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Dear Sir/Madam

**SAICA SUBMISSION ON DISCUSSION PAPER *PART 2 OF THE CONSTITUTION REVIEW*: PROPOSALS FOR ENHANCED PUBLIC ACCOUNTABILITY**

In response to your request for comments on the IASB's discussion paper, *Part 2 of the Constitution Review: Proposals for Enhanced Public Accountability*, 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 DISCUSSION PAPER PART 2 OF THE CONSTITUTION REVIEW PROPOSALS FOR ENHANCED PUBLIC ACCOUNTABILITY

## GENERAL COMMENTS

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

## SPECIFIC COMMENTS

### 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 support the proposed change in name to both the Foundation and the Board. Consideration could additionally be given to further abbreviating 'IFRS Board' to "IFRSB". This abbreviated form would align to the abbreviated naming convention used by the International Public Sector Standards Board, namely the IPSASB.

We note that the proposed change would require consequential changes to the *Framework for the Preparation and Presentation of Financial Statements* (which in the preface and paragraph 1 and 3 still refer to the Board of the IASC) and some IFRSs (e.g. paragraph 7 of IAS 1 - *Presentation of Financial Statements* refers to the IASB, as do paragraphs 5 and 8 of IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*).

### 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 change to financial reporting standards for the reasons given in the discussion document.

As noted in our response to question 1 the proposed change would require consequential changes to the *Framework for the Preparation and Presentation of Financial Statements* (which in paragraph 1 and 3 still refer to International Accounting Standards) and some IFRSs (e.g. paragraphs 12 and 21 of IAS 8).

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### 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?*

We believe that consideration should be given to including a definition or explanation of “emerging economies” in the Constitution. Alternatively we recommend that reference to “emerging economies” should be replaced by ‘developing economies’. We make this suggestion as we believe it is a more commonly used and therefore a better understood term.

We agree that the Constitution is not an appropriate document to explain that standards should be principle-based. However, we are of the view that this should be included in the IASB’s due process handbook.

### Question 4

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

*The governance of the ~~IASB~~ 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 have concerns with the inclusion of the word “primarily”. It is our understanding that the governance of the IFRS Foundation rests with the Trustees alone. The use of the word “primarily” implies that another party is also responsible for governance. We do not believe that this is the case and therefore we believe that the word “primarily” should be removed. Even though the wording also refers to other governing organs, we suggest that

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this be clarified to explain that while some functions may be delegated to these organs, the Trustees remain responsible for the governance of the Foundation.

### 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 ~~IASC~~ 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; and*
- (d) one Trustee appointed from Africa;*
- (e) one Trustee appointed from South America; and*
- (f)(d) 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 support the requirement to include Trustees from Africa and South America. However, we believe in future revisions of the Constitution Trustees should be selected based on a formula basis, with at least one member from each continent. Such a formula could be based on Gross Domestic Product (GDP) and could be adjusted to take into account other factors such as population distribution and the number of companies using IFRS in the applicable country. While this may result in a similar distribution in the current market environment, we believe that in future this may not be the case and that the Trustees appointed in future should reflect the size of economies and the use of IFRS around the world.

### 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?*

While we do not have strong objections to this proposal, we do not see a need to appoint two Vice-Chairmen, one should be sufficient.

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In addition, we believe consideration should be given to specifying the role of the Vice-Chairmen in more detail in the Constitution, particularly as we believe that all Trustees, and not just the Vice-Chairmen, should be capable of representing the Trustees publically and chairing meetings.

### 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 do not have specific comments on the duties of the Trustees, but we once again 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. If it is decided to retain these two sections, then we suggest that Section 14 be moved to follow the existing Section 11, so that the two sections that deal with the duties of the Trustees follow each other.

We also believe the Trustees should have operational guidelines that are sufficient for them to enable effective discharge of their responsibilities. Such guidelines should include a strategy on how they would deal with political pressure to change standards.

### 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 this change.

### 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 ~~IASB~~ 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.*

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We do not believe that sufficient reasons have been given for this proposed change. In our view, all Board members should be capable of representing the Board publically and chairing any meeting. Therefore we do not see a need to appoint two Vice-Chairmen, one should be sufficient.

In addition, as stated in to our response to question 6, we believe consideration should be given to specifying the role of the Vice-Chairmen in more detail 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 support the change in the proposed term lengths to the extent that it is applicable to the Chairman and Board members. We do not agree with the justification for a longer renewable period of the Vice-Chairman as it is expressly provided that the Vice-Chairman is not by implication the Chairman-elect.

### 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.*

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We agree that the Constitution should provide the Board with the opportunity to react to emergency situations, but we believe that the minimum period of 30 days, as already provided for in the IASB's Due Process Handbook, should be the minimum for all emergency situations. We are concerned that a shorter period will not provide enough time for sufficient consideration of proposed changes by commentators.

We also believe that in countries where IFRS are approved by legislature or a government body, additional time will be required to comply with the legislative process. In South Africa, all financial reporting standards will be required to be approved by a minister in the future. As such we believe that a shorter due process period could have a negative impact on entities if the standard is required to be applied from a date before it is approved for use in terms of legislation. For example, the South African stock exchange requires listed companies to prepare financial statements in terms of IASB approved IFRSs. In this case, if some changes to IFRS have not yet been approved by the minister, these companies might have difficulty in also complying with legislation that requires them to prepare financial statements in terms of financial reporting standards approved by the minister.

### 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;*

Although we support this change, we are of the view that a further amendment should be made to require the IASB technical agenda to be exposed at least once a year for public comment. This will provide the Board with the opportunity to identify common issues that interested parties want addressed. These areas should be deliberated by the Board to determine whether a project should be added to the agenda. We believe that this would ensure that the amendments, standards or interpretations issued meet the needs of the users of IFRS. We believe that the governance of this process could be part of the responsibilities of the Standards Advisory Council (SAC).

### 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 are concerned as to whether the reconstituted SAC will be more effective than previously. We believe that to be effective the SAC should focus on its objectives. The effectiveness of the SAC should be closely monitored and if proven to not be effective, then consideration should be given to disbanding the SAC.

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### **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 have no concerns with the proposal to remove specific staff titles. We do, however, believe that the responsibilities of the Chairman of the IASB and Chief Executive of the Foundation should be separate, as one is a technical role and the other more administrative. The Chairman of the IASB should not be burdened with administrative issues. We also believe that there should be clear guidelines with regards to moving Board members into staff positions when their terms end. These guidelines should focus on why that particular person is required in a staff role and the circumstances that give rise to such a need. We believe that this guideline is necessary since the Constitution has limited the term that Board members can serve. However, if a Board member is in a senior staff role, they may be able to exercise significant influence over decisions. Therefore, this could be seen to be contrary with the reason provided to reduce the limit to the term that a Board member can serve.

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