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REVIEW OF THE CONSTITUTION- Identifying Issues for Part 2 of the Review

Dear Ms. Oyre:

Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera (CINIF) the accounting standards setter body in México, hereby presents for your consideration its comments and responses to your Discussion Document (DD) **REVIEW OF THE CONSTITUTION – Identifying Issues for Part 2 of the Review.**

Questions for consideration

Objectives of the organization

1 The Constitution defines the organization'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 that the definition in the Constitution is improperly limiting IASB standards to the participants in the world's capital markets. The main goal of IASB should be the application of the same accounting principles by all entities in the globe and not only by those participating in the capital markets. By doing so the scope of the standards issued by IASB is unnecessarily limited and creates the necessity of issuing and adopting a separate set of "special accounting

standards” to be applied by entities which do not operate in the capital markets; we consider that this situation is not only very confusing and unnecessary but also as the cause for creating a problem for attaining a prompt acceptance of IASB standards. As we have mentioned in some of our responses to prior discussion drafts issued by IASB we believe that there should be just one set of international accounting standards applicable to all entities; those standards should include rules permitting to entities not listed in the capital markets to omit the presentation and disclosure of certain information not deemed necessary to be included in the financial statements and notes of such entities.

If the definition in the Constitution stands as it is in Mexico no more than 140 entities will apply the IFRSs and more than 300,000 will not. We believe that this situation is not privative of Mexico and must be very similar to situations present in most countries of the globe

Additionally, we consider that the addition of the sentence “to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies” does not improve the definition in the Constitution but only aggregates words which do not have a clear intention or meaning. In summary such sentence seems to have a mere political and not technical sense.

Finally, if the sentence referred to in the preceding paragraph is included in the definition of the organisation’s primary objective a significant number of large entities, which are not small nor medium-sized entities but larger, and which do not participate in the capital markets will be excluded from the application of the international accounting standards issued by IASB. If this is the case we believe we have a serious problem that will impact in many countries included those denominated “industrialized countries”.

- 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?**

Yes, we believe that the Constitution should make specific reference to the emphasis on a principle-based approach which principle in our opinion is fundamental for the developing and drafting of the financial reporting standards.

- 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.

As more fully discussed in our response to Q1 above, in our opinion the definition of the organization's primary objective should be amended in the Constitution in order to cover all private entities regardless of their size or their being public or private.

Non-for-profit entities should be covered by the accounting standards issued by IASB. For us the public sector comprehends all levels of government i.e. Federal, States, Municipalities, etc and also their investments in commercial, manufacturing financing and banking entities own by them.

Under the present circumstances imposing to IASB the burden of issuing accounting standards for the public sector would imply an extraordinary great effort that could cause a terrible complication, for the development and issuance of accounting rules by the organism. We believe it is of the most importance that the main attention and goal of IASB continues being the developing, in the public interest, of a single set of high quality, understandable and enforceable global standards, that require high quality, transparent and comparable information in financial statements and other financial reporting to help users make economic decisions, regardless of the size of the entities or its being or not public entities.

The first sentence of Q3 states "The Constitution and the IASB's *Framework* **place priority on developing financial reporting standards for listed companies**" We consider this sentence unfortunate and wrong since the definition in the Constitution of the primary objective of the organisation clearly states that it is "**to develop...global accounting standards...to help participants in the world's capital markets and other users make economic decisions**". Thus, the IASB's Constitution does not "place priority" but clearly establishes that its objective is the developing of accounting standards to "**help participants in the world markets and other users make economic decisions**". Therefore, it may be concluded that the objective of IASB is not the developing of financial accounting standards for other entities than those

participating in the world's capital markets. If such definition is to include entities not participating in the capital markets, the definition in the Constitution should be properly amended.

- 4 There are other organisations that establish standards that are either based upon or have a close relationship with IFRSs. The IASC Foundation already recognizes 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 support the proposal to modify the Constitution of the organisation in order not only to allow but to promote its closer collaboration with a much wider range of organisations whose objectives are compatible with the IASC Foundation's objectives. If any organisation approaching IASB with the purpose of promoting a closer collaboration is to be rejected such action should be approved by the Trustees or at least by the IASB Board; a policy to this effect should be included in the Constitution.

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 primarily rest with the Trustees. Although the first part of the review has not yet been completed, the Trustees would welcome views on whether language of Section 3 should be modified to reflect more accurately the creation of the Monitoring Group and its proposed role.**

Our letter to you on the **Review of the Constitution-Proposals for Change**, dated 20 September 2008 included the following paragraph:

"No, we do not support the creation of a link to a Monitoring Group in order to create a direct link of public accountability to official institutions. We believe that the responsibility of overseeing the activities of the Board should remain on the Trustees. We consider that, if needed, the monitoring task with financial institutions could be assumed by IOSCO. However, if the Monitoring Group is created, in our opinion it should include not only regulators (official institutions): it is extremely important that such Monitoring Group also includes representatives of issuers, analysts and auditors (IFAC). We believe that integrating the Monitoring Group with representatives of regulators exclusively, may create an organism improperly balanced since

decisions would be taken based only on the experience and interest of regulators without considering the experience, needs and ideas of preparers, auditors, analysts and other users of the financial information with the risk of influencing the preparation and issuance of IFRSs basically inclined to satisfy the information needs of regulators and perhaps discriminating the needs faced by other users of the financial information thus having IASB issuing IFRSs more theoretical than practical.”

If the establishment of a Monitoring Group is approved Section 3 should be modified to reflect such event and to establish the objectives, functions and rules applicable.

Trustees

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

The following two paragraphs were included in our letter to you dated 20 September 2008 and we consider them a valid response to your preceding Question 6:

“No, we disagree with the geographical proposal since it will maintain the actual and very much criticized preeminence in the Board of the industrialized and English spoken countries which preeminence has been in place since the creation in 1973 of the International Accounting Standards Committee (IASC), the predecessor of IASB. We believe that this preeminence has been acting against IASB before the world business community. Thus, we strongly believe that more developing countries from Latin America, Asia, Africa and Oceania should be incorporated to the Board of IASB”.

“Also, we recommend that paragraph 6 of the Constitution be amended to clearly define the terms North and South America. Presently, it is unclear which countries are included in such terms used by IASB. For instance it is not clear if for IASB’s Constitution purposes Mexico is considered to be in North or South America, geographically it is clearly in North America but it is unclear if for IASB purposes it is considered to be there or in South America. Also, Central America and the Caribbean should be considered describing where they are included for IASB’s Constitution purposes: North or South America”.

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 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 our opinion the functions of the Trustees are properly described in Sections 13 and 15 of the Constitution. However, the Trustees' functions regarding the due process for the IASB and IFRIC should be expanded to state how such functions must be fulfilled and clearly stating that no pronouncement from IASB or IFRIC may be issued without being previously approved by the Trustees once they have verified that any such pronouncement was subject to proper due process and that the comments and suggestions received as a result of such process have been considered in the final pronouncement.

The Constitution should be also amended to include rules stating how the suggestions and comments received during the due process of any standard are to be processed in order to properly amend, if needed, the documents submitted to such process. The compliance by IASB and IFRIC with such rules must be reviewed and approved by the Trustees before issuance of a final standard.

We consider that rules should be included in the Constitution requiring that **without exception** any pronouncement to be issued by IASB or IFRIC:

1. is submitted to due process;
2. adequate control is exercised on comments and suggestions received in the due process;
3. is approved for issuance by the Trustees after their review of compliance with paragraphs 1. and 2. above

Adherence to and compliance with the established due process rules is fundamental for demonstrating to any third party the independence of IASB and IFRIC. We also consider that under no circumstances the rules on due process may be partially applied or completely omitted.

- 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.

In our opinion the current rules preventing Trustees from imposing a funding system to users of IFRSs should be maintained. If this policy is removed and users are forced to contribute to the financing of the IASC Foundation and the IASB there is a great risk of a negative reaction by the users as to the application of the IASs and IFRICs. We have no basis to recommend policies to be followed by the IASC Foundation and the IASB for changing the current funding system. However, we recommend that whatever new policies are adopted great care be exercised to prevent situations that could damage the organisation's independence. For this purpose it is obvious that the broader the funding system is the stronger independence is.

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 agree with the present agenda-setting process and believe that IASB should be kept having 'full discretion in developing and pursuing its technical agenda'.

- 10** The Constitution describes the principles and elements of required due process for the IASB. The IASB 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 enhancement in the IASB's due process (such as post-implementation reviews, feedback statements, and effect analyses) and on the *IASB Due Process Handbook*.

We are in agreement with the principles and elements of required due process described in the Constitution. However, we believe that such principles and elements should be expanded in the Constitution as mentioned in our response to paragraph 7 above.

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?

If a ‘fast track’ procedure is created pronouncements may be issued without taken into account the experience, needs and opinions of experts and users such as professional bodies, preparers, financial analysts, auditors, regulators, academics and user groups of the financial information. Also, we believe that a ‘fast track’ procedure may be abused severely endangering the legitimacy of the due process and independence of IASB. In our opinion, as stated in our response to Question 7 above, due process rules must be followed in all cases without any exemptions.

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 consider as satisfactory the current procedures and composition in terms of numbers and professional backgrounds of the SAC and also that this Council is able to accomplish its objectives as defined in Section 38.

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 do not consider any element of the terms of reference that should be changed.

Other issues

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

We believe that the situation discussed in the following paragraph which was included in our letter to you dated 20 September 2008, should be considered by the Trustees:

Paragraph 23 of the Preface to IFRSs states that “The approved text of any discussion document, exposure draft, or IFRS is that approved by the IASB in the English language...” Such paragraph continues stating that IASB may approve translations in other languages, but it is not clear if such approved translations may be considered as “approved text” for purposes of complying with IASB standards. We consider that it is of the most importance to clarify this situation. If the intention is that only the text in English is the one approved by IASB we recommend that such approach be changed to permit that IASB’s approved translations in other languages may be considered also as approved text. For this purpose an approach similar to the one adopted by the United Nations could be adopted in order to have not only the English language as the official language of IASB but also to accept as approved text by IASB the translations in other languages. Such approved translations by IASB could be made locally in several countries under their responsibility and the monitoring by IASB. The accomplishment of this recommendation may be very difficult but the effort is worthwhile and will permit a faster worldwide adoption of IFRSs. After all, if the United Nations found a way to have several official languages why IASB cannot find the way to do it?

Should you require additional information on our responses listed above, please contact us at 00-52-55-5596 5633/26/34 or by e-mail at

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Sincerely,

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Mexicano para la Investigacion y Desarrollo
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