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By email: [constitutionreview@iasb.org](mailto:constitutionreview@iasb.org)

31 March 2009

Dear Ms Oyre

#### **IASCF REVIEW OF THE CONSTITUTION: IDENTIFYING ISSUES FOR PART 2 OF THE REVIEW**

The Institute's Accounting Standards Committee has considered the above discussion document and I am pleased to set out its comments below.

The Institute is the first incorporated professional accountancy body in the world. The Institute's Charter requires the Accounting Standards Committee to act primarily in the public interest, and our responses to consultations are therefore intended to place the general public interest first. Our Charter also requires us to represent our members' views and protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Our responses to the questions for consideration are set out below.

#### Questions for consideration

#### Objectives of the organisation

1. *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?*

Yes, we agree that this combination remains appropriate. The driver for international standards has been and remains greater efficiency in capital markets around the world. Section 2(c) acknowledges the special needs of smaller entities and that they are taken into account as appropriate.

We note that section 2(d) refers to convergence with national accounting standards – we believe that this should not be an objective, but is a means by which the objective of creating a single set of standards may be achieved.

2. *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 principles-based approach. This is a fundamental point which should be reinforced throughout the standard-setting process. It is important that there is a common understanding of what principles-based standards mean. In our view, the creation of high quality accounting standards must be based on high-level principles which require the exercise of professional judgement and minimal additional guidance. Proper explanation of how judgement has been applied is key to the practical application of principles-based standards. Therefore a definition of ‘principles’ should be included in the constitution. The 2006 ICAS publication ‘Principles not Rules: A Question of Judgement’ defines a principle as ‘a general statement, with widespread support, which is intended to support truth and fairness and acts as a guide to action. Sometimes a set of rules may be proposed to guide the observance of a principle, but it will always be a matter of judgement whether following these rules will actually achieve conformity to the principle.’ This definition was chosen because ‘it focuses on a high-level view and because it emphasises the importance of interpretation which requires judgement.’

3. *Should the IASB extend its remit to consider the needs of not-for-profit entities and the public sector?*

We do not believe that it is feasible at the current time for the IASB to extend its remit to consider the needs of not-for-profit entities and the public sector, due to resource constraints. However, it should be recognised that in some jurisdictions the use of IFRS may be required for such entities and, while it is not the responsibility of the IASB to determine which entities its standards are applicable to, it would be beneficial if the IASB had the ability to monitor issues in these areas, for example, by setting up specific working groups. But this should only be undertaken if additional resources are available in the future.

4. *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?*

In general, the IASB should be able to collaborate with other organisations where appropriate and effective and relevant to the objectives of the IASB. However, we would be wary of closer collaboration with bodies such as securities regulators since their aims and objectives may conflict with the objectives of the IASB.

### Governance of the organisation

5. *Should the language of Section 3 be modified to reflect more accurately the creation of the Monitoring Group and its proposed role?*

Section 3 could be amended to include a brief reference to the Monitoring Group, such as ‘...and under the oversight of the Monitoring Group’ with a cross reference to its constitution and remit.

## Trustees

6. *Is a fixed geographical distribution of Trustees appropriate, or does the current distribution need review?*

We do not believe there is a need to change the current geographical distribution of Trustees. In addition, we would not support any further increase to the number of Trustees since, with a current membership of 22 any increase would risk diminishing effectiveness.

7. *The Trustees would welcome comments on Section 13 and 15, and more generally on the effectiveness of their oversight activities.*

We do not have any comments on the Trustees' oversight activities.

8. *The Trustees would welcome comments on the progress and the future of the organisation's financing.*

Funding is a vital issue for the IASCF and IASB and we do not think that the current model is sustainable, particularly in respect of generating income through restricting access to IASB publications. The IASCF and IASB should be funded by the capital markets who are the beneficiaries of their work.

## International Accounting Standards Board

9. *The Trustees 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 would prefer to see greater consultation on the IASB's agenda, as the decisions as to what projects to progress and how these should be prioritised are very important, and we believe that it may not be clear to constituents how they can influence the agenda. For example, the work plan on the IASB website notes which projects are delayed or stopped but does not explain why this is the case.

10. *If respondents do not believe the procedures for due process for the IASB 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.*

The procedures set out for due process for the IASB are in general sufficient, but we have concerns with how these are applied in practice at times. For example, we find that the substance of many discussion papers is more of an early exposure draft in which many key assumptions and decisions have been made without the option for public debate. It is therefore difficult to see how commentators can fundamentally change the direction of the project. Discussion papers should be shorter and more open, requesting views on a range of 'in principle' options from which the IASB staff could then develop supported options in more detail.

This would avoid the situation of the IASB staff spending considerable time developing proposals that do not have public support. In addition, there is currently the perception that the discussion paper stage is the critical point at which commentators can influence the outcome of a project. If that is the case, then the level of work put into developing and responding to exposure drafts seems unjustified. If discussion papers were drafted as described above, both the discussion paper and exposure draft phase would become more effective.

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?*

IASB needs to be able to respond appropriately to any genuine emergency issues but such issues should be extremely rare. These issues will be, by their nature, unexpected and unpredictable; therefore attempts to place too many rules or processes around this may be ineffective. The IASB should make arrangements so that a group of constituents can be called on at short notice to review and provide input on any emergency issues.

#### 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?*  
 13. *Are there elements of the terms of reference for the SAC that should be changed?*

Our only comment on the SAC is that the membership is already fairly large and we would question how effective such a large grouping can be, and whether this should be reviewed in the future.

#### Other issues

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

We are not aware of any other issues that should be considered at this stage.

I hope our comments are useful to you in the development of this discussion document. If you wish to discuss any of them, please do not hesitate to contact me.

Yours sincerely



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 Secretary to the Accounting Standards Committee