



THE INSTITUTE  
OF CHARTERED  
ACCOUNTANTS  
IN ENGLAND AND WALES

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Our ref: ICAEW Rep 110/08

Your ref:

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Assistant Corporate Secretary  
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By email: [constitutionreview@iasb.org](mailto:constitutionreview@iasb.org)

Dear Tamara

**REVIEW OF THE CONSTITUTION: PUBLIC ACCOUNTABILITY AND THE  
COMPOSITION OF THE IASB – PROPOSALS FOR CHANGE**

The Institute of Chartered Accountants in England and Wales (the Institute) is pleased to respond to your request for comments on the IASCF's *Review of the Constitution: Public Accountability and the Composition of the IASB – Proposals for Change*.

Please contact me if you would like to discuss any of the points raised in the attached response.

Yours sincerely

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## ICAEW Representation

ICAEW REP 110/08

### PUBLIC ACCOUNTABILITY AND THE COMPOSITION OF THE IASB PROPOSALS FOR CHANGE

Memorandum of comment submitted in September 2008 by The Institute of Chartered Accountants in England and Wales, in response to IASCF's *Review of the Constitution: Public Accountability and the Composition of the IASB – Proposals for Change*, published in July 2008.

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## INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on the *Review of the Constitution: Public Accountability and the Composition of the IASB – Proposals for Change*, published in July 2008 published by International Accounting Standards Committee Foundation (IASCF).

## WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 130,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.
4. Our members occupy a wide range of roles throughout the economy. This response was developed by the Financial Reporting Committee of the Institute, which includes preparers, analysts, standard-setters and academics as well as senior members of accounting firms.

## MAJOR POINTS

5. We accept that the current system of self-appointment of the Trustees is not sustainable in today's financial reporting environment and broadly support the proposals relating to the new Monitoring Group. However, we have some major concerns regarding the proposals relating to the IASB. In particular:
  - we are entirely unconvinced by the arguments advanced for increasing the size of the IASB. The prime objective of changes to the Board should be the effectiveness of the decision-making process; in our experience, this objective would be best served by a reduction in the size of the Board, not an increase; and
  - we strongly reject the proposal for geographical representation: quality (including standard setting experience) should remain the key criterion and we doubt this will be sustainable in practice should the proposals be enacted.

We comment further on these issues below.

## RESPONSES TO SPECIFIC QUESTIONS

***Q1 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?***

6. Yes, we broadly support this development as a means of clearly demonstrating once and for all the public accountability of the IASB.
7. At the same time, we hope that the appointment of the Monitoring Group will assist the Trustees and the IASB to resist overt political pressure in the standard setting process, including the sort of intense political lobbying that may be faced by individuals appointed from the US.

***Q2 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.***

8. We support the choice of the initial members of the Monitoring Group. It is appropriate that the initial focus is on the most senior representatives of organisations with a clear interest in the effective functioning of the capital markets. However, there are likely to be calls for the membership to be augmented over time, and we therefore suggest that the Trustees establish clear guidelines on the rationale for appointments and the maximum size of the Group.

***Q3 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?***

9. Section 9 appears to establish a sound basis for the link between the Monitoring Group and Trustees. It is, however, imperative that the operational and technical independence of the IASB be maintained, and with this in mind we suggest that:

- (a) it is spelt out in paragraph 19c of the revised Constitution that it relates to aspects of governance only;
- (b) the proposed memorandum of Understanding between the Monitoring Group and the Trustees be exposed for public comments; and
- (c) the operation of the new arrangements be reviewed two years after they come into force.

***Q4 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?***

10. We do not see a continued need for the Trustees Appointments Advisory Group given the composition and tasks of the Monitoring Group. The Trustees may however still need to maintain an informal process for identifying and discussing potential candidates, and we would not have any strong objection should the Trustees decide on balance that the Advisory Group should be retained.

***Q5 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?***

11. No. We are entirely unconvinced by the arguments advanced for increasing the size of the IASB. The prime objective of changes to the Board should be the effectiveness of the decision-making process; in our experience, this objective would be best served by a reduction in the size of the Board, not an increase. The Board might look, as an alternative, to increase the number of its senior staff to assist with other responsibilities, such as consultation and communication with constituents around the world.
12. The draft consultation document states in paragraph 30 that the Trustees propose maintaining the supermajority requirement in the Constitution with approval required by 9 members if there are fewer than 16 members and by 10 members if there are 16 members. In view of the importance of IFRS around the world, exposure drafts and standards should have broad support within the IASB as a prerequisite for their promulgation. Accordingly, we suggest that a majority of 10 is required should the Board number 15.

***Q6 Do you agree with the geographical formulation suggested by the Trustees?***

13. No, we strongly reject this proposal. The issue of geographical representation can be addressed adequately at the Trustee level; whilst geographic background should continue to be a factor to take account of where possible, quality (including standard setting experience) should remain the key criterion. We doubt that this will be sustainable in practice should the proposals be implemented.
14. If the decision is taken to increase the size of the Board, notwithstanding our concerns, a rigorous review of the impact on the decision making process should be undertaken after 12 months.

***Q7 The Trustees are suggesting that the Constitution should provide flexibility on the matter of part-time membership. Do you support that proposal?***

15. In principle, we have no objections to part-time membership, which in our view can work well for members retaining academic responsibilities, but not other roles. Our conversations with part-time members indicate that in practice the role of an IASB Board member does not lend itself to anything less than a full commitment.

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