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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 Trustees Meeting
1-2 April 2009**

Agenda Paper 5A

International Accounting Standards Committee Foundation

CHANGES IN THE IASC FOUNDATION CONSTITUTION PART I

Report of the IASC Foundation Trustees

April 2009

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Section A

Executive Summary

1. On 15 January 2009 in New Delhi, India, the Trustees completed the first part of their five yearly review of the IASC Foundation Constitution, the document setting out the IASC Foundation's governance arrangements. The first part of our Constitution Review addressed the issue of public accountability by creating a link to a Monitoring Board of public authorities and helped ensure the international basis of the IASB by increasing its size from 14 to 16 members by July 2012 and providing some geographical guidelines for the IASB's membership.

2. This document explains the rationale behind the changes agreed in the first part of the Constitution Review and provides feedback regarding the input received during the public consultation from interested parties. The Trustees published their proposals formally in July 2008 in a consultation document, titled *Review of the Constitution: Public Accountability and the Composition of the IASB--Proposals for change*.

3. While the January 2009 changes were part of a regular five-yearly review of the Constitution, the Constitutional amendments reflect the work undertaken by the Trustees beginning in 2007. A 2007 strategy review of the Trustees highlighted the need to enhance the public accountability of the IASC Foundation, if the IASB were to become the world's accounting standard-setter. When the Constitution formally began, the Trustees gave the issue of public accountability fast-track priority for the Constitution Review. The relevance of this priority was confirmed when a group of regulators (the International Organization of Securities Commissions, the European Commission, the Japan Financial Services Agency, and the US Securities and Exchange Commission) issued in November 2007 a press release regarding the IASC Foundation's public accountability.

4. In undertaking the first part of the Constitution Review, the Trustees consulted a wide range of interested parties in reaching conclusions. The Trustees conducted a consultation process that included round table discussions in London and a public comment period on the proposals, where more than 70 individuals and organisations responded to the IASC Foundation proposals.

5. From the beginning the Trustees adopted the view that the fundamental premise of the original Constitution remains sound. It was only in June 2005, following extensive consultation throughout the world, that the Trustees completed their first five-yearly Constitution Review, when this premise was reaffirmed. At the same time, the Constitutional changes are intended to be significant enhancements to existing governance arrangements. Underpinning the organisation's structure is the internationally-accepted principle that global accounting standards should be developed by an independent IASB. The IASB reaches conclusions following a transparent and open due process that considers the views of all stakeholders. An independent and geographically diverse body of Trustees oversees the IASB. With the Constitutional changes, the Trustees themselves are now publicly accountable to a Monitoring Board of public authorities.

6. This basic approach to the architecture of governance is similar to that in place in many national jurisdictions for accounting standard-setters. Our consultation process revealed strong and consistent support among investors and other stakeholders on the need to maintain, within agreed due process, the independence of the IASB's decision-making.

At the same time, stakeholders understood the need to establish a formal linkage to public authorities, where none was previously defined, and strongly encouraged our efforts to enhance the organisation's public accountability.

7. Therefore the first part of the Constitution Review focused on the creation of a direct link to public authorities—one that would seek to replicate, on an international basis, the link between accounting standard-setters and those public authorities that have generally overseen accounting standard-setters. The membership, now agreed, will comprise the relevant leaders from the IOSCO Emerging Markets and Technical Committees, the European Commission, the Japan FSA, and the US SEC. The Basel Committee on Banking Supervision will sit as a formal observer at Monitoring Board meetings.

8. The Monitoring Board's main responsibilities are to ensure that the Trustees continue to discharge their duties as defined by the IASC Foundation Constitution, as well as approving the appointment or reappointment of Trustees. It is envisaged that the Monitoring Board will meet the Trustees at least once a year, or more often if appropriate. The relationship and responsibilities of the participating organisations are described in the Memorandum of Understanding (MoU) developed by the members of the Monitoring Board and the Trustees.

9. The Monitoring Board arrangements do not substitute for existing consultation requirements. Indeed, the Trustees are stepping up their efforts for greater dialogue with interested parties through the Standards Advisory Council, which was reconstituted in 2008 and met for the first time in February 2009. The Trustees and the IASB are also working to build stronger relationships with stakeholders representing the user, preparer, auditor, academic, and regulatory communities.

10. Furthermore, the Trustees also approved, in New Delhi on 15 January, a Constitutional change that will expand the IASB to 16 members and provides guidelines regarding geographic diversity. In order to ensure a broad international basis, there shall normally be

- four members from the Asia/Oceania region;
- four members from Europe;
- four members from North America;
- one member from Africa;
- one member from South America; and
- two members appointed from any area, subject to maintaining overall geographical balance.

11. This report represents the conclusions of the first part of the Trustees' Constitution Review. This report is set out as follows:

- **Section B** shows the amendments approved in the Constitution in marked-up format.
- **Section C** is a discussion of the Trustees' conclusions on each of the issues identified for consideration as part of the Constitution Review. The arguments considered on those issues may be found in further detail in the Trustees' consultation paper, *Review of the Constitution: Public Accountability and the Composition of the IASB—Proposals for change*.
- **Appendices:** The following are included in this section:

- Process for the Constitution Review.
- Organisations and individuals that participated in the Constitution Review.
- Proposed Memorandum of Understanding (MoU) between the Monitoring Board (MB) and the Trustees.
- Criteria for IASB Members.
- SAC Terms of Reference and Operating Procedures.

12. A complete set of comment letters and statements provided to the Constitution Committee and Trustees is available on the IASC Foundation website, together with an analysis of the comment letters received. They may be accessed at www.iasb.org.uk

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Section B

Amended Constitutional Sections

- 5 The Trustees **Monitoring Board (described further in Sections 18-23)** shall be responsible for the **approval** selection of all subsequent Trustees **appointments and reappointments**, to fill vacancies caused by routine retirement or other reason. In **approving** making such selection, the Trustees **Monitoring Board** shall be bound by the criteria set **out** forth in Sections 6 and 7. **The Trustees and the Monitoring Board shall agree a nomination process that will entitle the Monitoring Board to recommend candidates and provide other input. In administering the nomination process and putting forward nominations to the Monitoring Board for approval, the Trustees shall consult** and in particular shall undertake mutual consultation with international organisations as set out in Section 7, 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 organizations **as set out in Section 7.**
- 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 Board according to the terms described in Sections 18-23.**
 - (c) **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
 - (e)(d) their undertaking a similar review subsequently every five years.

The IASC Foundation's Monitoring Board

- 18 A Monitoring Board will provide a formal link between the Trustees and public authorities. This relationship seeks to replicate, on an international basis, the link between accounting standard-setters and those public authorities that have generally overseen accounting standard setters. A Memorandum of Understanding will be agreed between the Monitoring Board and the Trustees describing the interaction of the Monitoring Board with the Trustees. This Memorandum of Understanding will be made available to the public.**
- 19 The responsibilities of the Monitoring Board shall be:**
- (a) to participate in the process for appointing Trustees and to approve the appointment of Trustees according to the guidelines in Sections 5-8.**

(b) to review and provide advice to the Trustees on their fulfillment of the responsibilities set out in Sections 13 and 15. The Trustees shall make an annual written report to the Monitoring Board.

(c) to meet the Trustees or a subgroup of the Trustees at least once annually, and more frequently as appropriate. The Monitoring Board shall have the authority to request meetings with the Trustees or separately with the chairman of the Trustees (with the chairman of the IASB as appropriate) about any area of work of either the Trustees or the IASB. These meetings may include discussion of, and any IASB Foundation or IASB proposed resolution of, issues that the Monitoring Board has referred for timely consideration by the IASB Foundation or the IASB.

20 The Monitoring Board shall develop a charter that sets out its organisational, operating and decision-making procedures. The charter shall be made public.

21 Initially, the Monitoring Board shall comprise:

(a) the responsible member of the European Commission,

(b) the chair of the IOSCO Emerging Markets Commission,

(c) the chair of the IOSCO Technical Committee (or vice chair or designated securities commission chair in the case whether either the Chairman of an EU securities regulator, Commissioner of the Japan Financial Services Agency or the Chairman of the US Securities and Exchange Commission is the chair of the IOSCO Technical Committee),

(d) the commissioner of the Financial Services Agency,

(e) the chairman of the US Securities and Exchange Commission, and

(f) as an observer, the Chairman of the Basel Committee on Banking Supervision.

22 The Monitoring Board shall reconsider its composition from time to time relative to its objectives.

23 The Monitoring Board shall reach decisions to approve the appointment of Trustees and establish any common positions by consensus.

IASB*

1824 The IASB shall comprise fourteen members, increasing to sixteen members at a date no later than 1 July 2012. The members of the IASB are appointed by the Trustees under Section 15(a). Up to three members may 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.

~~19~~²⁵ The main qualifications for membership of the IASB shall be professional competence and practical experience. The Trustees shall select members of the IASB, **consistently with the Criteria for IASB Members set out in the Annex to the Constitution**, 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. **The members of the IASB shall be required to commit themselves formally to acting in the public interest in all matters.** No individual shall be both a Trustee and an IASB member at the same time.

~~20~~²⁶ **In a manner consistent with the Criteria for IASB Members as set out in the Annex to this Constitution and in order to ensure a broad international basis, there shall normally be, by 1 July 2012:**

- (a) four members from Asia/Oceania region;**
- (b) four members from Europe;**
- (c) four members from North America;**
- (d) one member from Africa;**
- (e) one member from South America; and**
- (f) two members appointed from any area, subject to maintaining overall geographic balance.**

The work of the IASB shall not be invalidated by its failure at any time to have a full compliment of members according to the above geographical allocation, although the Trustees shall use their best endeavours to achieve the geographical allocation. 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.

~~30~~³⁶ The publication of an ~~Exposure Draft~~, **or an International Accounting Standard, International Financial Reporting Standard, (including an International Accounting Standard or an final Interpretation of the International Financial Reporting Interpretations Committee)** shall require approval by nine ~~of the fourteen~~ members of the IASB, **if there are fewer than 16 members, or ten members if there are 16 members.** 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.

Section C

Explaining the Constitutional Changes and Providing Feedback to Commentators

1. The IASC Foundation Constitution, originally approved in 2000 and subsequently revised in 2001 and 2002, sets out both the governance structure and the operating procedures of the Foundation and its independent standard setting body, the International Accounting Standards Board (IASB).
2. 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 a similar review subsequently every five years. [(Section 17(c))”

The previous review was concluded in June 2005, which was earlier than required by the Constitution. As a result, the second Constitution Review must be complete by June 2010.

3. Consistently with these Constitution requirements, the Trustees formally initiated their second five-yearly review of the organisation’s constitutional arrangements in February 2008. In launching this second review, the Trustees agreed to draw heavily on a strategic review completed in 2007. In the light of the rapid advance of IFRS adoption and increased interaction with external parties, the Trustees believed that a long-term assessment of the organisation’s objectives and future would be useful in preparing for the Constitution Review that is now under way. As part of the review process, the Trustees met prominent stakeholders from around the world with an interest in accounting standard-setting, including regulators, accounting and business organisations, and the Standards Advisory Council.
4. The 2007 strategy review highlighted the need to enhance the public accountability of the IASC Foundation, if the IASB is to become the world’s accounting standard-setter, a clear organisational objective. The strategy review also emphasised the practical benefits that would be associated with the expansion of the IASB to 16 members and the addition of provisions related to the IASB’s geographical diversity. The expansion of the IASB would enable it to engage more efficiently and effectively with interested parties throughout the world and bring new perspectives to its deliberations. Furthermore, the addition of a geographical component would strengthen the legitimacy of the IASB in the view of the countries choosing to adopt IFRSs. The relevance of these priorities were confirmed when a group of regulators (the International Organization of Securities Commissions, the European Commission, the Japan Financial Services Agency, and the US Securities and Exchange Commission) issued in November 2007 a press release regarding the IASC Foundation’s public accountability.

5. Therefore, the Trustees believed that addressing this issue of public accountability should be a fast-tracked priority for the Constitution Review in October 2007 and split the Constitution Review into two parts—the first, focusing on issues of public accountability and the IASB’s size and composition, and the second, providing an opportunity for consideration of broader issues concerning the IASC Foundation’s governance arrangements and operations. This report summarises the conclusions of the first part of the Constitution. A summary of the process undertaken is provided as Appendix 1.

6. In conducting the first part, the Trustees consulted relevant stakeholders with an interest in the development of accounting standards. Furthermore, the Trustees held a series of round table meetings on the 19 June 2008 with thirty participating organisations. As a result of those discussions the Trustees revised and clarified their proposals, so as to ensure that the consultation document and the proposed amendments were relevant and necessary. The Trustees’ proposals were also based upon consultations that they have had with members of the proposed Monitoring Board and the Standards Advisory Council (the organisation’s primary advisory group) on two occasions.

7. To help focus comment regarding the proposals on public accountability and the IASB’s size and composition, in July 2008, the Trustees published *Review of the Constitution: Public Accountability and the Composition of the IASB—Proposals for Change*. The Trustees asked seven questions, which are listed below:

Questions on the Creation and Terms of Reference of the Monitoring Group

- (1) Do you support the creation of a link to a Monitoring Group in order to create a direct link of public accountability to official institutions?
- (2) The proposals contemplate a Monitoring Group comprising representatives of seven public authorities and international organisations with a link to public authorities. While recognizing that the Monitoring Group is an autonomous body, the Trustees would welcome comments regarding the Monitoring Group’s membership and whether other organisations accountable to public authorities and with an interest in the functioning of capital and other financial markets should be considered for membership.
- (3) The Trustees will remain the body primarily responsible for the governance of the organisation and the oversight of the IASB. Their responsibility to a 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 and the Trustees’ reporting responsibilities, as described in the proposed Section 19, appropriately provide that link, while maintaining the operational independence of the IASC Foundation and the IASB?
- (4) Given the proposed creation of a Monitoring Group, would there be a continued need for the Trustee Appointments Advisory Group* in the selection of Trustees? If so, what should be the role and composition of the Trustees Appointments Advisory Group?

Questions on the composition, size and voting procedures of the IASB

- (5) Do you support the principle behind expanding the IASB's membership to 16 members in order to ensure its diversity, its ability to consult, liaise and communicate properly across the world, and its legitimacy?
- (6) Do you agree with the geographical formulation suggested by the Trustees?
- (7) The Trustees are suggesting that the Constitution should provide flexibility on the matter of part-time membership. Do you support that proposal?

8. In total the IASC Foundation received 72 comment letters. A list of the comment letters received and the date upon which they were received with a link to the comment letter can be found at: <http://www.iasb.org/About+Us/About+the+IASC+Foundation/Constitution/Constitution+Review/Discussion+document/Comment+Letters/Discussion+document+Comment+Letters.htm>.

9. In addition, an analysis of the comment letters is also available on the IASC Foundation website at www.iasb.org

10. The Trustees discuss their conclusions on the issues related to each of the questions below:

Questions on the Creation and Terms of Reference of the Monitoring Group

Q1 Do you support the creation of a link to a Monitoring Group in order to create a direct link of public accountability to official institutions?

11. As discussed above, the Trustees identified the need to enhance the public accountability of the IASC Foundation as a priority of the first part of the Constitution Review. In determining how to consider accountability in the context of their responsibilities, the Trustees are guided by the organisation's objectives, as laid out in the Constitution. 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.

12. In fulfilling those objectives, the Trustees have recognised that they are accountable not to a single group, but to the wide range of international stakeholders that have an interest in the IASC Foundation's efforts to achieve its objectives. They, and the IASB as

the main operating body, have provided accountability through the established and publicly agreed due process, transparency requirements, and regular contact with stakeholder groups and mechanisms to receive input outside formal consultations. These stakeholder groups include official organisations, policymakers, investor groups and private sector institutions from around the world. Furthermore, the Trustees and the IASB have established the Standards Advisory Council, the organisation's formal advisory body, and other working groups.

13. The Trustees have emphasised the relevance of stakeholder outreach and input and due process requirements. However, the 2007 strategy review conducted concluded that the Trustees should undertake further steps to ensure the organisation's public accountability through enhanced governance mechanisms.

14. The basic governance structure of the IASC Foundation was agreed as a result of a broad international consultation and negotiation among public authorities in 2000. The Trustees reaffirmed this structure in 2005 as part of its first Constitution Review. International accounting standards are developed by an independent IASB. An independent and geographically diverse body of Trustees oversees the IASB.

15. This basic approach to the architecture of governance is similar to that in place historically in many national jurisdictions for accounting standard-setters. What distinguished the IASC Foundation and the IASB from national standard-setting bodies was that the IASC Foundation, as an international and private-sector body, had no direct formal linkage to public authorities. It was for this reason the Trustees proposed constitutional amendments to create a link between the Trustees and a 'Monitoring Group' in its consultation document in July 2008. Importantly for the purposes of the IASC Foundation's public accountability, the original proposal called for the members of a Monitoring Group to be representatives of public authorities and of international organisations that have requirements for accountability to public authorities.

16. The July 2008 proposal set out the following responsibilities for the Monitoring Group:

The responsibilities of the Monitoring Group shall be:

- (a) to participate in the process for appointing Trustees and to approve the appointment of Trustees according to the guidelines in Sections 5-8¹.
- (b) to review and provide advice to the Trustees on their fulfilment of the responsibilities set out in Sections 13 and 15². The Trustees shall

¹ Section 8

Trustees shall normally be appointed for a term of three years, renewable once: in order to provide continuity, some of the initial Trustees will serve staggered terms so as to retire after four or five years.

² Section 13

The Trustees shall:

- (a) assume responsibility for establishing and maintaining appropriate financing arrangements;
- (b) establish or amend operating procedures for the Trustees;
- (c) determine the legal entity under which the IASC Foundation shall operate, provided always that such legal entity shall be a Foundation or other body corporate conferring limited liability on its members

make an annual written report to the Monitoring Group.

- (c) to meet the Trustees or a subgroup of the Trustees 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 chairman of the Trustees (with the chairman of the IASB as appropriate) about any area of work of either the Trustees or the IASB. These meetings may include discussion of, and any IASC Foundation or IASB proposed resolution of, issues that the Monitoring Group has referred for timely consideration by the IASC Foundation or the IASB.

17. The great majority of respondents supported the creation of some form of a monitoring body and recognised the value of providing a link between the Trustees and public authorities as a way to enhance public accountability further. These commentators argued that such a link would be a significant step towards improving the overall governance framework of the IASC Foundation. Many commentators highlighted the importance of such an improvement in strengthening public confidence in IFRSs, because the adoption of IFRSs effectively meant the delegation of authority over accounting

and that the legal documents establishing such legal entity shall incorporate provisions to achieve the same requirements as the provisions contained in this Constitution;

- (d) review in due course the location of the IASC Foundation, both as regards its legal base and its operating location;
- (e) investigate the possibility of seeking charitable or similar status for the IASC Foundation in those countries where such status would assist fundraising;
- (f) open their meetings to the public but may, at their discretion, hold certain discussions (normally only about selection, appointment and other personnel issues, and funding) in private; and
- (g) publish an annual report on the IASC Foundation's activities, including audited financial statements and priorities for the coming year.

Section 15

In addition to the duties set out in Part A, the Trustees shall:

- (a) appoint the members of the IASB and establish their contracts of service and performance criteria;
- (b) appoint the members of the International Financial Reporting Interpretations Committee and the Standards Advisory Council;
- (c) review annually the strategy of the IASC Foundation and the IASB and its effectiveness, including consideration, but not determination, of the IASB's agenda;
- (d) approve annually the budget of the IASC Foundation and determine the basis for funding;
- (e) review broad strategic issues affecting accounting standards, promote the IASC Foundation and its work and promote the objective of rigorous application of International Accounting Standards and International Financial Reporting Standards, provided that the Trustees shall be excluded from involvement in technical matters relating to accounting standards;
- (f) establish and amend operating procedures, consultative arrangements and due process for the IASB, the International Financial Reporting Interpretations Committee and the Standards Advisory Council;
- (g) review compliance with the operating procedures, consultative arrangements and due process as described in (f);
- (h) approve amendments to this Constitution after following a due process, including consultation with the Standards Advisory Council and publication of an Exposure Draft for public comment and subject to the voting requirements given in Section 14;
- (i) exercise all powers of the IASC Foundation except for those expressly reserved to the IASB, the International Financial Reporting Interpretations Committee and the Standards Advisory Council; and
- (j) foster and review the development of educational programmes and materials that are consistent with the IASC Foundation's objectives.

standards to a private sector body, which up until this point had no formal tie to public institutions.

18. In supporting the idea of a monitoring body generally, interested parties believed that it would be very helpful to have a high level, highly knowledgeable, and respected body of members who can both (1) assist in the conduct of liaison activities with governmental and other organisations, and (2) monitor the functioning of the Trustees to ensure that its objectives are being met.

19. A small minority did not support the creation of the Monitoring Board at all, because of concerns regarding political interference in the standard-setting process. However, concerns regarding undue interference more often were expressed in terms of the composition of a monitoring body, rather than on the broader question of whether such a body should exist.

20. Many suggested that the name of the body should be Monitoring Board rather than Monitoring Group.

21. Given the overall support for the creation of a monitoring body, at their January 2009 meeting in New Delhi, India, the Trustees concluded that it was appropriate to establish a link to a Monitoring Board. The relevance of such a link was further highlighted when in November 2008, the G20 heads of state concluded, “With a view toward promoting financial stability, the governance of the international accounting standard setting body should be further enhanced, including by undertaking a review of its membership, in particular in order to ensure transparency, accountability, and appropriate relationship between this independent body and the relevant authorities.”

22. The Trustees agreed that the title of this body should be Monitoring Board rather than Monitoring Group. It was noted that the name “Monitoring Group” was already in used for the International Federation of Accountants (IFAC).

Q2 The proposals contemplate a Monitoring Group comprising representatives of seven public authorities and international organisations with a link to public authorities. While recognising that the Monitoring Group is an autonomous body, the Trustees would welcome comments regarding the Monitoring Group’s membership and whether other organisations accountable to public authorities and with an interest in the functioning of capital and other financial markets should be considered for membership.

23. As discussed above, the original proposal called for the Monitoring Board to comprise representatives of public authorities and of international organisations that have requirements for accountability to public authorities. The Trustees proposed the following membership:

- (a) the responsible member of the European Commission,
- (b) the managing director of the International Monetary Fund,
- (c) the chair of the IOSCO Emerging Markets Committee,
- (d) the chair of the IOSCO Technical Committee (or vice chair or designated

securities commission chair in cases where either the chairman of an EU securities regulator, commissioner of the Japan Financial Services Agency or chairman of the US Securities and Exchange Commission is the chair of the IOSCO Technical Committee),

- (e) the commissioner of the Japan Financial Services Agency,
- (g) the chairman of the US Securities and Exchange Commission, and
- (f) the president of the World Bank.

24. There was a diversity of views—often conflicting—regarding the membership of the Monitoring Board. Most supported the proposition that the Monitoring Board should broadly reflect the world’s capital markets and that it should have the most senior level of representation from the designated organisations. At the same time, many interested parties called for a broadening or reshaping of the Monitoring Board and urged the IASC Foundation to consider its link and duty to some of its other major stakeholders. There was also a recognition that the Monitoring Board’s size would have to be limited to allow for efficiency and operational functionality.

25. Suggested changes to the proposals fall in the following categories:

- **Clearer criteria for membership:** Many of the commentators, even those supportive of the proposed composition, claimed that the proposals needed to set out clearer criteria for membership. In the view of these commentators, it was not clear why certain groups were included and others were not. Some mentioned the need to define the rules for amending membership at a later date and a recommendation that the Constitution should expressly provide for a safeguard that would prevent any one group within the Monitoring Board from becoming dominant in the future.
- **Inclusion of investor representatives:** A number from the investor community pointed out that investors were the primary users of information resulting from accounting standards and therefore called for specific investor representation on the Monitoring Board.
- **Inclusion of SME representatives:** Some commentators noted that the IASC Foundation’s Constitution specifically requires the Trustees to consider the needs of small and medium-sized entities and that as such the Monitoring Board should have greater representation from this sector.
- **Inclusion of banking and insurance supervisors:** Representatives from banking and insurance supervisors urged consideration broadening the membership to include banking and insurance supervisors to reflect their interest in accounting standards.
- **Other regulator perspectives:** Some commentators called for the inclusion of prudential regulators on the Monitoring Board in light of the fact that prudential regulators play an important role in standards adoption, particularly in emerging economies. The Committee of European Securities Regulators (CESR) also indicated that based upon the current criteria, they should be included in the membership of the MG.
- **Regional diversity of the members:** Some commentators urged regional diversity of the Monitoring Board so as to ensure that there would not be dominance of one

region over another. Concern was expressed that those traditionally representing industrialised English speaking nations might maintain dominance on the Monitoring Board.

26. In reaching a conclusion on the membership of the Monitoring Board, the Trustees agreed with the concern expressed by many that the membership criteria required clarification. The original proposal seemed to include organizations with differing interests in accounting standard-setting. Therefore, the Trustees and the relevant public authorities concluded on the following formulation. The intention of the link to a Monitoring Board had been and is to replicate the link to those public authorities that have generally overseen accounting standard setters. In this manner, those authorities could fulfil their public mission to help ensure the accuracy, transparency, comparability and effectiveness of financial reporting and the protection of investor interests. This meant that bodies that are not public authorities or those with no formal authority for financial reporting should not serve on the Monitoring Board.

27. In order to replicate the historic relationship between accounting standard-setters and capital market authorities, the Trustees amended the original proposal and agreed to the link to the following bodies (which themselves will create the Monitoring Board):

- the European Commission,
- the Emerging Markets Committee and the Technical Committee of the International Organization of Securities Commissions (“IOSCO”);
- the Financial Services Agency of Japan; and
- the US Securities and Exchange Commission.

The Basel Committee on Banking Supervision would serve as an observer to reflect the interest of banking supervisors in the establishment of accounting standards.

28. The Trustees also noted that in its November 2008 communiqué, the G20 agreed that international bodies should reflect concerns of emerging economies. The Monitoring Board seeks to do so by having direct participation by the Chairman of the IOSCO Emerging Markets Committee. However, as a topic to address in the near future, the Monitoring Board and Trustees will consider whether the current composition take sufficient account of the perspectives of emerging markets.

29. The Trustees also appreciated the call by many investors for a greater voice in the IASC Foundation’s activities. The Trustees reiterated their commitment to identifying more investors to serve on the Trustees and the IASB. Furthermore, in addition to approving the Constitutional changes, the Trustees have appointed a new Standards Advisory Council that includes enhanced investor participation. The new SAC includes eight national or international investment organizations and has a vice-chair from the investment profession. The Trustees have agreed to meet and consult regularly on governance matters with this body as a subgroup of the SAC (as with other subgroups of the SAC being formed).

Q3 The Trustees will remain the body primarily responsible for the governance of the organisation and the oversight of the IASB. Their responsibility to a Monitoring Group will enable regulatory and other authorities responsible for the adoption of IFRSs to review the Trustees’ fulfillment of their constitutional duties. Does the formulation of the Monitoring Group’s mandate and the Trustees’ reporting responsibilities, as described in the proposed Section 19, appropriately provide that

link, while maintaining the operational independence of the IASC Foundation and the IASB?

28. The link between the Trustees and the Monitoring Board attempts to replicate the historical relationship between accounting standard-setters and the Trustees. Paragraph 16 above set out the proposed mandate of the Monitoring Board. The proposed mandate gave the Monitoring Board the right of approval of Trustee appointments and reappointments, after an agreed process conducted by the Trustees, and required the Trustees to report regularly on their activities. At the same time, the proposed mandate continued to emphasise the independence of the IASB's standard-setting process. The original consultation document noted that the Trustees and the Monitoring Board would publish a Memorandum of Understanding describing the responsibilities of the Monitoring Board and the Trustees.

29. Commentators emphasise the need to maintain the independence and integrity of the Trustees and the IASB. They called for the Trustees to continue their overall responsibility for the governance of the organisation and their oversight of the IASB. The view was expressed that this should be made explicit in the Constitution.

30. A number of interested parties commented regarding the lack of clarity of the role of the Monitoring Board and the potential for overlap of responsibility between the Monitoring Board and the Trustees. Some were concerned that the Monitoring Board should have the ability to nominate Trustees since this could politicise the organisation and the IASB's agenda. Consequently, many were in support of a Memorandum of Understanding setting out more clearly the relationship between the Trustees and the Monitoring Board.

31. There was considerable concern that there could be any link between the Monitoring Board and the IASB. The overwhelming view was that the IASB should only have a link to the Trustees and nothing more and that as such the independence of the IASB should be assured.

32. There was a view expressed by many that by giving ultimate accountability only to public authorities, subject to political pressures, the link to the Monitoring Board could risk the politicisation of the standard-setting process and thereby impair the independence of the IASB. Those expressing this view called for an explicit recognition of the independence of the IASB to pursue its technical work programme.

33. There was strong support for the proposal that any report from the Trustees to the Monitoring Board should be made public and the Monitoring Board itself should provide an annual report that would be made public. There was also the suggestion that the minutes of the meetings between the Monitoring Board and the Trustees should be publicly available.

34. The Trustees believe that the careful drafting of the Memorandum of Understanding and the strong commitment of both the Trustees and the members of the Monitoring Board to the independence of the IASB's decision-making within the new governance framework make the risks described above less likely to appear. In publishing the Memorandum of Understanding, the Trustees and the members of the Monitoring Board have provided additional clarity regarding the relationship between the Trustees and the Monitoring Board.

35. Specifically, the Memorandum of Understanding calls for the establishment of the Monitoring Board:

- to serve as a mechanism for formal interaction between capital markets authorities and the IASCF, thereby facilitating the ability of capital market authorities that allow or require the use of IFRS in their jurisdictions to effectively discharge their mandates relating to investor protection, market integrity and capital formation.
- to help ensure the public accountability of the IASCF by monitoring and reinforcing the public interest oversight function of the IASCF,
- to promote the continued development of IFRS as a high-quality set of global accounting standards.
- to participate in the Trustee nomination process;
- to review the adequacy and appropriateness of Trustee financing arrangements; and
- to review the Trustees oversight of the IASB

36. The Trustees and the members of the Monitoring Board also have emphasised the importance of transparency in their relationship. Meetings of the Trustees and the Monitoring Board will be open to the public, with the exception of discussions related to personnel matters and administrative affairs. The Trustees will make their report to the Monitoring Board available to the public as well.

Q4 Given the proposed creation of a Monitoring Group, would there be a continued need for the Trustee Appointments Advisory Group* in the selection of Trustees? If so, what should be the role and composition of the Trustees Appointments Advisory Group?

37. There were mixed views on this topic. Some felt that the Trustee Appointments Advisory Group was no longer required since its responsibilities would be overtaken by the proposed Monitoring Board. However, others felt that the Trustees Appointments Advisory Group still had a valuable role to play. The most frequently raised argument for maintaining the Trustees Appointments Advisory Group was that its existence would facilitate the identification of appropriate candidates to serve on the Trustees.

38. After considering the merits of the various arguments, the Trustees concluded that the Monitoring Board, with an explicit mandate to approve Trustee appointments, makes the Trustee Appointments Advisory Group redundant. The Trustee Appointments Advisory Group was an effort to provide a venue for public input on the Trustee nominations process, a role that is now explicitly given to the Monitoring Board. The Trustees, however, concluded that they would still seek nomination ideas from the former members of the Trustee Appointments Advisory Group

Questions related to the IASB's composition, size, and voting procedures

Q5 Do you support the principle behind expanding the IASB's membership to 16 members in order to ensure its diversity, its ability to consult, liaise and communicate properly across the world, and its legitimacy?

Q6 Do you agree with the geographical formulation suggested by the Trustees?

39. 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 at that time 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.’

40. In publishing their proposals in July 2008, the Trustees highlighted that the Constitution’s emphasis on ‘professional competence and practical experience’ should remain paramount. Furthermore, the Trustees reaffirm the relevance of the eight criteria for IASB members in the Annex of the Constitution³.

41. At the same time, with a growing number of countries adopting IFRSs, the Trustees concluded that they should amend the Constitution relating to the IASB’s size and geographical diversity. In making the proposals, the Trustees put forward the following reasons to expand the IASB to 16 members:

- **IASB members needed for liaison:** As the IASB becomes the global standard-setter, the consultation, 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 in developing international accounting standards.

³ The following would represent criteria for IASB membership:

- 1 **Demonstrated Technical Competency and Knowledge of Financial Accounting and Reporting.** All members of the IASB, regardless of whether they are from the accounting profession, preparers, users, or academics, should have demonstrated a high level of knowledge and technical competency in financial accounting and reporting. The credibility of the IASB and its individual members and the effectiveness and efficiency of the organisation will be enhanced with members who have such knowledge and skills.
- 2 **Ability to Analyse.** IASB members should have demonstrated the ability to analyse issues and consider the implications of that analysis for the decision-making process.
- 3 **Communication Skills.** Effective oral and written communication skills are necessary. These skills include the ability to communicate effectively in private meetings with IASB members, in public meetings, and in written materials such as accounting standards, speeches, articles, memos and correspondence with constituents. Communication skills also include the ability to listen to and consider the views of others. While a working knowledge of English is necessary, there should not be discrimination in selection against those for whom English is not their first language.
- 4 **Judicious Decision-making.** IASB members should be capable of considering varied viewpoints, weighing the evidence presented in an impartial fashion, and reaching well-reasoned and supportable decisions in a timely fashion.
- 5 **Awareness of the Financial Reporting Environment.** High quality financial reporting will be affected by the financial, business and economic environment. IASB members should have an understanding of the global economic environment in which the IASB operates. This global awareness should include awareness of business and financial reporting issues that are relevant to, and affect the quality of, transparent financial reporting and disclosure in the various capital markets worldwide, including those using International Financial Reporting Standards.
- 6 **Ability to Work in a Collegial Atmosphere.** Members should be able to show respect, tact and consideration for one another’s and constituents’ views. Members must be able to work with one another in reaching consensus views based on the IASB’s objective of developing high quality and transparent financial reporting. Members must be able to put the objective of the IASB above individual philosophies and interests.
- 7 **Integrity, Objectivity and Discipline.** The credibility of members should be demonstrated through their integrity and objectivity. This includes intellectual integrity as well as integrity in dealing with fellow IASB members and constituents. Members should demonstrate an ability to be objective in reaching decisions. Members also should demonstrate an ability to show rigorous discipline and carry a demanding workload.
- 8 **Commitment to the IASC Foundation’s Mission and Public Interest.** Members should be committed to achieving the objective of the IASC Foundation of establishing international accounting and financial reporting standards that are of high quality, comparable, and transparent. A candidate for the IASB also should be committed to serving the public interest through a private standard-setting process.

- **Diversity as providing legitimacy:** While professional competence (particularly technical expertise) and practical experience are the foremost criteria for IASB
- **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.

42 In expanding the IASB to 16 members, the Trustees called for the Constitution to introduce guidance regarding drawing the most competent person from the deepest and broadest geographical pool possible. Therefore, the Trustees propose that normally the IASB should comprise:

- four members from the Asia/Oceania region;
- four members from Europe;
- four members from North America; and
- one member from Africa;
- one member from South America; and
- two members appointed from any area, subject to maintaining overall geographical balance.

43. The Trustees believed that they could identify qualified candidates from each of the regions, in line with the constitutional emphasis on professional competence, practical experience and diversity of professional backgrounds. The Constitution, before the agreed changes, already stated, ‘... the Trustees shall ensure that the IASB is not dominated by any particular constituency or geographical interest.’ At the same time, the Trustees recognise the practical benefits arising from diversity of IASB membership described above, while providing stronger assurance that the IASB will be global in drawing its resources.

44. In setting out the July 2008 proposals, the Trustees held the view that geographical considerations for selecting IASB members would not diminish the importance of the other criteria for IASB membership, including that each IASB member must contractually agree to ‘act in the public interest ... in deciding on and revising standards.’⁴ Geographical considerations would not change this. Geographical diversity should not lead to IASB members acting as if they represent a geographical constituency.

45. Finally, the Trustees held the view that expanding the IASB’s membership would not impair the IASB’s ability to make decisions in a timely fashion, but would benefit the IASB in its ability to consult interested parties throughout the world.

46. The proposal to expand the IASB membership to 16 members and to add some geographical guidelines generated mixed views. Whilst many understood the reasons for proposing an increase in the size of the IASB, many were of the view that the proposed expansion of the IASB to 16 members would make it more unwieldy, less effective and hamper its decisionmaking ability. A small minority went so far as to indicate that they strongly disagreed with this proposal.

47. Some expressed the view that whilst the proposed increase in the size of the IASB would allow the Board to carry out its required consultation, it was not considered an essential part of the IASB’s duties. Those who expressed an opinion on this subject were of the view that consultation should be carried out by senior technical staff for and on behalf of the IASB.

⁴ See Section 23 of the IASC Foundation Constitution.

48. On the other hand, some respondents questioned how 16 members could manage effective consultation and requested further consideration of the proposed size. Reference was made to other organisations with a board composed of 18 members indirectly suggesting that 16 members were insufficient. Some respondents, especially those representing European stakeholders, expressed the view that IASB consultation and liaison was essential and that IASB members should be exposed to wider perspectives.

49. Regarding the possible geographic guidelines, many were in broad support for the geographical formulations suggested, provided always that “professional competence and practical experience” as set out in the Criteria for IASB members, as annexed to the Constitution, remained the paramount criteria.

50. Others however were strongly against the geographical composition suggested as they felt that it would detract from the Trustees’ ability to appoint competent and experienced members to the IASB and risked diluting the overall quality of the Board. Concern was also expressed that by delineating the IASB along geographic lines there was a strong risk that the IASB members would become geographic representatives rather than acting in the professional capacity, which was pivotal.

51. A number of commentators pointed out that the Trustees failed to designate Africa and South America in the geographic guidelines, and these areas should be specifically mentioned.

52. The Trustees weighed the strong arguments both in favour of and against the proposed changes. The Trustees noted that even those opposed to the proposals generally understood the rationale behind the proposals. The Trustees therefore concluded that they should implement the proposed changes for the reasons that were originally expressed in the consultation document, with one modification. The Trustees agreed to make a specific mention of the desirability of one IASB member from Africa and South America.

Q7 The Trustees are suggesting that the Constitution should provide flexibility on the matter of part-time membership. Do you support that proposal?

53. The Trustees proposed the possible expansion of part-time members up to three, but there would be flexibility in the Constitution regarding these requirements. There was general support for part-time membership of the IASB, because most of the respondents were of the view that it would assist in achieving an improved level of practitioner representation on the Board. However, concern was expressed how this might be achieved in practice, given the competing time requirements on a part-time member. On the other hand, a minority of respondents called for abandoning part time membership on the grounds that part-time members reduce the IASB’s independence and ability to consult and liaise.

54. Given the general support for the proposals and the previous success in using part-time positions to identify candidates to serve on the IASB, the Trustees concluded that a provision for flexibility should be introduced for the reasons set out in the consultation document. Furthermore, the Trustees were of the view that in a changing and increasingly complex world, the need for improved levels of practitioner representation on the Board remains important.

Voting of the IASB

55. In making the proposals regarding the IASB's composition and size, the Trustees considered the consequences for voting majorities. Consistent with the existing supermajority requirements, the Trustees proposed the requirement for voting in the Constitution to rise to 10 of 16 members.

56. Some respondents commented on the voting majorities proposed in paragraph 36 of the Constitution, and felt that they were too low. A number of respondents said that the minimum requirements should be reconsidered. Various suggestions were put forward and ranged from a simple majority to as much as a two-thirds majority.

57. The Trustees believed that the proposal regarding voting remained appropriate and kept the requirement to approve a standard roughly in line with the existing requirements.

Appendix 1

Process for the Constitution Review

Organising the Constitution Review in a transparent and open way

1. Though emphasising early on the priority of public accountability, the Trustees conducted a thorough and transparent Constitution Review that enabled interested parties to raise any issues they wished the Trustees to consider and provided opportunities to comment on proposals. This appendix describes how the Trustees conducted the Review.

2. The Trustees established a Constitution Committee, which comprised the following Trustees:

Gerrit Zalm, Chairman of the Trustees
Philip Laskawy, Vice Chairman of the Trustees
Bertrand Collomb
Samuel DiPiazza
Aki Fujinuma
Pedro Malan
Antonio Vegezzi.

3. The Trustees, as a group, reached conclusions on the first part of the Constitution Review and the Constitution Committee helped manage the process. The Trustees established the following procedures to help ensure an efficient and transparent process:

- The Constitution Committee made non-binding recommendations to the Trustees.
- Any discussions related to the Constitution during the full Trustees' meetings were held during the public sessions of Trustees' meetings.
- The Constitution Committee engaged in intensive public consultations before making recommendations to the full Trustees. The consultations included:
 - discussions with interested parties
 - a round table public meeting held in London on 19 June 2008
 - the publication of papers to assist those that attended the public discussions of the Trustees or the Committee to aid in following the deliberations.
 - the publication of all proposals with a period for public comment before the Trustees reached a conclusion.

4. In launching the Constitution Review, the Trustees sought to balance their immediate priority—addressing issues related to public accountability—and the need to have a thorough and inclusive process on other elements of the Constitution. Therefore, the Trustees advanced the Constitution Review in two parts. First, the Trustees made proposals aimed at the organisation's public accountability and issues of size and geographical diversity of the standard-setting body, the IASB. This review was concluded at the Trustees meeting in January 2009 and this report is the final conclusion of that part of the review. Second, the Trustees will proceed with the review of other issues in the Constitution. That consultation document was issued in November 2008 and the deadline for comments is 31 March 2009.

5. On that basis, the Trustees followed the time line below:

Date	Action step
March–April 2008	Trustees developed preliminary proposals and document for Constitution Review.
May–June 2008	Trustees met interested parties to discuss proposals
June–July 2008	Publication of proposals concerning public accountability and IASB size/geographical diversity—the first part of the Constitutional Review. Round table meeting held in London on 19 June 2008. Public consultation document published July 2008. Comment period ended in September 2008.
June–August 2008	Trustees met interested parties to discuss proposals on the first part.
September 2008	Constitution Committee developed proposals to present to the full Trustees, based upon analysis of comment letters and other input on the proposals in the first part.
October 2008	Trustees considered the proposals at their meeting in Beijing. They resolved to consult further in order to agree upon the details of the proposed changes to the first part of Constitution.
October – December 2008	Trustees consulted further and finalised the detail of the proposed changes.
January 2009	Trustees approved the changes arising from the first part of the Constitution Review at their meeting in New Delhi in January 2009.

Appendix 2

Individuals and organisations that responded to the Trustees' consultation paper *Review of the Constitution Public Accountability and the Composition of the IASB, Proposals for change, July 2008.*

Africa

Institute of Certified Public Accountants of Kenya
South African Institute of Public Accountant (SAICA)

Asia/Oceania

Accounting Standards Board of the Institute of Chartered Accountants of India
Australian Heads of Treasuries Accounting and Reporting Advisory Committee
(HoTARAC)
China Accounting Standards Committee (CASC)
CPA Australia
Group of 100 (G100)
Hong Kong Institute of CPAs
The Japanese Institute of Certified Public Accountants
Korea Accounting Standards Board
Life Insurance Association of Japan
Nippon Keidanren
Parliament of Australia
Singapore Accounting Standards Council

Europe

Accounting Standards Committee of Germany (ASCG) and the German Accounting
Standards Board (GASB)
ACTEO, AFEP & MEDEF
Association of Chartered Certified Accountants (ACCA)
The Association of Investment Companies (AIC)
Association for the Participation in the Development of Accounting Regulations for Family-
owned Entities (VMEBF)
Audit Commission
British Bankers' Association
BUSINESSEUROPE
Compagnie Nationale des Commissaires aux Comptes (CNCC) & Conseil Supérieur de
l'Ordre des Experts-comptables (CSOEC)
Confederation of British Industry (CBI)
Corporate Reporting Users' Forum (CRUF)
Council of Institutional Investors
Dutch Accounting Standards Board (DASB)
European Association of Cooperative Banks (EACB)
European Financial Reporting Advisory Group (EFRAG)
Fédération des Experts Comptables Européens - Federation of European Accountants (FEE)
Financial Reporting Council
Group Caisse d'Épargne
Hermes Equity Ownership Services Limited

Institute of Chartered Accountants in England and Wales
The Institute of Chartered Accountants of Scotland
Institut der Wirtschaftsprüfer (IDW)
Investment Management Association (IMA)
International Organization of Securities Commissions (IOSCO)
Investors Technical Advisory Committee (ITAC)
London Investment Banking Association
Morley Fund Managers, Barclays Global Investors Limited, F&C Management Limited,
and APG Investments
Norsk RegnskapsStiftelse
The Quoted Companies Alliance (QCA)
Standard Life Investments, Railpen Investments, Co-operative Asset Management
Swedish Financial Reporting Board
Swiss GAAP FER
SwissHoldings
Zentraler Kreditausschuss

North America

ACLI, American Insurance Association, The Life Insurance Association of Japan, GNAIE,
NAMIC, PCI, RAA
American Institute of Certified Public Accountants (AICPA)
British Columbia- Ministry of Finance
California Public Employees' Retirement System
Canadian Accounting Standards Board and the Accounting Standards Oversight Council's
Strategy Committee
National Association of State Boards of Accountancy (NASBA)

South America

Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera
(CINIF)

International

BDO International
BP
Chartered Financial Analysts Institute
Deloitte Touche Tohmatsu
Grant Thornton International
International Actuarial Association (IAA)
International Banking Federation
International Corporate Governance Network (ICGN)
International Federation of Accountants (IFAC)
International Swaps and Derivatives Association (ISDA)
KPMG IFRG Limited
Mazars
PricewaterhouseCoopers LLP
Roche
UBS AG

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Appendix 3

Memorandum of Understanding between the Monitoring Board and the Trustees of the International Accounting Standards Committee Foundation

MEMORANDUM OF UNDERSTANDING TO STRENGTHEN THE INSTITUTIONAL FRAMEWORK OF THE INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE FOUNDATION

PREAMBLE

The European Commission, the Emerging Markets and Technical Committees of the International Organization of Securities Commissions, the Financial Services Agency of Japan, and United States Securities and Exchange Commission (collectively referred to as “capital markets authorities” for the purposes of this Memorandum of Understanding), which together represent authorities responsible for setting the form and content of financial reporting in the majority of the world’s capital markets, and the Trustees of the International Accounting Standards Committee Foundation (“IASCF”):

Considering that capital markets authorities are generally charged with the development and administration of accounting standards;

Considering that capital markets authorities historically have looked to private or stand-alone bodies to assist in establishing accounting standards;

Considering that capital markets authorities generally oversee national accounting standard setters to ensure that they are capable of improving the accuracy, transparency, comparability and effectiveness of financial reporting and the protection of investor interests;

Considering that accounting standard-setters should strive to keep their standards current to reflect changes in the business environment, as well as consider promptly emerging accounting issues and changing business practices;

Recognizing that the International Accounting Standards Board (“IASB”) is a stand-alone international accounting standard-setter committed to developing, in the public interest, a single set of high quality, understandable and enforceable global standards, also known as International Financial Reporting Standards (“IFRS”);

Recognizing that the IASB develops accounting standards for use by companies from developed and developing economies;

Recognizing that IFRS are increasingly used around the world, yet the IASCF has no formal relationship to capital markets authorities;

Asserting that establishing a formal relationship between capital markets authorities and the IASCF will facilitate the ability of these authorities to effectively discharge their mandates relating to investor protection, market integrity and capital formation;

Recognizing that the IASB is overseen by an independent body, the IASCF, which is charged with serving the public interest;

Desiring to further enhance the public accountability of the IASCF to support the increasing use of IFRS around the world;

Recognizing that the IASCF has changed its constitution to recognize the role of the IASCF Monitoring Board in reinforcing the public accountability of the IASCF Trustees;

Affirming and supporting the independence of the IASCF in setting high-quality accounting standards, through the IASB, for use around the world, and

Desiring to help strengthen this independence by supporting the establishment of a non-voluntary, transparent and stable funding platform for the IASCF;

Have reached the following understanding:

ARTICLE I: DEFINITIONS

For purposes of this Memorandum of Understanding (“MOU”),

1. “IASCF Monitoring Board” or “Monitoring Board” means a body established by agreement among its members, the mission and operation of which are described in its charter. Its relationship to the IASCF is described in this MOU. Its initial members are:
 - The European Commission;
 - The Emerging Markets Committee and the Technical Committee of the International Organization of Securities Commissions (“IOSCO”);
 - The Financial Services Agency of Japan; and
 - The US Securities and Exchange Commission.

The Basel Committee on Banking Supervision shall participate in the IASCF Monitoring Board as an observer with voice but no vote.

2. “IASCF Constitution” means the _____ 2008 Constitution of the IASCF, as amended from time to time.⁵
3. “Trustees” means the Trustees of the IASCF, whose roles are described in the IASCF Constitution.

⁵ Located at www.iasb.gov.

ARTICLE II: GENERAL PROVISIONS

4. The IASCF Monitoring Board and the Trustees agree to collaborate in the manner specified in this MOU.
5. This MOU does not alter the terms of the relationship between the Trustees and the IASB. This MOU also does not alter the Trustees' responsibilities as described in the IASCF Constitution.

ARTICLE III: PURPOSE AND DUTIES OF THE IASCF MONITORING BOARD

6. Purpose of the IASCF Monitoring Board

The primary purpose of the IASCF Monitoring Board is to serve as a mechanism for formal interaction between capital markets authorities and the IASCF, thereby facilitating the ability of capital market authorities that allow or require the use of IFRS in their jurisdictions to effectively discharge their mandates relating to investor protection, market integrity and capital formation. The IASCF Monitoring Board will help ensure the public accountability of the IASCF by monitoring and reinforcing the public interest oversight function of the IASCF, as well as to promote the continued development of IFRS as a high-quality set of global accounting standards.

7. Duties of the IASCF Monitoring Board

The principal responsibilities of the IASCF Monitoring Board are to:

- i) Participate in the Trustee nominations process;
- ii) Approve Trustee nominees;
- iii) Review the adequacy and appropriateness of Trustee arrangements for financing the IASB;
- iv) Review the Trustees' oversight of the IASB's standard setting process, in particular with respect to its due process arrangements;
- v) Confer with the Trustees regarding their responsibilities, in particular in relation to the regulatory, legal and policy developments that are pertinent to the IASCF's oversight of the IASB; and
- vi) Refer matters of broad public interest related to financial reporting for consideration by the IASB through the IASCF.

8. Trustee Selection

- A. Criteria for the selection or reappointment of a Trustee are those contained in the IASCF Constitution.
- B. In accordance with paragraph 7 of the IASCF Constitution, the Trustees shall establish procedures to invite applications for Trustee positions, including advertising vacant positions. These procedures shall be agreed by the IASCF Monitoring Board. The selection process will be administered by the Trustees in a transparent manner.
- C. The Trustees will propose a candidate for each open Trustee position. The Trustees shall provide the reasoning behind their choice of candidate. The IASCF Monitoring Board may submit names for the Trustees' consideration.
- D. Each Trustee candidate must be approved by the IASCF Monitoring Board.
- E. The Trustees will nominate a Chair from among their members, subject to the approval of the IASCF Monitoring Board.

9. IASB Oversight, Due Process and Funding

- A. The IASCF Monitoring Board will confer with the Trustees regarding their oversight responsibilities in the following principal areas:
 - i. procedures relating to the due process and general oversight of the IASB;
 - ii. the IASB's agenda-setting process and work program, including the adequacy of the IASB's resources in the light of its work program;
 - iii. the adequacy of the IASB's procedures to ensure prompt and fair consideration of changes to IFRS accounting principles and standards so as to take into account emerging accounting issues and changing business practices;
 - iv. the IASB's due process, including the process for carrying out impact assessments and cost-benefit analyses;
 - v. the IASB's efforts to improve the accuracy and effectiveness of financial reporting and to protect investors; and
 - vi. the adequacy and appropriateness of the sources of funding and any other revenue arrangements of the IASCF, as well as the annual budget of the IASCF.
- B. The IASCF Monitoring Board may refer accounting issues to, and will confer regarding these issues with, the Trustees and the IASB Chair.
 - i. The Trustees will work with IASB to ensure these issues are addressed in a timely manner.

- ii If the IASB determines that consideration of the issue(s) identified by the IASCF Monitoring Board is not advisable or that the issue(s) cannot be resolved within the time frame suggested by the Monitoring Board, the Trustees should:
 1. call on the IASB to undertake all reasonable efforts to consider issue(s) in a manner that is consistent with the public interest, taking into account the protection of investors.
 2. call on the IASB to explain its position through the Trustees regarding the IASB's position on the issue(s); and
 3. promptly notify the IASCF Monitoring Board of the IASB's position.

ARTICLE IV: COMMUNICATION BETWEEN THE IASCF MONITORING BOARD AND THE TRUSTEES

10. The Trustees shall communicate with the IASCF Monitoring Board regarding their work, including in the following ways:
 - A. The Trustees shall report on the work of the IASCF annually in writing;
 - B. The Trustees shall meet regularly with the IASCF Monitoring Board to discuss its work. By common agreement of the two Chairpersons, other organizations with public policy responsibilities related to financial reporting may be invited to participate in these meetings on an *ad hoc* basis;
 - C. Upon request of the IASCF Monitoring Board, the Trustees, the Chairman of the Trustees, or the Chairpersons of the Trustees and the IASB shall meet with the IASCF Monitoring Board regarding any area of work of either the IASCF or the IASB. Without limitation, these discussions may cover the status of any matter that the IASCF Monitoring Board has referred for timely consideration by the IASCF and/or the IASB.
 - D. The IASCF Monitoring Board members shall update the IASCF and/or its staff on significant events in the regulatory environment (including those that relate to audit requirements and practices), or other areas to assist the IASCF in carrying out its responsibilities.
 - E. From time to time, the IASCF Monitoring Board and the Trustees shall discuss the functioning of this MOU and discuss whether changes are appropriate. Changes must be approved by a consensus among all signatories to this MOU.

ARTICLE V: TERMINATION

11. The IASCF Monitoring Board or the Trustees may terminate this MOU upon 60 days written notice.

Appendix 4

A CLEAN VERSION OF THE FINAL CONSTITUTION WILL BE ADDED TO THE PUBLISHED DOCUMENT. IT IS WITHHELD TO REDUCE THE PRINTING REQUIREMENTS, BUT CAN BE FOUND AT

<http://www.iasb.org/NR/rdonlyres/A3010B6C-3F80-401F-BE81-359E1E015E22/0/Constitutionfinal.pdf>.

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