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Our ref **MT/288**  
Contact **Mary Tokar**

27 November 2009

Dear Ms Feldman

**International Accounting Standards Committee Foundation Discussion Document**  
***Part 2 of the Constitution Review – Proposals for Enhanced Public Accountability***

We appreciate the opportunity to comment on the International Accounting Standards Committee (IASC) Foundation's Discussion Document *Part 2 of the Constitution Review – Proposals for Enhanced Public Accountability* (the Discussion Document). This letter expresses the views of the international network of KPMG member firms.

In our comments, we have sought to respond to the questions posed in the IASC Foundation invitation to comment. However, we also have sought to consider more broadly what challenges the IASC Foundation and the International Accounting Standards Board (IASB or Board) have faced, and are likely to face. In some instances this has led us to identifying issues that may be outside the scope of the current review, but that should be addressed, with public consultation, before the next such review.

Generally we support the specific amendments proposed in the Discussion Document (the proposals). However, while we are encouraged to see acknowledgement of concerns around public involvement in the IASB's agenda-setting process, we believe that the proposals in this regard are inadequate. We have concerns around whether the proposed opportunity for public comment on the Standards Advisory Council's (SAC) papers on the IASB agenda is sufficiently structured to channel public input effectively and to achieve the desired objective of stakeholder buy-in to the IASB's agenda. In addition to the proposed opportunity for public input via the SAC's papers on the IASB agenda, we recommend further separate public consultations on the IASB agenda periodically. We believe that this would enhance significantly the transparency and accountability of the IASB's agenda-setting process and stakeholder buy-in to projects on the agenda.

Our primary concern is with what is not included in the proposals. We recommend that the IASC Foundation commence a review immediately following this current Constitution Review to consider the strategic issues associated with the expected increases in the IFRS user base. We have some concerns that the current model may not be sufficiently scalable to support the expected take up of IFRSs in the next five to ten years. We encourage the Trustees to be proactive in this regard and start planning now to ensure that the organisation is best equipped to meet its likely future challenges.

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The need for this strategic review is a testament to the success of the IASC Foundation and the IASB, with IFRSs being adopted in the last five years for use in many countries throughout the world and a number of other countries committing to adopt IFRSs in the coming years.

In addition to the strategic review, we encourage the Trustees to acknowledge explicitly their commitment to continue to address concerns that can be resolved through strengthening operational procedures, even if those concerns do not require structural changes.

This cover letter contains our overall comments on the proposals. Appendix 1 to this letter provides our suggestions for consideration by the Trustees with regard to items not addressed in the proposals. Appendix 2 provides our detailed responses to the proposed amendments for which we have further comments and suggestions. Appendix 3 lists the proposed amendments that we support or do not object to without further comments or suggestions.

Please contact Mary Tokar at +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

*KPMG IFRG Limited*

KPMG IFRG Limited

## Appendix 1

Appendix 1 provides our suggestions for consideration by the Trustees with regard to items not addressed in the proposals.

### *Strategic review*

As an immediate follow up to the current Constitution Review, we recommend that the IASC Foundation commence a separate review within the next 12 months to consider the strategic issues associated with the expected increases in the IFRS user base. We see this as being more of a strategic review than a Constitution Review, but it may result in changes to the IASC Foundation's Constitution. Such a review should involve public consultation.

The number and size of countries committed to adopting IFRSs in the next five years presents significant opportunities for the IASB. However, it also will place significant resource demands on and pose other challenges for the organisation, for example, as a result of the increase in the number of stakeholders and the diversity of the economies using IFRSs. The Trustees should consider the organisation in five to ten years from now, for example, considering demands once Korea, Canada, Mexico, Brazil, India and other jurisdictions have moved to IFRSs, and also considering what the incremental impact would be if Japan and the United States were to adopt IFRSs.

Significant changes may be necessary for the organisation to meet these demands and challenges, and such changes would require planning and take time to implement. However, it appears to us that implicit in the Trustees' proposals is the expectation that the coming increase in demand on the IASB as an organisation, and the Board especially, from both a standard-setting and liaison perspective can be addressed through incremental change. While this may be possible, we have some concerns that the current model may not be scalable to this extent.

Examples of possible strategic issues to be considered as part of this review could include:

- whether setting up regional branches would improve liaison and whether a model with some decentralisation would be appropriate for the organisation either currently or in the future;
- the adequacy of the organisation's resources in order to meet its objectives and the strategy for addressing any shortfall identified.

We encourage the Trustees to be proactive in performing this review, as otherwise we believe that the IASB / IASC Foundation runs the risk of lagging behind demand and losing effectiveness, credibility and support.

The need for this review is a testament to the success of the IASC Foundation and the IASB, with IFRSs being adopted in the last five years for use in many countries throughout the world and a number of other countries committing to adopt IFRSs in the coming years.

### *Operational considerations*

In our comment letter on the related discussion document dated 31 March 2009, we made a number of related suggestions that we believe are important for the Trustees to consider in ensuring that the IASB is best placed to meet its objectives in the future. Many of our suggestions related primarily to items that are more operational in nature rather than being constitutional-level items. However, we believe that our concerns and suggestions are sufficiently important from a governance, operational and accountability perspective to merit explicit consideration by the Trustees and believe that the Constitutional Review is the appropriate forum to do this. We are concerned that the silence in these areas could be perceived as rejection by the Trustees of calls for action in this area. We believe that this Constitutional Review process should acknowledge these issues, and state the organisation's commitment to address them, even if constitutional changes are not required.

Areas that fall into this category include:

- ensuring a broad-based, stable and adequate funding base for the organisation that preserves its perceived and actual independence;
- consultation with stakeholders including regulators regarding protecting the IFRS brand from the threat of local variants to IFRSs arising;
- increasing staff levels at the IASB both in terms of numbers and seniority in order to ensure that it has adequate resources to deal with the increased workload, including increased demand for liaison activities;
- devoting a higher percentage of Board time to liaison activities and allowing senior staff members to take on increased liaison responsibilities;
- organising more regional and / or functional groupings of stakeholders to facilitate more effective communication and exploring whether the IASC Foundation could support more actively the formation of industry groups;
- improving the monitoring and timeliness of translations of IFRSs and bearing translation considerations in mind when drafting standards in English;
- improving quality control prior to the publication of standards, e.g., increased use of field-testing. While we acknowledge the Board's recent launch of post-implementation reviews, we recommend that they are used more frequently and consistently; and
- balancing outreach efforts for expanded stakeholder input, e.g., project-specific working groups, with the need to ensure that the IASB's decision-making and substantive discussions take place during public meetings.

With regard to the organisation's funding, we note that the Trustees currently are undertaking a review in this area. In conjunction with our strategic and operational comments above, we recommend that the Trustees consider whether the current funding arrangements are appropriate and whether the funding levels are adequate and sufficiently stable as the scale of the IASB's activities increases. We believe that the current funding structure of voluntary contributions could be seen as undermining the independence of the IASB. We therefore recommend moving to a levy system as soon as possible. A secure and adequate funding base would enhance the IASB's ability to function effectively.

With regard to quality control prior to the publication of standards, we have concerns regarding the level of "clean-up" that is required for standards that have been issued. We encourage the Trustees and the IASB to consider how to enhance quality control before issuing a new, revised or amended standard in order to avoid subsequent changes that could / should have been foreseen. We believe that increased use of, and more rigorous, field-testing prior to the publication of standards and interpretations would enhance their effectiveness and the IASB's reputation.

With regard to liaison, we commend the positive steps taken by the IASB in its outreach efforts across several regions and encourage the IASB to continue with and expand these types of initiatives. We believe that it would be effective for each country / geographical region to have a designated senior staff and Board contact at the IASB who would lead the IASB's relationship with that area and who would liaise regularly with national / regional stakeholders (e.g., standard setters, user and preparer groups). As the IFRS user group expands and becomes more diverse, we believe that the importance of regional and functional outreach increases. We encourage the Trustees and Board to consider if such enhanced outreach would be facilitated by, for example, regional branches, as mentioned previously.

## Appendix 2

Appendix 2 provides our detailed responses to the proposed amendments for which we have further comments and suggestions.

### ***Question 3 – Clarifying the objectives of the organisation***

#### *Principle-based standards*

We continue to support the objective of *principle-based standards* and encourage retaining this focus. We disagree with the assertion that this is an issue of detail too granular for the Constitution. However, we recognise that further work may be required to have a clearly expressed vision of what principle-based standards are in order for the IASB to articulate what this means so that it can be captured in the Constitution. We support the idea of the IASC Foundation's Constitution reflecting explicitly the organisation's commitment to principle-based standards, even if this is deferred until a clearer articulation of principle-based standards is agreed.

### ***Question 10 – The length of IFRS Board members' terms***

We do not object to the proposal that any second term for Board members be for three years. However, the rationale for this requirement applying only to Board members appointed after 2 July 2009 is not clear to us. We encourage the Trustees to consider applying this requirement to all future renewal decisions. The existence of the 2 July 2009 changeover could give the perception that renewal decisions are perfunctory and that existing Board members believe that they have a 10-year term.

### ***Question 11 – Accelerated due process***

We agree that the IASB should have a fast-track procedure in place for changes to IFRSs and agree that it should be used only in exceptional circumstances. We note that in most circumstances the combination of longer-term comprehensive reconsideration of issues, more focused amendments / enhancements and the annual improvements project should allow the IASB room to address most of the issues that arise within its normal process. Therefore, we expect this fast-track procedure to be used rarely, if ever. We discourage use of the fast-track procedure unless considered absolutely necessary. We believe that its use brings with it associated difficulties, for example, perceived, and possibly actual, compromises to due process and quality if such a procedure is required, and difficulties for constituents in responding within the comment period.

We consider that the proposals regarding a fast-track procedure strike the right balance between flexibility and speed of reaction to major unforeseen developments on the one hand and transparency, accountability and adequate due process on the other hand. We agree that some period of public consultation always should be required.

We encourage the Trustees to consider whether the Monitoring Board should play some role in the fast-track procedure. We believe that its involvement would improve the perceived and actual transparency and accountability of the procedure and the public perception of the need for it. We also recommend that if the fast-track procedure is being used in the future, then translations should be made available as soon as is practicably possible.

***Question 12 – Encouraging greater input into the IASB’s agenda-setting process***

We are encouraged to see acknowledgement of concerns around the IASB’s agenda-setting process, in particular seeking public input on the agenda-setting process. However, we believe that the proposals regarding public consultation on the IASB agenda are inadequate.

In addition to the proposed opportunity for public comment on the SAC’s papers on the IASB agenda, we recommend further separate public consultations on the IASB agenda periodically. For example, this could be in the form of exposure for comment or a survey process and could take place every 18 to 24 months. The results of that consultation should form an input to the SAC discussion of the IASB agenda. Alternatively, or in addition, the Board might establish an expectation of public consultation before any project is added to the agenda that is expected to take over a certain length of time.

With regard to public comment on the SAC’s papers on the IASB agenda, we have concerns around whether the process is sufficiently structured to channel public input effectively and to achieve the desired objective of stakeholder buy-in to the IASB’s agenda. We encourage the Trustees to consider formalising the related processes and procedures. For example, it is unclear whether the public should comment to SAC members directly or to the IASB staff, and what the timeframe for comment is. We recommend that the Trustees consider a more structured response process specifying contact points and timeframes in a manner similar to that used for public responses to tentative agenda decisions of the International Financial Reporting Interpretations Committee. It may be helpful at a minimum to identify specific contacts within the SAC regarding agenda consultation.

We believe that these measures would enhance significantly the transparency and accountability of the IASB’s agenda-setting process and stakeholder buy-in to projects on the agenda.

We support the reaffirmation by the Trustees that the IASB retain responsibility for its agenda. We believe that it is important that this is both what happens in reality and the public perception of what happens. We believe that this is an important element in the actual and perceived independence of the standard-setting process.

***Possible Constitutional changes considered but not pursued***

With regard to possible Constitutional changes that the Trustees considered but decided not to pursue, we support the decision not to expand the mandate of the IASB to include the public and not-for-profit sectors.

### **Appendix 3**

We support or do not object to the following proposed amendments without further comments or suggestions:

Question 1 – Changing the names of the IASC Foundation and the IASB

Question 2 – Replacing all references to “accounting standards” with “financial reporting standards” throughout the Constitution

Question 4 – Clarifying the role of the Monitoring Board

Question 5 – Including reference to Africa and South America in the required geographical composition of the Trustees

Question 6 – Permitting up to two Trustees to act as Vice-Chairmen of the IASC Foundation

Question 7 – Trustee oversight

Question 8 – Encouraging liaison with a broad range of official organisations with an interest in accounting standard-setting

Question 9 – Permitting up to two Board members to act as Vice-Chairmen of the IASB

Question 13 – Review of the SAC

Question 14 – Further clarifying amendments and improvements, i.e., removing historical references that are no longer applicable and replacing specific staff titles with the term “the senior staff management team”