

The Trustees of the International Accounting Standards  
Committee Foundation  
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30 Cannon Street  
London  
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25 November 2009

Dear Trustees

**Part 2 of the Constitution Review: Proposals for Enhanced Public Accountability**

Ernst & Young is pleased to submit its comments on Part 2 of the Constitution Review. Our responses to specific questions are set out in the Appendix to this letter.

Overall, we support the proposals and we welcome the Trustees' approach to improve public accountability. However, we have a number of key points, which we have outlined below.

*Role of the trustees*

The Trustees are responsible for the governance of the International Accounting Standards Committee Foundation (IASCF), which has the objective of developing high quality, globally accepted standards and promoting their use and application. We note that section 6 of Part A of the Constitution states '... each trustee shall have an understanding of, and be sensitive to, the challenges associated with the adoption and application of high quality global accounting standards developed for use in the world's capital markets... The trustees shall be required to commit themselves formally to acting in the public interest in all matters.'

While we understand that much of this work is done out of the public arena by the Trustees, we consider that in the current political environment the work of the Trustees would be better appreciated if the Trustees could be more public in promoting the use of IFRS and supporting the IASB.

*Role of global standard setter*

The IASB has a unique role as the global standard setter for internationally accepted standards and we believe the IASCF Constitution should reflect that role. Unlike national standard setters, the IASB does not have a legal authority to require application of its standards and it is reliant upon the on-going co-operation of constituents. Therefore it is imperative that the IASB balances the need to listen to the views of constituents while demonstrating that the standard setting process is robust and independent so that regulators accept IFRS as issued by the Board without the need for further endorsement. The process that is in place, including the role of the Monitoring Board and the SAC's operating procedures, means that the standard setting process is highly consultative, which we think is the right approach.

### *Funding process*

The revised Constitution does not specify the funding process that the IASCF has in place. Providing a sufficiently independent funding mechanism is a key requirement for a number of jurisdictions planning to adopt IFRS. We are encouraged that the Trustees have succeeded in establishing national funding regimes, consistent with their own funding principles, in a number of countries. To supplement this, we believe that the Trustees must demonstrate to the Monitoring Board that they have established a clear funding roadmap, which includes jurisdictions moving to IFRS. This will further increase the Board's transparency and independence. The Trustees should also obtain the Monitoring Board's approval of the IASCF's overall funding process as this will enhance the connection between the IASCF and regulators and, in turn, the broader overall acceptance of IFRS by regulators.

### *Due process period*

The proposed amendments to the Constitution allow the Trustees to reduce the period of public comment on an exposure draft below the minimum 30 days described in the Due Process Handbook. Whilst we understand the need for a fast track process in exceptional circumstances, we believe that the period for public comment should not be less than 30 days. It is imperative that constituents have sufficient time to respond to proposals and provide comments and we do not believe this can be achieved in a shorter comment period.

### *Principles-based standards*

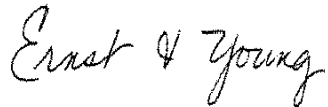
The Trustees had previously asked in their Review of the Constitution *Identifying Issues for Part 2 of the Review* whether the Constitution should make specific reference to principles-based standards. However, this has not been included in the proposals as there was concern regarding the meaning of the term 'principles-based approach'. Whilst we understand this concern, we believe that the Constitution should make reference to the need for the standards to be drafted based on a consistent framework.

### *Emerging economies*

The objectives of the organisation continue to make reference to the need 'to take account of emerging economies...'. As we stated in our comment letter on the Review of the Constitution *Identifying Issues for Part 2 of the Review*, in our view this term should be removed as there is no need to continue to specifically consider these economies. All countries converting to, or currently reporting under, IFRS will continue to use either full IFRS or IFRS for Small and Medium-sized Entities, regardless of whether or not they are emerging economies. To the extent that emerging economies have special characteristics, this would be considered in much the same way as with most industry issues, as part of the relevant subject matter. For example, the Board is currently looking at specific fair value issues in developing countries as part of the Fair Value Measurement project - not as a specific topic on emerging economies.

Should you wish to discuss the content of this letter with us, please contact Ruth Picker on +44 (0)20 7951 3497.

Yours faithfully

A stylized, handwritten-style signature of 'Ernst & Young' in a dark grey or black ink.

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## Appendix

### 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 the 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?*

We do not object to the proposed change to the name of the organisation and the Board.

### 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?*

We acknowledge the change to 'financial reporting standards' throughout the Constitution to be consistent with the name of the standards developed by the IASB. However, we note that this may cause some difficulties in certain jurisdictions that refer to 'accounting standards' in their legislative framework. Therefore this change should be clearly communicated.

### 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?*

We support the changes to the objectives of the Foundation, except that we do not consider it necessary to separately consider the needs of emerging economies as all countries converting to or currently reporting under IFRS will continue to use either full IFRS or IFRS for Small and Medium-sized Entities, regardless of whether they are emerging economies or not.

#### **Question 4**

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

*The governance of the ~~IASB-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?*

We support the clarification of the role of the Monitoring Board in providing a link to public authorities.

#### **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 IASB 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?*

We support the recognition of Africa and South America in the geographical allocation of the Trustees. However, we consider that the geographical allocations should be challenged on a regular basis as the adoption of IFRS around the world changes, to ensure that the allocation remains appropriate.

#### **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?*

We support the proposal for up to two Vice-Chairmen of the Trustees to be appointed to support the Chairman and share some of the obligations of the role.

#### **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.*

We support the proposal to make no specific amendments to sections 13 and 15 of the Constitution. However, we agree that the Trustees oversight of the IASB is critical and the Trustees should continue to address concerns in the manner suggested.

**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?*

We support the changes to section 28 to provide the Trustees with flexibility to encourage liaison with other organisations.

**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.*

We support the proposal to permit the appointment of up to two Vice-Chairmen of the IASB to support the work of the Chairman as required.

**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?*

We support the proposed changes to the lengths of term for the Board members as we believe it will allow the Board to balance the need for recent practical experience with the need for continuity.

#### **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.*

Whilst we understand the need for a fast track process in exceptional circumstances, we do not believe the due process period should be shorter than 30 days, as it is imperative that constituents have sufficient time to respond to proposals and provide comments.

#### **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~~~~x~~~~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;*

We support the amendment to require the Board to consult with the Trustees and the SAC regarding the technical agenda, as we believe that this will increase the Board's accountability whilst preserving their independence.

**Question 13**

*The 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.*

We support the proposal to make no amendments to the Constitution regarding the SAC at this time. We were pleased with the changes made to the SAC in January 2009 and agree that it would be premature to revisit the role and effectiveness of the SAC in this review.

**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.*

We support the further clarifying amendments to remove specific staff titles and remove historical references where they are no longer relevant.