

Mr. Gerrit Zalm  
Chairman  
IASC Foundation  
1<sup>st</sup> Floor, 30 Cannon Street  
London EC4M 6XH  
United Kingdom

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Institut der Wirtschaftsprüfer  
in Deutschland e.V.

Wirtschaftsprüferhaus  
Tersteegenstraße 14  
40474 Düsseldorf  
Postfach 32 05 80  
40420 Düsseldorf

TELEFONZENTRALE:  
+49 (0) 211 / 45 61 - 0

FAX GESCHÄFTSLEITUNG:  
+49 (0) 211 / 454 10 97

INTERNET:  
[www.idw.de](http://www.idw.de)

E-MAIL:  
[info@idw.de](mailto:info@idw.de)

BANKVERBINDUNG:  
Deutsche Bank AG Düsseldorf  
BLZ 300 700 10  
Kto.-Nr. 7480 213

Dear Mr. Zalm,

**Re.: IASC Foundation: Part 2 of the Constitution Review – Proposals for Enhanced Public Accountability**

We appreciate the opportunity to comment on the discussion document mentioned above. In addition to our detailed comments, we take this occasion to point to some fundamental issues as follows:

**General Matters: Pace of change and complexity of standards**

As already mentioned in our comment letter on the related paper "Review of the Constitution: Identifying Issues for Part 2 of the Review", dated 19 March 2009, we have serious concerns regarding the pace of change and the complexity of the standards. The current pace of change should not continue. Rather, each standard needs to be sufficiently robust so as to remain valid for an extended period. In this context, the cost-factor of changes should not be underestimated, nor should the practicalities of application. Therefore, we suggest that the Trustees guarantee that the pace at which new standards are issued and existing standards are revised will be carefully monitored.

We also remain concerned that the standards in general are becoming increasingly complex and difficult to understand. This could lead to incorrect application.

Moreover, implementing comprehensive solutions in a single step is preferable to the Board adopting a piecemeal approach. In particular, we do not support the Board accelerating its projects with respect to the pending changes in the

GESCHÄFTSFÜHRENDER VORSTAND:  
Prof. Dr. Klaus-Peter Naumann,  
WP StB, Sprecher des Vorstands;  
Dr. Klaus-Peter Feld, WP StB CPA;  
Manfred Hamann, RA

composition of the Board, because there is a danger that this results in hasty decisions as well as artificial fragmentation of projects. The projects on the Conceptual Framework, Financial Statement Presentation, Business Combinations, Post-Employment Benefits and Leases constitute examples of piecemeal approaches that have been taken recently.

#### **Question 1**

*The Trustees seek views on the proposal to change the name of the organisation to the 'International Financial Reporting Standards Foundation', which will be abbreviated to 'IFRS Foundation'.*

*The Trustees also seek views on the proposal to mirror this change by renaming the International Accounting Standards Board (IASB) as the International Financial Reporting Standards Board, which will be abbreviated to 'IFRS Board'.*

*Do you support this change in name? Is there any reason why this change of name might be inappropriate?*

We do not have any objections to the change in names.

#### **Question 2**

*The Trustees seek views on the proposal to replace all references to 'accounting standards' with 'financial reporting standards' throughout the Constitution. This would accord with the name change of the Foundation, the Board and the formal standards developed by the IASB—International Financial Reporting Standards (IFRSs).*

*Do you support this change?*

We support the proposal to replace all references to 'accounting standards' with 'financial reporting standards' throughout the Constitution.

#### **Question 3**

*The Trustees seek views on their proposal to change section 2 as follows:*

*The objectives of the ~~IASB~~ IFRS Foundation are:*

- (a) *to develop, in the public interest, a single set of high quality, understandable, ~~and~~ enforceable and globally accepted accounting financial reporting 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;*
- (b) *to promote the use and rigorous application of those standards;*
- (c) *in fulfilling the objectives associated with (a) and (b), to take account of emerging economies and, as appropriate, the special needs of small and medium-sized entities ~~and emerging economies~~; and*
- (d) *to bring about convergence of national accounting standards and ~~International Accounting Standards and~~ International Financial Reporting Standards (IFRSs, being the standards and interpretations issued by the IFRS Board) to high quality solutions.*
- Do you support the changes aimed at clarity?*

In general, we agree with the proposed amendments. However, we would appreciate the Trustees considering the following issues:

- In contrast to the preceding discussion paper, the exposure draft of an improved *Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting; Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information* rightly includes stewardship as an objective of financial reporting. We therefore suggest that the Constitution should be aligned with the new Conceptual Framework and explicitly refer to this objective in section 2(a) of the Constitution.
- We regret the Trustees' preliminary decision not to include an explicit reference to principle-based standards in the Constitution. We do not agree with the Trustees' opinion that a reference to principle-based standards is too detailed for a constitutional document. Rather, this is a question of principle, which should be included within the Constitution. Therefore, we still advocate making such a reference in the Constitution to emphasise the importance of a principle-based approach to the standard setting activities. It is not clear to us why the meaning of the term "principles-based approach" is perceived as unclear, since the Board frequently uses this term, probably assuming that there is a common understanding.
- Another topic which concerns us is the way the convergence project of IFRS and US GAAP has been promoted. In general, we support the joint aim of the IFRS Board and the FASB to achieve convergence. However, it needs to be borne in mind that convergence should not become an

end in itself, rather it should lead to the provision of global high quality standards.

#### **Question 4**

*The Trustees seek views on the proposal to amend section 3 of the Constitution as follows:*

*The governance of the ~~IASC-IFRS~~ Foundation shall primarily rest with the Trustees and such other governing organs as may be appointed by the Trustees in accordance with the provisions of this Constitution. A Monitoring Board (described further in sections 18–23) shall provide a formal link between the Trustees and public authorities. The Trustees shall use their best endeavours to ensure that the requirements of this Constitution are observed; however, they are empowered to may make minor variations in the interest of feasibility of operation if such variations are agreed by 75 per cent of all the Trustees.*

*Do you support this clarifying amendment?*

We agree with the proposed amendments. However, in this context, we would like to point out the following issue in connection with the Charter of the Monitoring Board: Article 9 A. of the Charter does, in our view, not clarify whether section 23 of the Constitution requires general or unanimous consensus amongst the members in reaching their decisions. It merely repeats the Constitution's wording that decisions shall be made by consensus among its members. We propose a clarification in this respect, preferably within the Constitution itself. According to section 21 of the Constitution, the Monitoring Board shall comprise five members as well as an observer; the number of members will probably increase further in the future. Hence, we believe that general consensus would be preferable.

#### **Question 5**

*The Trustees seek views on the proposal to amend section 6 of the Constitution as follows to include one Trustee from each of Africa and South America:*

*All Trustees shall be required to show a firm commitment to the IFRS IASG Foundation and the IFRS Board IASB as a high quality global standard-setter, to be financially knowledgeable, and to have an ability to meet the time commitment. Each Trustee shall have an understanding of, and be sensitive to, the challenges associated with the adoption and application of high quality global accounting-financial reporting standards developed for use in the world's capital*

*markets and by other users. The mix of Trustees shall broadly reflect the world's capital markets and diversity of geographical and professional backgrounds. The Trustees shall be required to commit themselves formally to acting in the public interest in all matters. In order to ensure a broad international basis, there shall be:*

- (a) six Trustees appointed from the Asia/Oceania region;*
- (b) six Trustees appointed from Europe;*
- (c) six Trustees appointed from North America;*
- ~~(e)~~(d) one Trustee appointed from Africa;*
- ~~(e)~~(e) one Trustee appointed from South America; and*
- ~~(e)~~(f) two ~~four~~ Trustees appointed from any area, subject to maintaining establishing overall geographical balance.*

*Do you support the specific recognition of Africa and South America?*

We welcome the proposed inclusion of Trustees from Africa and South America. However, we believe that the geographical allocation should put more emphasis on the fact whether countries and regions have adopted IFRSs or actually committed themselves thereto.

#### **Question 6**

*The Trustees seek views on the proposal to amend section 10 of the Constitution as follows to allow up to two Trustees to be appointed as vice-chairmen of the Trustees.*

*The Chairman of the Trustees, and up to two Vice-Chairmen, shall be appointed by the Trustees from among their own number, subject to the approval of the Monitoring Board. With the agreement of the Trustees, regardless of prior service as a Trustee, the appointee may serve as the Chairman or a Vice-Chairman for a term of three years, renewable once, from the date of appointment as Chairman or Vice-Chairman.*

*Do you support the constitutional language providing for up to two Vice-Chairmen?*

We do not have any objections to the introduction of up to two Vice-Chairmen. However, the duties and the role of a Vice-Chairman should be clarified in the Constitution.

#### **Question 7**

*The Trustees seek views on the proposal to make no specific amendments to sections 13 and 15, but to address the valid and important concerns raised by commentators by way of enhanced accountability, consultation, reporting and ongoing internal due process improvements.*

We agree with the Trustees that there is no need to make any specific amendments to sections 13 and 15 at the moment. Also, we support the Trustees' view that valid and important concerns raised by constituents should be addressed by way of enhanced accountability, consultation, reporting and ongoing internal due process improvements. However, we believe that the Trustees should use the authority already granted by the Constitution to improve the agenda-setting process and to ensure that the future IFRS Board takes more account of stakeholders' input.

#### **Question 8**

*Section 28 would be amended as follows:*

*The ~~IASB-IFRS Board~~ will, in consultation with the Trustees, be expected to establish and maintain liaison with national standard-setters and other official bodies ~~concerned with~~ an interest in standard-setting in order to assist in the development of IFRSs and to promote the convergence of national accounting standards and ~~International Accounting Standards and International Financial Reporting Standards~~ IFRSs.*

*Do you support the changes aimed at encouraging liaison with a broad range of official organisations with an interest in accounting standard-setting?*

We support collaboration with accounting standard-setting bodies and other organisations, whose objectives are compatible with the Foundation's objectives where there is a need for it. However, as already mentioned in our comment letter dated 19 March 2009, we would appreciate the Trustees ensuring that no single national standard-setting body might be able to dominate the due process of the Board. Convergence should not be the dominant topic, neither in respect of liaisons with other bodies, nor the development of IFRSs.



### Question 9

*The Trustees seek views on the proposal to amend section 30 of the Constitution as follows to permit the appointment of up to two Board members to act as vice chairmen of the IASB.*

*The Trustees shall appoint one of the full-time members as Chairman of the ~~IASB IFRS Board~~, who shall also be the Chief Executive of the ~~IASG-IFRS~~ Foundation. ~~One~~ Up to two of the full-time members of the ~~IASB-IFRS Board~~ ~~shall~~ may also be designated by the Trustees as a Vice-Chairman, whose role shall be to chair meetings of the ~~IASB-IFRS Board~~ in the absence of the Chairman or to represent the Chairman in external contacts in unusual circumstances (such as illness). The appointment of the Chairman and the designation as Vice-Chairman shall be for such term as the Trustees decide. The title of Vice-Chairman would not imply that the ~~individual member (or members)~~ concerned is (or are) the Chairman-elect.*

We do not have any objections to the introduction of up to two Vice-Chairmen. However, the duties and the role of a Vice-Chairman should be clarified in the Constitution.

### Question 10

*The Trustees seek views on the proposal to amend section 31 to allow for altered terms of appointment for IASB members appointed after 2 July 2009.*

*The proposed amendment is to allow for Board members to be appointed initially for a term of five years, with the option for renewal for a further three-year term. This will not apply to the Chairman and Vice-Chairman, who may be appointed for a second five-year term. The Chairman or Vice-Chairman may not serve for longer than ten consecutive years.*

*The proposed amendments to section 31 are as follows:*

*Members of the ~~IASB-IFRS Board appointed before 2 July 2009~~ shall be appointed for a term of up to five years, renewable once for a further term of five years. Members of the IFRS Board appointed after 2 July 2009 shall be appointed initially for a term of up to five years. Terms are renewable once for a further term of three years, with the exception of the Chairman and a Vice-Chairman. The Chairman and a Vice-Chairman may serve a second term of five years, but may not exceed ten years in total length of service as a member of the IFRS Board.*

*Do you support the change in proposed term lengths?*

We understand from the discussion document that the reason for the proposed changes pertaining to the term of the Board members is to reach an appropriate balance between the inclusion of people with recent practical experience with IFRSs whilst preserving a certain degree of continuity. However, we are not convinced that there is a need for longer terms for the Chairman and a Vice-Chairman. The appropriate degree of continuity is already ensured, since the terms of individual Board members necessarily have staggered start and end dates.

#### **Question 11**

*The Trustees seek views on the proposal to insert in section 37 (to become section 38) of the Constitution an additional subsection as follows to allow the Trustees, in exceptional circumstances, to authorise a shorter due process period. Authority would be given only after the IASB had made a formal request. The due process periods could be reduced but never dispensed with completely.*

*The ~~IASB~~-IFRS Board shall:*

- (a) ...*
- (b) ...*
- (c) in exceptional circumstances, and only after formally requesting and receiving prior approval from the Trustees, reduce, but not eliminate, the period of public comment on an exposure draft below that described as the minimum in the Due Process Handbook.*

The proposed possibility of a shortened comment period is preferable to the introduction of a completely new and different 'fast track' procedure.

We believe that there should always be a specified minimum length of time for comment. As it would not be appropriate to reduce this period to a few days, there is not much room to shorten the current minimum comment period of 30 days. Any meaningful analysis of specific amendments or new provisions on financial reporting issues necessitates an intensive examination of the proposals and often involves protracted consultations of the constituents. Translation issues will also need to be addressed in non-English-speaking countries, requiring additional time. In our opinion, an extremely short comment period would significantly impair an effective due process.

Furthermore, we believe that the length of the comment period is only one step within the due process taken as a whole. After the end of the comment period



the comments of the constituents deserve careful consideration by the Board. This will also take some time, because in “exceptional circumstances” there will be numerous comment letters which require a thorough evaluation. Moreover, should the Trustees’ decision to reduce the period of public comment require a physical meeting, this might be difficult to organise at short notice. Whether this would actually be the case is not clear to us because this issue is not reflected in the proposed amendments to section 37 but was mentioned only in the discussion document. We suggest this be clarified in the Constitution.

#### **Question 12**

*The Trustees seek views on the proposal to amend section 37(d) (to become section 38) of the Constitution as follows to expressly provide that the IASB must consult the Trustees and the SAC when developing its technical agenda.*

*The ~~IASB-IFRS Board~~ shall:*

*~~(e)(d)~~ have full discretion in developing and pursuing the technical agenda of the ~~IASB-IFRS Board~~, after consulting the Trustees (consistently with section 15(c)) and the SAC (consistently with section 44(a)), and over project assignments on technical matters: in organising the conduct of its work, the ~~IASB-IFRS Board~~ may outsource detailed research or other work to national standard-setters or other organisations;*

We support the proposal to expressly stipulate that the Board must consult the Trustees and the SAC in developing its technical agenda. However, we would like to reiterate our contention that the Constitution should ensure that no single stakeholder will dominate the work programme and the priorities. Instead, those countries which have actually adopted IFRS and, thus, acquired practical experience should be in the position to exert decisive influence. We refer to our comment letter, dated 19 March 2009.

Another area of concern is the fact that there is a growing tendency for the agenda to contain increasingly extensive and complex issues. This makes it difficult for the constituents to cope with the high number of voluminous papers within the tight deadlines in a thorough and responsible manner. As constituents generally do not have unlimited resources available, and especially in times of the financial crisis cannot increase these resources at will, there is a danger that the required quality of comments is difficult to achieve. This, in turn, might influence the quality of the final standards.

**Question 13**

*Trustees seek views on the proposal to make no amendment to sections 44 and 45 (renumbered as 45 and 46), which are the provisions relating to the SAC, at this time.*

We agree that at this stage no further amendments to the sections concerning the SAC should be made. Instead, the performance of the new SAC should be carefully monitored in order to determine whether it is better able to fulfil its function subsequent to its reorganisation. On this basis, potential future need for changes could be identified.

**Question 14**

*The Trustees seek views on the proposal to amend section 48 by removing specific staff titles and replacing it with the term 'the senior staff management team'. Accordingly section 49 should be deleted.*

*The Trustees also seek comment on the proposal to update the Constitution by removing all historical references that relate to when the organisation was established in 2001.*

We do not have any objections to these proposed amendments.

Yours sincerely

Klaus-Peter Naumann  
Chief Executive Officer

Norbert Breker  
Technical Director  
Accounting and Auditing