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Submitted by e-mail to toyre@iasb.org

Part 2 of the Constitution Review - Proposals for Enhanced Public Accountability

Grant Thornton International is pleased to comment on the IASC Foundation's Consultation Document *Part 2 of the Constitution Review - Proposals for Enhanced Public Accountability* (the Part 2 Proposals). In the following paragraphs we offer some general comments on the Part 2 Proposals.

Our responses to the specific questions raised by the Trustees are set out in the Appendix to this letter.

General comments

We welcome the opportunity to offer further input to the Constitution Review. We also congratulate the Trustees for undertaking extensive public consultations at various stages of the Review.

In March this year Grant Thornton International commented on the related Consultation Document *Review of the Constitution: Identifying Issues for Part 2 of the Review*. In that letter ('our March 2009 letter') we raised some broader issues concerned with strengthening the IASB's mandate as a global standard-setter and equipping the organisation to fulfil that role over the next several years. We have not repeated those comments in this letter but we believe they remain relevant.

Subsequently, the subject of IASB governance has been brought to even greater prominence by the G20's declarations at the April 2009 summit. These included that:

The IASC Foundation, within the framework of the independent accounting standard-setting process, should improve involvement of stakeholders, including prudential regulators and emerging markets, through the IASB's constitutional review

It is clearly imperative that the Trustees are able to demonstrate timely progress to the G20 in responding to this. Although we are encouraged the Trustees have already reported a number of tangible steps, it will be important to be able to report further, meaningful progress at the conclusion of Part 2 of the Review.

We believe that, taken as a whole, the Part 1 actions and Part 2 proposals are indeed substantive improvements to the IASB's governance arrangements. In particular, the establishment of the Monitoring Board with a formal link to the IASC Foundation strengthens the public accountability of the Foundation and in turn of the IASB.

The Part 2 Proposals

When considered in isolation, the Part 2 proposals seem to us rather limited in scope and ambition. They are not obviously indicative of a broad strategic review (but rather of routine 'care and maintenance') and are not responsive to all of the broader issues raised in our March 2009 letter.

Having said that, we also recognise that the Trustees are constrained both by the need to act quickly to respond to the G20 and by the present lack of a long-term, stable funding solution. The funding issue is of course critical, but also very challenging to address. We also acknowledge and agree with the Trustees' statement (on page 6 of the Part 2 proposals) that many of the concerns raised by constituents are operational matters and do not require amendments to the Constitution. In the circumstances, we support the Trustees' strategy of making limited, pragmatic improvements to the Constitution in the short term while also suggesting that:

- It is essential that the Trustees take an active role in addressing the operational concerns raised by constituents, and are seen to be doing so. We note that the Trustees affirm on page 6 and elsewhere that steps are indeed being taken to address operational concerns and to enhance oversight. We are also encouraged that Trustee engagement has been more evident in recent months, for example in the IASC Foundation's communications to the G20. However, we believe there is scope to further enhance the visibility of the Trustees' oversight which should in turn help to assuage concerns as to its effectiveness. We comment more specifically on the need for oversight of stakeholder engagement activities later in this letter.
- The Trustees should continue to evaluate whether the existing organisation is adequately and optimally equipped for its future role (without delaying the outcome of Part 2 of the Review).

Turning to the specific Part 2 proposals, we support the great majority and note that they are largely consistent with the comments in our March 2009 letter. We believe the proposals as a whole will enhance the clarity of the Constitution and will facilitate operational improvements. There are however two specific proposals that in our view need further consideration. These are:

- We have mixed views over the proposed changes to the names of the IASC Foundation and International Accounting Standards Board (IASB). Although it seems logical to align the names with the 'IFRS' brand used for the Standards, we also suggest that the existing names are widely recognised and well understood.
- With regard to the IASB's agenda-setting process, we would prefer to see the Trustees go further than proposed and to require enhanced public consultation.

We expand on these comments and respond to the specific questions in the Part 2 proposals in the Appendix to this letter.

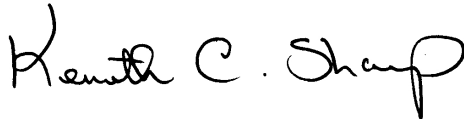
Stakeholder engagement

We have already commented that effective stakeholder engagement is critical to strengthening the IASB's mandate as a global standard-setter. As noted, stakeholder involvement has also been cited by the G20 as an area for improvement. We therefore believe that this is an area that requires particular focus from the Trustees in exercising their oversight role.

We acknowledge however that effective stakeholder engagement is not a matter to be mandated in the written Constitution - the Constitution is simply a framework which specifies certain elements of the process. Effective engagement is driven more by the conduct of those processes - in particular the openness of the IASB and its staff and their ability and willingness to listen and respond to stakeholders. With this in mind, we commend the IASB and the staff for their efforts to engage with stakeholders during the ongoing, fast-track project to replace the existing financial instruments standards. We believe the approach taken in this high profile project is a substantial improvement over past practice and should be viewed as good practice in other major projects.

If you have any questions on our response, or wish us to amplify our comments, please contact our Executive Director of International Financial Reporting, Andrew Watchman (andrew.watchman@gtuk.com or telephone + 44 207 391 9510).

Yours sincerely,

A handwritten signature in black ink that reads "Kenneth C. Sharp". The signature is written in a cursive, flowing style.

Kenneth C Sharp
Global Leader - Assurance Services
Grant Thornton International

Responses to questions for consideration

Names within the IASC Foundation

Q1 - The Trustees seek views on the proposal to change the name of the organisation to the 'International Financial Reporting Standards Foundation', which will be abbreviated to 'IFRS Foundation'.

The Trustees also seek views on the proposal to mirror this change by renaming the International Accounting Standards Board (IASB) as the International Financial Reporting Standards Board, which will be abbreviated to 'IFRS Board'.

Do you support this change in name? Is there any reason why this change of name might be inappropriate?:

We have no objection to the proposed name changes in principle, but neither do we perceive any compelling reason for them. We believe in particular that 'International Accounting Standards Board' and 'IASB' are names that are widely recognized and well understood. We also suggest that implementing this proposal may lead to criticisms to the effect that the Trustees are focusing their energies on non-substantive matters.

Q2 - The Trustees seek views on the proposal to replace all references to 'accounting standards' with 'financial reporting standards' throughout the Constitution. This would accord with the name change of the Foundation, the Board and the formal standards developed by the IASB - International Financial Reporting Standards (IFRSs).

Do you support this change?

Yes, we believe it is appropriate to align the terminology as proposed.

Objectives of the organisation

Q3 - The Trustees seek views on their proposal to change section 2 as follows:

The objectives of the IASC IFRS Foundation are:

- (a) to develop, in the public interest, a single set of high quality, understandable, and enforceable and globally accepted accounting financial reporting 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;
- (b) to promote the use and rigorous application of those standards;
- (c) in fulfilling the objectives associated with (a) and (b), to take account of emerging economies and, as appropriate, the special needs of small and medium-sized entities and emerging economies; and
- (d) to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards (IFRSs, being the standards and interpretations issued by the IFRS Board) to high quality solutions.

Do you support the changes aimed at clarity?

We agree with the proposals.

Reflecting the role of the Monitoring Board

Q4 The Trustees seek views on the proposal to amend section 3 of the Constitution as follows:

The governance of the IASC-IFRS Foundation shall primarily rest with the Trustees and such other governing organs as may be appointed by the Trustees in accordance with the provisions of this Constitution. A Monitoring Board (described further in sections 18–23) shall provide a formal link between the Trustees and public authorities. The Trustees shall use their best endeavours to ensure that the requirements of this Constitution are observed; however, they ~~are empowered to~~ may make minor variations in the interest of feasibility of operation if such variations are agreed by 75 per cent of all the Trustees.

Do you support this clarifying amendment?

Yes, we agree that the Constitution should be amended to acknowledge the role of the Monitoring Board.

Recognising the participation of Trustees from Africa and South America

Q5 - The Trustees seek views on the proposal to amend section 6 of the Constitution as follows to include one Trustee from each of Africa and South America:

All Trustees shall be required to show a firm commitment to the IFRS IASC Foundation and the IFRS Board IASB as a high quality global standard-setter, to be financially knowledgeable, and to have an ability to meet the time commitment. Each Trustee shall have an understanding of, and be sensitive to, the challenges associated with the adoption and application of high quality global ~~accounting~~ financial reporting standards developed for use in the world's capital markets and by other users. The mix of Trustees shall broadly reflect the world's capital markets and diversity of geographical and professional backgrounds. The Trustees shall be required to commit themselves formally to acting in the public interest in all matters. In order to ensure a broad international basis, there shall be:

- (a) six Trustees appointed from the Asia/Oceania region;
- (b) six Trustees appointed from Europe;
- (c) six Trustees appointed from North America; and
- (d) one Trustee appointed from Africa;
- (e) one Trustee appointed from South America; and
- (f) ~~(d) two~~ four Trustees appointed from any area, subject to maintaining ~~establishing~~ overall geographical balance.

Do you support the specific recognition of Africa and South America?

Yes, we support this proposal.

A provision for up to two vice-chairmen of the Trustees

Q6- The Trustees seek views on the proposal to amend section 10 of the Constitution as follows to allow up to two Trustees to be appointed as vice-chairmen of the Trustees.

The Chairman of the Trustees, and up to two Vice-Chairmen, shall be appointed by the Trustees from among their own number, subject to the approval of the Monitoring Board. With the agreement of the Trustees, regardless of prior service as a Trustee, the appointee may serve as the Chairman or a Vice-Chairman for a term of three years, renewable once, from the date of appointment as Chairman or Vice-Chairman.

Do you support the constitutional language providing for up to two Vice-Chairmen?

We have no strong view on this matter in Constitutional terms. However, if the Trustees have concluded that the ability to appoint up to two Vice-Chairmen will enhance the operational effectiveness of the IASB, then we agree that this step should be taken.

Continued emphasis on effective Trustee oversight

Q7 - The Trustees seek views on the proposal to make no specific amendments to sections 13 and 15, but to address the valid and important concerns raised by commentators by way of enhanced accountability, consultation, reporting and ongoing internal due process improvements.

We agree that no specific amendments to sections 13 and 15 are required.

As noted in the main body of the letter we believe that it is:

- essential that the Trustees do indeed take the steps referred to in Question 7 above; and
- equally important that increased oversight is visible to constituents.

Expanding the IASB's liaison with other organizations

Q8 - Section 28 would be amended as follows:

The IASB-IFRS Board will, in consultation with the Trustees, be expected to establish and maintain liaison with national standard-setters and other official bodies concerned with an interest in standard-setting in order to assist in the development of IFRSs and to promote the convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards IFRSs.

Do you support the changes aimed at encouraging liaison with a broad range of official organisations with an interest in accounting standard-setting?

Yes, we support this proposal. We believe that the proposed wording is a more accurate reflection of the IASB's existing collaborative practices. In our view it is also appropriate that the proposed wording facilitates collaboration without prescribing its detailed operation or listing the organizations with which the IASB should work.

The possibility of two Vice-Chairmen for the IFRS Board

Q9 - The Trustees seek views on the proposal to amend section 30 of the Constitution as follows to permit the appointment of up to two Board members to act as vice chairmen of the IASB.

The Trustees shall appoint one of the full-time members as Chairman of the IASB IFRS Board, who shall also be the Chief Executive of the IASC IFRS Foundation. One Up to two of the full-time members of the IASB IFRS Board shall may also be designated by the Trustees as a Vice-Chairman, whose role shall be to chair meetings of the IASB IFRS Board in the absence of the Chairman or to represent the Chairman in external contacts in unusual circumstances (such as illness). The appointment of the Chairman and the designation as Vice-Chairman shall be for such term as the Trustees decide. The title of Vice-Chairman would not imply that the individual member (or members) concerned is (or are) the Chairman-elect.

We agree with the proposal. We believe that establishing an authority to appoint up to two vice-chairmen will increase flexibility and should have some operational advantages.

The length of IFRS Board members' terms

Q10 - The Trustees seek views on the proposal to amend section 31 to allow for altered terms of appointment for IASB members appointed after 2 July 2009.

The proposed amendment is to allow for Board members to be appointed initially for a term of five years, with the option for renewal for a further three-year term. This will not apply to the Chairman and Vice-Chairman, who may be appointed for a second five-year term. The Chairman or Vice-Chairman may not serve for longer than ten consecutive years. The proposed amendments to section 31 are as follows:

Members of the IASB IFRS Board appointed before 2 July 2009 shall be appointed for a term of up to five years, renewable once for a further term of five years. Members of the IFRS Board appointed after 2 July 2009 shall be appointed initially for a term of up to five years. Terms are renewable once for a further term of three years, with the exception of the Chairman and a Vice-Chairman. The Chairman and a Vice-Chairman may serve a second term of five years, but may not exceed ten years in total length of service as a member of the IFRS Board.

Do you support the change in proposed term lengths?

We have no strong view on this matter. We suggest that, in practice, the selection of the best qualified candidates for Board positions and the basis for decisions as to their re-appointment are more important factors in maintaining effectiveness.

Accelerated due process

Q11 - The Trustees seek views on the proposal to insert in section 37 (to become section 38) of the Constitution an additional subsection as follows to allow the Trustees, in exceptional circumstances, to authorise a shorter due process period. Authority would be given only after the IASB had made a formal request. The due process periods could be reduced but never dispensed with completely.

The IASB IFRS Board shall:

- (a) ...
- (b) ...
- (c) in exceptional circumstances, and only after formally requesting and receiving prior approval from the Trustees, reduce, but not eliminate, the period of public comment on an exposure draft below that described as the minimum in the Due Process Handbook.

We agree that a shorter due process period is warranted on rare occasions. We are pleased to note the proposal:

- does not attempt to specify an alternative, fast-track process
- enshrines the principle that some period of public comment is required in every case.

Encouraging greater input into the IASB's agenda-setting process

Q12 - The Trustees seek views on the proposal to amend section 37(d) (to become section 38) of the Constitution as follows to expressly provide that the IASB must consult the Trustees and the SAC when developing its technical agenda.

The IASB-IFRS Board shall:

- (e) (d) have full discretion in developing and pursuing the technical agenda of the IASB-IFRS Board, after consulting the Trustees (consistently with section 15(c)) and the SAC (consistently with section 44(a)), and over project assignments on technical matters: in organising the conduct of its work, the IASB IFRS Board may outsource detailed research or other work to national standard-setters or other organisations;

We welcome the proposal for greater involvement of the Trustees and SAC in the agenda-setting process. As we explained in our March 2009 letter, the agenda-setting process and setting of work priorities is a critical aspect of the development of IFRS. This is accordingly of great interest to constituents.

We suggested in our March 2009 letter that the Trustees should consider assuming even greater responsibility for the agenda-setting process, including powers to instruct the IASB to include or exclude specific projects. In our view this would not compromise the IASB's independence. The Trustees appear to have (implicitly) concluded that the IASB should retain final discretion over its technical agenda, subject to the additional consultations referred to above. We do not disagree with this conclusion. We suggest however that the new procedures will serve to allay the legitimate concerns of constituents only if the IASB is seen to respond effectively to the feedback it receives.

Review of the Standards Advisory Council

Q13 - Trustees seek views on the proposal to make no amendment to sections 44 and 45 (renumbered as 45 and 46), which are the provisions relating to the SAC, at this time.

We agree that no amendment should be made. We believe that the reconstituted SAC should be given an opportunity to bed down before re-considering its composition, effectiveness and procedures.

The Trustees might usefully consider setting a timetable and process for a review of the reconstituted SAC after an appropriate bedding down period. Such a review should include consultation with investor bodies as to the effectiveness of the enhanced arrangements for investor input.

Further clarifying amendments and improvements

Q14 - The Trustees seek views on the proposal to amend section 48 by removing specific staff titles and replacing it with the term 'the senior staff management team'. Accordingly section 49 should be deleted.

The Trustees also seek comment on the proposal to update the Constitution by removing all historical references that relate to when the organisation was established in 2001.

We agree with these proposals.