

Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Düsseldorf, 21 June 2004
541/511/520

Strengthening the IASB's deliberative process

Dear Sir David

The IDW appreciates the opportunity to comment on the improvements currently proposed in the IASB paper dated 24 March 2004. As stated in our letter dated February 12, 2004 in respect of the IASC Foundation Constitution Review we support the initiative to strengthen the deliberative process of the IASB. We are pleased to note that many of the points we raised in this letter have been taken into consideration, and we have enclosed a copy for your information. The IASB's intention to publish a handbook of policies and procedures related to its due process will enhance transparency and the general perception of the IASB's integrity. We trust that the following comments on specific matters will be of use in this context:

The IASB's responsiveness to constituents' comments

Paragraph 17 of the IASB paper states "the IASB will in future post on its Website a summary of the Board's position on the major points raised in the letters, once they have been addressed". This is undoubtedly a step in the right direction and will enhance transparency of the due process.

In our letter of February 12, 2004 to the IASC Foundation we noted that it is currently not possible to determine the reasons behind rejection of suggestions from comments submitted nor whether they have been accorded consideration in terms of

their validity or importance and further, that it is unclear whether particular emphasis is given to the consideration of comments submitted by specific bodies. The above-mentioned proposal to summarise the Board's position on major points does not address these latter concerns, as there may be differences of opinion as to which issues represent "major" points.

We are pleased to note, from the second bullet point of paragraph 20, that the IASB intends to make available near-final drafts of forthcoming exposure drafts and standards prior to Board approval.

The extent of consultation before releasing proposals and standards

Field testing

In paragraph 25 the IASB paper confirms that significant benefits have resulted from the use of field testing. We have previously recommended that field testing be made compulsory for *all* proposed standards, significant amendments to existing standards and interpretations and not be subject to the discretion of the Board. This would ensure that a) for all proposed standards the practicability of any new accounting treatment is subjected to testing, b) the Board is aware of all issues arising from such tests which had previously either not surfaced or had not been considered and c) contentions that the Board's standards are too theoretical or "intellectually rigorous" are pre-empted. Furthermore it will also be necessary for the process governing the selection of candidates to carry out the field tests to be transparent in order that a broad base of experience is made apparent.

Discussion Papers

As the constitution requires that the Board consider publishing discussion papers before issuing exposure drafts we are pleased that the Board states that it intends to make greater use of discussion papers in future. We have previously recommended that the IASB should have an *obligation* to issue such a discussion paper concerning highly controversial issues. The due process would benefit from a *requirement* in such cases rather than, as is noted in the last sentence of paragraph 28, a decision on a project-by-project basis. The Board appears to share this view, as the issue of drafting process as discussed in paragraph 19 refers to the importance of the development of "a series of decisions on issues arising on the project" before an exposure draft or standard can be drafted. With respect to both accounting issues for which no IFRS has yet been issued and highly controversial amendments to existing IFRS the Board has indicated that it is likely to make greater use of discussion papers in fu-

ture. Therefore the introduction of an obligation to do so would merely enhance the credibility of the deliberation process as a whole.

Re-exposure of proposals

We urge the Board to adopt set procedures to re-expose standards of a contentious nature, or those where significant changes are made to the original exposure drafts that were not anticipated in the original exposure drafts. Recent experience has shown that certain issues require far greater involvement of interested parties, particularly where changes have significant impact on the financial statements within specific industries. In our opinion, decisions as to whether to re-expose a draft standard should not lie with the Board, but rather be a part of pre-determined procedures. Adoption of such procedures would mean that the integrity of the Board could not be questioned in this regard.

Issues not addressed by the proposal paper

Comment periods

We would like to refer to our previous suggestion that for certain complex issues the Board could consider allowing a longer period for comment. As an international standards setter the IASB will be able to appreciate that translation difficulties or misunderstandings may also need to be discussed in non-English speaking countries and that this will require additional time.

IASB accountability for critical decisions

In our letter of February 12, 2004 we referred to the need for increased transparency in the accountability of the IASB for critical decisions. Some of these matters have been addressed above, but the issue of priorities and convergence has not yet been addressed. It is important that all major stakeholders are represented in such decisions.

Complexity and length of application of the standards

IFRS are becoming increasingly complex and difficult to understand and apply in practice. Although the complexity of certain accounting issues does not allow for simplification, we recommend that the Board make its intentions in this matter clear. This equally applies to the need to issue robust standards that will not require amendment in the near future.

We would be pleased to answer any questions that you may have or discuss any aspects of this letter.

Yours sincerely

Klaus-Peter Naumann
Chief Executive Officer

Norbert Breker
Technical Director
Accounting and Auditing

encl.

Mr Tom Seidenstein
Director of Operations and Secretary
IASC Foundation
30 Cannon Street

London EC4M 6XH
United Kingdom

Düsseldorf, 12/02/2004
541/520

Dear Mr Seidenstein

Re: IASC Foundation Constitution Review

The IDW appreciates the opportunity to contribute its views following the IASC Foundation's invitation to comment advised in the consultation paper "Identifying Issues for the IASC Foundation Constitution Review" published in November 2003.

We would firstly like to address matters of a general nature before commenting on the specific issues raised in the afore-mentioned document and therefore submit our comments as follows:

General Matters

1. Neutral and principle-based Global Standards

Financial reporting standards play an essential role in the worlds capital markets. The need for global standards is increasingly apparent to participants in these markets to promote competitiveness and comparability and to facilitate expansion of the capital funding of individual entities. Neutrality in financial reporting standards setting is recognised as essential in ensuring that legal and economic facts are appropriately reported in financial statements without any bias toward the interests of specific groups.

We consider it imperative that global standards are drawn up following adequate consultation with representatives of preparers, auditors, regulators, policy makers

and users to ensure that full knowledge of relevant issues is attained. We accept that the development of Global Accounting Standards represents a challenging task and that a degree of compromise is sometimes necessary to ensure that acceptable solutions for the international financial market participants are attained. In this context it is important that the standards are sensitive to the legal impediments and economical peculiarities of the jurisdictions in which they are to be applied. Therefore we support principles-based standards promulgated by the IASB, as they provide the advantages of consistency and transparency in financial reporting whilst allowing for their application in a variety of situations and circumstances and at the same time prevent the need for undue regulatory intervention in the form of detailed rules that would have to be applied in every conceivable situation.

2. Accountability

We agree that the objectives of the IASB can be achieved primarily by developing and publishing IFRS and promoting the use of those Standards in general purpose financial statements and other financial reporting. This is further enhanced by IFRIC's mandate to address issues not specifically addressed by IAS or IFRS but that are related to areas governed by these Standards as well.

However, it is important that those involved in the standard setting process, in whatever role, feel that their input is valued and has been accorded due consideration. We recognise the need for increased transparency in certain aspects of the current standard setting process, notably in the accountability of the IASB for critical decisions. Such an increase would enhance the credibility and accountability of the IASB. We have included specific comments on these matters below where appropriate. In addition, the IASC Foundation could consider strengthening its own oversight role in this respect.

3. Priorities and Convergence

The IASB work programme, its priorities and convergence priorities should be extensively debated and should include the involvement of all major stakeholders. The significance of IAS/IFRS in Europe has dramatically increased following the EU adoption of international standards for application in consolidated financial statements from 2005 onwards. Europe will become the most significant user of IAS/IFRS worldwide. Therefore, Europe needs to be involved in all parts of the debate including the debate on convergence; the nature of convergence and the speed of convergence have so far not been openly debated.

4. Understandability, Practicality and Continuity of the Standards

The workload assumed by the IASB and its staff has been, of necessity, extremely heavy in the last year taking into account the improvements and convergence project and the first-time application of IAS/IFRS by many European enterprises as of January 1, 2005. The recent pace of change can and should not continue. We would also like to underline that each standard must be robust so as to remain valid for an extended period and that subsequent changes should be kept to an absolute minimum. In our view, this is essential if the integrity of IAS/IFRS is not to be undermined. Over time, comparability and reliability are essential attributes which application of IAS/IFRS seeks to lend financial reporting.

The cost-factor should not be underestimated, nor should the practicalities of application. These relate not only to those entities applying the standards; but also to their auditors and other interested parties: Among others, considerable resources may be required to train staff and update accounting systems. We would, therefore, like to suggest a further amendment to the objectives which would specify that development of robust standards is to remain a continuing priority, and specifically that consideration must be given to achieving an appropriate balance between the importance of individual changes and the resultant costs to all parties from their application. We would like to suggest that the Trustees ensure that transparency in respect of the Standard Setting Process is afforded sufficient prominence and that the pace at which new Standards are issued and existing Standards revised is carefully monitored in order that reliability and comparability within financial reporting, and thus the reputation of the IAS/IFRS is not disadvantaged.

The complexity of certain accounting issues precludes simplification, so that it has proved difficult to produce standards that can be considered 'understandable' by all parties. However, we are concerned that the Standards in all areas are becoming increasingly complex and difficult to understand. Whilst we are aware that the statements issued by the Interpretations Committee aim to redress this problem, we question whether it is necessary or desirable for such complex standards to be issued. There is a danger that specific complexities may not be fully appreciated or understood and that this could lead to incorrect application, thus undermining reliability and comparability of financial statements. In this context also the increased use of fair value measurements has to be mentioned.

Specific Issues:

A. Name and objectives

1. Name: *The first section sets out the name of the organisation.*

2. Objectives: *This section sets out the objectives of the organisation, which are:*

- (a) to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting 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; and*
- (c) to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions.*

Should there be a specific objective to address the special challenges facing small and medium-sized entities (SMEs)?

SMEs form an important part of the German economy and will be permitted to apply IAS/IFRS in their annual financial statements in future. We anticipate that they may shortly come under increasing pressure from banks, competitors and investors to apply IAS/IFRS. Therefore, the issue of international financial reporting standards in relation to SMEs is highly relevant and we consider it essential that the objectives set forth in the Constitution be general and applicable to the financial statements of all for-profit entities. However, a specific objective to address the special challenges facing SMEs is not necessary.

The question, as to whether a separate set of accounting standards is required cannot be considered as part of the Constitution Review. This issue should be resolved as part of the IASB's current SME project. We would prefer having just one single set of global standards. The special circumstances and challenges raised as arguments in support of a separate set of accounting standards for SME should be carefully scrutinized. Many of these tend towards a solution that would just require a lower

level of disclosures where appropriate but, in our opinion, differences regarding recognition and measurement should be avoided.

B. Governance of the IASC Foundation

3. Governance: *This section places the governance of the IASC Foundation with the Trustees and requires the Trustees to work within the framework of the Constitution.*

C. Trustees

4. Number of Trustees: *This section stipulates that the Trustees shall consist of 19 individuals.*

Does the potential benefit of expanding the number of Trustees, possibly to accommodate a broader range of views, outweigh the risk that meetings would become more cumbersome and less effective if larger, potentially reducing a strong sense of commitment and participation by individual members?

We consider the current balance to be about right but are not in a position to assess the effectiveness of Trustees' meetings and any potential benefits or disadvantages of either increasing or reducing the number of Trustees.

5. Selection of Trustees: *This section makes the Trustees responsible for the selection of new Trustees in the event of vacancies.*

Whilst we accept that the Trustees are well placed to carry out the selection of new Trustees there is a danger that the public may perceive the current arrangement as less than satisfactory, as selections may be biased and there is the potential for the selection of new Trustees to be less than objective as elements of favouritism could exist. Paragraph 8 of the constitution states, "Trustees shall establish procedures for inviting suggestions for appointments of "at-large" Trustees from relevant organisations and for allowing individuals to put forward their own names". In our opinion, publication of these procedures would considerably improve transparency in relation to the appointment of Trustees.

6. Commitment and distribution: *The section requires all Trustees "to show a firm commitment to the IASC Foundation and the 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 understanding of, and be sensitive to, international issues relevant to the success of an international organisation responsible for the development of high quality global accounting standards for use in the world's capital markets and by other users. The mix of Trustees shall be representative of the world's capital markets and a diversity of geographical and professional backgrounds. The Trustees shall be required to commit formally to acting in the public interest in all matters. In order to ensure a broad international basis, there shall be:*

- *six Trustees appointed from North America;*
- *six Trustees appointed from Europe;*
- *four Trustees appointed from the Asia/Pacific region; and*
- *three Trustees appointed from any area, subject to establishing*
- *overall geographical balance."*

The Trustees have a largely fixed geographical distribution. Is such a fixed distribution appropriate, or does the current distribution need review?

Basically we agree with the continuance of the current policy of achieving an overall geographical balance. This means that a proper balance of representation between individuals from common-law and from civil-law jurisdictions should be achieved. Furthermore, those countries/areas and capital markets where IFRS are actually applied, e.g. Europe, Australia, should carry more weight in the geographical mix. This would lead to an enhanced representation of those directly involved in and impacted by IFRS issues. Having said that, this should not be considered as demeaning the importance of the US Capital Market, since currently the IASB is aiming to work towards convergence with US GAAP.

7. and 8. Backgrounds of the Trustees:

The Constitution mandates that five of the 19 Trustees be nominated by the International Federation of Accountants (IFAC) - two of which are normally senior partners from major firms. Three other Trustees are to be selected after consultation with international organisations of preparers, users, and academics for the purpose of

choosing one from each of those backgrounds. The Constitution calls for 11 "at-large" Trustees.

Although a broad distribution of professional backgrounds is clearly necessary, is the distribution enshrined in the Constitution appropriate?

We consider the current balance/distribution to be appropriate unless the "at large" principle is changed. Taking into account the increasing relevance of IAS/IFRS for SMEs an appropriate representation of SMEs should be warranted.

9. Terms: *Trustees are appointed for a term of three years, renewable once.*

10. Termination: *The Constitution enables the Trustees to terminate an appointment on the grounds of "poor performance, misbehaviour, or incapacity."*

11. Appointment of Chairman: *The Chairman of the Trustees shall be appointed by the Trustees from their own number.*

12. Meetings and fees: *This section requires the Trustees to meet at least twice each year and provides for annual and per-meeting fees.*

13. Signing authority: *The Trustees have the authority to act on behalf of the Foundation in the signing of contracts, leases, and other organisational matters.*

14. and 16. Duties of the Trustees: *The Constitution states the Trustees shall:*

- (a) assume responsibility for fundraising;*
- (b) establish or amend operating procedures for the Trustees;*
- (c) determine the legal entity ... ;*
- (d) review in due course the location of the IASC Foundation ... ;*
- (e) investigate the possibility of seeking charitable or similar status ... ;*
- (f) open their meetings to the public but may, at their discretion, hold certain discussion (normally only about selection, appointment and other personnel issues, and funding) in private;*
- (g) publish an annual report ... ;*

- (h) appoint the members of the IASB, including those who will serve in liaison capacities with national standard-setters, and establish their contracts of service and performance criteria;*
- (i) appoint the members of the IFRIC and the SAC;*
- (j) review annually the strategy of the IASC Foundation and the IASB and its effectiveness;*
- (k) approve annually the budget of the IASC Foundation and determine the basis for funding;*
- (l) review broad strategic issues affecting accounting standards, promote the IASC Foundation and its work ..., provided that the Trustees shall be excluded from involvement in technical matters relating to accounting standards;*
- (m) establish and amend operating procedures for the IASB, IFRIC and the SAC;*
- (n) approve amendments to the Constitution;*
- (o) exercise all powers of the IASC Foundation except those expressly reserved to the IASB, IFRIC, and the SAC.*

The intention of these provisions is to protect the independence of the standard-setting process while ensuring sufficient due process and consultation. Does there need to be a specific requirement for the Trustees to review the strategy and the procedures of the IASB at intervals?

Presently we consider it essential that the strategy and procedures of the IASB are monitored at intervals. An annual review of the strategy etc as is currently required seems to be sufficient, however in particular because of the manifold changes in IASB priorities and the increase in the number of projects a biannual review might be preferable. This may change once the deadline for first-time adoption of IAS/IFRS in Europe and Australia has been achieved and application of the standards is satisfactorily up-and-running.

15. Quorum and Voting: *The Constitution requires a quorum of 60 per cent of the Trustees, a simple majority on most matters, and a 75 per cent majority on issues concerning the Constitution.*

17. Termination of Appointments: *The Trustees have the right to terminate appointments to the IASB, IFRIC, and SAC but only on grounds of "poor perform-*

ance, misbehaviour, incapacity or other failure to comply with contractual requirements."

18. Commitment to the Public Interest and Review of the Constitution:

This section requires the Trustees

- *to make a commitment to act in the public interest and*
- *to review the Constitution every five years.*

Should the language of the Constitution be changed to require a review of the Constitution "at least every ten years" rather than every five years?

Taking into account the rapid changes in the global business environment we recommend that the five year period be retained. This would enable introduction of new elements and requirements and improvements to the structure and procedures of IASC Foundation and its bodies which may become necessary.

D. IASB

19. Number of IASB members: *The Constitution sets out the requirement to have 14 members, two of which are part-time.*

Should the number of IASB members be reduced to make the Board more workable?

We have no reason to believe that the group would not work well merely because of its size. Also, in general terms, a group of 14 individuals, well known to each other, should be able to work together in an efficient and effective manner.

A reduction in size does not appear desirable, as it could be detrimental to the broad base of knowledge currently attained. We believe that as the IASB is required to deal with technical and challenging matters representation from various sources is essential for the production of 'best' solutions.

Should the part-time positions be eliminated in recognition that the workload of IASB members is heavy and requires substantial time for consultation with interested parties?

There might be concerns that part-time members will compromise the “independence of judgement” required of IASB members, in particular as each member has one vote. However, it is desirable to have the best people for the job, and in particular those still active in business, having relevant and sufficient current experience. It is acknowledged that the role carries a significant workload for such part-timers, which is necessarily difficult to cope with. In order to maintain the benefits attained by involving individuals still active in business, the situation could be improved by giving part timers no direct responsibility for consultation with interested parties; accordingly, they should not be permitted to be liaison members or take relationship roles for countries not covered by liaison members.

20. and 21. Qualifications for the IASB: *The foremost qualification for membership shall be "technical expertise." The selection of members of the IASB shall not be based on geographical representation. The Trustees shall ensure that the IASB is not dominated by any particular constituency or geographical interest.*

22. Distribution of professional backgrounds: *The Constitution requires that the IASB members shall include:*

- *a minimum of five with a background as practising auditors*
- *a minimum of three with a background as preparers*
- *a minimum of three with a background as users of financial statements*
- *at least one with an academic background.*

Should the requirement for this distribution of particular professional backgrounds be relaxed in light of the desirability of attracting the best qualified individuals?

The fact that the question has been raised seems to indicate that the current distribution does prevent attracting the best-qualified individuals. We wonder whether this is the view of the Trustees. We do not have any indications that this is the case.

As experience by the Board since implementation of the new structure has shown, the issue of professional background is of significant importance. We agree that technical expertise is a priority. However, we also consider the differentiation of viewpoints afforded by a diversity of professional backgrounds to be also very impor-

tant. For example, a financial analyst might view any given issue from a different perspective to that of a preparer/academic/auditor and vice versa. Practicability of application might be differently prioritized by preparers and auditors in comparison to financial analysts and academics respectively. Technical expertise based on actual experience combined with an appropriate mixture of views is what counts. The requirement for members to have current practical experience should be accorded more prominence.

Accordingly, we strongly encourage the retention of the current policy regarding different backgrounds with the exception of our response to the next question.

The IASC Foundation (like other standard-setting organisations) has experienced difficulty in securing the involvement of the analyst and investment community ("users"). Is there any way to encourage that group to increase its involvement?

We share the view that the involvement of users of financial statements in the standard setting process is important. In this context it should be kept in mind that users are not only represented by those which appear in public as financial analysts. In the end all stakeholders, which make economic decisions based on financial statements, deal with financial analysis. This should be taken into account in determining the relevant group of users. We encourage the Trustees to review this issue and consider whether it would be appropriate to contact representatives from major private investors, e.g. pension funds, or representatives of organisations representing minority stockholders. This would also widen the source of individuals/organisations that might be interested in involvement in the standard setting process.

23. Liason Responsibilities: *"Seven of the full-time members of the IASB will be expected to have formal liaison responsibilities with national standard-setters ..."* Currently, the Trustees have selected formal liaison relationships with standard-setters in Australia and New Zealand, Canada, France, Germany, Japan, the United Kingdom, and the United States. These standard-setters were chosen on the basis of resources available for cooperative projects with the IASB, their experience with standard-setting issues, and the relative importance of the particular jurisdiction in the world economy.

Does this kind of formal liaison relationship seem important for ensuring convergence of accounting standards?

We support the formal liaison relationships in order to promote convergence in an effective manner.

Should special consideration be given to liaison with emerging economies, not currently represented by the existing liaison relationships?

We understand that, under current procedures, liaison members take additional responsibility for countries not directly represented on the IASB itself. We support this policy as it aims to strengthen contacts with and to obtain input from these countries. We also suggest that consideration be given to involving senior IASB staff members in covering these countries where this has not yet been achieved. For practical reasons it will not be possible to facilitate direct representation of every country in the world.

We would welcome more transparency in this area.

24. Commitment to Public Interest and the Framework: *The members of the IASB must act in the public interest and be committed to the IASB Framework.*

25. Chairman and Vice Chairman: *The Trustees have the authority to appoint the chairman and vice-chairman. The chairman also serves as the chief executive of the IASC Foundation. There is no right of accession for the vice-chairman.*

26. Terms and Independence of Members: *Full-time members are appointed to renewable terms of five years and must sever all ties with former employers. There must be no right to return to former employers.*

27. Staggering of Terms: *The Constitution permitted the Trustees to stagger initial terms.*

28. Remuneration: *"Full-time and part-time members of the IASB shall be remunerated at rates commensurate with the respective responsibilities ..."*

29. IASB meetings: *The IASB must meet in public, except for the discussion of administrative matters.*

30. Voting on Technical Decisions: *This section establishes a requirement of a simple majority of the number of IASB members present at the meeting to approve a decision.*

31. Voting on a Final Document: *The Constitution requires approval of at least eight IASB members for the publication of an Exposure Draft, Standard, or final Interpretation.*

32. Duties of the IASB: *The Constitution states that the IASB shall:*

- (a) have complete responsibility for technical matters;*
- (b) publish an Exposure Draft on all projects and normally some form of discussion paper for public comment on major projects;*
- (c) have full discretion over its technical agenda;*
- (d) establish procedures for reviewing comments; normally form advisory groups on major projects; consult the SAC on major projects, agenda decisions and work priorities; and issue a Basis for Conclusions with its documents;*
- (e) consider holding public hearings to discuss proposed standards;*
- (f) consider the use of field tests to ensure that standards could be implemented.*

The Constitution describes the principles and elements of required due process for the IASB. The IASB's procedures are listed in more detail in the Preface to International Financial Reporting Standards. If respondents do not believe the procedures laid out in the Constitution are sufficient, what should be added?

As mentioned in our general remarks we would like to suggest a further amendment to the objectives which would specify that development of robust standards is to remain a continuing priority, and specifically that consideration must be given to achieving an appropriate balance between the importance of individual changes and the resultant costs to all parties from their application.

Point (d) concerns the establishment of procedures for reviewing comments. We recognise that a lack of transparency is evident in current procedures in as far as it is not possible to determine the reasons behind acceptance or rejection of suggestions from comments submitted nor whether they have been accorded consideration in terms of their validity or importance. It is similarly unclear whether particular emphasis is given to the consideration of comments submitted by specific bodies. In con-

trast, the IAASB, for example, generally prepares an evaluation of all comments received, clearly detailing the considerations resulting from issues raised together with the proposed actions resultant from them, the Board then has the opportunity to sanction or dismiss each motion. These issues papers are made available for inspection on their website prior to each Board meeting. CESR provides similar feedback statements which we have experienced as positive.

In contrast, the IASB website provides only access to both the texts of all comment letters received and a summary of tentative Board views; there is, however no link, as the latter is drafted in very broad terms e.g. "In some countries...". Information dealing with the approach to comment letters adopted by the Board is provided in general terms only. In our opinion the IASB would considerably enhance the transparency of its procedures by increasing the feedback on comments received. Giving commentators feedback will both benefit the standard setting process and enhance the quality of respondents comment letters.

Following on from this, we would like to point out that it is essential that the IASB be assigned sufficient staff to facilitate meaningful and transparent analysis of comment letters received in respect of exposure drafts and other IASB pronouncements.

In our view it would be appropriate to re-expose standards of a contentious nature or where there are significant changes to the original exposure draft or changes that had not been contemplated in the original exposure period. This is a matter that should be addressed in the Constitution.

Point (e) requires the Board to consider holding public hearings to discuss proposed standards. In our view such hearings (together with the availability of transcripts thereof) are necessary to highlight the transparency of the standard setting process and essential in respect of any areas that are potentially of a contentious nature. It is vital that the Board is seen to be taking a practical stance and operating with an open mind to set standards which will both enhance the usability of financial statements and be of general acceptance to all parties in the worlds financial markets. We further suggest that the principle (f) "field tests" be strengthened by making field tests for all proposed standards and interpretations compulsory. The execution of such tests should not be subject to the discretion of the Board. This would ensure that a) for all proposed standards the practicability of any new accounting treatment is subjected to testing, b) the Board is aware of all issues arising from such tests which had previously either not surfaced or had not been considered and c) contentions that the Board's standards are too theoretical or "intellectually rigorous" are pre-empted. We would also advise transparency in respect of the selection process for candidates to carry out the field tests.

Supplementary to the aspects mentioned above, it should be discussed whether the IASB should adopt certain duties to enhance some of its processes:

- The agenda and work programme should be established in a transparent process.
- For highly controversial issues, the IASB should have an obligation to issue first a discussion paper before any exposure draft is issued.
- Given the complexity of the standards and the need to respect also within Europe a proper due process, longer comment periods need to be considered. The length of the comment period could depend on the complexity of the proposed standard.

33. Official Language: *The authoritative text of the IASB is in the English language, though the IASB may publish authorised translations.*

We have no objections but in view of the tight comment periods allowed for proposed standards these should reflect that some interested countries/parties that are gaining in importance may need additional time to produce a translation.

E. International Financial Reporting Interpretations Committee (IFRIC)

34. Composition of IFRIC: *The Committee consists of 12 voting members and one non-voting Chairman (who is the IASB Director of Technical Activities). The Trustees have the power to appoint non-voting observers, and have exercised the power by appointing one from the European Commission and one from IOSCO.*

35. Meetings and Quorums: *The quorum is set at nine members and members may send non-voting alternates to the meetings. One or two IASB members are to be designated as official observers. Committee meetings are to be held in public.*

36. Voting: *Each Committee member has one vote. Members vote in accordance with their own independent views and not as representatives of a particular organisation. Approval of Draft or final Interpretations shall require "not more than three voting members vote against the Draft or final Interpretation."*

37. Duties of IFRIC: *The IFRIC shall:*

- (a) interpret the application of IASs and IFRSs and provide timely guidance on financial reporting issues not specifically addressed in IASs and IFRSs, in the context of the IASB Framework and undertake other tasks at the request of the IASB;*
- (b) in doing its work, have regard to the IASB's objective of convergence of national practices and the IASB's standards to high quality solutions;*
- (c) publish after clearance by the IASB Draft Interpretations for comment;*
- (d) report to the IASB and obtain its approval for Interpretations.*

The application of a comprehensive set of accounting standards unavoidably leads to a multitude of questions with regard to the correct application and interpretation. Naturally IFRIC will not be able to deal with all of these issues within a period being sufficient for the preparers and auditors of financial statements and other parties such as enforcement bodies who have to interpret IFRS. Taking into account IFRIC's limited capacities IFRIC will be restricted to important interpretations of a more general nature, and for general application. In order to deal with the remaining issues IFRIC should cooperate with the network of liaison standard setters. These national standard setters should implement IFRS interpretation committees in close working relationship with IFRIC. Also this will necessarily demand additional time and resources on the part of IFRIC, however less resources are needed compared to IFRIC dealing with interpretations alone. We believe that the Trustees should carefully review this issue, which, in our view, is a matter of urgency. Unless the IASB is able to organise such an interpretation network under its leadership, it is a reality, which we are already experiencing, that an increasing number of bodies and organisations are interpreting IFRS on their own purely to meet the urgent demands of their constituents.

F. Standards Advisory Council (SAC)

- 38. Composition:** *The SAC shall "provide a forum for participation by organisations and individuals, having diverse geographical and functional backgrounds, with the objective of (a) giving advice to the IASB on agenda decisions and priorities in the IASB's work, (b) informing the IASB of the views of the organisations and individuals on the Council on major standard-setting projects and (c) giving other advice to the IASB or the Trustees."*

39. Size of the SAC: *The Constitution calls for a Council of "thirty or more members." Also this section calls for the IASB chairman to serve as chairman of the SAC.*

40. Meetings and public duties: *The SAC meets three times a year in public sessions. The Constitution requires that the SAC "be consulted by the IASB in advance of IASB decisions on major projects and by the Trustees in advance of any proposed changes to the Constitution."*

Are the current procedures and composition, in terms of numbers and professional backgrounds, of the SAC satisfactory? Is the SAC able to accomplish its objectives as defined in Section 38?

An assessment of the SAC should bear the objectives of the SAC in mind, and not be concerned merely with its composition. Basically, we agree with the stated objectives and the intention that the SAC should not be a technical group but rather should provide a more widespread platform for those significant interested parties who do not have a direct link to the IASB but whose input is of importance to the Board. It is important that the economic and legal aspects of the varying jurisdictions are taken into account. In this respect the geographical, i.e. cultural, and professional diversity is of significance and should be maintained.

We are informed that the Board is listening to sensible input generated together with views expressed by SAC members. There is, however, a potential risk that SAC members may expect to see their own contributions and views directly reflected in a project or proposed standard. This expectation is quite often not fulfilled, which seems to have resulted in some quarters in a perception that the Board is "not listening". As mentioned above we do not necessarily share this view. Nevertheless, where such a perception exists this demonstrates the need for this to be reviewed in light of the nature and objectives of the SAC as well as the independent judgement of the IASB members. However, one way to improve this might be for the Board to summarise its views (naturally mostly its tentative views) in written form in response to those opposing views that appear to be backed by a majority (note: voting is not undertaken in the SAC meetings). The Board could achieve this by means of a summary of such arguments and responses appended to the minutes. In the meeting of SAC responses are normally just provided by one or two Board member(s). This proposed procedure might well present an additional burden of work for the Board but would help overcome the above problem.

It is a fact that the current number of SAC members exceeds the envisaged number of about thirty. Nevertheless, we are not aware that this larger number has resulted in unproductive meetings, taking into account the objectives of the SAC. To ensure the effectiveness of the SAC meetings we do, however, suggest that the number should not be increased further.

The SAC has already discussed the issue of the length of meetings. We support the meetings being scheduled for at least 1.5 - 2 days in total, which means that the afternoon session of the second day should always be planned as a full afternoon session. This would allow for more time for discussions whilst taking into consideration that some SAC members require significant travel time.

Is the manner of selection of the SAC chairman appropriate?

We understand that current practice is that an alternative individual has been proposed by the IASB chairman and accepted by the SAC to act as chairman. This works quite well in practice. In addition, a separate Agenda Committee has been introduced. We consider that procedure as appropriate as otherwise the IASB Chairman would be faced with potential conflicts of interest and/or would not receive the support of the SAC.

Therefore we propose that Part F of the Constitution be amended in accordance with the above outlined procedures, which are applied in practice.

G. Chief Executive and Staff

41. Chief Executive: *This section makes the IASB Chairman the Chief Executive of the IASC Foundation, and as such subject to supervision by the Trustees.*

42. Appointment of Technical Staff: *The Chief Executive shall be responsible for staffing the IASB, and in consultation with the Trustees shall appoint a Director of Technical Activities.*

43. Appointment of Other Staff: *In consultation with the Trustees, the Chief Executive shall appoint a Director of Operations and Commercial Director.*

H. Administration

44. Location: *The Trustees have the authority to select the location of the IASC Foundation's offices.*

45. Legal Entity: *The Trustees have the authority to determine the legal entity of the IASC Foundation.*

46. Signatories: *The IASC Foundation shall be bound by the signature(s) of such person or persons as may be duly authorised by the Trustees.*

We believe that the above constitutional procedures are appropriate. As regards technical staff, we consider it important that a broad base of professional and geographical background should be sought where possible.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

Klaus-Peter Naumann
Chief Executive Officer

Norbert Breker
Technical Director
Accounting and Auditing