

IASCF TRUSTEES

REVIEW OF THE CONSTITUTION

IDENTIFYING ISSUES FOR PART 2 OF THE REVIEW

CBI RESPONSE

March 2009

I INTRODUCTION AND SUMMARY OF CBI POSITION

1. The Confederation of British Industry (CBI) is pleased to respond to your consultation.
2. The constitutional arrangements of the IASC Foundation must be set firmly in the context of the fundamental aims of setting accounting standards suitable for use globally. Accounting standards need to be high quality and neutral, providing transparent, useful and comparable financial statements that clearly reflect economic reality and have the confidence of investors, and that the information sought is reasonable and proportionate for companies to prepare in not imposing excessive burdens or costs, and that do not require information that investors or analysts do not want. Accounting standards should be issued only by a properly constituted and independent standard setter with an appropriate mandate and level of technical expertise, following transparent due process and making decisions solely in the public interest, and more specifically to protect the interests of investors.
3. Our comments in this response are made measured against the extent to which the above criteria are met or addressed.
4. The IASB's agenda priorities, and the scope and key elements of the Board's work programme, should be subject to a periodic public consultation.
5. It may be appropriate for a 'fast track' procedure in the Standard setting process to be introduced in the Constitution, but some minimum due process and safeguards would be required. If proposed, this should be the subject of a further public consultation.
6. A current issue, relevant in the light of the establishment of the Monitoring Board and issues arising in connection with the financial crisis, is whether there should be a financial stability objective in the standard setting process, an issue currently being considered by the IASB Financial Crisis Advisory Group. We believe that financial stability should generally be delivered primarily through financial regulatory regimes and mechanisms. However it is also critical for financial stability that financial information is transparent, understandable and neutral.

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II RESPONSES TO SPECIFIC CONSULTATION QUESTIONS

Objectives of the organisation

Question 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 strongly support the inclusion in the Constitution of an express reference to the challenges faced by SMEs. However, we suggest that Paragraphs 2 (a) and 2 (c) be modified to reflect the fact that, alongside its primary objective of producing standards for the global capital markets, the IASC Foundation has as a secondary objective the development of separate products more suitable for entities without public accountability, including SMEs.

We look forward to the completion of the IASB project and issue of the proposed Standard IFRS for non - publicly accountable entities.

We are less convinced of the case for referring in the Constitution to the less well-defined concept of the ‘emerging economies’.

Question 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 strongly support an approach to standard setting based primarily on principles rather than prescriptive rules, which tends to result in clearer and more understandable standards and reduces the opportunities for circumventing the intentions of standard setters.

We do not oppose a reference to principles in the Constitution, but no attempt should be made to define the concept of ‘principles-based’ standards or standard-setting.

It would be sufficient if Paragraph 2(a) of the Constitution were amended to refer to “high quality, **principles-based**, understandable and enforceable global accounting standards”.

Question 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 are content with the current focus.

Question 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 agree that the IASC Foundation should be permitted to collaborate with a range of organisations around the world with similar objectives, providing that there is no detrimental impact on due process or the integrity and independence of the IFRS standard setting process.

Collaboration should not impair the commitment of the IASB to full consultation with its constituents and stakeholders.

We do not think that the Constitution should be amended to allow collaboration. The Constitution should be high level, and collaboration is rather in the nature of an operating procedure matter.

Governance of the organisation

Question 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.

In our response to the Trustees previous consultation we supported the establishment of a Monitoring Group in principle, in recognition that international bodies and regulators have an interest in the development of high quality IFRS.

However it is imperative that the operational and technical independence of the IASB is maintained. Paragraph 19 of the new version of the Constitution (effective 1 February 2009) does not make this sufficiently clear.

A current issue, relevant in the light of the establishment of the Monitoring Board and issues arising in connection with the financial crisis, is whether there should be a financial stability objective in the standard setting process. This is an important issue, and which is currently being considered by the IASB Financial Crisis Advisory Group. We believe that financial stability should generally be delivered primarily through financial regulatory regimes and mechanisms. But the financial crisis demonstrates the need for close liaison and discussion of the relevant issues, and where the Monitoring Board can play an important role. This should not impinge on the independence of the Trustees and the IASB and the decisions they reach after due process and consultation with all stakeholders. It is also critical for financial stability that financial information is transparent, understandable and neutral.

Trustees

Question 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 are broadly content for the time being with the current criteria for the appointment of the Trustees.

Given the role now assigned to the Monitoring Board, the priority should be the appointment of individuals of the highest calibre with a commitment to the interests of preparers and users of general purpose financial statements.

Question 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.

We are broadly content with the current responsibilities of the Trustees, as set out in Sections 13 and 15. It is the manner in which they are delivered that is critical.

Question 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 welcome the progress that is being made in establishing broadly-based and stable funding arrangements, including the recent announcement by the European Commission .

International Accounting Standards Board

Question 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 believe that IASB agenda priorities, and the scope and key elements of the Board's work programme, should be the subject of a periodic public consultation.

A consultation during the current year would be appropriate, given the importance of reassessing priorities in the light of the financial crisis and their impact on the Board's work programme.

Question 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.

An ongoing process of review and improvement is necessary to ensure that IASB due process is seen as the embodiment of best practice in global standard setting. We welcome the recent significant improvements in due process arrangements and procedures.

Regular contact and dialogue with preparers and investors, analysts and other users, both generally as well as in connection with specific projects and proposals from the IASB, and being receptive to their views and comments is also key.

We welcome the use of advisory groups and field testing, which should continue to be developed.

When the IASB makes proposals which attract significant adverse comment, the Board should always be prepared to re-deliberate proposals in such circumstances, and engage actively with preparers and investors, and re-expose amended proposals as appropriate.

Question 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?

In general, the importance of eliciting high quality and comprehensive comments on proposed changes from global constituents and testing and assessing the practical impacts of those changes should be paramount. Rushed amendments to standards to fix perceived problems will tend to cause more problems than they solve.

There must always be adequate due process, even though a consultation period may be shorter than normal in exceptional circumstances.

If it is appropriate to include a ‘fast track’ procedure in the Constitution, it should involve appropriate safeguards, including prior Trustee approval and an early post-implementation review given the risk of unintended consequences, particularly in a global standard-setting environment. Any proposed fast track procedure should be subject further public consultation.

Standards Advisory Council

Question 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 support the recent remodelling of the membership of the SAC. This should lead to a higher profile for the Council and a more effective contribution to the agenda setting process.

Question 13

Are there elements of the terms of reference that should be changed?

We have no suggestions at this time.

Other issues

Question 14

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

Paragraphs 48 and 49 of the Constitution refer briefly to senior IASB staff appointments. This aspect of the IASB’s operations perhaps deserves more attention from the Trustees. The role of the staff in ensuring that IASB technical work, due process and outreach is of the highest quality is crucial.

Accordingly, it might be appropriate for the Constitution to refer to the attributes required of senior IASB staff, and the procedures for appointments, including the need to advertise posts externally.