



International Federation of Accountants

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Ms. Tamara Oyre
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By e-mail: *constitutionreview@iasb.org*

Re: Part II of the IASC Foundation Constitution Review

On behalf of the International Federation of Accountants (IFAC), we value the opportunity to provide input into the IASC Foundation's Constitutional Review process.

IFAC welcomes this opportunity to comment on the Constitution Committee's proposals to address matters relating to public accountability and the composition of the International Accounting Standards Board (IASB). The proposals are of particular interest to IFAC, as:

- The accounting profession, through IFAC, played an important role in the establishment of the International Accounting Standards Committee, and has a continuing interest in the development of International Financial Reporting Standards (IFRS);
- Through its membership, currently 157 professional accountancy bodies in 123 countries, IFAC represents approximately 2.5 million accountants in public practice, industry and commerce, government and education, who – through their various roles, including those of preparers and auditors of financial statements – implement IFRS; and
- IFAC has committed itself to the achievement of global convergence to IFRS. Our Statement of Membership Obligations (SMO) 7, "International Financial Reporting Standards," requires the members of IFAC to support the work of the IASB by notifying their members of every IFRS, and to use their best endeavors:
 - To incorporate the requirements of IFRS in their national accounting requirements or, where the responsibility for the development of national accounting standards lies with third parties, to persuade those responsible for developing those requirements that general purpose financial statements should comply with IFRS, or with local accounting standards that are converged with IFRS, and disclose the fact of such compliance; and
 - To assist with the implementation of IFRS, or national accounting standards that incorporate IFRS.

The following points are structured to correspond to the fourteen questions presented in the IASC Foundation's discussion document titled *Review of the Constitutions: Identifying Issues for Part 2 of the Review*:

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?

We consider the current focus on decision making by capital market participants does remain appropriate and necessary. If, however, other public policy objectives were also required to be a focus of accounting standard setting, mechanisms should be established in the constitution to ensure that careful independent examination is required for giving effect to any significant change in objectives.

With respect to the continuing need to give attention to the special needs of small and medium entities and developing nations, we support further development in this area. While we applaud the efforts that have been made to develop an IFRS for Private Entities we do not consider this should be the end of the matter, and we note with concern that IASB staffing appears not to cater to the need for implementation activity around the standard or the need for continued monitoring of the relevance of the standard. An alternative structure may be required within, or in association with, the IASB to address on an ongoing basis the needs of small and medium entities and developing nations. We also have a concern over the lack of representation on the IASB from individuals with knowledge and experience of small and medium-sized entities.

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 consider the principles-based approach essential if IFRS are to be the global standards. There are many reasons for this, including translations issues associated with very detailed and complex rules. We therefore favor writing into the Constitution this general approach.

In addition, and consistent with the above, we consider it necessary to have procedures in place to ensure standards are written clearly, simply and consistently to assist in their translation and adoption.

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.

We do not believe that the IASB should expand its framework to develop financial reporting standards for not-for-profit entities and the public sector. The current governance arrangements and composition of both the Board and its Trustees are such that standards developed for these two sectors by the current Board would lack legitimacy. Importantly, however, the IASB should act in cognizance of these sectors and collaborate (as they currently are doing) with the International Public Sector Accounting Standards Board (IPSASB).

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?

We believe the IASC Foundation Constitution should be amended to allow for closer collaboration with other standard-setting bodies. In particular, it should be amended to facilitate collaboration with the International Auditing and Assurance Standards Board (IAASB), with the

objective of ensuring the auditability of financial statements prepared in accordance with IFRS, and also with the International Valuation Standards Committee.

5. 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.

The establishment in the Constitution of a formal link to a Monitoring Group (or Board) is essential, given the importance of its role. In addition, the accountability relationship between the IASC and its Monitoring Group should be written into the Constitution and should comprise the role and objectives of the Monitoring Group and the processes and mechanisms that ensure a reasonable degree of transparency in the relationship between the Monitoring Group and the Trustees. This may include a statement of the principles that define the relationship; the nature of reporting between Monitoring Group and the Trustees, and other aspects of due process.

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?

We believe that the Trustees should be appointed in accordance with fixed geographical distributions, broadly as they are in the current Constitution. We would recommend however that all major regions have a specific assignment of members, rather than some regions being treated as a residual. The regions currently not referred to are Africa, Latin America and the Caribbean, and the Middle East.

The IASC may also consider the benefits of membership on other than a geographic basis from key international institutions such as the World Bank, International Monetary Fund, Basel Committee, International Organization of Securities Commissions, etc.

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.

Greater transparency would strengthen the oversight processes of the Trustees. While the duties and powers of the Trustees are briefly outlined in the Constitution and IASC Foundation Due Process Handbook, procedural requirements for appointment and removal of members of the IASB, constitutional amendments; and consultation and review processes involved in standard setting should be clearly stated.

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.

The work of the IASB is a global public good. We believe that to ensure adequate funding and reduce the extent of free-riding, some form of consistent global, governmental funding should be developed. In particular, jurisdictions that adopt IFRS should expect as a matter of course to contribute in a realistic manner to the cost of the development of the standards.

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.

Independence is but one of the desirable features of an international standard-setting body and must be weighed against other features. We consider that while independence in setting standards is crucial, the IASB does not need the same degree of independence in determining its

agenda. We therefore consider that the agenda-setting process should be open to formal public consultation, with the Trustees being required to satisfy themselves that the agenda determined as a result of the Board's consideration of the consultations reflects the public interest. In addition, we believe that there is a need for the IASB to justify its conclusions regarding the development of its agenda.

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*.

We welcome the enhancement of the IASB's due process procedures in the *IASB Due Process Handbook*; especially post-implementation reviews, feedback statements and effect analysis. These procedures are fundamental to a *de facto* regulator of financial reporting. Likewise, the conceptual framework should have as its over-riding criterion that the benefits of IFRS adoption and implementation exceed their costs.

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 believe that a separate "fast track" procedure should be created for changes in IFRSs in cases of great urgency. A critical element in the procedure should be a "trigger" mechanism to initiate the process, which could, for example, be authorized by the Trustees and/or the Monitoring Group. Any "fast track" procedure should require an abbreviated due process, which should include some element of consultation.

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 agree with the objectives of the SAC as set forth in Section 38; however, it must be emphasized that the clear communication of the SAC's collective as well as individual views to the IASB is essential to the effective contribution of the SAC.

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?

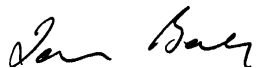
In general, we agree with the terms of reference for the SAC as provided in the appendix; however, a clearer feedback mechanism(s) would be desirable to ensure that input from the SAC is integrated into the IASB's consideration of issues.

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

There are no other issues at this time.

In conclusion, IFAC strongly supports the Constitution Committee's consideration of the collaborative roles that other organizations can play in the IASB's work as an international standard-setter and welcomes this opportunity to provide comment. Please do not hesitate to contact me should you wish to discuss any of the matters raised in this submission.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ian Ball', written in a cursive style.

Ian Ball
Chief Executive Officer