

Project Manager
International Accounting Standards Board
30 Cannon Street
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Ref:

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Dear Sir/Madam

Invitation to comment - Review of the Constitution - Public Accountability and Composition of the IASB Proposals for Change

Ernst & Young is pleased to comment on the above discussion document.

In this letter we provide our views on the Review of the Constitution with respect to establishing a Monitoring Group and changing the composition of the International Accounting Standards Board (IASB). Our responses to the questions in the Invitation to Comment are set out in the Appendix to this letter.

Establishing a Monitoring Group

We support the proposal to establish a Monitoring Group to ensure that the Trustees of the IASC Foundation (Trustees) are fulfilling their constitutional duties, and establish a link between the IASCF and public authorities. However, as neither the Memorandum of Understanding (MoU) between the Monitoring Group and the Trustees, nor the Monitoring Group's Charter have yet been published or made publicly available, our comments are only preliminary.

It is vital that the IASB's standard setting process is robust, transparent and credible. Establishing a Monitoring Group will help achieve that. We feel it is important that public authorities should have the power to intervene if the Trustees are not fulfilling their Constitutional duties. Therefore we support the proposed initial composition of the Monitoring Group. We particularly support the inclusion of IOSCO. However, we believe that appropriate criteria for membership need to be established to ensure it remains appropriate for its objective. This will bring the regulators closer to the standard setting process and encourage them to recognise that that 'interpretations' should only be made by the IASB or IFRIC, and encourage them to seek to achieve enforcement of IFRS in a consistent manner.

However, we believe the powers of the Monitoring Group should clearly be limited to its governance role, as an oversight of due process. The proposal as it is currently drafted appears to give the Monitoring Group 'control' of the Trustees rather than playing this oversight function.

We therefore do not agree that the Monitoring Group should have the power to appoint Trustees. We believe their role, with respect to Trustee appointments, should be limited to

oversight of the appointment process to ensure that it is performed appropriately. We also believe the Monitoring Group should have no involvement in or influence over the content of the IASB's agenda or the agenda setting process.

The proposed revisions to the Constitution are silent as to what powers the Monitoring Group has if Trustees are not performing their duties. We believe that the Monitoring Group must either have the power to remove Trustees or require that the Trustees investigate and take appropriate action with respect to Trustees who are not performing their duties. Without such power we do not believe that the Monitoring Group can adequately perform its governance duties.

Composition of the IASB

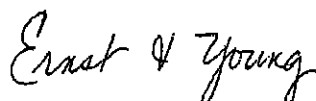
The discussion document proposes to expand the IASB to 16 members and that its geographical representation should be prescribed. This increase is designed to enable appropriate levels of liaison, and to ensure a diversity in composition which will give greater legitimacy and bring wider perspectives to the Board's deliberations. In addition, it is noted that the Trustees believe the geographical membership of the IASB should be prescribed to bring IASB members from the deepest and broadest geographical pool possible.

We believe that the Constitution's emphasis on 'professional competence and practical experience' and obtaining the best members should remain paramount. In our view, if the most appropriate people are appointed to the IASB, increasing the number of members should be acceptable. We believe the existing requirements relating to geographical criteria are appropriate. We recommend expanding the criteria so that membership of the Board is a mixture of members from converted and converting countries.

The discussion paper proposes that up to 3 IASB members can be part-time members. We believe that there should be a higher maximum number of part-time members permitted. We would propose that this is 5. Placing too low a maximum number could mean that the best candidates available are not appointed as IASB members.

Should you wish to discuss this letter with us, please contact Will Rainey at 020 7951 3619.

Yours faithfully

A handwritten signature in cursive script that reads 'Ernst & Young'.

APPENDIX

Invitation to comment – Review of the Constitution - Public Accountability and Composition of the IASB Proposals for Change

Responses to specific questions

Questions related to the Monitoring Group

Question 1- Do you support the creation of a link to a Monitoring Group in order to create a direct link of public accountability to official institutions?

We agree with the proposal to create a Monitoring Group. However, as neither the MoU between the Monitoring Group and the Trustees nor the Monitoring Group's Charter has been published yet, our comments are only preliminary. A more comprehensive view would be possible if all elements of the proposal were exposed at the same time.

We believe that establishing a Monitoring Group should enhance the credibility of IFRS as a global set of standards, free from bias. We believe that allowing formal governance of the Trustees by public authorities is an important step towards enhancing public accountability and establishing a link between the IASB and public authorities. We are aware there is a perception held by some constituents that the Trustees are not sufficiently independent as they are not overseen by an independent body. Establishing the Monitoring Group will address this concern.

However, to ensure appropriate governance and to maintain the independence of the IASB, we believe that the Monitoring Group's powers should strictly be limited to its governance role. Therefore we believe that the MoU and Monitoring Group's Charter should make it explicit that the Monitoring Group cannot have any influence over the IASB's agenda.

We support the recommendation that the MoU should be subject to public consultation before its completion (paragraph 16). In addition we encourage the Monitoring Group to seek public consultation when it establishes its Charter (section 20 of the proposed amendments to the Constitution). This will ensure transparency of the process and provide other stakeholders, who are not represented on any related body, the opportunity to provide input.

There are no proposed plans to review the operation of the Monitoring Group. We believe that there should be a planned review of the Monitoring Group's effectiveness 2 or 3 years after it is established to ensure it is fulfilling its duties.

Question 2 - The proposals contemplate a Monitoring Group comprising representatives of seven public authorities and international organisations with a link to public authorities. While recognising that the Monitoring Group is an autonomous body, the Trustees would welcome comments regarding the Monitoring Group's membership and whether other organisations accountable to public authorities and with an interest in the functioning of capital and other financial markets should be considered for membership.

We agree with the proposed membership of the Monitoring Group. We also agree that the members of the Monitoring Group should include public authorities other than regulators. However, there remains some risk that the focus of the Monitoring Group will be biased towards public entities. We feel it is important that it is made explicit in the Monitoring Group's charter and MoU that the members of the Monitoring Group must consider the interests of all entities and act without bias when performing their role.

With respect to the members of the Monitoring Group we particularly support of the proposed inclusion of IOSCO as a member (paragraph 20). This will bring the regulators closer to the standard setting process which will encourage them to interpret IFRS in a manner which is consistent across all jurisdictions. We do not believe that membership of the Monitoring Group should consist of others, such as users and preparers. The role of the Monitoring Group is to ensure that the Trustees perform their Constitutional duties and that the IASB has a formal connection to public authorities. Input from other interested parties should come from the public comment process and through the Standards Advisory Council.

It is proposed that membership of the Monitoring Group will be revised over time relative to its objectives. To ensure complete transparency we believe that the criteria for membership should be documented and a formal process for membership re-election should be put in place. Such criteria should ensure that one type of public body is not over or under represented. As noted above, we believe that the role of the Monitoring Group should be restricted to a governance role with no ability to influence the IASB's agenda. Therefore, we believe that the most important criteria of membership is that the members can carry out good governance practices.

Question 3 - The Trustees will remain the body primarily responsible for the governance of the organisation and the oversight of the IASB. Their responsibility to a Monitoring Group will enable regulatory and other authorities responsible for the adoption of IFRSs to review the Trustees' fulfilment of their constitutional duties. Does the formulation of the Monitoring Group's mandate and the Trustees' reporting responsibilities, as described in the proposed Section 19, appropriately provide that link, while maintaining the operational independence of the IASC Foundation and the IASB?

We believe that the reporting responsibilities as described in section 19 should meet this objective. However, as noted above, it is only possible to provide preliminary comments until the Monitoring Group's charter and MoU are made public.

We believe that the ability for the Monitoring Group to meet with the chairman of the IASB, as proposed in Section 19(c) of the revised Constitution, may create the impression that the Monitoring Group has undue influence over the IASB's agenda. To mitigate this we believe that it should be explicitly documented that the Monitoring Group will commit to safeguarding the IASB's independence and that the Monitoring Group cannot comment on or influence the IASB's agenda setting process. To this extent, we believe it should be explicit that any meetings that members hold with Trustees or the Chairman of the IASB (as referred to in paragraph 19(c)) can only be in their capacity as a member of the Monitoring Group. This will prevent the perception that one member of the Monitoring Group is exerting influence over the IASB's agenda.

We also question whether meeting with the Trustees once a year is an appropriate minimum to set. We believe that more frequent meetings would be required for the Monitoring Group to fulfil their duties.

Question 4 - Given the proposed creation of a Monitoring Group, would there be a continued need for the Trustee Appointments Advisory Group in the selection of Trustees? If so, what should be the role and composition of the Trustees Appointments Advisory Group? The Trustees would welcome any additional comments related to the Monitoring Group proposal.

We believe the Trustee Appointments Advisory Group should continue to exist and its role should not change, except as noted in the discussion document. We believe that it is important to separate the role of monitoring the fulfilment of the Trustees' constitutional obligations from managing the process to appoint Trustees. Maintaining the Trustee Appointments Advisory Group is also likely to encourage a wider range of candidates.

However, we do not agree that the Monitoring Group should have the power to appoint Trustees as we believe this gives the Monitoring Group 'control' of the Trustees. We believe that the Monitoring Group's role should be limited to that of an oversight of due process. Therefore their role, with respect to Trustee appointments, should be limited to oversight of the appointment process to ensure that it is performed appropriately.

However, it is currently not clear what actions the Monitoring Group may take if it believes the Trustees are not fulfilling their Constitutional duties. We believe that the Monitoring Group must either have the power to remove Trustees or require that the Trustees investigate and take appropriate action with respect to any Trustee who is not performing its duties. Without such power we do not believe that the Monitoring Group can perform a proper governance role.

Questions related to the IASB's composition

Question 5 - Do you support the principle behind expanding the IASB's membership to 16 members in order to ensure its diversity, its ability to consult, liaise and communicate properly across the world, and its legitimacy?

Overall we support the expansion of the IASB in recognition of the multitude of demands on the members' time. We believe that the additional activities undertaken by IASB members are valuable and therefore support the proposed membership expansion. It is possible that the increased number of members has the potential to slow decision making. However, if the members of the IASB are all high quality individuals who meet the criteria, as set out in the Constitution, we believe this can be overcome. However, we do believe that the number should not be expanded beyond 16 as this may inhibit the ability to debate issues. Given the growing acceptance of IFRS globally it is more important than ever that there is a general recognition that the standards produced by the Board are high quality and appropriate. The support which the Board for proposals made is instrumental to this. We are concerned that setting the majority voting level of 10 of 16 is inconsistent with that goal and would recommend increasing to 12 of 16.

Question 6 - Do you agree with the geographical formulation suggested by the Trustees?

We do not agree with the geographical formulation as proposed in the discussion document. We believe that it is too rigid and difficult to apply in practice. The issue which we believe is of greatest importance is to have high quality members. We are concerned that the best candidates may not be appointed if such strict geographic criteria are applied. In addition, geography is undefined. We do not believe that it is of value to spend time debating this definition and trying to determine a candidate's geography.

We believe that the existing constitutional language on geographical issues is appropriate. However, we believe that a requirement that some board members should have experience in converted countries and others in converting countries, should be added.

We are supportive of introducing those who bring diverse perspectives to discussions but the focus must remain on those with competence in financial reporting who meet the existing criteria for membership.

Question 7 - The Trustees are suggesting that the Constitution should provide flexibility on the matter of part-time membership. Do you support that proposal?

We agree that the Constitution should provide flexibility with respect to part-time members, but we believe that the maximum number should be increased to 4 or 5. As noted above, we believe that the focus should be on obtaining the best possible members. Imposing such a low limit on the number of part-time members may not make this possible.

A part-time member is defined as those that 'commit most of their time in paid employment to the IASC Foundation'. We believe that the requirement for a part-time member to commit 'most' of their paid employment time to the IASB is too high to attract some quality part-time members. We believe that this requirement should be removed. We would expect that part-time members should spend up to half of their time fulfilling their membership duties.