

Tamara Feldman
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IASC Foundation

**By email: constitutionreview@iasb.org
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30 November 2009

Dear Sir/Madam

IASB Constitution Review, Part II – Proposals for Enhanced Public Accountability

We welcome the opportunity to comment on the proposed constitutional amendments.

By way of background, Hermes is one of the largest pension fund managers in the City of London and is wholly owned by the BT Pension Scheme. As part of our Equity Ownership Service, we also respond to consultations on behalf of many other clients from around Europe and the world, including the BBC Pension Trust, The National Pension Reserve Fund of Ireland, the Lothian Pension Fund, PKA of Denmark, Canada's Public Sector Pensions Investment Board and VicSuper of Australia (only those clients which have expressly given their support to this response are listed here).

EOS is supportive of the bulk of the proposed changes to the constitution.

We would draw attention to four matters where our view differs from that of the Foundation or where we believe particular vigilance is needed:

1. **Geographical split on the board.** We expect the IFRS Board to be constituted of those individuals best able to carry out the role and create the highest quality financial reporting standards. We do not believe that geographical concerns should be given such prominence, and so do not welcome the further proposed step to reducing flexibility in the composition of the Board. We look forward to the time when IFRS Board membership will be determined by the talent of the available individuals rather than the geographic region in which they currently reside.
2. **Agenda-setting.** We have long regarded this as a crucial area where greater oversight is needed. We strongly welcome the proposed changes to make more explicit the roles of the IFRS Foundation and the SAC in helping the IFRS Board to formulate its agenda. We believe that this will only have practical impact if all the parties approach their roles in relation to agenda-setting with an appropriate desire to listen and to respond appropriately to issues raised. We look forward to all three parties rising to this challenge.



3. **Accelerated due process.** Given the practical impossibility for most parties to respond to consultation periods which are shorter than 30 days (for us, even 30 days is a significant stretch), we do not see any practical difference between consultations shorter than 30 days and dispensing with consultation altogether – which the Foundation rightly frowns upon. We therefore oppose the proposed change to permit consultation periods shorter than 30 days.
4. **Standards Advisory Council.** We agree that there is no current need for changes to the constitutional framework for the SAC. But we expect that the IFRS Foundation will keep this question under active review as the practical impact of the recent – and very welcome – changes becomes more clear.

Our responses to the questions raised in Part II of the second constitution review are attached.

We would welcome further discussion of any of the comments included here if that would be helpful to you.

Yours sincerely,

PAUL LEE
Director

30 November 2009

Response to IASB Constitution Review, Part II – Proposals for Enhanced Public Accountability

Q1 *Do you support this change in name? Is there any reason why this change of name might be inappropriate?*

Q2 *Do you support this change?*

EOS supports the proposed changes to the names of the IASC Foundation and the IASB, and hereafter in this response we will use the newly proposed names. We are also supportive of the renaming of the remaining references to accounting standards.

Q3 *Do you support the changes aimed at clarity?*

Q4 *Do you support this clarifying amendment?*

EOS supports the proposed clarification of the objectives and the changes to recognise the creation and role of the Monitoring Board. We would note our strong view that the role of the Monitoring Board must be constrained to oversight and accountability of the IFRS Foundation, and we would not welcome undue interference in the governance of the Foundation. We would be strongly opposed to any involvement of the Monitoring Board in the work of the IFRS Board.

Q5 *Do you support the specific recognition of Africa and South America?*

EOS is of the view that the IFRS Board should be constituted of the individuals with the mix of skills best able to develop Financial Reporting Standards of the highest quality. We do not believe that this aim will best be fulfilled by strict geographical quotas for membership such as those in place and proposed. Indeed, we regard the new proposal as a step backwards by reducing the scope for geographical flexibility from 4 members of the board to 2. While in no way wishing to denigrate the potential contribution of individuals from Africa and South America, we therefore do not support this proposal, and look forward to the time when IFRS Board membership will be determined by the talent of the available individuals rather than the geographic region in which they currently reside.

Q6 *Do you support the constitutional language providing for up to two Vice Chairmen?*

EOS supports the proposal to allow the appointment of two vice-chairs. We recognise the value this will bring in liaison with public authorities.

- Q7 *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.***

EOS shares many of the concerns outlined in the discussion on agenda-setting: we believe that confidence in the IFRS Board and its decisions would be enhanced if the Foundation's role in assuring the effectiveness of the processes of the IFRS Board were more transparently effective. We recognise the very significant steps forward which have been made in this regard in recent years, but we believe that there is scope for further action. In particular we have raised questions regarding the oversight of the agenda-setting process and very much welcome the Foundation's attention to this issue in the current consultation (we make our specific comments in response to the questions below).

One area where we would welcome further attention by the Foundation beyond those currently considered is in oversight of the process of the IFRS Board's post-implementation reviews. Investor confidence in these reviews will be significantly enhanced if they are transparently carried out, consider stakeholder input effectively and lead to changes which respond to that input. We believe that the IFRS Foundation will have an important role in providing assurance that this does indeed happen. We would welcome the Foundation actively considering whether this is an issue which needs to be specifically considered within the Foundation's constitution.

With this caveat we are content to support the proposal that no changes otherwise need to be made to the constitution to respond to the issues raised.

- Q8 *Do you support the changes aimed at encouraging liaison with a broad range of official organisations with an interest in accounting standard-setting?***

EOS supports the proposal regarding liaison with other bodies.

- Q9 *The Trustees seek views on the proposal to amend section 30 of the Constitution to permit the appointment of up to two Board members to act as vice chairmen of the IASB.***

EOS supports the proposal to enable the appointment of two vice-chairs of the IFRS Board.

- Q10 *Do you support the change in proposed term lengths?***

EOS supports the proposal on the terms for IFRS Board members and for the chair and vice-chairs. We would note that given the 8-year maximum term for board members there would be some value in accelerating the Board's process for major projects so that its members had a realistic prospect of seeing more than one from beginning through to the end. We believe that this would markedly enhance the Board's functioning and effectiveness as well as its productivity.

- Q11 *The Trustees seek views on the proposal to insert in section 37 (to become section 38) of the Constitution an additional subsection 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.***

EOS does not favour consultation periods shorter than 30 days. Even a period of 30 days raises real challenges for the ability of users effectively to respond to consultations. We note that the current proposal is that consultations could never be eliminated altogether but could on rare occasions be reduced to fewer than 30 days. Our view is that in practice there is not a significant difference between a reduction below 30 days and full elimination and we therefore do not favour this proposed flexibility.

Q12 *The Trustees seek views on the proposal to amend section 37(d) (to become section 38) of the Constitution to expressly provide that the IASB must consult the Trustees and the SAC when developing its technical agenda.*

EOS welcomes this proposal. EOS has supported calls urging greater clarity and accountability in the IFRS Board's agenda-setting process. We have on occasions felt frustrated that the concerns of users about some specific issues which the Board could and we believe should address have not been given priority, while other issues which we believe are of much lesser concern have been handled with more urgency. We therefore strongly welcome these proposed changes.

We would note that these changes will only be effective to the extent that the Foundation and the Board give them effect in their practice and behaviours. We as users are keen to have input into the agenda-setting process as we believe this will help significantly enhance the quality of IFRSs and the company reports made under them. We hope that both the Foundation and the Board are similarly keen to take the benefit of this input and see it influence decision-making in practice - and we very much look forward to this being the case.

Q13 *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.*

EOS are content to support the current sections covering the role of the SAC. We strongly welcome the efforts to reconstitute the SAC in response to past comments, and in particular we welcome the creation of the investor sub-group. We note the intent in new section 37(d) to make more explicit the role of the SAC in assisting the IFRS Board in setting its agenda. We believe it is premature to judge the success of these welcome initiatives, and so agree with the IFRS Foundation that there is no immediate need for change to the constitution in respect of the SAC. However, we expect the Foundation closely to monitor the effectiveness of these developments in practice and to keep under review the need to amend the constitution to reflect any lessons learned.

Q14 *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.*

EOS supports the proposed changes to sections 48 and 49 removing the detail on staff roles.

Paul Lee, Director - Hermes Equity Ownership Services
30 November 2009