

31 March 2009

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Dear Sir/Madam

**SAICA SUBMISSION ON EXPOSURE DRAFT REVIEW OF THE
CONSTITUTION – IDENTIFYING ISSUES FOR PART 2 OF THE REVIEW**

In response to your request for comments on the International Accounting Standards Foundation's (IASC Foundation) exposure draft, *Review of the Constitution – Identifying Issues for Part 2 of the Review*, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA). Please note that SAICA is not only a professional body, but also secretariat for the Accounting Practices Board (APB), the official standard-setting body in South Africa. The SAICA comment letter results from deliberations of the Accounting Practices Committee (APC), which is the technical advisory body to the APB.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director – Accounting

cc: Moses Kgosana (Chairman of the Accounting Practices Board)
Prof Alex Watson (Chairman of the Accounting Practices Committee)

SAICA SUBMISSION ON EXPOSURE DRAFT REVIEW OF THE CONSTITUTION – IDENTIFYING ISSUES FOR PART 2 OF THE REVIEW

GENERAL COMMENTS

We are generally supportive of the review of the Constitution as contained in this discussion document, subject to the concerns which have been elaborated further under each question below.

SPECIFIC COMMENTS

Objectives of the organisation

Question 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?

Yes, the emphasis on helping 'participants in the world's capital markets and other users make economic decisions' remains relevant. We recommend that the Trustees broaden this objective to specifically include the preparers or management of entities who are responsible for the preparation of financial statements. This will ensure that the IASB bears in mind that it needs to develop quality standards which not just specialists can apply, but also those who have the primary responsibility for the preparation of financial statements.

We also believe that the emphasis on "with consideration of 'the special needs of small and medium-sized entities and emerging economies'" remains appropriate for the reasons set out below.

- The project on International Financial Reporting Standards (IFRS) for non-publicly accountable entities (previously IFRS for Small and Medium Entities) is work in progress and many are looking to the International Accounting Standards Board (IASB) to urgently complete this project due to the need for such a standard. If this statement remains in the Constitution it will ensure that the IASC Foundation and IASB do not lose focus on this project.

SAICA SUBMISSION ON EXPOSURE DRAFT REVIEW OF THE CONSTITUTION – IDENTIFYING ISSUES FOR PART 2 OF THE REVIEW

- Most emerging economies do not have the resources to provide their constituents with a high quality set of accounting standards to address their specific financial reporting requirements, hence relying on IASB for IFRS and IFRS for non-publicly accountable entities. If their needs were ignored the quality of reporting in these countries would probably decline. It would also undermine the objective of having global accounting standards. In addition complying with ‘full’ IFRS is onerous and costly for these countries, and this once again increases the need to retain the objective as a way of addressing this issue.
- IAS 1 – *Presentation of Financial Statements*, paragraph 7 states that “General purpose financial statements (‘referred to as financial statements’) are those intended to meet the needs of users who are not in a position to require an entity to **prepare reports tailored to their participants information needs**.” (emphasis added). Therefore based on this paragraph it seems to be the IASB’s intention to include not just listed entities, but also the specific needs of small and medium entities and emerging economies.

Question 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?

Yes, the Constitution should make specific reference to the emphasis on a principle-based approach for the following reasons:

- The IASB has indicated its intention to move towards principle-based standards and this has been supported by most constituents;
- Business models change over time and a principle-based approach reduces the need to review and change standards regularly. Conversely, if a rules-based approach is followed, it would require the IASB to develop rules that are aimed at addressing financial reporting requirements for every change in business models and transactions; and
- By reducing the length of the standards it would make the standards more ‘user-friendly’ and understandable.

Question 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

SAICA SUBMISSION ON EXPOSURE DRAFT REVIEW OF THE CONSTITUTION – IDENTIFYING ISSUES FOR PART 2 OF THE REVIEW

indeed whether the IASB should extend its remit beyond the current focus of the organisation.

Currently, accounting standards for the public sector are developed by the International Public Sector Accounting Standards Board (IPSASB) and as far as we understand are aligned with IFRS, except where it address transactions specific to the public sector. We are of the view that this process should continue for now.

Whilst we support a move by the IASB to develop accounting standards for not-profit entities and the public sector, such a step should be long term rather than short term as there are currently more important projects that require the IASB's urgent attention, including but not limited to the convergence project and other areas of financial reporting highlighted in the credit crisis. Such an enormous task should also be properly planned for, prior to implementation, to ensure efficient execution. Also, we would also suggest that, where the IASB develops accounting standards for such entities, this process must occur in collaboration with other bodies that are currently establishing standards for these entities.

Question 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?

We support that the Constitution be amended to allow for the possibility of a closer collaboration with a range of organisations whose objectives are compatible with the IASC Foundation's objectives and where a reciprocal relationship could be developed. However, it is unclear what is meant by the "*closer collaboration with a wide range of organisations*" (emphasis added). The composition of the Monitoring Board and Standards Advisory Council (SAC) currently comprises of what could be referred to as 'wide range of organisations' including regulators, relevant international organisations and accounting standards setters, etc. It is not clear whether this proposal is intended at formalising in the Constitution what these bodies have been practising or whether collaboration with other organisations are being considered.

Governance of the organisation

Question 5

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 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.

SAICA SUBMISSION ON EXPOSURE DRAFT REVIEW OF THE CONSTITUTION – IDENTIFYING ISSUES FOR PART 2 OF THE REVIEW

Yes, we do see the necessity to review the language in Section 3 to reflect the role of the Monitoring Board and to clearly distinguish the roles of the Monitoring Board and the Trustees, who are responsible to govern the IASC Foundation.

Trustees

Question 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?

For the same reasons that the geographical distribution of the IASB was reviewed, we suggest that the current geographical spread of the Trustees be reviewed to include Africa and South America. This change would ensure that at least one member each from Africa and South America is appointed as a Trustee and that issues specific to these emerging economies are addressed.

Question 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.

Although we do not have specific comments on the effectiveness of the Trustees oversight activities, we question the manner in which the current Constitution is structured. The relevance of dividing the Constitution into Part A and Part B is not clear, particularly as Section 15 in Part B seems to be a continuation of the duties and responsibilities of the Trustees included in Section 13 in Part A.

Question 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.

We commend the Trustees for their progress made to date on establishing a broad-based funding system, as we believe that financing the IASC Foundation through voluntary contributions in the long-term could potentially undermine the independence of IASC Foundation and the IASB.

SAICA SUBMISSION ON EXPOSURE DRAFT REVIEW OF THE CONSTITUTION – IDENTIFYING ISSUES FOR PART 2 OF THE REVIEW

International Accounting Standards Board

Question 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.

We are of the view that the powers for setting the agenda should rest with the IASB. We recommend, however, that a much broader consultation process on the IASB's agenda be followed. At the same time we propose that adequate systems be put in place to ensure that political interference, which could impair the IASB's independence, be managed by the Trustees.

Paragraph 86 of the IASB's Due Process Handbook states that the "*In accordance with the Constitution and the SAC Charter (at Appendix III), the IASB consults the SAC on its technical agenda, project priorities, project issues related to the application and implementation of IFRSs, and possible benefits and costs of particular proposals.*" We recommend that the Trustees monitor the IASB to establish how the IASB has responded to the input and recommendations made by the SAC on its agenda. This monitoring role should be clearly stated in the Constitution to increase accountability of the IASB on its agenda decisions.

Question 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.

We believe that the procedures as laid out in the Constitution are sufficient and we do not propose any further amendments.

Question 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?

Yes, we support that a separate 'fast track' procedure be created for changes in IFRSs in cases of great urgency. We do not agree with issuing urgent amendments to standards/interpretations without an exposure period as the consequences for each country's standard-setting process and legal systems can be severe. For example, the

SAICA SUBMISSION ON EXPOSURE DRAFT REVIEW OF THE CONSTITUTION – IDENTIFYING ISSUES FOR PART 2 OF THE REVIEW

urgent amendments on *Reclassification of Financial Assets*, issued in October 2008, have resulted in further revisions and amendments to standards that could have been avoided had the document been exposed for public comment. We believe that a broader consultation process is important for a global accounting standard-setter like the IASB. The financial crisis, in our view, was not sufficient reason for suspending due process. We urge the IASC Foundation to ensure that they respect due process at all times. We therefore recommend that the IASB should, where the need arises to issue an urgent amendment to the standard, ensure that the proposed amendments be exposed for at least a short comment period (currently 30 days). In addition, constituents should be informed well in advance of the exposure period of the intention to issue or expose a document for a short period of time, particularly where this period includes recognised holidays. This communication should occur even if the full details of the project are not divulged. The purpose of this would be to create awareness amongst constituents and allow them time to plan for the urgent amendments.

Standards Advisory Council

Question 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?

We do not propose amendments on the current procedures and composition of the SAC, before seeing the effectiveness of the newly constituted SAC, who resumed their duties from 1 February 2009.

Question 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?

We have no specific comments.

Other issues

Question 14

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

Name of the IASC Foundation and the IASB

The names of the IASC Foundation and the IASB currently do not reflect the standards issued by them currently being IFRS. The current names are linked to IASs issued by the predecessor body to the IASB. Consideration should be given to aligning names to the standards produced by the organisation.

SAICA SUBMISSION ON EXPOSURE DRAFT REVIEW OF THE CONSTITUTION – IDENTIFYING ISSUES FOR PART 2 OF THE REVIEW

References to IASs and IFRSs

The relevance of the use of the words IASs and IFRSs in the same sentence as reflected in paragraph 2(d) and paragraph 37(a) is unclear. Paragraph 2(d) states “*to bring about convergence of national accounting standards and **International Accounting Standards and International Financial Reporting Standards** to high quality solutions.*” Paragraph 37 also states that “*The IFRIC shall interpret the application of **IASs and IFRSs** and provide timely guidance on financial reporting issues specifically addressed in **IASs and IFRSs**, in the context of the IASB Framework, and undertake other tasks at the request of the IASB.*” (emphasis added). We understand IFRSs to comprise of both IASs and IFRSs and suggest the wording be amended accordingly. This could include containing a definition such as that used in paragraph 7 of IAS 1 *Presentation of Financial Statements* to define IFRS.

Timelines as outlined in the Appendix to the discussion document

The timeline as set out in the Appendix to the discussion document states that in April 2009 the Trustees will be publishing proposals on issues identified. It is questionable whether this deadline proposed will be met, taking into account that the comment deadline on this document is 31 March 2009. The time lag between 31 March 2009 and April 2009 appears too short for the Trustees to process the comments received from this discussion document and at the same time issuing further proposals to the Constitution. We therefore suggest that Trustees review their timetable contained in the Appendix.

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