

31 March 2009

Ms Tamara Oyre
Assistant Corporate Secretary
IASC Foundation
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LONDON EC4M 6XH
United Kingdom

By email: constitutionreview@iasb.org

Dear Ms Oyre

Part II of the IASC Foundation Constitution Review

Thank you for the opportunity to comment on the IASC Foundation Constitution Review (Review). CPA Australia, The Institute of Chartered Accountants (the Institute) and the National Institute of Accountants (NIA), (the Joint Accounting Bodies) have considered the above Review and our comments follow.

The Joint Accounting Bodies represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government, academia throughout Australia and internationally.

General comments

We support the Constitution Review process and would strongly suggest that IASB amend their objectives to consider standard setting across all constituents producing general purpose financial reports, rather than those simply in the capital markets. There are many jurisdictions, including Australia, that have adopted (or intend to adopt) sector neutral standards when applying IFRS. Therefore, a pure focus on the capital markets is not helpful for these jurisdictions as they try to merge other sectors, such as private entities, not-for-profit entities and the public sector.

We are also concerned with the events occurring last year resulting in a lack of due process and would suggest that the Constitution not allow for such an occurrence in the future.

Our response to matters on which specific comment is requested is included in the attached Appendix.

If you have any questions regarding this submission, please do not hesitate to contact Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au, Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au or Tom Ravlic (NIA) at tom.ravlic@nia.org.au.

Yours sincerely



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Objectives of the organisation

- 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?

The Joint Accounting Bodies do not consider that the focus on capital markets is appropriate for the future, given the increasing number of economies that adopt sector neutral standards across the world. We believe the IASB standards should be developed to consider all users of general purpose accounts in all sectors – this includes public sector, not-for-profits as well as private entities.

While we understand this may not be achievable in the short term (pre 2011) we believe the Constitution should be worded such that it could be seriously considered in the medium term (post 2011).

In Australia the Australian Accounting Standards Board consider public sector and not-for-profit sector issues and 'modify' IFRS to accommodate these and have produced a merged conceptual framework that underpins the standards. This has caused confusion in international markets questioning whether Australian standards really are the same as IFRS. Given the sector-neutrality policy adopted by the Australian government (and other governments around the world), these 'modifications' will continue to occur unless the IASB change its objectives to address these sectors.

- 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?**

We consider the principles-based approach essential and would encourage reference to this approach to be included in the Constitution.

- 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.**

As mentioned above in Question 1 the Joint Accounting Bodies consider the remit of the organisation should be extended to not-for-profit and public sector. However we note that this may require some changes to the composition of the Board in order to provide some legitimacy to the output of the IASB relating to these sectors.

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 believe that close collaboration is required with organisations such as the International Auditing and Assurance Standards Board, the International Public Sector Accounting Standards Board and also with the International Valuation Standards Committee.

Governance of the organisation

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.**

The establishment in the Constitution of a formal link to the Monitoring Group needs to be undertaken as well as some indication as to the role and the relationships between the IASC and the Monitoring Group.

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?**

We agree with the current approach, however we consider that experience with adoption and application of IFRS is critical to representation for the majority of the Trustees. We therefore consider that as well as the geographic distribution some Trustee positions could be based on overall experience with IFRS.

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.**

Holding meetings in public would increase the transparency of the Trustee process.

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 consider that the current funding structure of the IASB is not appropriate. Some form of government funding on a global basis should be developed. We consider that governments should commit to a minimum funding period (say three years) in order to provide some certainty over funding. One would expect that if a country adopts IFRS (or bases their standards on IFRS) the governments or the relevant organisation that set accounting standards would be responsible to pay for the development of these standards.

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.**

Independence is a desirable feature of standard setting. We see no reason why the agenda setting process should not be open to formal public discussion/consultation.

- 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 welcome the recent enhancements in the IASB's due process in the area of post-implementation reviews.

We encourage the increased use of field tests of proposals, rather than these being undertaken only in 'rare circumstances'.

We note that field tests are currently being undertaken on the Discussion Paper for Financial Statement presentation. However we were disappointed that these were being done privately between the IASB/FASB and corporates that were asked to participate, rather than putting a general request for participants out to all constituents. The Joint Accounting Bodies may have been able to assist in such a process if all constituents were invited to participate.

- 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?**

We agree with a separate 'fast-track' due process procedure, and would encourage that this be the only mechanism used for the issue of new standards other than the 'normal' due process. This procedure could be used in rare circumstances with approval from the Trustees. We consider that a fast-track due process should have a minimum exposure period of one month.

We do not support the issue of amendments to accounting standards with no due process and would not support any changes to the Constitution in this area.

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?**

We agree with the objectives of the SAC.

- 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 agree with the terms of reference for the SAC.

Other issues

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

There are no other issues at this time.