Topic   **Constitutional Review (Part 2)**

**Input sought from the Standards Advisory Council
on the Second Part of the IASC Foundation Constitution Review**

1.   At the June SAC meeting, the Trustees would appreciate receiving input on one issue raised as part of the Constitution Review directly related to the SAC's activities:

- The IASB's agenda-setting process

This issue and others were identified as topics for consideration in the IASC Foundation's consultation document, *Review of the Constitution: Identifying Issues for Part 2 of the Review* (December 2008). For the purposes of the session of the June SAC meeting, the discussion will focus on this one issue.

2.   The Constitution Committee and then the Trustees will be considering the next steps on the second part of the review at their upcoming meeting in Amsterdam. Therefore, this SAC session is particularly timely in order to inform the Trustees in advance of their Amsterdam meeting. Because the Constitution Review process will continue, the SAC could consider ways to provide input on its own effectiveness and other Constitutional issues between now and the Trustees' October meeting.

3.   The comment period on the discussion document ended at the end of March, and a preliminary staff analysis of comments is attached. The Trustees have yet to deliberate on the contents of the staff comment analysis.

The IASB's agenda-setting process

4.   The IASB's agenda-setting process has always attracted significant attention from commentators. (A summary of the agenda-setting process is attached to this paper as an appendix.) For this reason, in the discussion document, the Trustees asked:

> Commentators have raised issues related to the IASB's agenda-setting process. The Constitution gives the IASB 'full discretion in developing and pursuing its technical agenda'. The Trustees have regularly reaffirmed that position as an essential element of preserving the independence of the standard-setting process. However, they would welcome views on the IASB's agenda-setting process and would appreciate it if, in setting out views, respondents would discuss any potential impact on the IASB's independence.

5.   The IASB's agenda is an area that directly concerns the SAC. While the Constitution states that the IASB should "have full discretion in developing and pursuing

the technical agenda of the IASB and over project assignments on technical matters," the SAC has a Constitutional responsibility for "giving advice to the IASB on agenda decisions and priorities in the IASB's work." The question of agenda-setting touches the issues of independence and accountability.

6.   Almost all commentators reaffirmed the need for the IASB to maintain its independence to set IFRS standards without interference, if it is to be capable of setting high quality international accounting standards.

7.   The comment process on the Constitution Review discussion document revealed concerns regarding the substance of the IASB's agenda and also the process of agenda-setting. In terms of the Constitutional review process, the focus should be on the latter, but one should pay attention to the substantive concerns as possible symptoms of perceived problems.

8.   A significant portion of commentators raised issues related to the relevance of the IASB's existing work and the emphasis placed on its convergence work.

9.   Commentators did differentiate between the process of setting the agenda and the process of writing the standards. Many were of the opinion that the IASB's independence would be enhanced and receive greater legitimacy if the agenda-setting process become more transparent and the IASB become more accountable, including providing explanations and justifications for their prioritisation of the agenda. The Trustees were therefore urged to make appropriate changes to the Constitution, whilst preserving the IASB's independence in making decisions. In addition, the Trustees were urged to satisfy themselves that the agenda reflects the public interest.

10.   In suggesting approaches to the issue, some have argued for the IASB to have public consultations on its agenda and priorities on an annual basis or when new issues arise in addition to the current formal process already utilized. On the other hand, adding additional formal consultation steps may risk the ability to respond to issues in a timely manner and be viewed as bureaucratic.

11.   Others have suggested that the SAC could play a role in helping the Trustees evaluate the IASB's performance regarding its agenda-setting and priorities. Of course, there would be a need to establish appropriate criteria.

12.   Some commentators, mainly commentator outside Europe, urged against the Trustees interfering with the agenda-setting process or the IASB's independence.

13.   The Trustees would appreciate the SAC's views on the agenda-setting process. If time permits, then the SAC could raise other issues for Trustee consideration.

Stage 1: Setting the agenda

19 The IASB, by developing high quality accounting standards, seeks to address a demand for better quality information that is of value to all users of financial statements. Users include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public. Better quality information will also be of value to preparers of financial statements.

20 Although not all of the information needs of these users can be met by financial statements, there are common needs for all users. As investors are providers of risk capital to the entity, the provision of financial statements that meet their needs will also meet most of the needs of other users. The IASB therefore evaluates the merits of adding a potential item to its agenda mainly by reference to the needs of investors.

21 When deciding whether a proposed agenda item will address users' needs the IASB considers:

    (a) the relevance to users of the information and the reliability of
    information that could be provided
    (b) existing guidance available
    (c) the possibility of increasing convergence
    (d) the quality of the standard to be developed
    (e) resource constraints.

For further discussion see paragraphs 52–58.

22 To help the IASB in considering its future agenda, its staff is asked to identify, review and raise issues that might warrant the IASB's attention. New issues may also arise from a change in the IASB's conceptual framework. In addition, the IASB raises and discusses potential agenda items in the light of comments from other standard-setters and other interested parties, the SAC and the IFRIC, and staff research and other recommendations.

23 The IASB receives requests from constituents to interpret, review or amend existing publications. The staff consider all such requests, summarise major or common issues raised, and present them to the IASB from time to time as candidates for when the IASB is next considering its agenda (see paragraphs 60 and 61).

24 The IASB's discussion of potential projects and its decisions to adopt new projects take place in public IASB meetings. Before reaching such decisions the IASB consults the SAC and accounting standard-setting bodies on proposed agenda items and setting priorities. In making decisions regarding its agenda priorities, the IASB also considers factors related to its convergence initiatives with accounting standard-setters. The IASB's approval to add agenda items, as well as its decisions on their priority, is by a simple majority vote at an IASB meeting.

25 When the IASB considers potential agenda items, it may decide that some issues require additional research before it can take a decision on whether to add the item to its active agenda. Such issues may be addressed as research projects on the IASB's research agenda.

A research project normally requires extensive background information that other standard-setters or similar organisations with sufficient expertise, time and staff resources could provide.

26 Research projects are normally carried out by other standard-setters under the supervision of, and in collaboration with, the IASB. In the light of the result of the research project (normally a discussion paper, see paragraph 32), the IASB may decide, in its public meetings, to move an issue from the research project to its active agenda.