



## Part 2 of the Constitution Review

### The ABI's response to the IASCF's Proposals for Enhanced Public Accountability

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#### Introduction

1. The ABI is the voice of the insurance and investment industry in the UK. Its members constitute over 90 per cent of the insurance market in the UK and 20 per cent across the EU. They control assets equivalent to a quarter of the UK's capital. They are the risk managers of the UK's economy and society. Through the ABI their voice is heard in Government and in public debate on insurance, savings, and investment matters.
2. The ABI is grateful to the International Accounting Standards Committee Foundation (IASCF) for the opportunity to respond to its invitation to comment on its *Proposals for Enhanced Public Accountability*.

#### ABI comments

3. Global legitimacy of the IASB's standards requires there to be good governance and standard setting processes, and freedom from political pressure and special interests. On that basis we support some, but not all, of the Trustees' proposals.
4. The Trustees' proposals that we support include strengthening of the Trustees through wider geographical representation, the designation of Vice-Chairmen and their stronger engagement with the Standards Advisory Council. But we continue to be concerned by the Monitoring Board having direct access to the IASB Board, and we do not support the Monitoring Board or its members being given a stronger role in the governance of the IASB Foundation or in the standard setting processes. In our view, whilst we recognise that there are many stakeholders including regulators and governments, we consider that the standard setting structure should recognise the primacy of the investor interest. We view with great concern the EU's reluctance both to sign the Memorandum of Understanding between the Monitoring Board and the Trustees and to propose the adoption of IFRS 9 in Europe.
5. Similarly, we support some of the Trustees' proposals that will strengthen the IASB Board; for example, the changes to the terms of office, and the designation of two Vice-Chairmen. But we do not support others, eg the proposed shortening of the current minimum 30 day consultation period, as anything less simply isn't workable.
6. We do not agree with the Trustees' rejection of some suggestions put to it. We think that the need for principles-based standards is important enough to be reflected in

the Constitution – otherwise, given the number of competing interests there may be a drift towards detailed rules. This is compounded by the unsatisfactory situation whereby the Board has failed to resolve the important principled issues of the roles of stewardship, prudence and reliability in its conceptual framework.

7. We think that there should be public consultation on the IASB's agenda and priorities – this would add greatly to legitimacy and may help reduce the scope for political pressure.
8. Lastly, we consider that, given the greatly increased demands on the respective roles that the increasing world-wide usage of IFRSs gives, the role of the Chairman of the IASB Board should no longer be combined with that of Chief Executive of the IASB Foundation.
9. We expand on these comments, and set out others, in our answers to the Trustees' questions in the annex to this letter.

ABI  
November 2009

## Questions for consultation

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### 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?**

1. We consider that a clear alignment of name and activity may help internationally in some respects. However, we consider that this benefit is outweighed by the loss of a widely recognised brand name, and by the cost of making the change and the diversion of resources at a time when the Foundation and Board have so much to do. *We therefore do not support proposed changes in name.*

### 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?**

2. The proposed change would be acceptable in so far as it refers more clearly to the main output of the Board i.e. IFRSs.

### 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?**

3. We do not support the main changes proposed. This is because they go beyond a need for clarity and may change what the Foundation does in ways that we do not support:

- Insertion of 'accepted': Although it is for public authorities to decide to adopt the standards, we do not agree that the Foundation should have an objective that may require it to engage with public authorities as part of an adoption process. This would lead to it being drawn into political processes across the world. Further, such a change may lead to public authorities having to be considered as primary stakeholders by the IASB Board in the development of its standards. By contrast, we continue to support the primacy of the investor as the primary stakeholder. *We therefore question whether the insertion of 'accepted' is appropriate.*
- Change of place for 'emerging economies': We do not agree that the current phraseology in any way implies that emerging economies are not distinct from SMEs – to say, for example, that Mexico exports crude oil and electronic equipment is surely not to imply that these exports are not distinct. Further, we are not clear what is actually to be achieved by the change, in practical terms, or indeed generally by the reference to emerging economies - by contrast, there is a standard specifically for SMEs. Lastly, we would be concerned if the change were to result in the needs of emerging economies as having in effect a veto over the main objective of standard setting for the world's capital markets. *We therefore do not support the change of place for 'emerging economies'*

4 We note that the Trustees do not propose that the Constitution should make express reference to principles-based standards. We do not agree with this conclusion, nor with the reasons that the Trustees give. We consider that the need for principles-based standards is so important that it cannot be considered a mere detail, we do not agree that that it should be set out only in a Due Process handbook. We think that the term is sufficiently widely understood for inclusion in the Constitution, and we note that any need for detail to clarify the term may be met in the Due Process Handbook. *We therefore support the inclusion of express reference in the Constitution to principles-based standards.*

5. We also note that the Trustees do not propose that the Constitution should permit an expansion of the IASB and IASB to include the public and not-for-profit sectors. We consider that their remit should remain as it is, not just because of the need to keep their focus on their current valuable work but also because we

believe that the interests of investors are quite different from those of stakeholders in the public and not-for-profit sectors – whose interests would be better served by other standards-setters. *We therefore agree with the Trustees.*

#### Question 4

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

*The governance of the ~~IASG~~ 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?**

6. We accept that the institution of the Monitoring Board needs to be reflected in the Constitution. However, we consider that the governance of the IFRS Foundation should continue rest solely with its Trustees. Any diffusion of responsibility, especially if it is ill-defined, does not accord with what we understand by good governance. *We therefore do not support the inclusion of 'primarily' in section 3 of the Constitution, nor the insertion of the reference to the Monitoring Board.*
7. Further, as we had responded to the IASCF's previous consultation, we consider that the Monitoring Board's accountability to public authorities should include particular recognition of the needs of investors as the IASB's primary stakeholders. We had noted then the risk of politicisation of the standard setting process. We view recent developments in that light, as the European Commission has not signed the Memorandum of Understanding with the Trustees and has subsequently delayed endorsement of IFRS 9, and we advise caution in exploring the IASB's future funding strategies.
8. We also consider that the Monitoring Board should not have any direct relationship with the IASB Board. This because we consider that there is significant risk to the latter's operational independence. We strongly believe that the role of the Monitoring Board should be to supervise only the IASB Foundation, and not the IASB Board, and that it is the role of the Trustees to act as the link between the Monitoring Board and the IASB. *In the longer term, we consider that independence and integrity will be better served by the IASB having a grounding in international law.*

## 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?**

9. We acknowledge that the composition of the Trustees should reflect the IASCF's role in setting global standards and that periodic changes are needed to ensure that the geographical representation remains appropriate whilst ensuring that the Trustees have the right skills and experience. *We therefore support the specific recognition of Africa and South America.*

## 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?**

10. We consider that, in principle, it may help the Chairman of the Trustees to have additional support. We note, however, the consultation document does not say what the role(s) of the Vice-Chairmen of the Trustees are to be. By contrast, the roles of the proposed Vice-Chairmen for the IASB Board are specified (to chair meetings in the Chairman's absence, and to represent the Chairman in external contacts). *We therefore support the amendments proposed to section 10 of the Constitution, but we suggest that the Vice-Chairman's roles for the IASB Foundation be delineated in a way that is consistent with those for the IASB Board.*

**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.**

11. We have shared some commentators' concerns about the effectiveness of the Trustees' oversight. We note that the Trustees intend to address these concerns by way of enhanced accountability, consultation, reporting and ongoing internal due process improvements. As we do not know what these changes are, it's difficult for us to conclude that no constitutional changes are needed. In principle, however, we agree that the Constitution should give the Trustees sufficient oversight powers.

**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?**

12. The change proposed, from 'concern with' to 'interest in' standard setting appears to us to be too open-ended. All the IASB's stakeholders have an interest in standard setting. But most would be expected by the IASB to contribute to the standard-setting process by other means – eg through due process.
13. The national accounting standard setters with which the IASB has collaborated have broadly shared the IASB's primary focus, but that focus is not necessarily shared by other stakeholders. For example, banking and insurance regulators do not have the same objective as the IASB's 'to develop standards that 'help

participants in the world's capital markets and other users to make economic decisions'. The regulators have, quite properly, different objectives. We would not support the IASB liaising with the regulators to assist in the development of IFRSs in the way that the amendment proposed would seem to suggest. Further, we note that the one suggestion cited in the consultation document of an organisation that the IAS might collaborate more with is IPSASB – which clearly has objectives that differ from those of the IASB's (see paragraph 5 above). *We therefore do not support the change proposed, to substitute 'concerned with standard-setting' with 'an interest in standard-setting' in section 28.*

#### 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.*

14. We consider that, in principle, it may help the Chairman of the IASB Board to have additional support. The frequency of Board and related meetings, and need for effective contact with many and varying stakeholders, place heavy demands on the Chairman of the IASB Board. However, the role of Chief Executive of the IASCF also is a source of pressure, and is one that we suggest should be relieved. This may also contribute to good governance overall. *We therefore support the proposal to have up to two Vice-Chairmen of the IASB Board, but we consider that the roles of the Chairman of the IASB Board and the Chief Executive of the IASB Foundation should be split.*

#### 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?**

15. We note the needs to balance the needs for recent practical experience with those for continuity, acclimatisation and independence. We note that there may be a temptation to allow for greater flexibility than is proposed in this consultation. We would resist this, because of the pressure that this would place on independence, and we emphasise the importance of the Trustees' oversight role in this context. *We therefore support the changes proposed to the Board members' terms.*

**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.
16. We appreciate that circumstances can arise in which there is a strong case for urgent action by the IASB Board to change its standards. However, recent experience – with IAS 39, for example – suggests to us that there needs to be a minimum consultation period for proper due process.
17. We consider that it helps due process to work more effectively if the IASB receives the consolidated views of stakeholders. This may require consultation by, for example, international trade associations with their national trade association members, national trade association member companies with their member companies, and member companies internally. We consider that all this cannot sensibly be done in less than the 30 days, which is the current requirement. *We therefore not support the proposed insertion of the additional text in section 37 (to be section 38).*

## 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;*

18. We welcome the Trustees' acknowledgement of the need for greater input into the IASB's agenda-setting process. Wide and effective consultation on the Board's agenda and priorities contributes significantly to the legitimacy of the IASB and its standards.
19. Recent experience, however, particularly of the lead up to the Board's acknowledgement of the urgent need to replace IAS 39 and subsequently to the non-endorsement by the EU of IFRS 9, suggests that changes to the IASB's processes need to be more significant than those proposed. *We therefore support the Trustees' proposals to ensure that the IASB consults with the Trustees and with the SAC, but we suggest that these proposals are strengthened by requiring periodic formal public consultation and feedback in relation to the Board's strategic direction as reflected in its agenda and priorities, including when the Board is considering changes in strategic direction.*
20. We further suggest that the legitimacy of the IASB's standards is promoted further also by widespread consultation during the development of standard setting proposals. We understand that the IASB's outreach programme has been well received during the development of IFRS 9. Suitable field-testing and subsequent post-implementation reviews can give not only substantial support to cost-benefit assessments and but also provide evidence to rebut the ill-supported allegations that can characterise the inevitably political process that can accompany endorsement.

## 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.**

21. We have supported the recent changes to enhance the effectiveness of the SAC, and we accept that some time needs to elapse before further significant changes are made generally. *We therefore agree with the Trustees in making no further changes to the Constitution at this stage, other than as may be necessary in the light of our proposal, in paragraph 17 above, for formal public consultation and feedback on the Board's agenda and priorities.*

## 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.**

*14. We agree with the Trustees’ proposals.*