



**Via Email: [constitutionreview@iasb.org](mailto:constitutionreview@iasb.org)**

2 April 2009

Ms. Tamara Oyre  
Assistant Corporate Secretary  
IASC Foundation  
30 Cannon Street  
London  
EC4M 6XH

16 Park Crescent  
London W1B 1AH  
United Kingdom  
Tel.: +44 207 612 7098  
Fax: +44 207 612 7034  
Email: [secretariat@icgn.org](mailto:secretariat@icgn.org)  
Web: [www.icgn.org](http://www.icgn.org)

Dear Ms. Oyre,

**Re: Review of the Constitution Identifying Issues for Part 2 of the Review**

We are writing on behalf of the International Corporate Governance Network (ICGN). The ICGN is a global membership organisation of institutional and private investors, corporations and advisors from 47 countries. Our investor members are responsible for global assets of U.S. \$15 trillion. The mission of the ICGN is to meaningfully contribute to the continuous improvement of corporate governance best practices through the exchange of ideas and information across borders. Information about the ICGN, its members, and its activities is available on our website: [www.icgn.org](http://www.icgn.org).

The purpose of the Accounting and Auditing Practices Committee is to address and comment on accounting and auditing practices from an international investor and shareowner perspective. The Committee through collective comment and engagement strives to ensure the quality and integrity of financial reporting around the world.

[http://www.icgn.org/organisation/committee\\_membership.php?name=AAP](http://www.icgn.org/organisation/committee_membership.php?name=AAP)

The ICGN is pleased to provide comment to the International Accounting Standards Committee (IASC) Foundation on its request for comments on the review of its constitution, Identifying Issues for Part 2 of the Review. The ICGN supports the primary objective 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.

The ICGN sees enormous potential in the recognition granted to International Financial Reporting Standards (IFRS) with the convergence of standards and the adoption of IFRS. Beyond the diverse specific interests of its members, the ICGN considers that placing investor viewpoints at the core of IFRS standard setting has been in the past, and should continue being in the future, a crucial driver of IFRS' success. Therefore, the ICGN takes a keen interest in the governance of IFRS standard setting and especially in the role granted to investors and their representatives in that governance. Unfortunately, the perspective provided in the Review of the Constitution and in the primary objective as listed above does not sufficiently address the role of investors and shareholders in their capacity as providers of long-term capital to the global capital markets. It should be a fundamental principle that the standard setters are

accountable to those that use their standards. We urge you to take into consideration the inclusion of an effective governance mechanism to ensure that investors and other users are significantly and properly represented in the governance of the IASB and the primary objective outline the importance of investors. Investors, not preparers or auditors, must be recognized as the key stakeholders in the area of accounting – putting their trust in the hands of the standard setters to ensure the quality, relevance and appropriateness of those standards. Additionally the structure of the IASB must provide for a secure, stable and mandatory funding source to ensure the independence of the IASB.

## **I. OBJECTIVES OF THE IASB**

- Q1 Does the emphasis on helping ‘participants in the world’s capital markets and other users make economic decisions’, with consideration of ‘the special needs of small and medium-sized entities and emerging economies’ remain appropriate ?**

### **Q1 Response:**

Although, the needs of small and medium-size entities and emerging economies may be diverse, we would not support different recognition or carve-out measurement standards for any size entity.

- Q2 In the opinion of the Trustees, the commitment to drafting standards based upon clear principles remains vitally important and should be enshrined in the Constitution. Should the Constitution make specific reference to the emphasis on a principles-based approach?**

### **Q2 Response:**

Although we support the need for clear principles in accounting standards, we do not believe the Constitution should make specific reference to the emphasis on a principle-based approach. We believe standards should be based on the best transparent standard and believe that standards should produce robust, investor-useful reporting.

- Q3 The Constitution and the IASB’s Framework place priority on developing financial reporting standards for listed companies. During the previous review of the Constitution some commentators recommended that the IASB should develop financial reporting standards for not-for-profit entities and the public sector. The Trustees and the IASB have limited their focus primarily to financial reporting by private sector companies, partly because of the need to set clear priorities in the early years of the organisation. The Trustees would appreciate views on this point and indeed whether the IASB should extend its remit beyond the current focus of the organization.**

### **Q3 Response:**

We have to-date limited involvement in commenting on the financial accounting and reporting for not-for-profit entities and the public sector, we would not object to the IASB extending its remit to include the development of standards for those enterprises. We, however, would not support the IASB taking on those additional responsibilities at this time given their limited resources.

- Q4** There are other organizations that establish standards that are either based upon or have a close relationship with IFRSs. The IASC Foundation already recognises the need to have close collaboration with accounting standard-setting bodies. Should the Constitution be amended to allow the possibility of closer collaboration with a wider range of organizations whose objectives are compatible with the IASC Foundation's objectives? If so, should there be any defined limitation?

**Q4 Response:**

As indicated in the covering letter, the Constitution should be amended to require closer collaboration, greater input, and greater consideration of the views of investors ? the primary users of financial reports.

- Q5** The first part of the review of the Constitution proposed the establishment a formal link to a Monitoring Group. Under this arrangement, the governance of the organization would still primarily rest with the Trustees. Although the first part of the review has not yet been completed, the Trustees would welcome views on whether the language of Section 3 should be modified to reflect more accurately the creation of the Monitoring Group and its proposed role.

**Q5 Response:**

In principle, we support the creation of a Monitoring Group/Board in order to create a direct link of public accountability to official institutions and on this basis consider that the language of section 3 should be modified to reflect its creation and proposed role. But, we consider it important that the Group's governance arrangements are transparent and that there are checks and balances to prevent political interests exercising undue influence over the Group, inclusion of investors to guard against mission creep – we believe that the Group's role should be limited to monitoring the IASCF's operations and not those of the IASB.

Moreover in our opinion, the true priority is the establishment of a stable, independent funding framework for the IASC Foundation to enhance independence. Establishing a stable, transparent funding framework for the IASC Foundation would significantly reduce the concern that financial pressure could compromise the independence of the IASB's decision-making. We find it inappropriate that the establishment of a Monitoring Group is envisaged without a link to the key issue of establishing sustainable funding for the IASC Foundation.

**II. QUESTIONS RELATED TO TRUSTEES**

- Q6** The Trustees are appointed according to a largely fixed geographical distribution. Is such a fixed distribution appropriate, or does the current distribution need review?

**Q6 Response:**

We believe a geography quota can be counterproductive and borders on becoming unwieldy and inefficient. We support that Trustees include significant representation from the investor

community and that the Trustees demonstrate a commitment to actively supporting the improvement of financial accounting and reporting for the benefit of investors. We believe the Trustees should demonstrate a commitment to actively supporting and defending the independence of the IASB.

Finally, we are concerned that the geographical quota system may also create “representative” Trustees composed of individuals that are more likely to perceive their roles as promoters of the narrow public interests of the region they represent, rather than improving financial accounting and reporting that best serves the needs of investors.

**Q7 Sections 13 and 15 set out the responsibilities of the Trustees. The intention of these provisions is to protect the independence of the standard-setting process while ensuring sufficient due process and consultation—the fundamental operating principle of the organization. In addition to these constitutional provisions, the Trustees have taken steps to enhance their oversight function over the IASB and other IASC Foundation activities. The Trustees would welcome comments on Sections 13 and 15, and more generally on the effectiveness of their oversight activities.**

**Q7 Response:**

We support the Trustees enhancing their oversight function of the IASB. We, however, strongly object to the Trustees having involvement in the IASB’s agenda setting process as suggested by Section 15(c).

Whereas we acknowledge that the IASCF’s decision to suspend due process and IASB’s decision to give greater flexibility in accounting for financial assets at fair value, bringing IFRS into line with US GAAP last October, were pragmatic responses to pressure from the EU and preferable to rules being written by the EU Commission. However, they were an unwelcome precedent in that making changes to such complex areas in such a condensed time frame could result in unhelpful reporting and have unintended consequences. These measures also risked damaging the whole process of convergence in that in adopting some of the worst features of a US standard, features for which the US is often criticised, the IASB risked a rush to the bottom in terms of standards and less transparent reporting to investors. If current IFRS is better then the IASB should maintain the difference and it should be US GAAP that changes. Applying principles of due process is of key importance for sustaining high quality standards that work on the ground. Without a significant change in the selection criteria and composition of the Trustees, as described in response to question 6, we believe that providing the Trustees a role in the IASB’s agenda setting process will only result in even greater special interest group influence over the standard setting process to the detriment of investors and the capital markets. There will be greater confidence in the role that the Trustees can perform if they are seen to be representative of the interest of investors, users of financial reporting.

**Q8 The Trustees are responsible for ensuring the financing of the IASC Foundation and the IASB. Since the completion of the previous review of the Constitution, the Trustees have made progress towards the establishment of a broad-based funding system that helps to ensure the independence and sustainability of the standard-setting process. (For an update**

on the funding status, see <http://www.iasb.org/About+US/About+the+IASC+Foundation/Funding.htm>)

**However, the Trustees have no authority to impose a funding system on users of IFRSs. The Trustees would welcome comments on the progress and the future of the organization's financing.**

**Q8 Response:**

We remain concerned with the IASCF's financing. Although we feel there have been improvements, we agree with those experts who have concluded that "economic . . . independence is an important guiding principle in institutionalizing a standard setting body that is responsive to the needs of investors and capital markets."<sup>1</sup>

**III. QUESTIONS RELATED TO THE IASB**

- Q9** 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.

**Q9 Response:**

As indicated in response to question 7, we agree that providing the IASB with the full discretion in developing and pursuing its technical agenda is an essential element of preserving the independence of the standard-setting process. We believe allowing the Trustees to have authority to remove a project from the IASB's technical agenda would impair the independence to the detriment of investors and the capital markets

- Q10** The Constitution describes the principles and elements of required due process for the IASB. The IASB's procedures are set out in more detail in the IASB Due Process Handout. If respondents do not believe the procedures laid out in the Constitution are sufficient, what should be added? If respondents believe that the procedures require too much time, what part of the existing procedures should be shortened or eliminated? The Trustees would also welcome comments on recent enhancements in the IASB's due process (such as post-implementation reviews, feedback statements, and effect analyses) and on the IASB Due Process Handbook.

**Q10 Response:**

---

<sup>1</sup> Luzi Hail et al., Global Accounting Convergence and the Potential Adoption of IFRS by the United States: An Analysis of Economic and Policy Factors 78 (Feb. 2009), [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1357331](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1357331)

As indicated in our general comments, we believe that the procedures of the IASB should focus primarily on the needs of investors. We, therefore, believe that investor perspectives should be given pre-eminence in the Constitution's description of the principles and elements of the IASB's required due process. We believe the related procedures included in the IASB Due Process Handbook should be revised to make explicit that, at each and every stage within the IASB's due process the needs of investors are addressed.

**Q11 Should a separate 'fast track' procedure be created for changes in IFRSs in cases of great urgency? What elements should be part of a 'fast track' procedure?**

**Q11 Response:**

We acknowledge that there may be some limited "cases of great urgency" in which it may be appropriate for the IASB to pursue a 'fast track' procedure. Unlike the situation in October, however, 'fast track' procedures should not be permitted: (1) to completely eliminate the solicitation and consideration of investor input; and (2) to be used to promulgate a standard that, from the perspective of most investors, is clearly not an improvement to financial accounting and reporting.

**IV. QUESTIONS RELATED TO THE STANDARDS ADVISORY COUNCIL**

**Q12 Are the current procedures and composition, in terms of numbers and professional backgrounds, of the Standards Advisory Council (SAC) satisfactory? Is the SAC able to accomplish its objectives as defined in Section 38?**

**Q12 Response:**

Consistent with our general comments, we compliment the IASCF for their recent efforts to increase the investor representation on the SAC, including inviting members of ICGN to participate on the SAC. That said, whilst we appreciate the willingness of the IASB staff and Board members to call in on our conference calls we still consider that there is a need for the IASB to meet with investors regularly and that in future revisions of the SAC it would be better to limit the amount of members to 20, including at least 7 investor representatives.

**Q13 Attached to this discussion document are the terms of reference for the SAC, which describe the procedures in greater detail. Are there elements of the terms of reference that should be changed?**

**Q13 Response:**

We propose no changes to the elements of the terms of reference for the SAC at this time, with the exception of increasing the investor representation on the SAC as discussed in response to question 12.

**V. QUESTIONS RELATED TO OTHER ISSUES**

**Q14 Should the Trustees consider any other issues as part of this stage of their review of the Constitution?**

**Q14 Response:**

We request that the Trustees carefully review and consider the contents of this letter and other input from investors. We believe decisive actions are necessary to begin the process of regaining investor trust and confidence in the IASCF and the IASB.

In conclusion, the ICGN believes the following fundamental principles should be at the core of any process to ensure the integrity and legitimacy of the governing body:

- Ensure an independent board comprised only of full-time members with significant investor representation and a demonstrated track record of commitment to serving the public interest,
- Establish a stable, independent and mandatory funding source for the IASC Foundation to ensure adequate resources to fulfill their important mission, and,
- Significantly revise the Monitoring Group Proposal, to prevent the Group from politicizing and complicating the process in a manner unacceptable to investors, and impair the effective and efficient functioning of the Trustees.

If you would like to discuss any of these points, please do not hesitate to contact Anne Simpson, our Executive Director, at +44 207 612 7098 or [execdirector@icgn.org](mailto:execdirector@icgn.org). Thank you for your attention and we look forward to your response on the points above.

Yours sincerely,



Christianna Wood  
Chair, ICGN Accounting and  
Auditing Practices Committee



George Diehr  
Co-Chair, ICGN Accounting and  
Auditing Practices Committee

Cc: Gerrit Zalm, Chairman of the Trustees, IASC Foundation  
Phillip A. Laskawy, Vice Chairman, IASC Foundation  
IASC Foundation Trustees  
Tom Seidenstein, Director of Operations, IASC Foundation  
ICGN Board Members  
ICGN Accounting & Auditing Practices Committee