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Ms Tamara Feldman
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IASC Foundation
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By email: constitutionreview@iasb.org

27 November 2009

Dear Ms Feldman

IASCF REVIEW OF THE CONSTITUTION PART 2: PROPOSALS FOR ENHANCED PUBLIC ACCOUNTABILITY

The Institute's Accounting Standards Committee has considered the above discussion document and I am pleased to set out its comments below.

The Institute is the first incorporated professional accountancy body in the world. The Institute's Charter requires the Accounting Standards Committee to act primarily in the public interest, and our responses to consultations are therefore intended to place the general public interest first. Our Charter also requires us to represent our members' views and protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Our responses to the questions for consideration are set out below.

Questions for consideration

- 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 would support the change in name.

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 agree that this change is appropriate and follows on logically from question one.

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

The objectives of the 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*
- 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*

We are disappointed to note that there is no specific reference to a principles-based approach to standard-setting in part (a). We believe that it is entirely appropriate to explicitly state that one of the objectives of the IFRS Foundation is to develop principles-based standards and, given that this is fundamental to the process, it is appropriate to make reference to this objective in the Constitution. This could be achieved by changing paragraph (a) to “....a single set of high quality, principles-based, understandable, enforceable and globally accepted financial reporting standards...”

We note that part (c) talks of the need to “take account of emerging economies and, as appropriate, the special needs of small and medium-sized entities”. We are concerned that the objectives do not include any reference to IFRS for SMEs. We would also prefer both “emerging” and “developing” economies to be mentioned in the objectives as we believe that these are distinct but both require reference in the Constitution. This could be achieved by changing paragraph (c) to “in fulfilling the objectives associated with (a) and (b), to take account of emerging and developing economies and, as appropriate, the special needs of small and medium-sized entities. This includes the development and maintenance of a separate financial reporting standard where this is considered necessary.”

As mentioned in our earlier comment letter, we do not believe that convergence with national accounting standards should be an objective of the Foundation but is a means by which the objective of creating a single set of global accounting standards can be reached. We would therefore not support the inclusion of part (d) as a separate objective.

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

The governance of the 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 may make minor variations in the interest of feasibility of operation if such variations are agreed by 75 per cent of all trustees.

We agree with this proposal.

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 Foundation and the IFRS Board 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 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;*
- d) One Trustee appointed from Africa;*
- e) One Trustee appointed from South America and*
- f) Two Trustees appointed from any area, subject to maintaining overall geographical balance.*

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

We believe that geographical balance should be the overriding principle in the composition of the Trustees. We acknowledge that Africa and South America are already represented among the Trustees but we have no objection to making that reference specific.

We are pleased to note that the total number of Trustees will be maintained at 22 as any further increase risks diminishing the effectiveness of the IFRS Foundation.

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 have no objections to this proposal.

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 that there is no need to change the text of the Constitution in sections 13 and 15 and we particularly welcome the intention to address the valid and important concerns raised by commentators by way of enhanced accountability, consultation, reporting and ongoing internal due process improvements.

8. *Section 28 would be amended as follows:*

The IFRS Board will, in consultation with the Trustees, be expected to establish and maintain liaison with national standard-setters and other official bodies 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 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 the closer collaboration with other organisations where it is appropriate and relevant to the objectives of the IFRS Board. However, as we expressed in our earlier comment letter, we would be wary of closer collaboration with bodies such as securities regulators since their aims and objectives may conflict with the objectives of the IFRS Board.

We also note the reference to “convergence of national accounting standards”. As mentioned earlier, we do not believe that this should be an objective but is a means by which the objective of creating a single set of accounting standards may be achieved. We would therefore not support this language.

We would suggest the following wording for section 28:

“The IFRS Board will, in consultation with the Trustees, be expected to establish and maintain liaison with national standard-setters and other official bodies sharing the aims and objectives of the IFRS Board in order to assist in the development of IFRSs and to promote a single set of financial reporting standards.”

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 LASB.*

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

We have no objection to this proposal.

10. *The Trustees seek views on the proposal to amend section 31 to allow for altered terms of appointment for LASB 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 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 have no objection to this proposal.

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 LASB had made a formal request. The due process periods could be reduced but never dispensed with completely.*

The 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.*

We support the proposed wording, in particular the recognition that this clause should only be invoked in “exceptional circumstances”.

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 LASB must consult the Trustees and the SAC when developing its technical agenda.*

The IFRS Board shall:

- d) have full discretion in developing and pursuing the technical agenda of the 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 IFRS Board may outsource detailed research or other work to national standard-setters or other organisations.*

As we have explained in our earlier comment letter, we would prefer to see greater public consultation on the IFRS Board’s agenda. We believe that there should be a clear process to allow stakeholders to influence the content and priorities of the Work Plan and clear explanation as to why projects have been delayed or stopped.

We have already expressed our concern over the process applied to discussion papers and exposure drafts. We find that the substance of many discussion papers is more akin to an early exposure draft in which key assumptions and decisions are already made, preventing public debate. Discussion papers need to be shorter and more open, requesting views on a range of options.

We would therefore prefer to see wording which reflects the need for public consultation in the agenda-setting process and a process which allows for the necessary level of public debate.

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.*

As we have already expressed in our earlier comment letter, we believe that the current membership of the SAC is already fairly large and we would question how effective such as a large grouping can be.

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.*

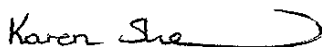
The Trustees also seek comment on the proposal to update the Constitution by removing all historical references that relate to when the organisation was established in 2001.

We agree that a constitutional document needs to be flexible and have no objections to the proposals.

We are not aware of any other issues that should be considered at this stage.

I hope our comments are useful to you. If you wish to discuss any of them, please do not hesitate to contact me.

Yours sincerely



KAREN SHAW

Assistant Director, Accounting and Auditing
Secretary to the Accounting Standards Committee