
International Accounting Standards Committee Foundation
30 Cannon Street
London
EC4M 6XH

31 March 2009

Dear Sirs,

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

We appreciate the opportunity to comment on this important consultation document from the International Accounting Standards Committee Foundation (IASCF) on identifying issues for the second part of the Constitutional Review. We remain highly supportive of achieving the goal of a single set of high quality accounting standards that are accepted and applied across the world's capital markets. The structure, governance and operations of IASCF and IASB are critical factors in achieving and maintaining that goal. We were pleased to participate in the public consultation and roundtable on the first part of the Review last year, and our comments in this letter echo some of our thoughts from that earlier consultation.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on this discussion document. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Our responses to each of the specific questions in the discussion document are contained in the attached Annex. In this covering letter we draw attention to what we consider to be some of the more significant issues.

Today's landscape for standard setting

As the Trustees explained in the documents issued with the Part 1 consultation, the landscape for accounting standard setting has changed markedly since the IASB was set up almost a decade ago. Many of the world's larger capital market economies either have adopted IFRS, or are in the process of doing so. This is a tribute to the extraordinary success of the IASB in achieving a level of international convergence in accounting not generally seen in any other areas of economic and social activity. It also has led to IFRS being incorporated directly into the law in many jurisdictions and, as a consequence, there is a legitimate and growing public interest in the process of standard setting and the standards themselves.

The current global economic crisis has also had a role in increasing the scrutiny of accounting standards and the role they play in the capital markets. Public authorities are reviewing all aspects of the fabric of the financial markets, to learn and analyse the causes of the crisis and to determine what steps should be taken to mitigate and prevent similar crises occurring in the future. While we

do not believe that accounting standards can be blamed for causing the crisis, commentators have suggested that they may have exacerbated its effects. There may be room for improvements to be made and therefore the standards and the process through which they are promulgated are rightly part of that wider review.

As a result of these factors, organisations such as the Group of Twenty (G20), the Financial Stability Forum, the Basel Committee have become very important constituencies for the IASB and for the Foundation. There are other equally important constituencies as well. As we discuss further below, the reality is that the IASB will be subject to a whole series of influences as it goes about its work. Standard setting cannot take place in a vacuum, and must be responsive to the world around it. However the fact that the IASB is subject to so many influences means that its actual and perceived independence from *undue* influence is all the more important.

Objectives of standard setting

As we discuss in our response to Question 1 in the discussion document, we believe that the primary objective of the organisation remains appropriate. The purpose of developing accounting standards is to help participants in the world's capital markets and other users make economic decisions.

There is much debate in light of today's economic conditions about whether the IASB, in writing the standards, should also have regard to financial stability. In our view, it is critical for financial stability that investors and other users have confidence in market information – that is, on having financial information that is transparent, understandable and neutral. Neutrality means not promoting a bias in favour of a particular type of behaviour or outcome.

In our response to Question 2, we give support to the inclusion of a reference to principles-based standards in the Constitution, and note that this should be underpinned by a framework of the key elements of a principles-based standard, including neutrality. Having such a reference and supporting framework would provide a yardstick by which the performance of the Board in writing standards could be assessed by the Trustees.

Influence, independence and accountability

It is a sign of the IASB's success that it is constantly under scrutiny and, at times, criticism from a range of constituents. This is to be expected given the dynamic and international environment of global capital markets, and the governments, institutions, preparers and users which have a strong vested interest in their operation. Indeed it is from these constituencies that the IASB needs to draw in seeking input to the standard-setting process and to the assessment of the effectiveness of those standards.

Accordingly, the organisation is subject to a whole series of influences. What will give the IASB legitimacy, and in turn bolster market confidence in the standards it produces, is that the Board should be seen to be independent of political or any other form of interference in its technical activities. The Trustees' role includes ensuring that this independence is preserved.

It is also critical to confidence in independent standard setting that the steps already taken by the Trustees to enhance due process and those that arise from this Constitutional Review combine to provide transparency and real accountability at each stage of the structure – from the IASB to the Trustees - and from the Trustees to the Monitoring Board. Much accountability and due process already exists on paper. The key is to make sure that the processes for dialogue and explanation are transparent and seen to work.

The careful treatment of feedback from all constituents can help to increase the legitimacy and independence of the organisation. The Board must objectively evaluate and analyse the input it

receives in reaching its conclusions and then explain clearly (for example in feedback statements on new standards) why it has chosen a particular path in light of its own deliberations and the inputs received. The Trustees should ensure that this process of analysis and explanation is performed.

The IASB's work programme is one area where the Board should court feedback and where it should be prepared to explain its approach. The process by which the technical agenda and work priorities are set should in our view be more transparent, with clearly understood channels through which stakeholders can provide input and reactions. The newly reconstituted Standards Advisory Council is a good starting point, but further enhancements should be made in this area.

Operational aspects

The operational aspects of how to work as the global accounting standard setter are not addressed in this discussion document. These include the important questions around the extent to which the Board exists to set strategy as well as to set standards, and the respective roles of the Chairman and the other members. As noted in our response to Question 14, we believe the Trustees should consider with the Board how the Board is structured and whether changes are needed in the future.

There are also other questions such as: Should the IASB have a regional presence around the world? What human and other resources – and funding - are needed? How can the best use be made of collaboration with national standard setters? We have not attempted to provide answers to these questions, but we suggest that these operational and resourcing issues should be made the subject of a separate consultation by the Trustees.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Richard Keys (+44 20 7212 4555), David Devlin (+353 1792 6351) or Graham Gilmour (+44 20 7804 2297).

Yours faithfully,

PricewaterhouseCoopers LLP

Detailed responses to the questions in the discussion document

Objectives of the organisation

Q1 – 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?

We support the objectives of the organisation as presently defined. We believe they are appropriate and need not be amended.

Capital markets are the predominant model across the world that supports the wealth of individuals, companies and nations. Thus, we agree that the primary objective of the standards to be produced by the IASB should be to support the efficient and effective operation of those capital markets. Those markets are best served, and market confidence maintained and enhanced, by the provision of transparent, comparable financial information. That said, the current wording of the organisation’s objectives is in fact wider and more inclusive than may often be appreciated, since it does refer quite properly in our view to the ‘public interest’ and to ‘other users’.

The reference to the public interest is an important one. It is in the public interest that capital market participants should have access to information on the financial performance and position of companies to enable them to take economic decisions – and that accounting standards themselves should operate in a manner that does not create uncertainty, lack of transparency or where their effects are not well understood. Other objectives, such as the macro-economic objective of financial stability, are also clearly in the public interest. To the extent that other objectives do not conflict with sound financial reporting to investors, they could be considered in evaluating reporting requirements. There should be clarity regarding the priorities.

Where different objectives such as transparent reporting to investors and other users on financial performance and reporting on financial stability aspects may come into conflict, then the former must prevail. The needs of other potential users may well be substantially or fully met by the same data set that is provided for investors and providers of capital. However for some purposes, such as prudential supervision, different data is likely to be required and may need to be specified, prepared and presented separately.

We agree that the specific references to emerging markets and to small and medium-sized entities should be retained. As IFRS for listed companies has become ever more sophisticated and complex, firms such as ours have had to work hard to maintain the depth of understanding needed to apply the standards appropriately throughout our network. These issues are experienced also by many preparers and users, particularly as regards smaller listed entities and in emerging markets. In addition to understandability, the complexity of standards also has an impact on the cost and practicability of achieving compliance. Explicit recognition of the needs of emerging markets will, we hope, remind the IASB of its duty to strike an appropriate balance between pure technical concepts that are often complex, and the ease with which standards can be applied and their effects understood.

As the IASB's project on IFRS for SMEs has now been re-named 'IFRS for Non-publicly Accountable Entities', consideration might be given to using similar language in the Constitution.

Q2 – 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 principles-based approach?

We agree that it is important that accounting standards should be based on clear principles and have been advocates of this approach. We were closely involved in the development of the paper '*Principles-Based Accounting Standards*' (January 2008) published by the Global Public Policy Committee of the large accounting networks¹, which set out six key elements of a high-quality, principles-based accounting standard:

- Faithful representation of economic reality
- Responsive to users' needs for clarity and transparency
- Consistency with a clear Conceptual Framework
- Based on an appropriately-defined scope that addresses a broad area of accounting
- Written in clear, concise and plain language
- Allows for the use of reasonable judgment.

Implicit in the above elements is that accounting standards should be neutral – that is, they should not promote a bias in favour of a particular type of behaviour, or influence the making of a decision or judgment in order to achieve a pre-determined result or outcome. Moreover, in our view, neutrality also requires that accounting standards should not be a driver of economic behaviour of the reporting entity.

The term 'principles-based' also encompasses an objective that standards should be clearly expressed without being encumbered by detailed rules for each individual case which, almost by definition, can never be complete. IFRS now forms part of the law in many jurisdictions and there is consequential pressure for the standards to become more specific as to application in every case. We believe this pressure should be resisted in order to avoid a web of impossible complexity.

For all these reasons, we would support the inclusion of a reference in the Constitution to principles-based standards, underpinned by a framework such as that outlined above. This would provide a useful yardstick by which the Trustees could measure and evaluate the performance of the IASB in writing standards, and would in turn provide one mechanism by which the accountability of both the IASB and Trustees can be demonstrated.

As noted above, consistency of the standards with the Conceptual Framework is an important element. Our perception is that the IASB has allowed the timetable for completing the various chapters of the Framework to slip. While we understand that the Board has competing claims for its resources, and that other urgent matters have had to be accommodated, we believe the Framework should be accorded a higher priority in the overall work programme – perhaps at the expense of some other long-term projects where there is no particular demand from constituents to change the current model.

¹ The Global Public Policy Committee (GPPC) of the six largest international accounting networks comprises representatives of BDO International, Deloitte, Ernst & Young, Grant Thornton International, KPMG, and PricewaterhouseCoopers, and focuses on public policy issues for the profession. The paper is available from the website www.globalpublicpolicysymposium.com/documents.

Q3 – 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.

While supporting the focus on private sector companies and capital providers, we recognise that there are other constituencies that prepare and use financial reporting information. We believe that the needs of those who seek a return on or of their investment may differ from those, for example, who make contributions to not-for-profit organisations. The IASB is well placed to serve the public interest in establishing high-quality global standards for not-for-profit and other types of organisations, but our view is that the needs of the capital markets should be addressed first.

The current economic crisis has resulted in significant additional work priorities and higher demands for the Board’s attention. Given limited Board and staff resources, our view is that the IASCF/IASB should not expand its remit into other areas such as not-for-profit at the current time.

We note also that accounting standards for the public sector are currently promulgated by the IFAC International Public Sector Accounting Standards Board (IPSASB) – which uses the IASB’s IFRS standards as a basis and then adapts them for public sector use. Liaison with the IPSASB could be considered by the Trustees in relation to Question 4 below.

Q4 – 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 IASB should continue to engage with all stakeholder organisations that are interested in high-quality international accounting standards. However, we suggest that more formalised arrangements for collaboration should be limited to those other standard setting organisations that have achieved a reasonable level of maturity and development in relation to their own due process, governance and resourcing. Unless an organisation is clearly well established with a relatively mature constitution and due process and is widely recognised, it would be preferable to keep such links relatively informal.

Consistent with its public interest responsibility, we believe the IASB should take full responsibility itself for providing the ‘core’ accounting recognition and measurement guidance. In the area of valuations, for example, some commentators have speculated on the extent to which the IASB should provide more detailed ‘how to’ valuation guidance within its standards, and how much could be provided by other organisations. Our view is that the IASB, having satisfied itself about the practical application of what it proposes, should provide sufficient guidance to be able to articulate, in accordance with the attributes of a principles-based standard, how the accounting should be performed to portray the economics of the transaction. It should not delegate to or rely on others to address those aspects.

A further issue is that if the IASCF forges more formal links with other organisations, then there may be uncertainty as to how those relationships will be viewed by the new Monitoring Board. It may be preferable for the Trustees to establish further the structures, procedures and working relationship with the Monitoring Board before considering formal collaboration with other bodies.

Governance of the organisation

Q5 – The first part of the review of the Constitution proposed the establishment of a formal link to the 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 a Monitoring Group and its proposed role.

The Trustees announced on 30 January that they had concluded on Part 1 of the review regarding the establishment of the Monitoring Board (MB) and its membership, and published a text of the Memorandum of Understanding (MoU) between the Trustees and the MB. We note also that not all members of the MB had formally agreed to the proposals at that time.

Provided the members of the MB approve the proposals, it would seem appropriate to amend the Constitution to reflect the existence of the MB and the requirements of the MoU.

In our view, it is critical that all market participants and public authorities should have confidence in the governance of the standard setter and therefore of the standard setting process. In our response letter on Part 1 we stated our belief that there is a very delicate balance to be drawn in the respective responsibilities and powers of the MB and Trustees, such that both groups are playing a valuable role and engaging in constructive interaction, and that high quality candidates of appropriate stature are willing to serve on both groups. If the MB's role is too intrusive, then the calibre of the Trustees will decline over time to the detriment of bringing broad-based input and experience to the oversight model. Conversely, if the MB's role is no more than a perfunctory one, then the whole model will not attract the necessary support around the world.

As noted in our covering letter, the Group of Twenty (G20) is an important constituent organisation for the IASCF and IASB. The G20 has established a process, as part of its overall review of the global economic crisis, to review the governance of international institutions including the IASB/IASCF. As they proceed with Part 2 of the Constitutional Review, the Trustees should continue to have regard to developments and thinking in the G20.

Trustees

Q6 – The Trustees are appointed according to a largely fixed geographical distribution. Is such a fixed distribution appropriate, or does the current distribution need review?

We see no compelling reason to change from the current arrangement which already requires that there be geographical diversity on the Trustees (six from North America, six from Europe; six from Asia/Oceania; four from any area). It is helpful for stakeholders to be able to identify with Trustees from their particular region – and this aids the two-way communication process between the IASCF and its constituencies.

Also, it might seem odd to dispense with such arrangements after similar geographical diversity criteria have very recently been introduced for the IASB under Part 1 of the review.

Q7 – 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.

As noted above, we believe it is critical that all market participants and public authorities should have confidence in the governance of the standard setter and the standard setting process. Key to retaining this confidence is that:

- The independence of the IASB with respect to technical matters should be preserved
- Transparency and accountability is required at each stage of the structure – from the IASB to the Trustees – from the Trustees to the Monitoring Board (MB).

We believe that sections 13 and 15 of the Constitution should reflect any changes as a result of agreement of the Memorandum of Understanding (MoU) between the Trustees and the MB. Ideally, the MoU itself should be the subject of public consultation, but if not then subsequent consultation by the Trustees on proposed amendments to the constitution (in the next stage of Part 2 of the review) should allow stakeholders to comment on the Trustees' role and responsibilities in the light of the changes resulting from the creation of the MB.

We support the recent enhancements made by the Trustees to their oversight of the IASB – for example regular meetings of the Trustees' Due Process Oversight Committee with the IASB. These meetings should not however be regarded as a substitute for the Trustees as a body being seen to hold the Board to account.

Q8 – 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. 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.

We believe that the establishment of a stable, broad-based funding system, both in terms of the diversity of capital market participants providing the funds and the geographical source of funding, is of great importance. We also believe that, because of the importance of this in demonstrating the independence of the Foundation and the Board, the finalisation of such a system should be given a very high priority by the Trustees. The system should be designed to raise funds from around the world on an equitable basis (for example by reference to an indicator such as market capitalisation or GDP). Reliance on voluntary contributions may be perceived to bring into question the IASB's independence, while also making the IASB susceptible to a shortfall in funding in an economic downturn.

We note the trend towards individual countries setting up systems for raising funds for the IASCF through levies on listed companies. We also note the January 2009 announcement by the European Commission, proposing the establishment of a programme to provide direct funding from the Community budget (from 2012) to support the work of, inter alia, the IASCF. The Trustees should give urgent attention to achieving sustainable, broad-based funding mechanisms in all the major capital markets, including the United States and Japan. Whether the US and Japan currently use IFRS within their borders is not the issue. Their responsibility to participate in the appropriate funding of the IASCF comes from the significance of their markets in the global market place, as recognised by their representation on the Monitoring Board.

International Accounting Standards Board

Q9 – 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.

Our view is that the IASB's technical standard setting activities should remain independent and free from political or other interference. As discussed in our covering letter, it is important to distinguish between independence and influence. Many constituencies have previously sought to provide input and thereby influence the IASB. That is appropriate. In fact, that is the premise on which the consultation processes have been established. Also, given that many jurisdictions now incorporate IFRS into law or mandate its use by law, and the fact that the Trustees have established a mechanism for accountability to public authorities, it is inevitable that those authorities, amongst other constituencies, will continue to seek to influence the process of standard setting in the future. The key concern is the exercise of undue influence.

We believe the Monitoring Board's power to refer matters for consideration by the IASCF or the IASB should be exercised very carefully, to ensure the IASB's independence with respect to technical matters is preserved and that its agenda is not controlled or subject to political direction. One can appreciate that the MB might wish – through the Trustees – to make representations on the effects or perceived effects of standards on certain aspects for the IASB to consider. In so doing the MB might also be reflecting similar views expressed by other bodies. But it would not be appropriate for the MB to require or suggest specific changes be made to any particular standard.

The role of the standard setter is to independently and objectively analyse all the facts and circumstances, views and opinions that it receives from its broad range of constituents in the standard setting process, coupled with objectively justifying its proposals and conclusions.

In relation to the process by which the IASB's technical agenda and work priorities are set, our view is that it should be more transparent, with clearly understood channels through which stakeholders can provide input and reactions.

Some commentators have suggested that there should be public consultation on the IASB's technical agenda and work programme. We would support the Board maximising the use of opportunities to obtain input on the agenda in public forums. For example the establishment of the reconstituted Standards Advisory Council (SAC) from the beginning of 2009 provides an opportunity to obtain a wide range of views of key representative organisations on the IASB's agenda. However, we recognise that going beyond this to, for example, conducting a formal written consultation on the agenda, while perhaps providing a degree of 'legitimacy', would have some disadvantages: the mere process of consultation would absorb much Board and staff time; the consultation could attract responses from many single-interest lobby groups; and there would be the question of how often the agenda should formally be consulted on.

Q10 – 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 Due Process Handbook*.

We welcome the recent enhancements to due process such as post-implementation reviews, feedback statements, and effect analyses. The feedback statements provided by the Board thus far are a good first step, but we believe the quality of the feedback could be improved – in particular regarding the Board's explanation of the stance it takes when a majority or significant proportion of commentators disagree with the direction taken by the Board in a proposed standard (see also our response to Question 9 above).

We believe that a more flexible approach should be adopted towards the timelines for different steps in the Board's due process – depending on the nature of the topic being consulted on. With improved communication, liaison and other steps to garner 'intelligence' on the likely views of

constituents, the Board should be in a better position to assess whether particular pronouncements are likely to be controversial, the degree of difficulty for constituents to form views on complex proposals, and the overall time needed to reach consensus. The due process periods for some pronouncements could be shortened (including in urgent cases a 'fast track' procedure – see Question 11 below). Other pronouncements may require longer periods. (For example, it is likely to be difficult to obtain consensus views on the Board's forthcoming proposals on De-recognition. In these circumstances it may be difficult to move straight to an exposure draft with a relatively short comment period.)

Where IASB receives representation that urgent action is needed to address a particular matter or standard in the public interest, it will need to weigh that input against the effects of selecting a 'fast track' due process and the challenge this may bring to the broad acceptance of its findings. In such circumstances the Board should consider what safeguards it will put in place. These may include an early post-implementation review of changes made and their effectiveness and/or more focused steps to engage with interested and affected parties during the shortened exposure period.

The time taken to develop projects on the IASB's agenda is not simply a function of the time required for each of the due process steps. It is also a consequence of the number of projects on the IASB's work programme at any given time. Our view is that the current programme has too many 'live' projects. At a time when the IASB has also been asked to address issues arising from the financial crisis, the total number of projects should be reduced by dropping or deferring items that are not serving an urgent need from the market to enhance the standards.

We appreciate that IASB will have resource conflicts from time to time among its various and important projects. In determining its response to such matters and setting its future agenda it is important that the Board obtain significant external input through consultation or other appropriate means to demonstrate support for its approach and its choice of priorities.

Q11 – 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?

Yes. We agree that there should be the capability under the IASCF Constitution to consult quickly on matters that are addressed by the Board in response to emergency situations. It is not helpful to have instances where the Trustees have to announce that they are 'suspending' due process, as this serves to undermine market confidence. However, an accelerated due process should still provide the opportunity for stakeholders to comment on proposed changes, even if the comment deadlines are significantly shortened.

In setting out any proposals for the due process to be followed in such circumstances, it will be important to provide a clear definition of what a case of 'great urgency' is – for example, something that a significant number of constituents, especially users, are calling for. It might also be appropriate to provide in such cases for a subsequent review to be performed within a specified period, to assess whether the 'fast tracked' amendment is working as intended.

Finally, any such process should have regard to the practical difficulties posed by introducing fast track changes retrospectively. Preparers can have considerable difficulties in applying such changes as they will not necessarily have the appropriate systems to capture the required data, particularly in relation to comparative information.

Standards Advisory Council

Q12 – 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 Trustees announced last year that the SAC would be re-constituted under a new 'organisation representative model' from the beginning of 2009, and the first meeting of the SAC with its new membership took place on 23-24 February.

The re-constitution of the body and new chairmanship provides an opportunity to improve the effectiveness and communication of the SAC, and to assist the IASB in being better informed about the needs of preparers, users and other stakeholders.

It is too early on the basis of a single meeting to judge whether the new arrangements will be successful in meeting these objectives, though our observation is that the number of members is not significantly less than under the old SAC and this may pose challenges to the effective working of the group and limit the opportunity for free-flowing dialogue. In addition, and as noted by some of the new SAC members at the February meeting, the fact that the Council meets only three times a year means that the members may feel 'out of touch' with a relatively fast-moving agenda. This may particularly be the case when urgent issues arise, for example related to the financial crisis, for the Board to address. Consideration should be given to how the Board can communicate with and receive feedback from the SAC in between the formal meetings.

Q13 – 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?

Consistent with the objective of ensuring appropriate transparency and accountability at each level in the IASB/IASCF structure, we believe consideration should be given to including a provision in the Constitution that requires the Trustees to assess whether the IASB has discharged its responsibilities insofar as they relate to the SAC, and whether the SAC has conducted its business in accordance with its terms of reference.

Other issues

Q14 – Should the Trustees consider any other issues as part of this stage of their review of the Constitution?

In our comment letter on Part 1 of the Constitutional Review, we suggested that one area for consideration in Part 2 should be the role and responsibilities of the Chairman of the IASB. As noted in the covering letter to this response, the landscape for standard setting has changed enormously since the IASB was established in 2001. In addition to the technical challenges of the Board's work, the operations, communications, public policy and ambassadorial aspects of the Board's activities have become increasingly important and complex. It is a tribute to the current IASB personnel that they have been able to do so much with such limited resource.

In our view, the changed dynamics of the Board – a soon-to-be enlarged membership, with many new members with perhaps less experience of standard setting joining the Board over the next two to three years, and at the same time a changed environment including the relationship with the Monitoring Board - mean that the Chairman's role and job description should be looked at afresh. The guiding principle should be – what is needed in today's (and tomorrow's) circumstances?

It may be that, for example, there is scope for separating or redefining some of the technical, operational and external relationship management roles. The Trustees should consider with the Board how the Board is structured and whether changes are needed in the future. It will be important to consider how and by whom issues related to strategy, the overall work programme, liaison with constituents and operational capability are determined, and how those responsibilities fit with the 'technical' standard setting role.