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**International
Accounting Standards
Committee Foundation**

This document is provided as a convenience to observers at IASCF meetings, to assist them in following the discussion.

INFORMATION FOR OBSERVERS

IASCF Meeting, 17-18 March 2008, London

Agenda Paper 2A

Proposals and Issues for Constitution Review

STAFF DRAFT FOR TRUSTEE CONSIDERATION—12 MARCH 2008

1. Introduction

The Trustees of the International Accounting Standards Committee (IASC) Foundation have initiated their second five-yearly review of the organisation's constitutional arrangements, which govern the operating procedures of the Foundation and the International Accounting Standards Board (IASB). At their meetings on 29 and 30 January 2008 and 17 and 18 March 2008, the Trustees agreed to a preliminary process for conducting the review.

The Constitution states that the Trustees should undertake:

a review of the entire structure of the IASC Foundation and its effectiveness, such review to include consideration of changing the geographical distribution of Trustees in response to changing global economic conditions, and publishing the proposals of that review for public comment, the review commencing three years after the coming into force of this Constitution, with the objective of implementing any agreed changes five years after the coming into force of this Constitution (6 February 2006, five years after the date of the incorporation of the IASC Foundation [Section 17(b)], and

their undertaking a similar review subsequently every five years. [(Section 17(c)]

The previous review was concluded in June 2005.

The Trustees intend to carry forward the review in two parts in parallel, and this document reflects this approach.

- **Part A—Specific proposals aimed at strengthening public accountability and diversity of IASB membership:** First, the Trustees are proposing the creation of a monitoring group to enhance the organisation’s public accountability and an increase in the size of the IASB. The proposals are set out in Part A of this document. The Trustees aim to complete those proposals before the end of 2008, with a view to implementation in 2009.
- **Part B—A broader opportunity to comment on the IASC Foundation’s Constitution:** The Trustees have developed a list of issues emerging from the Constitution, and some preliminary questions to pose to those interested in participating in the review. Those issues and questions appear in Part B of this document.

Interested parties are invited to comment on the proposals and the issues raised in either part or both parts of the consultation document.

Comments are due by [DATE].

PART A: Specific proposals for constitutional changes

1 In seven years, the IASC Foundation and its standard-setting board, the IASB, have made great progress towards the establishment of a common, internationally accepted set of accounting standards. When the Foundation's predecessor body constituted the new IASC Foundation in 2000, the new structure was based on the operating premise that accounting standards should be set, following an extensive and transparent due process, by a highly professional, independent body, the IASB, appropriately protected from particular national, sectoral or special interest pleading.

2 The Trustees believe that the fundamental premise of the original Constitution remains sound. The organisation's independence has reinforced confidence in its ability to set standards in the public interest by helping to ensure that the creation of International Financial Reporting Standards (IFRSs) is not beholden to special interests.

3 At the same time, the Trustees have recognised, and continue to recognise, the need to demonstrate the organisation's public accountability. As a result of the previous Constitution Review, completed in June 2005, the Trustees have taken various steps to reinforce their public accountability. These have included steps to formalise their oversight function more clearly and to enhance the IASB's due process. For example, the Trustees have:

- established a framework to assess their effectiveness in carrying out their constitutional responsibilities
- created the Due Process Oversight Committee
- enhanced the procedures for performance reviews of the IASB
- implemented regular meetings with various interested external parties, including public officials and business, investor and accountancy organisations
- deepened their interaction with the IASB to discuss matters related to the organisation's strategy and performance.

4 As part of their oversight responsibilities, the Trustees have encouraged and approved enhancements to the IASB's due process. Specifically, the IASB:

- broadcasts over the Internet all of its meetings and meetings of its working groups
- posts on its Website enhanced observer notes to enable interested parties to follow the IASB's deliberations
- provides a minimum of one year between the approval and the required application of new IFRSs or major amendments to IFRSs
- emphasises consultation through the increased use of discussion papers, working groups, and longer comment periods
- has introduced feedback statements, impact assessments and post-implementation reviews, and provides greater feedback to interested parties.

5 In the period since the previous Constitution Review, more fundamental questions of the public accountability of the IASC Foundation and of representation on the IASB have been raised. Part A of this document presents proposals from the Trustees to address those issues.

Enhancing public accountability

6 The Trustees define their public accountability in a broad sense. The Constitution states:

The objectives of the IASC Foundation are:

- (a) 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;
- (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, 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 to high quality solutions.

7 In fulfilling those objectives, the Trustees are accountable not to a single group, but the wide range of stakeholders that have an interest in the IASC Foundation's efforts to achieve its objectives. To ensure the transparency of their work and public accountability to these broad interests that are stake, the Trustees have identified stakeholder groups with which they maintain regular contact and are establishing mechanisms to receive input outside formal procedures. These stakeholder groups include official organisations, policymakers and private sector institutions.

8 At the same time, the Trustees have recognised the unique nature of the organisation when compared with other international organisations and national accounting standard-setters. Unlike traditional national standard-setting bodies, the IASB has no authority to impose its standards on countries and does not have a direct reporting mechanism to a securities or other national regulator. The IASB, a private sector body effectively setting law in many jurisdictions, is also unique compared with all other international standard-setting activities, which are generally committees of national officials mandated to pursue a national interest. The Trustees recognise that the IASC Foundation's unique structure makes demonstrating public accountability more challenging than it would be for a national standard-setter, which normally reports to national regulators or national parliaments.

Establishing a formal link to public institutions

9 To address the unique situation described in paragraph 8, the Trustees are proposing the creation of a 'Monitoring Group', consisting of representatives of supervisory and international organisations, to establish a formal link to public institutions that have accountability to national governments. The creation of such a group would complement, and would not limit, efforts aimed at enhancing accountability to private sector interests and other capital market participants already under way and described in paragraph 7.

10 Under the new arrangement, the governance of the IASC Foundation would remain with the Trustees, and the responsibilities of the Trustees and the independence of the standard-setting would remain unaltered. However, a representative group of public officials

responsible for the adoption and promotion of IFRSs throughout the world's capital markets would have a monitoring function to ensure that the Trustees are fulfilling their constitutional obligations and that the selection of Trustees is conducted in an appropriate manner.

11 **Mandate of the Monitoring Group:** The Monitoring Group would be responsible for approving the selection of Trustees after an agreed nominations process administered by the IASC Foundation. The Trustees would also report to the Monitoring Group regularly to enable it to verify that the Trustees are fulfilling the requirements set out in Sections 13 and 15 of the existing Constitution. This would include a review of Trustee procedures for:

- appointing members to the IASB
- reviewing the strategy of the IASC Foundation and the IASB and its effectiveness, including consideration, but not determination, of the IASB's agenda
- reviewing the IASB's compliance with its operating procedures, consultative arrangements and due process
- ensuring the adequacy of the financing arrangements for the IASB and other IASC Foundation activities.

12 **Composition of the Monitoring Group:** The Trustees believe that the membership of the Monitoring Group should include primarily those regulatory and other official bodies generally charged with the establishment and enforcement of financial standards. This necessarily would include securities regulators, which have historically delegated accounting standard-setting to private bodies, and the European Commission in the case of the Member States of the European Union. The Trustees also believe that membership of Monitoring Group should reflect the interests of developed and emerging economies and international institutions that play an active role in promoting the transparency of financial reporting and the development and effective functioning of capital markets.

13 The Trustees are therefore proposing that the Monitoring Group should comprise the following:

- (a) four members of the International Organization of Securities Commissions (IOSCO), represented by the Chairman of the Japan Financial Services Agency, the Chairman of the US Securities and Exchange Commission, the chair or deputy chair of the IOSCO Emerging Markets Committee, and the chair or deputy chair of the IOSCO Technical Committee,
- (b) the responsible member of the European Commission or another member of the European Commission,
- (c) the managing director of the International Monetary Fund, and
- (d) the president of the World Bank

The Trustees also believe that the Monitoring Group's membership should be reconsidered over time to reflect changes in the global economy.

The Monitoring Group: changes in the constitutional language

14 To reflect the objectives described above regarding the creation of the Monitoring Group, the Trustees are proposing the following amendments to the Constitution:

Revision to section related to Trustee appointments

- 5 The **Monitoring Group (described further in Sections 18-21)** Trustees shall be responsible for the **approval** selection of all subsequent Trustees to fill vacancies caused by routine retirement or other reason. In **approving** making such selection, the **Monitoring Group** Trustees shall be bound by the criteria set out in Sections 6 and 7. **The Trustees shall develop a nominations process in conjunction with the Monitoring Group and shall manage that process.** and in particular **The Trustees** shall ~~undertake mutual consultation with international organisations as set out in Section 7,~~ **and members of the Monitoring Group will be able to recommend candidates.** for the purpose of selecting an individual with a similar background to that of the retiring Trustee, where the retiring Trustee was selected through a process of mutual consultation with one or more international organisations.

Revised section related to Trustee accountability

- 17 The accountability of the Trustees shall be ensured *inter alia* through:
- (a) a commitment made by each Trustee to act in the public interest;
 - (b) their commitment to report to and engage with the Monitoring Group according to the terms described in Sections 18-21.**
 - (cb) their undertaking a review of the entire structure of the IASC Foundation and its effectiveness, such review to include consideration of changing the geographical distribution of Trustees in response to changing global economic conditions, and publishing the proposals of that review for public comment, the review commencing three years after the coming into force of this Constitution, with the objective of implementing any agreed changes five years after the coming into force of this Constitution (6 February 2006, five years after the date of the incorporation of the IASC Foundation); and
 - (de) their undertaking a similar review subsequently every five years.

New Sections creating the Monitoring Group

18 The Trustees shall establish a Monitoring Group to create a formal link to public institutions with accountability to national governments. The Monitoring Group will be responsible for approving the appointments of Trustees according to the guidelines established in Sections 5-8.

19 The Trustees shall review with the Monitoring Group their fulfilment of the responsibilities set out in Sections 13 and 15, and shall make an annual written report to the Monitoring Group. The Trustees or a subgroup of the Trustees shall meet the Monitoring Group at least once annually, and more frequently as appropriate. The Monitoring Group shall have the authority to request meetings with the Trustees or separately with the chairmen of the Trustees and the IASB regarding any area of work of either the Trustees or the IASB.

20 The Monitoring Group shall comprise:

- (a) four members of the International Organization of Securities Commissions (IOSCO), represented by the chairman of the Japan Financial Services Agency, the chairman of the US Securities and Exchange Commission, the chair or deputy chair of the IOSCO Emerging Markets Committee, and the chair or deputy chair of the IOSCO Technical Committee,
- (b) the responsible member of the European Commission or another member of the European Commission,
- (c) the managing director of the International Monetary Fund, and
- (d) the president of the World Bank

21 Each member of the Monitoring Group shall have one vote and the approval of five members shall be required to approve appointments of Trustees. In the event of a difference of opinion with the Trustees, the Monitoring Group shall reach a decision by consensus following a meeting (teleconferencing included) after the chairman of the Trustees is heard.

Questions related to the Monitoring Group

- (a) Do you support the creation of the Monitoring Group in order to create a direct link of public accountability to official institutions?
- (b) The Trustees will remain responsible for the governance of the organisation and the oversight of the IASB. Their responsibility to the Monitoring Group will enable regulatory and other authorities responsible for the adoption of IFRSs to review the Trustees' fulfilment of their constitutional duties. Does the formulation of the Monitoring Group's mandate, as described in the proposed Section 19, appropriately provide that link, while maintaining the operational independence of the IASC Foundation and the IASB?
- (c) Is the representation described in the proposed Section 20 appropriate? Are there other official organisations that should be members of the Monitoring Group?
- (d) Would there be a continued need for the Trustee Appointments Advisory Group in the selection of Trustees?
- (e) Do you support the voting mechanism suggested in the proposed Section 21? Would an approval mechanism based upon consensus be more appropriate?
- (f) The Trustees would welcome any additional comments related to the Monitoring Group proposal.

Expanding the IASB and adding a geographical component

15 As part of the Constitution Review completed in 2005, the Trustees considered the question of the size and composition of the IASB. The Trustees concluded that they should

maintain the size of the IASB at 14 members, two of whom are part-time. The Trustees decided to maintain the Constitutional language on geographical issues—‘The selection of members of the IASB shall not be based on geographical criteria, but the Trustees shall ensure that the IASB is not dominated by any particular constituency or geographical interest.’

16 The Trustees still believe that the Constitution’s emphasis on ‘professional competence and practical experience’ is appropriate. Furthermore, the Trustees reaffirm the relevance of the eight criteria for IASB members in the Annex of the Constitution.

17 At the same time, with a growing number of countries adopting IFRSs, the Trustees have concluded that they should amend the position of the Constitution on the issues of the IASB’s size and the question of geographical diversity.

18 The Trustees have concluded that there are strong reasons to expand the IASB to 16 members. These include:

- **IASB members needed for liaison:** As the IASB becomes the global standard-setter, the liaison and communications task for IASB members continues to grow. This needs to be shared broadly, while permitting time for IASB members to work with staff and relevant internal working groups.
- **Diversity as providing legitimacy:** While professional competence (particularly technical expertise) and practical experience are the foremost criteria for IASB selection, the diversity of IASB members (professional and geographical) provides legitimacy in the eyes of many who adopt the standards.
- **Diversity as enabling new perspectives:** The introduction of IASB members from different backgrounds has enabled the IASB to account for issues that may not have been raised in the past.

19 In expanding the IASB to 16 members, the Trustees believe that the Constitution should account for some geographical spread, like that defined for the Trustees, and with sufficient flexibility to account for emerging economies and changing economic conditions. Therefore, the Trustees propose:

- (a) four IASB members from North America;
- (b) four IASB members from Europe;
- (c) four IASB members from the Asia/Oceania region; and
- (d) four IASB members appointed from any area, subject to maintaining overall geographical balance.

20 The Trustees have concluded that they could identify qualified candidates from each of the regions, in line with the constitutional emphasis on professional competence and practical experience. At the same time, the addition of geographical issues when it comes to selecting IASB members recognises the practical reality that exists, while providing stronger assurance that the IASB will be global in its membership.

21 The Trustees do not believe that expanding the IASB’s membership will impair the IASB’s ability to make decisions in a timely fashion, but will benefit the IASB in its ability to consult interested parties throughout the world.

22 In making these proposals, the Trustees have considered the consequences for voting majorities, part-time membership, and transitional provisions. First, the Trustees will maintain

the supermajority requirement in the Constitution. Second, the Trustees are recommending flexibility in the Constitution regarding the question of part-time membership (with the possibility between zero and three part-time members). Third, the Trustees are proposing a transition period of four years for the IASB's expansion to occur.

The IASB: Changes in the constitutional language

23 The Trustees propose the following amendments to the Constitution related to the IASB's composition:

Size and composition

~~22~~¹⁸ The IASB shall comprise fourteen members, **increasing to sixteen members at a date no later than 30 June 2012. The members of the IASB are appointed by the Trustees under Section 15(a). Up to three members shall be part-time members (the expression 'part-time' meaning that the members concerned commit most of their time in paid employment to the IASC Foundation) and shall meet appropriate guidelines of independence, established by the Trustees. The remaining members** of whom twelve shall be full-time members (the expression 'full-time' meaning that the members concerned commit all of their time in paid employment to the IASC Foundation). ~~The remaining two members shall be part time members (the expression 'part time' meaning that the members concerned commit most of their time in paid employment to the IASC Foundation) and shall meet appropriate guidelines of independence, established by the Trustees.~~ The work of the IASB shall not be invalidated by its failure at any time to have a full complement of fourteen members, although the Trustees shall use their best endeavours to achieve a full complement.

~~23~~¹⁹ The main qualifications for membership of the IASB shall be professional competence and practical experience. The Trustees shall select members of the IASB so that it will comprise a group of people representing, within that group, the best available combination of technical expertise and diversity of international business and market experience in order to contribute to the development of high quality, global accounting standards. No individual shall be both a Trustee and an IASB member at the same time. **In particular, the Trustees shall observe the Criteria for IASB Members in the annex to this Constitution.**

~~20~~ The selection of members of the IASB shall not be based on geographical criteria, but the Trustees shall ensure that the IASB is not dominated by any particular constituency or geographical interest. In particular, the Trustees shall observe the general parameters set out in the Criteria for IASB Members which are attached to this Constitution.

24 In addition to fulfilling the criteria of Section 23 and in order to ensure a broad international basis by 30 June 2012, there shall be

- (a) four IASB members appointed from North America;**
- (b) four IASB members appointed from Europe;**

- (c) four IASB members appointed from the Asia/Oceania region; and
- (d) four IASB members appointed from any area, subject to maintaining overall geographical balance.

Voting majorities

3430 The publication of an exposure draft or an International Financial Reporting Standard (including an International Accounting Standard or an Interpretation of the International Financial Reporting Interpretations Committee) shall require approval by **no fewer than nine members and at least 60 per cent** ~~nine~~ of the ~~fourteen~~ members of the IASB. Other decisions of the IASB, including the publication of a discussion paper, shall require a simple majority of the members of the IASB present at a meeting that is attended by at least 60 per cent of the members of the IASB, in person or by telecommunications.

Questions related to the IASB's composition

- (a) Do you support the principle behind expanding the IASB's membership to 16 members in order to ensure its diversity?
- (b) Do you agree with the geographical formulation suggested by the Trustees?
- (c) The Trustees are suggesting that the Constitution provide flexibility on the matter of part-time membership. Do you support that recommendation?
- (d) The Trustees would welcome additional comments on the proposals.

Part B—A broader opportunity to comment on the IASC Foundation's Constitution

PART B IS STILL BEING DRAFTED. STAFF IS PROVIDING THE 2003 CONSULTATION AS AN EXAMPLE OF THE PROPOSED FORMAT.