

Comment of Swiss GAAP FER on:

**Review on the Constitution
Identifying Issues for Part 2 of the Review
Comments to be submitted by 31 March 2009**

**MS Tamara Oyre, Assistant Corporate Secretary
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Dear MS Oyre

The Swiss Standard Setter Swiss GAAP FER appreciates the opportunity to comment on the identifying issues for Part 2 of the Review.

Objectives of the organization

1. *The Constitution defines the organisation's primary objective in the following manner:
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*

In fulfilling that objective, the organisation is to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies

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?

Answer of Swiss GAAP FER to issue 1

Considering the project agenda of the IASB, this is even more appropriate than before. However, Swiss GAAP FER is still of the opinion that an IFRS for Private Entities has no tremendous benefit as the IASB can neither decide which entities should adopt the new standard, nor will the standard allow comparing the financial statements globally as the draft tolerates eight accounting policy elections. We just wanted to mention this, knowing that the IASB is going through with this nearly ready standard.

2. *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 principle-based approach?*

Answer of Swiss GAAP FER to issue 2

We are not sure if the Constitution should make a specific reference to emphasise the principle-based approach. We think that in the intricate accounting world of today, it is not possible to draft standards that normally are principle-based. We deem that this would represent a false labelling. Therefore, we propose to drop the labelling of this principle, but still have in mind to keep the standards as simple as possible regarding the complexity of the accounting rules needed nowadays.

3. *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 organisation.*

Answer of Swiss GAAP FER to issue 3

If resources are available, Swiss GAAP FER would appreciate that the IASB would extend its activities from the listed companies to financial reporting standards for not-for-profit entities. It does not happen rarely that the financial statements of non-for-profit entities (and the public sector) are not only unreliable, but confusing and non-transparent. It remains to be considered whether for the public sector the train has left the station (as we say in German), as the IPSAS already cover this sector with their International Public Sector Accounting Standards. And by the way, the extension beyond the listed companies has already taken place with the IFRS project for Private Entities.

4. *There are other organisations 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 for the possibility of closer collaboration with a wider range of organisations, whose objectives are compatible with the IASC Foundation's objectives? If so, should there be any defined limitations?*

Answer of Swiss GAAP FER to issue 4

Swiss GAAP FER holds that the established due process in this respect is sufficient, provided that it is followed (which was not the case in amending IFRS 7, Reclassification of Financial Assets). We prefer that the non-institutional collaboration with accounting standard-setting bodies and a wider range of organisations, whose objectives are compatible with the IASC Foundation's objectives, is kept. The wording of the current Constitution, section 22 is adequate:

"The IASB will, in consultation with the Trustees, be expected to establish and maintain liaison with national standard-setters and other official bodies concerned with standard-setting in order to promote the convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards."

The IASB arranges public round-tables, hearings, meetings with standard setters and other interested parties. Those rather informal contacts are managed in the context of the Due Process Handbook for the IASB, approved by the Trustees March 2006:

"Liaison activities"

82 Liaison activities take place throughout the due process cycle. Their purpose is to promote co-operation and communication between the IASB and parties interested in standard-setting. Liaison is conducted at many levels within the IASB's structure and operations.

83 Close co-ordination between the IASB's due process and the due process of other accounting standard-setters is important to the success of the IASB. At its inception, the IASB established formal liaison relationships with standard-setters in Australia and New Zealand, Canada, France, Germany, Japan, the United Kingdom and the United States. The Technical Expert Group of the European Financial Reporting Advisory Group (EFRAG) was given the same rights as those bodies formally designated as liaison standard-setters. Since then, the concept of liaison with accounting standard-setters has been broadened. Members of the IASB are assigned to liaise not only with formerly designated liaison standard-setters and EFRAG, but also with other accounting standard-setters throughout the world.

84 While the extent and depth of liaison with accounting standard-setters required depends on the organisation involved, the IASB determines particular liaison responsibilities in consultation with the Trustees. The IASB meets the chairmen of other accounting standard-setters and regularly organises regional and global meetings with standard-setters.

85 Liaison activities extend beyond interaction with accounting standard-setters. The IASB interacts with a wide range of interested parties throughout a project. IASB members and senior staff of the IASB and the IASC Foundation also regularly hold educational sessions, attend meetings and conferences of interested parties, invite interested organisations to voice their views, and announce major events of the organisation on the Website."

Swiss GAAP FER is convinced that these open regulations enhance the independence of the IASB. This is the reason why Swiss GAAP FER advocates for not amending the Constitution in this respect.

Governance of the organisation

5. *The first part of the review of the Constitution proposed the establishment of a formal link to a Monitoring Group. Under this arrangement, the governance of the organisation 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.*

Answer of Swiss GAAP FER to issue 5

As stated in Part 1 of the Proposals to change the Constitution, Swiss GAAP FER is still of the opinion that "the formulation of the Monitoring Group's Mandate appropriately provide the borderline between the duties of the Monitoring Group and the operational independence of the IASC Foundation and the IASB." Therefore we judge the language of Section 3 as appropriate.

Trustees

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

Answer of Swiss GAAP FER to issue 6

In section 6 of the current Constitution you state:

" In order to ensure a broad international basis, there shall be

(a) six Trustees appointed from North America;

(b) six Trustees appointed from Europe;

(c) six Trustees appointed from the Asia/Oceania region; and

(d) four Trustees appointed from any area, subject to establishing overall geographical balance."

Swiss GAAP FER basically agrees with the list (a) to (c). But in our view excellent IFRS accounting knowledge can nowadays be found all over the world. Therefore, we would be in favour of mentioning South America in subsection (d). The widespread IFRS expertise is also the reason why the geographical distribution is appropriate as a general principle.

7. *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 organisation. 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.*

Answer of Swiss GAAP FER to issue 7

Part 1 of the Constitution Review proposes the creation of a Monitoring Group. As a consequence the new Sections 18 to 23 have been drafted. The link of the Monitoring Group to be created should also be mirrored in the list of the duties of the Trustees in Section 15 of the Constitution. Otherwise, the consequences for the trustees remain blurred.

Please, for answers to issue 7, see also below our remarks to issue 9.

8. *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 organisation's financing.*

Answer of Swiss GAAP FER to issue 8

To raise funds and remain fully independent, is a challenging task. Swiss GAAP FER is of the view that the Trustees have done a good job. What we appreciate particularly is the transparency the Trustees have established about the contributions and their sources.

International Accounting Standards Board

9. *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.*

Answer of Swiss GAAP FER to issue 9

The IASB is a think-tank and by the back-ground of its members close enough to the topical problems of front-line accounting issues. Therefore, the agenda-setting will follow the needs of financial reporting. However, having in mind that not the agenda-setting, but the due process to implement the agenda issues, was suspended to implement the reclassification possibilities in context with IAS 39, the constitution should mention that the institutionalised due process has to be complied with at all times. If this is -- as a principle -- strongly queried, there should be a regulated procedure for emergency issues. Additionally, guidance would be needed to make sure that this shortened due process is not abused.

Our suggestion is therefore to supplement section 15 (f) of the constitution as follows:

(f) establish and amend operating procedures, consultative arrangements and due process for the IASB, IFRIC and SAC and monitor the implementation of the due process;

10. *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 Handbook. 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.*

Answer of Swiss GAAP FER to issue 10

Please check with the answer to issue 7 above.

Generally, Swiss GAAP FER is of the opinion that an excellent job is done with the implementation of the due process. Field Tests, Round Tables, Public Hearings, Feedback Statements or -- as in the latest case -- the Snapshot on Preliminary Views on Revenue Recognition are in favour of elevating the quality of the IFRS' and the IFRIC' as well as their acceptance. But in the feedback statements the analysis of the comment letters could be more seizeable (opinion of significant respondents as well as quantitative information such as 80% disagreed that). To understand our request better we refer to p. 15ff. of the Project summary, feedback and effect analysis of Business Combinations, Phase II of January 2008.

11. *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?*

Answer of Swiss GAAP FER to issue 11

As outlined while answering to issue 7, Swiss GAAP FER is not in favour of installing an accelerated due process. Nonetheless, if such an accelerated procedure should be implemented, there should be safeguard guidance to impede that the accelerated process is adopted in cases for which it is not conceived.

Standards Advisory Council

12. *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?*

Answer of Swiss GAAP FER to issue 12

The objectives to be accomplished as defined in Section 38 are indeed challenging. The professional background of the SAC members is unquestionable. However the Council is too large. How shall 38 members accomplish fruitful work?

What can be diagnosed while reading the minutes of SAC meetings is that there are many useful inputs during the open forum/ SAC discussion, but it is not transparent if and how the IASB integrates those ideas and if not, why not. The latest minutes available on www.iasb.org are those of the June meeting in 2008. In these minutes each topic ends with a summary by the IASB and a summary by a SAC member. And this seems to be the end of the story. Only if the Chairman has called for a formal poll and *“the IASB ultimately takes a position of a particular issue that differs from a polled expression of the SAC, feedback is given at the next meeting of the SAC.”* (Annex SAC section 17) Going through the four minutes of the SAC meetings, we could not find evidence of a formal poll.

Swiss GAAP FER acknowledges that the due process cannot be expanded ad infinitum. The due process must be developed from the point of view of benefit and cost. But if you have a Council as the SAC clearing the guidelines of the procedures concerning the meetings and their outcome must be implemented.

The Annex mentions in Section 2 that the SAC *“is to support the IASB in promotion and adoption of IFRS’s throughout the world.”* The accomplishment of this task should be documented.

If SAC would be a slim, effective and punchy body, then more than three meetings per year would be needed.

Summarising our thoughts:

- SAC has too many members, and
- too few meetings

- More guidelines are needed concerning the meetings, and
- concerning what is done with the inputs given on the meetings

13. *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?*

Answer of Swiss GAAP FER to issue 13

In Section 9 we read that the *“Chairman actively monitors the progress of the IASB’s work programme,”* Swiss GAAP FER is of the view that these activities should be documented.

Conduct of the meetings (Section 17 SAC Annex) “At the meeting members are invited to comment on the questions raised by the IASB or any other related matters. ..”

This procedure is a rather strict control and management by the IASB for a body that should have the functions of a think-tank.

If you would like additional clarification on the issues raised in this letter, we would be happy to discuss these further with you.

Yours sincerely,

Prof. Conrad Meyer
Chairman of the Board of Swiss GAAP FER

Evelyn Teitler-Feinberg
Member of the Board of Swiss GAAP FER


