

## **RESPONSE TO THE INTERNATIONAL ACCOUNTING STANDARDS BOARD CONSULTATION DOCUMENT: PROPOSALS FOR ENHANCED PUBLIC ACCOUNTABILITY**

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### **BACKGROUND**

The AAT is pleased to comment on the issues raised in the IASB consultation document on the “Proposals for Enhanced Public Accountability”.

We have over 46,000 full and fellow members and 67,800 student and affiliate members worldwide. Of the full and fellow members, there are approximately 2,900 Members in Practice who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.

The AAT is a registered charity whose objects are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

In pursuance of those objects the AAT provides a membership body. We are participating in this consultation as part of our contribution towards our object of promoting the sound administration of law for the public benefit. The issues raised in this consultation paper will affect our members in public practice and in industry.

### **INDEPENDENCE**

In the introduction section of the consultation document it states that, “Since its inception in 2001, the IASC Foundation has made steady progress towards its objective of developing a single set of high quality accounting standards”. It also states, “The Trustees believe that the review...should serve as an opportunity to enhance further the organisation’s governance and the public accountability...”

There has recently been a direct conflict between the objective of “developing a single set of high quality accounting standards” and “enhancing public accountability”.

The issue surrounding the reclassification of financial instruments is a case a point. Public accountability in the form of intervention by European leaders to create a level playing field with US standards is undermining the development of high quality standards, because it is driving down standards to the lowest common denominator.

In the introduction to this consultation it states that, “The IASB should be appropriately protected from particular national, sectoral or special interest pleading”. This exemplifies the problems that the IASB is having reconciling “enhancing public accountability” with “protection from particular national, sectoral or special interest groups”.

Clearly, the IASB should be more accountable to certain specific classes of Users such as investors and their advisors (e.g. financial analysts) because the objective of these Users is more closely aligned to the IASB’s objective of developing a single set of high quality accounting standards. In contrast the IASB should be less accountable to other classes of Users such as directors whose interests may conflict with developing high quality accounting standards.

### **Question 1**

The change of name of the IASC and IASB does make sense. However, you may want to bear in mind that frequent changes in names and abbreviations can cause confusion, which in turn may undermine your brand value.

### **Question 2**

Given that your constitution is mainly a document for internal use, it therefore makes sense to change the terminology to reflect the terms currently in use internally and externally to the IASB.

### **Question 3**

The AAT does support the inclusion in the constitution of the phrase “principle-based approach” because this distinguishes the IASB from codification based standard setters, and if the phrase (not term) is used without the inverted commas then this will remove the need to define it.

The AAT supports the IASB’s views that the IASB should not widen its focus to include the public and not-for-profit sector as this would detract from the work undertaken by the IASB.

### **Question 4**

Insertion of the word ‘primarily’ suggests that the governance of the IFRS Foundation does ‘primarily but not exclusively’ rest with the Trustees and the governing organs appointed by the Trustees. Insertion of the word ‘primarily’ does not add clarity unless of course the IFRS Foundation is controlled by parties other than the Trustees.

We support the change covering the Monitoring Board’s role of providing a formal link between the Trustees and public authorities.

### **Question 5**

The AAT supports the proposal to amend the constitution to include Africa and South America and would recommend increasing the number of trustees to two from each of those continents. Your current proposal is to have one trustee from Africa, one from South America, six from North America, six from Europe, six from Asia/Oceania and two from any area. The allocation of trustees to each of the regions appears to be based on the relative economic strength of each region. Whilst we have no moral objection to this basis, we feel that increasing the number of trustees from Africa and South America may redress the balance away from large public limited companies and promote the interests of small and medium-sized entities.

### **Question 6**

It is appropriate to provide for the possible appointment of up to two vice-chairmen of the Trustees to share some of the chairman's obligations and functions.

### **Question 7**

The concerns of commentators regarding enhanced accountability, consultation, reporting and due process appear to have been addressed within the current constitution therefore additional constitutional changes would appear to be unnecessary.

### **Question 8**

The AAT does not recommend a closer working relationship between the IASB and IPSASB because it does not meet the criteria "...for the IASC Foundation to collaborate with, and consult widely organisations with interests similar to those of the IASC Foundation..."

The AAT recommends that the criteria of "interests similar" be inserted into section 28 of the constitution.

With reference to section 28, the AAT would prefer that the term "expected" is replaced by the term "encouraged". We would strongly recommend replacing the term "an interest in" with "a similar interest in developing high quality global accounting standards".

### **Question 9**

As before in question 6, it is appropriate to provide for the possible appointment of up to two vice-chairmen of the IFRS Board to share some of the chairman's obligations and functions, and provide continuity.

### **Question 10**

The AAT supports the IASB's proposal that Board members be appointed for a term of up to five years, renewable once for a further term of three years with the exception of the Chairman and a Vice-Chairman who may serve a second term of five years. This seems to be a reasonable proposal that balances the issues of continuity, practical experience, obtaining standards setting experience and maintaining the Board member's independence.

### **Question 11**

The approach to accelerated due process appears to be a pragmatic approach to the IASB's problem. However, the AAT has reservations because the short consultation period will benefit those individuals and organisations with vested interests that will devote the resources necessary to participate in the consultation process.

### **Question 12**

The constitution should make provision for the IFRS Board to consult the Trustees and SAC. It would also be appropriate for the IFRS Board, should they see fit, to have a public consultation on its agenda.

### **Questions 13**

We have no comments on the work of the SAC at this time.

### **Question 14**

The proposal to remove staff titles by amending section 48 and by deleting section 49 appears to enable the IASB to develop in accordance with internal and external demands and needs.

## **CONCLUSIONS**

The AAT believes that independence and integrity is critical to the success of the IASB and the promotion of a single set of global high quality accounting standards.

In the past year we have seen in the press various criticisms from different quarters being made regarding the reclassification of financial instrument and the procyclical effect, and Fair Value. The AAT congratulates the IASB on the way it had handled these issues.

The AAT is pleased that the IASB wants to enhance its public accountability and the measures that the IASB is taking.