

AGENDA PAPER

IFRS Foundation Trustees meeting with the Monitoring Board

Washington DC 12 July 2012

Agenda ref MB 2C

To: The Monitoring Board

From: Michel Prada

Date: 26 June 2012

Re: Governance Review status update

This memorandum sets out a proposed change to the IFRS Foundation Constitution which the Trustees will be considering at its meeting in July in Washington DC (the papers to be considered by the Trustees are attached).

As the Monitoring Board will note, at this stage we are considering only one change, which is to be reflected in the Constitution, namely the separation of the role of the IASB Chair from that of the Executive Director. The Trustees know this is a change which is important to the Monitoring Board and which was one of the main recommendations in its Governance Review report. Given that this is an important change that has already been adopted, with the appointment of Yael Almog as Executive Director, our view is that the Foundation's Constitution should reflect the reality of this change as soon as possible.

As the attached paper makes clear, our plan is to consider further changes to the document in the context of the next review of the Constitution, which is scheduled to start in 2013.

If the Trustees decide to make any changes to this proposal at its meeting, it will be reported to the Monitoring Board.

ADMIN PAPER

IFRS Foundation Trustees Meeting

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Washington DC 11 July 2012

Agenda ref 10A

To: Trustees

From: Yael Almog

Date: 25 June 2012

Re: Drafting Review: Separating the role of the IASB Chair and the Executive Director

Following the Trustees' 2011 Strategy Review, and the proposed changes that arose out of the Monitoring Board's Governance Review, staff have identified the need to change the Constitution in some respects.

However, staff have been informed that the Monitoring Board is still considering its composition and is therefore not ready, as yet, for the Foundation to proceed with the full set of amendments to the Constitution arising from the Strategy Review and the Governance Review. It is also the case that the Foundation plans to commence a full constitutional review in 2013¹. For these reasons it is considered premature to suggest a large number of Constitutional changes at this juncture.

Accordingly staff recommend only one substantive change, namely the separation of the role of the IASB Chair from that of the Executive Director.

Whilst this is a change that arises from the Monitoring Board's Governance Review, rather than the Trustees' Strategic Review, it is an important change that has already been adopted. The Foundation announced an internal structural reorganisation at the end of 2011 and the Executive Director was appointed in the first quarter of 2012. Staff are of the view that it is essential for the Foundation's Constitution to reflect the reality of this change as soon as possible.

Accordingly only the following Constitutional changes are being recommended at this point in time:

- **New section 15(b)** - to expressly provide for the appointment of the Executive Director and establish his or her contract of service and performance criteria;

¹ In accordance with section 17(c) and 17(d) of the Constitution.

- **Section 30** – removed reference to the Chair of the IASB also being the Chief Executive of the Foundation.
- **Section 47 and 48 and heading** – changes arising from the appointment of the Executive Director and her responsibility in respect of operational functions, as distinct and separate from the technical duties of the Chair of the IASB.
- Consequent amendments throughout the Constitution arising from the change in numbering in section 15.

It is proposed that these Constitutional changes should be published for a 90-day consultation period.

Given the Monitoring Board’s position, and the forthcoming Constitutional Review, staff recommend that this consultation should be termed a “Drafting Review” rather than a “Constitutional Review”, so as to avoid any confusion. The Drafting Review should highlight that there will be other changes arising from the Trustees’ Strategic Review, and possibly from the Monitoring Board’s Governance Review, but that these will be included in the 2013 Constitutional Review.

The proposed constitutional changes arising from the Monitoring Board’s Governance Review are set out in the attached documents:

- Agenda paper 10A(i) sets out in tabular format the relevant sections from the Monitoring Board’s Governance Review, together with the proposals for change, and the reasons for these recommendations.
- Agenda paper 10A(ii) is the IFRS Foundation’s Constitution, in marked up format, reflecting the proposed changes. Each change carries a footnote, which references the authority for the proposed change.

Discussion will focus on the recommended changes and the timing for the proposed changes, although of course alternative suggestions and questions will be welcomed.

It is proposed that the Trustees’ final agreed proposals on the changes to the Constitution will be presented to the Monitoring Board at their meeting with the Trustees in July.

The rest of the possible changes to the Constitution will be discussed with the Trustees and the Monitoring Board once the latter has finalised its discussions.

ADMIN PAPER

IFRS Foundation Trustees meeting

Washington DC 11 July 2012

Agenda ref 10A(i)

| DRAFTING REVIEW | | |
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| SEPARATING THE ROLE OF THE IASB CHAIR AND THE EXECUTIVE DIRECTOR | | |
| Taken from the Monitoring Board's Governance Review Decisions in relation to the IASB | | |
| Provision in the Governance Review | Proposed Constitutional Change | Reasons |
| <p>2. IASB Management Structure and Segregation of Staff Functions. <i>(I-2 and I-3)</i></p> <p>The Monitoring Board will encourage the Trustees to ensure clear division of responsibilities and reporting lines between staff supporting the IASB's standard-setting functions and those assisting the Trustees in oversight functions.</p> <p>Additionally, the Monitoring Board recommends that the Trustees consider changes to the Constitution to remove the title of Foundation Chief Executive Officer (CEO) from the IASB Chair.</p> <p>The IASB Chair should retain full responsibility for all standard-setting matters, including resources. The Trustees should assess the functions currently allocated to the Foundation CEO and</p> | <p>Changes to sections 15, by adding a new section 15(b), and sections 30, 47 and 48 of the Constitution. These amendments are reflected in the attached annex.</p> | <p>The Trustees resolved to separate the role of the Chairman of the IASB from that of the Chief Operating Officer.</p> <p>As a result the Trustees have created the role of the Executive Director, who is responsible for all of the Foundation's operational functions.</p> |

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| reassign functions to ensure segregation of responsibilities for IASB operations from any oversight or funding matters which may create an actual or perceived conflict of interest in standard-setting. | | |
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ADMIN PAPER

IFRS Foundation Trustees meeting

Washington DC 11 July 2012

Agenda ref 10A(ii)

EXTRACTS FROM THE IFRS FOUNDATION CONSTITUTION REFLECTING THE PROPOSED CHANGES TO SEPARATE THE ROLE OF THE IASB CHAIR AND THE EXECUTIVE DIRECTOR

The following is an extract of the changes to the relevant sections of the IFRS Foundation Constitution:

Section 15:

15 In addition to the duties set out above, the Trustees shall:

(a) appoint the members of the IASB and establish their contracts of service and performance criteria;

(b) appoint the Executive Director and establish his or her contract of service and performance criteria²;

(c) appoint the members of the IFRS Interpretations Committee (the Interpretations Committee) and the IFRS Advisory Council (the Advisory Council);

(d) review annually the strategy of the IFRS Foundation and the IASB and its effectiveness, including consideration, but not determination, of the IASB's agenda;

(e) approve annually the budget of the IFRS Foundation and determine the basis for funding;

(f) review broad strategic issues affecting financial reporting standards, promote the IFRS Foundation and its work and promote the objective of rigorous application of IFRSs, provided that the Trustees shall be excluded from involvement in technical matters relating to financial reporting standards;

(g) establish and amend operating procedures, consultative arrangements and due process for the IASB, the Interpretations Committee and the Advisory Council;

(h) review compliance with the operating procedures, consultative arrangements and due process as described in (g);

(i) approve amendments to this Constitution after following a due process, including consultation with the Advisory Council and publication of an exposure draft for public comment and subject to the voting requirements given in section 14;

² Arising from the Monitoring Board proposal to formally separate the role of the IASB Chair from that of the CEO of the Foundation so that the Chair can concentrate on activities directly relating to standard-setting – as set out at section 2 on page 6 of the Governance Review, Executive Summary.

- (j) exercise all powers of the IFRS Foundation except for those expressly reserved to the IASB, the Interpretations Committee and the Advisory Council; and
- (k) foster and review the development of educational programmes and materials that are consistent with the IFRS Foundation's objectives.

Section 30:

30 The Trustees shall appoint one of the full-time members as the Chair of the IASB, ~~who shall also be the Chief Executive of the IFRS Foundation~~³. Up to two of the full-time members of the IASB may also be designated by the Trustees as a Vice-Chair, whose role shall be to chair meetings of the IASB in the absence of the Chair or to represent the Chair in external contacts. The appointment of the Chair and the designation as Vice-Chair shall be for such term as the Trustees decide. The title of Vice-Chair would not imply that the member (or members) concerned is (or are) the Chair elect. The appointment of a Chair and Vice-Chairs should be made with regard to maintaining a geographical balance.

Heading and Sections 47 and 48:

Chief Executive Director and staff

47 ~~As provided under section 30, the Chair of the IASB shall also be the Chief Executive of the IFRS Foundation.~~ An Executive Director of the IFRS Foundation, appointed by the Trustees and the IASB chair, shall be responsible for overseeing operational decisions affecting the day-to-day management of the IFRS Foundation and staff. The Executive Director shall report to the IASB Chair on matters relating to the IASB's standard-setting activities and to the Trustees on all other matters. ~~and shall be subject to supervision by the Trustees.~~

48 The IASB chair shall be responsible for establishing the senior technical team of the IASB, in consultation with the Trustees, and will be responsible for the supervision of this team and their staff. The Chief Executive shall be responsible for establishing the senior staff management team of the IFRS Foundation, in consultation with the Trustees.⁴

Note:

Please note that there will also be a few minor changes throughout the Constitution to reflect the change in numbering to section 15. These have not been highlighted for your attention since they are not material changes.

³ Monitoring Board's Governance Review – section 2 on page 6 – Executive Summary.

⁴ Monitoring Board's Governance Review – section 2, page 6 of the Executive Summary.