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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, 15-16 January 2009

Attachment to Agenda Paper 2

Preliminary Staff Analysis
of
Comment Letters
on
Review of the Constitution
Public Accountability and the
Composition of the IASB
Proposals for change

October 2008

Based upon letters received
through 2 October 2008

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I Introduction

Following the IASC Foundations' round table meetings that were held in London on the 19 June 2008, the Trustees of the IASC Foundation issued their formal consultation document entitled *Public Accountability and the Composition of the IASB: Proposals for change* for public comment. The closing date for the comment period was the 20th September 2008.

What follows is a staff analysis of the comments that have been received as of 2 October 2008. Copies of each and every comment letter are on the IASB's Website and correlate to the numbering set out in the relevant tables below.

II General Summary

Sixty four comment letters were received. Respondents from Europe accounted for more than half of the submissions. Comment letters are still arriving and Trustees should be aware of this fact.

Comment letters analysed by geographic and industry segments

The numbers within the chart refer to the numbers assigned to the specific organisations listed out in Appendix 2.

	Asia Excl. Japan	Australia/ New Zealand	Europe	Japan	North America	Internati onal	South America and Africa	TOTAL
Government bodies and Regulators		1	3		1	2		7
Professional body of accountants		1	6	1	2	2	3	15
Accounting Firms	1		1			3		5

Preparers			8	1		2		11
Standard-setters	4		4					8
Users			5	1	3	4		13
Academics and Individuals			2					2
TOTAL	5	2	29	3	6	13	3	61

The responses in the submissions did not lend themselves to statistical analysis. This analysis therefore focuses on the major themes identified.

Major views and concerns of European bodies

III Analysis on comments received on the Trustees proposals

This section of the report provides detailed analysis on the seven specific issues raised by the Constitution Committee and reaction to the proposal changes in July 2008 consultation paper. Major findings on each question follows below:

In general:

Broad Support for creation of the Monitoring Group:

- Most commentators supported the establishment of the Monitoring Group and recognized the potentially vital role that the Monitoring Group could play in assuring the organisations public accountability.

Worries about Politicisation:

Questions related to the Monitoring Group

- A number of commentators, particularly those from the private sector worried about the possibility of political interference in the standard setting process.

Desire for broader membership of the Monitoring Group:

- A large number of commentators raised issues related to the composition of the Monitoring Group. Several themes emerged:
- Most agreed with the desire to keep membership at the highest levels.
- Many commented on the need to include public authorities representing banking and insurance supervisors and other authorities with a broader geographic spread.
- Investors were particularly adamant on the need to demonstrate accountability to the primary users of accounting standards.
- A large number of commentators called for transparency in the development of the Trustees-Monitoring Group Memorandum of Understanding.

IASB Composition and Size

- Views on all elements of the proposal were mixed.
- Many understood the rationale for the proposal, but questioned its impact on the IASB's effectiveness if implemented.

General

- A number of commentators suggested the need to take more time before finalizing any change in governance.

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?

Most of the respondents supported the creation of a Monitoring Group that would provide a link between the Trustees to enhance public accountability, transparency and provide a significant step towards improving the overall governance of the IASC Foundation. This was

especially since some commentators noted that the adoption of IFRSs effectively means the surrender of sovereignty over accounting standards for a jurisdiction, and that as such, an appropriate link between the Trustees and the Monitoring Group (MG) would provide enhanced oversight.

Many appreciated that the IASC Foundation had taken the initiative to enhance its public and international accountability and with that, the need to be transparent and adhere to its fundamental tenets of due process. As such there was a clear need for an oversight body such as the proposed MG.

There was also a strong view that it would be very helpful to have a high level, highly knowledgeable, and respected body of members who can both (1) conduct liaison activities with governmental and other organisations, and (2) monitor the functioning of the Trustees to ensure that its objectives are being met.

Some, however, were of the view that public accountability did not only equate to accountability to public authorities. This particular point was discussed in greater detail when answering the question concerning the composition of the Monitoring Group.

There were one or two respondents who did not support the creation of the Monitoring Group at all, this includes the Association of Investment Companies (AIC). The Ministry of Finance for British Columbia went so far as to recommend that the operational control of the IASCF and its activities should be given over to its stakeholders, including the accounting profession, publically traded companies, lenders, small and medium sized entities etc.

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.

There was little agreement on the proposed composition of the Monitoring Group as proposed in the consultation document. Most called for a broadening or reshaping of the Monitoring Group and urged the IASC Foundation to consider its link and duty to some of its other major stakeholders.

There was general support that the Monitoring Group should broadly reflect the world's capital markets and that it should have the most senior level of representation from the designated organisations. There was also a recognition that the Monitoring Group's size would have to be limited to allow for efficiency and operational functionality. However, beyond that there was no unanimity of view. However, there was a recognition that the composition of the Monitoring Group would have to be regularly reviewed to take account of changes in the world's capital markets.

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 Group 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 MG. Concern was also expressed that the proposed primary user group was limited to "capital providers". The respondent who raised this point noted that by adopting such a narrow primary user group, there was a strong implication that the objective of financial reporting is to provide information for decisions about whether to buy, sell or hold securities.
- **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 Group should have greater representation from this sector.
- **Inclusion of Banking and Insurance Supervisors:** Once again those representatives from banking and insurance supervisors urged consideration of inclusion of members in the MG from those sectors.

- **Other regulator perspectives:** Some commentators called for the inclusion of prudential regulators on the MG 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 MG 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 MG.

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' 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?

All but a very few of the respondents explicitly emphasizes 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.

However, there was considerable concern about the lack of clarity of the role of the Monitoring Group and the potential for overlap of responsibility between the Monitoring Group and the Trustees. Some were concerned that the Monitoring Group should have the ability to nominate Trustees since this could politicize the organisation and the IASB's agenda. Consequently, many were in support of a Memorandum of Understanding (MoU) setting out more clearly the relationship between the Trustees and the Monitoring Group and welcomed the suggestion that this document should would be submitted for public consultation. Almost all respondents noted that by submitting the MoU for public scrutiny and comment would ensure transparency and public accountability.

There was considerable concern that there could be any link between the Monitoring Group 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.

There was a view expressed by many that by giving ultimate accountability only to public authorities, which are ultimately affected by political processes, would risk the politicization of the standard setting process and thereby negatively impact on the independence of the IASB. The independence of the IASB's technical agenda should be expressly stated in the Constitution.

There was strong support for the proposal that any report from the Trustees to the Monitoring Group should be made public and the Monitoring Group 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 Group and the Trustees should be publically available. As such, most of the respondent's emphasised the need for complete transparency.

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?

There were mixed views on this topic. Some felt that this Advisory Group was no longer required since its responsibilities would be overtaken by the proposed Monitoring Group. However, others felt that the Trustees Appointments Advisory Group still had a valuable role to play.

Those who noted that there should be a wider membership on the Monitoring Group beyond official bodies (seeking greater representation of the key stakeholders) were of the view that the Trustees Appointments Advisory Group would still be required to facilitate the identification of appropriate stakeholder representatives, including those who are not represented in the Monitoring Group.

Those who subscribed to the view that the Monitoring Group should have a limited remit and should not be allowed to nominate Trustees due to the risk of politicization of the IASB and the possibility of undermining the independence of the Trustees were obviously of the view that the Trustees Appointment Advisory Group still had a valuable role to play.

The Trustees would welcome any additional comments related to the Monitoring Group proposal.

Funding

A number of respondents raised the topic of funding of the organisation. These were chiefly from North American respondents. Emphasis was put on the need to clarify and regularise the funding of the IASB's activities. Associated to this point, was the need to create a funding structure that would ensure the independence of the organisation.

Timing of Consultation

Comments were received on the timing of the consultation. Some of the respondents expressed concern at the speed of the consultation, noting that the IASCF should expose a variety of governance alternatives for debate before finalising anything. On the other hand, other respondents welcomed a speedy resolution of the accountability issues raised in the consultation document.

Questions related to the IASB's composition

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?

There were mixed views on the increase in the size of the IASB. 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 decision making ability. Some respondents went so far as to indicate that they strongly disagreed with this proposal.

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.

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.

Further, in this regard, 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 geographical consultation than is presently the case to broaden understanding of diverse economic contexts.

Some expressed the view that the IASB should include representation from the not for profit sector which would assist the IASB in consultation with interested parties throughout the world.

Some did not hold a particular view on the proposed expansion of the IASB but felt that there should be an emphasis on an annual assessment of skill sets to ensure diversity and equivalent representation by stakeholders as well as timely proper succession planning.

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

There were mixed views on the geographical formation suggested.

Some 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, annexed to the Constitution, remained the paramount criteria.

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 the 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.

Some were of the view that the geographical formulations as suggested were not ideal and might create an imbalance on the Board. For example:

- Concern was expressed that there would be a greater dominance of IASB members from North America and that this would send the wrong message. South America was an important continent that also required representation on the IASB. There was therefore a

suggestion that the division between North and South America should be removed and replaced with five members from the Americas thus allowing for appointments to be made for North and South America.

- Others recommended that historical bonds on the grounds of common language should be taken into account in the composition of the Board. As such Oceania should be considered closely related to North America. (This view was submitted by the joint comments of ACTEO, AFEP and MEDEF in their letter dated 19 September 2008).

There were some who expressed the view that there was need for clarity as to what was meant by geographic allocation. There was uncertainty as to whether this meant a member who had predominantly worked in a particular region, was a passport holder of that region or was a representative of that region.

A number of respondents recommended that if geographic delineation was identified as a basis for the appointment of IASB members, then it should be subject to review every five years or so. It should not remain static and it should therefore take account of changing financial markets. (Presumably this would be coerced by each Constitutional Review).

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

There was general support for part-time membership of the IASB since 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.

However there were some respondents that did not support part time membership since it would reduce the Board's independence and ability to consult and liaise.

Of those who supported the inclusion of part-time Board members, the following caveats were expressed:

- There should always be a certain minimum number of part-time members on the IASB. Many respondents recommended three as a minimum.
- It was essential for there to be appropriate controls in place to ensure the independence of part-time IASB members.

- There was a recommendation that in order to limit the impact of competing time constraints, consideration might be given to appointing part time members for the life of a project as this would reduce overall time commitments.

Some respondents expressed a view on the term of IASB appointments. Those who did express an opinion noted that the current proposal of a term of “five years, renewable once” was too long and that care should be taken to limit an IASB member’s term so that the individual did not become disconnected from practical experience.

The Trustees would welcome additional comments on the proposals.

Voting of the IASB

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.

Appendix 1 - List of organisations provided written submissions or attended public hearings during the consultation period of the Constitution Review

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>