

April 6, 2009

Ms. Tamara Oyrc  
Assistant Corporate Secretary  
IASC Foundation

Dear Ms. Oyrc:

The World Bank welcomes the opportunity to comment on the *Review of the Constitution: Identifying Issues for part 2 of the Review*. As you know, the World Bank has participated in a variety of ways to support the efforts of the IASC Foundation and the IASB. We are therefore pleased to provide our views at this critical juncture in the evolution of accounting standards-setting.

#### Overall Comments

The global financial crisis has tested and continues to test accounting standards-setting processes nationally and internationally, calling into question not only the technical validity of accounting standards but also the adequacy of governance and accountability mechanisms to which standards-setters are subject. The Constitutional Review, coming at such a time, provides an opportunity for the Trustees to demonstrate leadership in addressing these concerns with the key stakeholders and to reposition the organization to strengthen its commitment to serving the public interest. The crisis has highlighted the difficulty of shielding the standards-setting process from political pressure and emphasized the need to create better mechanisms to promote an appropriate level of independence for standard setting. In this regard, we believe the constitution should state explicitly that a key role of the Trustees is to protect the independence of the Board in relation to technical matters.

While protecting the independence of the Board in technical matters, it is also important for the Trustees to demonstrate a visible commitment to ensuring that the views of all stakeholders in the work of the Board are thoroughly considered in the standards produced. In this regard, a narrow view of investors as the primary users of financial statements may not be sufficient to reflect the needs of a broad range of stakeholders which could extend from investors, to market counterparties, to prudential regulators, to governments and ultimately to taxpayers. As part of the overriding commitment of the organization to the public interest, the Board and the Trustees should recognize that additional relevant disclosure, useful to the broader range of stakeholders beyond investors, should be pursued. Such a shift in focus may not only provide additional relevant disclosure for investors but could also help shift perceptions of the responsiveness and helpfulness of the organization as a whole.

The remainder of our letter contains responses to specific questions raised in the Review document.

## Specific Responses

### **Objectives of the organisation**

*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?*

As stated in our overall comments, we believe the Trustees should recognize that "participants" and other users may be expanding rapidly beyond traditional notions.

The reference to "special needs of small and medium-sized entities and emerging economies" strikes us as outdated. We would recommend instead that it be reworded as follows:

*"..... to take account of, as appropriate, the needs of a range of sizes and types of entities in diverse economic settings."*

*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?*

While we agree that drafting standards based on clear principles remains important for all standards setters, we do not believe it would serve any useful purpose for the Constitution to make specific reference to a "principles-based approach". The so-called "principles v rules" debate has been the source of much empty rhetoric that has not advanced the cause of high quality accounting standards and to enshrine such an ill-defined term in the Constitution would not be productive.

*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.*

While we recognize the need to address as a priority current demands and immediate challenges, we would continue to encourage the Trustees to set as a longer term goal an expansion of the scope and focus of the organization. For example, accounting standards-setting for public sector entities ("IPSAS") which resides under IFAC may be a logical place to



start and economies of scale may be achieved by doing so. Further we believe a globally recognized standard of reporting for not-for-profit entities would be of value. While not-for-profit entities face some unique issues, they have many reporting issues in common with listed entities and there is sufficient overlap that an entire separate set of standards likely would not be needed. Also, addressing certain gaps (e.g. the lack of an IFRS on contributions made and received/i.e. non-exchange transactions) would benefit other types of entities using IFRS as well.

*4 There are other organisations that establish standards that are either based upon or have a close relationship with IFRSs. The LASC 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 LASC Foundation's objectives? If so, should there be any defined limitations?*

Although we agree that close relationships with other organizations with compatible objectives are useful and desirable, it is unclear to us that the current Constitution needs to be amended to permit such collaboration. The IASCF has already successfully collaborated with a number of appropriate organizations and it does not appear that the current Constitution inhibits their ability to do so. Greater clarity on the intent of the question would assist in providing a more thoughtful response, i.e., which groups and for what reasons.

### **Governance of the organisation**

*5 The first part of the review of the Constitution proposed the establishment of a formal link to a Monitoring Group. Under this arrangement, the governance of the organisation would still 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.*

Yes, the function of the Monitoring Group, and its role should be clearly described as part of the governance structure, otherwise Section 3 would be incomplete.

### **Trustees**

*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?*

If the selection process is clarified, and the participation of those making the selection is appropriately representative, then we believe the guiding principle of geographical diversity would be served. We believe the distribution of Trustees should provide an appropriate reflection of the markets and constituencies being served after consideration of the Foundation's objectives, particularly if the objectives are expanded as suggested in Question 1 and in our overall comments. It is not clear whether the existence of fixed geographical distribution requirements serves this objective. Any geographical distribution should not be permanently fixed – though it could be fixed for a finite period (e.g., until the next constitutional review).

*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.*

In the context of Trustee function (e) of Section 15, “review of broad strategic issues affecting accounting standards”, we welcome steps taken by the Trustees to play a more visible role, and urge them to enhance further their public prominence in relation to the Board’s activities. We believe that, in the area of broad strategic issues that affect accounting standards, the Trustees should take a greater leadership role, being more visible and pro-active in order to improve their effectiveness. This would include, as our overall comments suggest, that the Trustees engage with what may have previously been viewed as non-traditional constituencies beyond the investor community.

The current situation relating to IASB’s response to FASB’s proposals on inactive markets and other than temporary impairments is an example of a situation in which the Trustees need to take a visible role in explaining and supporting an appropriate process in a pressurized situation. The Trustees can explain the need for the interests of all financial statement users to be considered and explain to key stakeholders how the process is consistent with a broad view of the public interest.

*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. 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 funding is an issue which poses potential threats to independence when the Foundation is dependent on few sources of funding. We recognize this is an important, but difficult task for the Trustees. We support the previously established principles of funding, i.e., that it be broad-based, compelling and open-ended. We believe a broad-based levy reduces the importance of any single voice and diffuses it to as diverse a group as possible, thereby limiting threats to independence. However, we recognize that, while there has been some success with this approach, most jurisdictions there are limited readily available means to compel contributions and often such compulsions may lack statutory authority. In the absence of an ability to levy, we encourage the Trustees to continue to seek broad-based sustainable financing and we believe an important role of the Monitoring Group is to regularly evaluate the form and substance of the Foundation’s financing sources to assure that funding arrangements do not lead to conflicts of interest that threaten the independence of the standard setting process.

## **International Accounting Standards Board**

*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.*

We recognize that the agenda setting process presents a difficult problem: How do you put in place a mechanism which assures the IASB's discretion and independence while also ensuring responsiveness to a broad constituency? We believe that an element of the IFRIC process might be useful in that regard. For example, there could be a requirement that the Board provide explanations/ feedback to the Trustees when they choose not to take up a potential agenda item brought to them through existing processes (processes such as requests/recommendations from the SAC).

*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 Due Process Handbook.*

When due process procedures which exist are properly applied, we believe they continue to be sufficient. We understand that some have suggested expanding field testing, working groups and other advisory groups, or making their use mandatory. We believe that the selection of such optional procedures must be made with careful consideration of efficiency, timeliness and thoroughness – and, if applied appropriately, result in a robust process. We also believe that the role of the Trustees should include a periodic quality assurance evaluation regarding both the sufficiency and the actual outcomes of the due process, and consideration of whether the objectives of due process are effectively achieved.

*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?*

We do not think that a “fast track” procedure should be created. First, it will be problematic to define and agree what constitutes an appropriate “case of great urgency”. Second, we believe creating a fast track procedure would be a short-term fix with long-term ramifications, which could be subject to misuse. In our view, any decision by the Trustees to “suspend due process” should occur only in extremely rare circumstances and any occurrence of such suspension should be fully recognized as an extraordinary event. Further, we urge the Trustees to avoid bypassing due process in response to any external pressures as such actions undermine the integrity of the IASB's reputation.

## **Standards Advisory Council**

*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?*

We believe that the composition, number and backgrounds of SAC members are currently a reasonable representation for fulfilling the existing objectives. If the objectives are broadened in the manner described in our introductory comments, we would recommend a

commensurate level of representation on the SAC. This may require some form of segmentation of the SAC to achieve adequate focus on the range of issues.

Earlier access to Board presentations and staff papers in advance of the SAC meetings would aide members in preparing their views. We would also suggest that more effort be made to summarize the results of these consultations to identify the primary positions or views of SAC members and indicate these in the minutes. Sub committees working on issues to inform the deliberations of the larger SAC group may be a way to work more effectively.

*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?*

We have no suggestions at this time

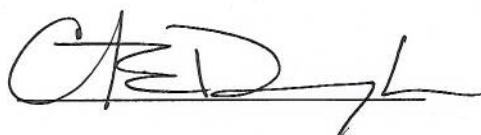
### **Other issues**

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

We would like to suggest that the translation of IFRS into other languages be addressed in the Constitution. In effect, the IASCF, through the work of its Translation group, has already recognized the importance of ensuring that high quality translations be available to countries that have adopted/endorsed IFRS. This is already the case, for instance, for the Spanish language, which gives the ability to close to twenty countries in Latin America and the Caribbean to use IFRS. The importance of high quality translations becomes even more obvious when one considers IFRS for Private Entities, which is intended for application by millions of companies around the world. Outside English-speaking countries, the overwhelming majority of such private entities will only be able to use available translated versions of IFRS. In that regard the IASCF is to be highly commended for releasing translations of the then IFRS for SMEs' Exposure Draft which represents an unprecedented effort. The Constitution should reflect the Trustees' (and Chief Executive's) responsibilities to ensure there is an appropriate process in place to make certain high quality translations are produced, and facilitate their availability to preparers, auditors, users and regulators around the world.

Again, thank you for the opportunity to share views on these important matters.

Sincerely,

A handwritten signature in black ink, appearing to read 'CM', with a long horizontal line extending to the right.

Chuck McDonough, Deputy Controller  
Acting on behalf of  
Fayezul Choudhury  
Vice President and Controller