



Australian Government

Australian Accounting
Standards Board

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Ms Tamara Oyre
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Dear Ms Oyre

AASB comments on IASC Foundation Discussion Document
Part 2 of the Constitution Review – Proposals for Enhanced Public Accountability

The Australian Accounting Standards Board (AASB) regards the review of the Constitution as both timely and necessary and is pleased to provide comments on the discussion document.

The AASB appreciates the Trustees' comprehensive feedback on the December 2008 consultation document *Review of the Constitution – Identifying Issues for Part 2 of the Review*, and broadly supports the majority of the Trustees' proposals following the December 2008 consultation. However, the AASB has significant concerns with some of the proposals.

The Trustees appreciate that the Constitution should be drafted in a way that is consistent with independence of the IASB, particularly in light of the recent events that have led some to questioning of that independence. The AASB would not support a proposal that might be read as preventing the IASB from amending its agenda unless consultation with the Trustees and Standards Advisory Council (SAC) had occurred. The IASB, the Trustees and SAC should ensure that there is a mutual understanding of the IASB's agenda and the Trustees and SAC should have an opportunity, from time to time, to express views on the IASB agenda. The IASB should inform the Trustees and SAC of its plans for the agenda and for new items to be admitted thereto. However, ultimately the responsibility for the agenda should rest with the IASB and the IASB should not be prevented from altering its agenda until consultation with the Trustees or SAC has occurred. The AASB does not believe that this is clear from the current proposed wording.

The AASB was concerned about the limited due process applied in 2008 to the issue of reclassifying financial instruments and in 2009 in relation to discounting employee benefits liabilities. Neither of these projects reflected well on the IASB's decision-making and raised concerns that the IASB was perhaps reacting too quickly to external pressures. Consequently, the AASB is of the view that fast tracked procedures now carry an increased reputational risk for the IASB and should be avoided whenever possible. An express allowance of a comment period of less than 30 days in the Constitution might not assist in

restoring faith in the IASB's due process. The AASB is of the view that the general tenor of the requirements should be that anything less than a 90-day comment period should only rarely be contemplated and then only when an unusual situation demands attention, the topic is limited in scope and the consequences are predictable. The AASB would not expect these criteria to be met for most material changes to an existing requirement or when creation of a material new requirement is proposed.

In relation to section 2 of the Constitution, the proposed objective refers to helping "participants in the world's capital market". The AASB would not read "capital market" as limiting the concern of the IASB to listed securities. Private for-profit entities are clearly within the ambit of IFRS. However, the use of this phrase may lead to the conclusion that the IASB must be serving only some of the world's capital market. Whether entities are in the public sector or are private companies, they raise capital through equity and debt instruments. They all participate in capital markets. Accordingly, the Trustees should avoid using the phrase "capital markets" or should explicitly acknowledge they currently see the IASB as having a limited purview in capital markets; or should clarify that the phrase is not limited to markets for listed securities. The AASB remains firmly of the view that the IASB should address financial reporting in the public sector. The IASB would then truly be serving the world capital market. Inexact use of the phrase can also be pejorative for those applying IFRS in the public sector, as in Australia.

Please refer to the attached for the AASB's responses to the specific questions in the discussion document.

Yours sincerely

A handwritten signature in black ink, appearing to read "K M Stevenson", with a long horizontal flourish extending to the right.

Kevin M. Stevenson
Chairman

AASB comments on IASC Foundation Discussion Document
Part 2 of the Constitution Review – Proposals for Enhanced Public Accountability

Confusion associated with the existing names within the IASC Foundation (section 1)

Question 1

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?

The AASB acknowledges the rationale for the proposed name changes, but is concerned that the costs involved in making the proposed changes would far outweigh the perceived benefits. If the IASC Foundation proceeds with the proposals, the AASB considers there is much more reason to support changing the IASC Foundation's name than there is for changing the IASB's name.

The AASB can support the proposal to change the name of the organisation from 'IASC Foundation' to 'IFRS Foundation', because the latter term better reflects the fact that the organisation's focus is on IFRSs and it would have limited implications beyond the mere change of the name.

However, the AASB does not support the proposal to rename 'IASB' to 'IFRS Board'. The reasons are as follows:

1. The nomenclature structure of International Accounting Standards Board (IASB) mirrors that of other major standard setters around the word, such as Financial Accounting Standards Board (FASB), UK Accounting Standards Board (UK ASB), Australian Accounting Standards Board (AASB), Canadian Accounting Standards Board (AcSB) and Accounting Standards Board of Japan (ASBJ);
2. It is well known that IFRSs are issued by the IASB; therefore, changing 'IASC Foundation' to 'IFRS Foundation' would be sufficient to establish the link between the Foundation and the IASB;
3. There are countless references to IASB in the literature, and an existing brand recognition. The cost of changing those references and rebranding will be significant and the benefit, if any, is negligible; and
4. The name change implies that the Board would only issue 'financial' reporting standards. The AASB does not think that the name should pre-empt the outcome of the IASB's Conceptual Framework project on the scope of financial reporting by implying that the IASB would not issue accounting standards that include requirements relating to non-financial matters.

Question 2

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?

Consistent with the AASB’s response to Question 1, the AASB does not think it is necessary to adopt the proposals. ‘Accounting standards’ is a generic term that captures all relevant standards, which could contain both financial and non-financial information.

The need to clarify the objectives of the organisation in the light of global IFRS adoption (section 2)

Question 3

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?

The AASB broadly supports the changes to the extent they help clarify the intended meaning.

The AASB notes that, at present, the IASC Foundation and the IASB do not intend to explicitly widen their focus to include not-for-profit entities and public sector entities, mainly due to priorities and resource constraints. However, the AASB is concerned that omitting an explicit reference to such a broader focus in the Constitution risks unnecessary divergence in the development of standards applicable to like transactions. This is a risk because the IPSASB has embarked on a Conceptual Framework project that is not necessarily referencing the IASB’s Conceptual Framework project, potentially resulting in some significant and fundamental differences, such as the definition of an asset. The AASB believes that it would be strategically timely for the Constitution to explicitly acknowledge the not-for-profit and public sectors. This could be done, for example, by explicitly referring to liaison between the IASB and the IPSASB, in order to optimise the opportunities such liaison can bring. The AASB does not think the ‘encourage

co-operation' referred to in the preamble to Question 3 of the discussion document is sufficient. The IASC Foundation would miss an opportunity to identify a longer term strategic direction that has the potential to enhance the quality of IFRSs being developed, having regard to a broad range of issues that might arise in all sectors of the world economy. Accordingly, in acknowledging the Trustees' reasons for their proposed approach, the AASB suggests that the Constitution is amended to at least explicitly refer to the wider focus from a medium to longer term timeframe (see also the AASB's response to Question 8 below).

Irrespective of the scope of the IASB's purview, and as indicated in our cover letter, the AASB suggests that Trustees clarify that "participants in the world's capital markets" is not limited to participants in markets for listed securities or that the phrase be avoided.. Inclusion of the word "accepted" may, without clarification, be questionable or misread. Sometimes an unpopular change must be made. The use of the term in "generally accepted principles or practices" in the past has usually been to allow for the fact that GAAP comprised formal and informal elements and that, absent evidence to the contrary, entities should follow generally accepted practices when standards did not exist. It has not had the connotation that standards need to be popularly accepted, which might be read into the suggested wording. The AASB reads the word "accepted" to refer to the global acceptance of IFRS, a single set of high quality standards, by many countries and not as a constraint on the standards that the IASB can issue. It may be wise to make this clear.

In relation to the term 'enforceable' in section 2(a), given that enforcement is a jurisdictional issue and has anti-abuse connotations, the AASB suggests that the Trustees replace the term with 'operational' or 'effective'.

Reflecting the role of the Monitoring Board (section 3)

Question 4

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?

The AASB supports this clarifying amendment, so that section 3 reflects the current governance arrangements of the organisation now that the Monitoring Board has been created.

Recognising the participation of Trustees from Africa and South America (section 6)

Question 5

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?

The AASB supports the specific recognition of Africa and South America, for the purpose of achieving a better geographical balance and having access to more diversified views.

As noted in its submission on Question 6 of the IASC Foundation consultation document *Review of the Constitution – Identifying Issues for Part 2 of the Review* (December 2008), the AASB continues to think that it would be useful if the Constitution provided a clear explanation as to the purpose of having a geographical representative membership of the Trustees. This could be because it is intended to replicate the body of users and therefore resemble their blend of needs. Also, the AASB suggests that the Constitution be amended to clarify how 'geographical balance' would be operationalised – for example, having regard to size of economies or mere geographical representation. Furthermore, the AASB notes that while a geographical balance is desirable to help ensure that no one region dominates, selection criteria should be primarily based on independence, ability to act in the public interest and history of public service.

The AASB notes that section 2(a) of the Constitution refers to "participants in the world's capital markets and other users", whereas the proposal for section 6 only refers to "the world's capital markets" and does not refer to "other users". Given the broad range of parties affected by IFRSs, the AASB thinks the mix of Trustees should be diverse.

A provision for up to two vice-chairmen of the Trustees (section 10)

Question 6

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?

The AASB supports the provision for the possible appointment of up to two vice-chairmen and the proposed constitutional language.

Continued emphasis on effective Trustee oversight (sections 13 and 15)

Question 7

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.

The AASB supports the proposed approach. The AASB emphasises that the Trustees should carry out their responsibilities and duties in accordance with those specified in sections 13 and 15, in a way that protects the independence, as well as the perceived independence, of the IASB.

Expanding the IASB's liaison with other organisations (section 28)

Question 8

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?

The AASB supports the proposed changes, subject to the AASB's comments about the IPSASB in response to Question 3 above. Even if the IASC Foundation does not agree with the AASB's response to Question 3, at a minimum, the AASB suggest that section 28 of the Constitution is amended to make explicit reference to the IPSASB.

The possibility of two Vice-Chairmen for the IFRS Board (section 30)

Question 9

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 IASB 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.

The AASB supports the proposal to amend section 30 of the Constitution to permit the appointment of up to two Board members to the role of vice-chairmen of the IASB.

The length of IFRS Board members' terms (section 31)

Question 10

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?

The AASB supports the proposed term lengths. However, the AASB is concerned that the appointment of a suitable experienced member as Chairman or Deputy Chairman may be unnecessarily inhibited by the cap on their terms. It would be desirable for any newly appointed Chairman to be capable of serving at least 5 years. The proposed term lengths means any existing member who has served more than 3 years would be of limited appeal as a new Chairman. The AASB does not see the sense in such a restriction. The AASB suggests that the remaining terms of the Chairman and Deputy Chairman, at their appointment, should, if they are existing members, be for 5 years or the remainder of 8 years (5+3), whichever is the longer.

Accelerated due process (section 37(c))

Question 11

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.

For the reasons set out in our cover letter, the AASB does not support the proposed accelerated due process. The AASB is of the view that the 30-day accelerated process, as presently provided in the IASB Due Process Handbook, is sufficient to deal with major unforeseen developments and/or exceptional circumstances.

Encouraging greater input into the IASB's agenda-setting process (section 37(d))

Question 12

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;

As indicated in its cover letter, the AASB does not support the proposal to amend section 37(d) (to become section 38) to expressly provide that the IASB must consult the Trustees or SAC when developing its technical agenda. It brings into question the independence of the Board.

Review of the Standards Advisory Council (SAC) (sections 44 and 45)

Question 13

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.

The AASB agrees with the proposed approach and does not have any fundamental changes to suggest regarding the provisions relating to the SAC at this stage. The AASB notes that if the SAC operates effectively, there would be less need for other bodies such as the Expert Advisory Panel and the Financial Crisis Advisory Group.

Further clarifying amendments and improvements (sections 48 and 49 and elsewhere)

Question 14

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.

The AASB supports the proposed amendments to sections 48 and 49.

The AASB has no other issues that it wishes to raise with the Trustees as part of their review of the Constitution.