

For the attention of Tamara Feldman  
International Accounting Standards Committee Foundation  
30 Cannon Street  
London  
EC4M 6XH

29 November 2009

Dear Sirs,

**Consultation Document: Part 2 of the Constitution Review – Proposals for Enhanced Public Accountability**

We appreciate the opportunity to comment on this important consultation document from the International Accounting Standards Committee Foundation (IASCF) on its proposals for the second part of the Constitutional Review. We remain highly supportive of achieving the goal of a single set of high quality accounting standards that are accepted and applied across the world's capital markets. The structure, governance and operations of IASCF and IASB are critical factors in achieving and maintaining that goal. We were pleased to participate in the roundtables on Part 2 of the review in September and October, and our comments in this letter echo our thoughts from those roundtable contributions.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on this discussion document. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Our responses to each of the specific questions in the consultation document are contained in the attached Annex. In this covering letter we draw attention to what we consider to be some of the more significant issues.

**Perceptions**

We believe the public interest and the capital markets are best served by an independent standard-setting process that is free from undue political pressures and undue outside influence. At the same time, high-quality standards require a robust due process that permits all stakeholders to participate and provide input.

Many of the concerns that have been raised regarding the accountability of the Board and the Foundation have been as much about behaviours and perceptions of the organisation's willingness to listen and respond to input, as they have about the constitutional arrangements.

In our view, the willingness of the Board and the Foundation to listen to outside input has improved recently. (We note for example that the Board made significant changes to the final version of the recently-issued IFRS 9 in part in response to stakeholder comment and their engagement with stakeholders on the exposure draft). However public perceptions can persist. We encourage the Trustees to continue to have regard to these aspects as well as to the letter of the Constitution.

We believe the appointment of Vice-Chairs to both the Board and the Trustees can assist engagement with constituents. We also believe that, as the environment changes and as more countries around the world adopt IFRS, the Trustees should keep under review the organisational structure and the mechanisms to facilitate global outreach with stakeholders.

Individually, many of the proposed changes to the Constitution are worthwhile. However, stakeholders' reactions will be driven not just by the specific wording changes but also their impression of the package of changes as a whole. The perceptions of some constituents may be that these changes overall seem relatively modest as the end-product of an 18 month-process of deliberation. Hence it will be important for the Trustees to emphasise how important it is that the organisation demonstrate in its actions and behaviours that it is responsive to constructive input.

### **Accountability, agenda-setting & due process**

The process by which the IASB's technical agenda and work priorities are set has been a key area of interest for stakeholders. Our view has been that it should be more transparent, with clearly understood channels through which stakeholders can provide input and reactions, while at the same time being careful to avoid it becoming an overly bureaucratic process.

The Trustees' proposal to require the Board to consult with the Trustees and the Standards Advisory Council (SAC) on agenda decisions is helpful. We also support the proposal to enable the general public to provide input on papers on the Board's agenda that are prepared for discussion by the SAC. The timely publication on the website of the SAC discussion papers on the Board's work programme post-June 2011 ahead of the November meeting was a welcome example of this proposal already being applied in practice.

That said, we would like to see a greater emphasis on 'feedback loops', such that the Board is required to be accountable for the positions it takes. We agree that the ultimate decision on the agenda should be made by the Board, but if for example the SAC has provided advice on the IASB's work priorities and the Board has chosen not to follow that advice, then it should explain and justify its reasons for doing so.

A similar principle applies to other aspects of the Board's due process. If for example a sizeable proportion of comment letters on a draft pronouncement indicate that constituents are opposed to or have significant concerns about the Boards' proposals, then the Board should be required to explain and justify its reasons for following a particular course.

### **Accelerated due process**

In our previous response letter in March we commented that there should be the capability under the Constitution to consult quickly on matters that are addressed by the Board in response to emergency situations, provided that there is still the opportunity for stakeholders to comment on proposed changes even if the comment deadlines are significantly shortened.

Having reflected further, we now consider that 30 days should be the minimum comment period. Firstly, we do not think that stakeholder organisations can realistically be expected to assess and comment on complex accounting proposals in anything less than 30 days. Secondly, there is a risk that if the facility to have an accelerated due process of less than 30 days is formally incorporated in the constitution, interested parties may argue too often that the 'exceptional circumstances' of their case justify the use of that process.

That said, if the proposal in the consultation document is pursued, then we agree that use of the accelerated process should not merely be at the discretion of the Board and that another body – the Trustees – should be consulted. However, we question the practical workability of the suggestion in the consultation document that the IASB's request for a period shorter than 30 days be formally considered by the Trustees. Could a public meeting of the Trustees be arranged in such short order? The addition of this step may itself result in delay in the process.

## Leadership

We note the proposal to appoint up to two Vice-Chairs of the Board. As mentioned previously, we believe that the Vice-Chairs could serve a valuable role in the Board's out-reach with constituents around the world. This will become ever more important as more countries adopt IFRS over the next few years. We also believe the provision in the Constitution of Vice-Chair positions affords a timely opportunity for a wider review of the Chairman's role and powers, and Board leadership functions in general.

In our previous responses, we suggested that the changing dynamics of the Board – a soon-to-be enlarged membership, with many new members with perhaps less experience of standard setting joining the Board over the next two years, and at the same time a changed environment including the relationship with the Monitoring Board - mean that the Chairman's role and job description should be looked at afresh. The guiding principle should be – what is needed in today's (and tomorrow's) circumstances? For example, there may be scope for separating or redefining some of the technical, operational and external relationship management roles.

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We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Richard Keys (+44 20 7212 4555), David Devlin (+353 1792 6351) or Graham Gilmour (+44 20 7804 2297).

Yours faithfully,

PricewaterhouseCoopers LLP

## Detailed responses to the questions in the consultation document

### 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 have no particular views on this question.

### 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 have no particular views on this question.

### 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, enforceable, and globally accepted 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 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?

Yes. As noted in our previous comment letter submitted in March, we support the overall objectives of the organisation and believe they remain appropriate. The clarifying amendments proposed by IASCF do not substantially change the objectives and hence we support them.

An issue raised in the previous Part 2 consultation - and commented on by some at the recent roundtables – was whether there should be a specific reference to principles-based standards in the Constitution.

As discussed in our March comment letter, we would support the inclusion of a reference in the Constitution to principles-based standards, underpinned by a suitable framework that sets out criteria or qualities for what comprises a principles-based standard. This would provide a useful yardstick by which the Trustees could measure and evaluate the performance of the IASB in writing standards, and would in turn provide one mechanism by which the accountability of both the IASB and Trustees can be demonstrated.

Also as noted in our previous letter, we were closely involved in the development of the paper '*Principles-Based Accounting Standards*' (January 2008) published by the Global Public Policy Committee of the large accounting networks<sup>1</sup>, which set out six key elements of a high-quality, principles-based accounting standard:

- Faithful representation of economic reality
- Responsive to users' needs for clarity and transparency
- Consistency with a clear Conceptual Framework
- Based on an appropriately-defined scope that addresses a broad area of accounting
- Written in clear, concise and plain language
- Allows for the use of reasonable judgment.

Consistency of the standards with the Conceptual Framework is an important element. Our perception is that the IASB has allowed the timetable for completing the various chapters of the Framework to slip. We understand that the Board has competing claims for its resources, in particular the completion of the Memorandum of Understanding (MoU) work programme and the need to address the accounting issues raised in the context of the global financial crisis - but we suggest that the Conceptual Framework should be a priority post-June 2011 when many of the Board's current projects are expected to be completed.

#### 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?**

Yes. The proposed way of dealing with this seems appropriate, bearing in mind the special importance of support from public authorities for the Foundation and its work.

In our view, a more important aspect is that the Monitoring Board (MB) itself sets out in greater detail its 'modus operandi' of how it will operate. We note that the MB has published a text of the Memorandum of Understanding between the Trustees and the MB and would encourage it to be more expansive about its operating protocols as its role and membership evolve.

<sup>1</sup> The Global Public Policy Committee (GPPC) of the six largest international accounting networks comprises representatives of BDO International, Deloitte, Ernst & Young, Grant Thornton International, KPMG, and PricewaterhouseCoopers, and focuses on public policy issues for the profession. The paper is available from the website [www.globalpublicpolicysymposium.com/documents](http://www.globalpublicpolicysymposium.com/documents).

In our view, it is critical that all market participants and public authorities should have confidence in the governance of the standard setter and therefore of the standard setting process. In our previous response letters we stated our belief that there is a very delicate balance to be drawn in the respective responsibilities and powers of the MB and Trustees, such that both groups are playing a valuable role and engaging in constructive interaction, and that high quality candidates of appropriate stature are willing to serve on both groups. If the MB's role is too intrusive, then the calibre of the Trustees will decline over time to the detriment of bringing broad-based input and experience to the oversight model. Conversely, if the MB's role is no more than a perfunctory one, then the whole model will not attract the necessary support around the world.

#### 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 ~~IASB~~ 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 change which provides similar geographical diversity criteria to those recently introduced for the IASB under Part 1 of the review.

#### 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?**

Yes. As noted in our covering letter, we believe the appointment of Vice-Chairs to both the Board and the Trustees can assist with out-reach efforts and engagement with constituents thereby enhancing public perceptions of the Board's responsiveness.

**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.**

Please refer to pages 1-2 of our covering letter.

**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?**

Yes. As noted in our previous letter, we consider the IASB should continue to engage with all stakeholder organisations that are interested in high-quality international accounting standards. However, we suggest that more formalised arrangements for collaboration should be limited to those other standard setting organisations that have achieved a reasonable level of maturity and development in relation to their own due process, governance and resourcing. Unless an organisation is clearly well established with a relatively mature constitution and due process and is widely recognised, it would be preferable to keep such links relatively informal.

**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.

Yes. As noted above, we believe the appointment of Vice-Chairs to both the Board and the Trustees can assist with out-reach efforts and engagement with constituents. We also believe, as discussed in our covering letter, that the provision in the Constitution of Vice-Chair positions affords a timely opportunity for a wider review of the Chairman's role and powers, and Board leadership functions in general.

**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 do not object to the proposal to reduce the length of the second term of Board members. The key is to ensure that the criteria for selection of Board members includes practical experience and that, once in place, members continue to have good channels of communication with preparers, users and other appropriate organisations.

We note that the Trustees do not articulate why the chair and vice-chairs should serve a longer period. We presume it is for reasons of ensuring continuity, but this could be addressed by staggering the terms of the chair and the two vice-chairs. We do not see any other particular merit in allowing the chair and vice-chairs to serve longer terms than other Board members.

**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.

For the reasons set out on page 2 of our covering letter, we consider that 30 days should be the minimum comment period.

**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:

- (a)...
- (b)...
- (c)...



(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.

Please refer to page 2 of our covering letter.

#### Question 13

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

The Trustees announced last year that the SAC would be re-constituted under a new 'organisation representative model' from the beginning of 2009, and three meetings of the SAC with its new membership have now taken place this year. The re-constitution of the body and new chairmanship provides an opportunity to improve the effectiveness and communication of the SAC, and to assist the IASB in being better informed about the needs of preparers, users and other stakeholders.

We agree that it is too early on the basis of three meetings to judge whether the new arrangements will be successful in achieving these objectives, though our observation is that the number of members is not significantly less than under the old SAC and this may pose challenges to the effective working of the group and limit the opportunity for free-flowing dialogue. We suggest the Trustees consider conducting a separate review of the SAC's operations and effectiveness before the next five-yearly review of the Constitution.

In addition, and as noted by some of the new SAC members in meetings, the fact that the Council meets only three times a year means that the members may feel 'out of touch' with a relatively fast-moving agenda. This may particularly be the case when urgent issues arise, for example related to the financial crisis, for the Board to address. We support the enhancements already introduced by the new SAC chair to improve communication between the Board and the SAC, to provide more information to SAC members, and to encourage discussion among members through an electronic discussion forum between formal meetings.

Consistent with the objective of ensuring appropriate transparency and accountability at each level in the IASB/IASCF structure, we believe consideration should be given to including a provision in the Constitution that requires the Trustees to assess whether the IASB has discharged its responsibilities insofar as they relate to the SAC, and whether the SAC has conducted its business in accordance with its terms of reference.

#### 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 particular views on this question.