



Our Ref.: C/FRSC

**Sent electronically through email (toyre@iasb.org)**

30 November 2009

Ms. Tamara Oyre  
Assistant Corporate Secretary  
IASB Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Ms. Oyre,

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

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned Discussion Document. Our responses to the questions raised in your Discussion Document are set out in the Appendix for your consideration.

As we stated in our response to the "Review of the Constitution: Identifying Issues for Part 2 of the Review " consultation (dated 25 March 2009), we are committed to the development of high quality, global accounting standards and believe that it is in the interests of all stakeholders, that the standards are principles-based and do not add excessive complexity to the financial reporting process.

Given that the IFRS already have a wide international application, we believe that it is essential that the IASB is perceived to operate independently. Through sound transparency and accountability in the overall standard-setting process, we believe that the Board will benefit from greater acceptance of its standards in the future.

To ensure that the projects undertaken by the IASB are considered to be significant enough to warrant attention and are relevant to the widest range of stakeholders, we believe that regular review and consultation on the Work Plan with the Trustees and the SAC should be an integral part of the due process. We encourage the SAC to interact more actively with its constituents and the IASB to ensure that issues raised by each jurisdiction can be duly and properly addressed.

In respect of "fast track" procedure, whilst we understand the need for such a process in exceptional circumstances, we do not believe the due process should be shorter than 30 days, as constituents may not have sufficient time to respond to proposals and provide comments. This is especially true when translating into a language other than English is required.



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

If you have any questions on our comments, please do not hesitate to contact me at [ong@hkicpa.org.hk](mailto:ong@hkicpa.org.hk).

Yours sincerely,

Steve Ong, FCPA, FCA  
Director, Standard Setting Department

SO/WC/ac

## **Hong Kong Institute of CPAs**

### **Comments on the IASCF Part 2 of the Constitution Review – *Proposals for Enhanced Public Accountability***

#### **Question 1**

The Trustees seek views on the proposal to change the name of the organization to the 'International Financial Reporting Standards Foundation', which will be abbreviated to 'IFRS Foundation'.

The Trustees also seek views on the proposal to mirror this 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 see any good reason why the names should be changed given that in our view, "IASB" and "IASCF Foundation" are now well known "brands" in the international community.

#### **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 support the change to replace all references to "accounting standards" with "financial reporting standards" throughout the Constitution. We made a similar suggestion in our comment letter dated 25 March 2009.

#### **Question 3**

The Trustees seek views on their proposal to change section 2 as follows:

The objectives of the IASC 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 agree that the changes can provide improved clarity by distinguishing emerging economies from SMEs.

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. We believe that the commitment to developing standards that are principles-based should be stated explicitly in the Constitution to ensure that standards and amendments are developed on a consistent basis.

We principally support the objective of convergence, providing that this leads to the highest quality accounting solutions. It is noted that the IASB has placed much emphasis on US convergence projects, however, we do not believe that this should be set as a priority for achieving high quality standards.

**Question 4**

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

**The governance of the IASC 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 noted that the IASC Foundation Trustees announced on 30 January 2009 that they had concluded in Part 1 of the review regarding the establishment of the Monitoring Board and its membership, and published a text of the Memorandum of Understanding between the Trustees and the Monitoring Board.

While we agree with the proposed changes to reflect the existence and the role of the Monitoring Board, we recommend that changes should be made to the Constitution to

reiterate that the Trustees should collaborate with the Monitoring Board in the manner specified in the Memorandum of Understanding.

#### 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?

In view that similar geographical diversity criteria have recently been introduced for the IASB under the first phase of the constitution review, we do not object with the proposed changes to the Trustees.

#### 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 agree that the appointment of one or two Vice-Chairman would assist the Chairman of the IASC Foundation in the performance of their functions. In our view, this may assist in getting closer to geographical constituents and may benefit other activities such as fund raising.

#### **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.**

As stated in our previous response, we are broadly satisfied with the Trustees' responsibilities with respect to oversight as set out in the Constitution. We welcome the Trustees' stated intention to enhance accountability, consultation, reporting and ongoing internal due process improvements, but it would be preferable if the Trustee can draw up and publish their plans for achieving the future enhancement. This is to address any negative perception about the transparency of the operating procedures of the Trustees.

#### **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 amendment and believe that liaison with a broad range of official organization is vital for the continued acceptance and development of IFRS provided that it is not detrimental to maintaining its independence status.

#### **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.

While we support the proposal to permit the appointment of up to two Board members to act as vice chairman of the IASB, we do not support the arrangement that the Chairman of the IASB shall also be the Chief Executive of the IFRS Foundation as provided in the Constitution. We recommend that the two positions should be separated. The increasing use of IFRS globally makes it more important that there be no conflicts of interest (real or perceived) between the role of IASB Chairman and the chief executive of its oversight body. Furthermore, this would allow the IASB Chairman to concentrate on the technical agenda and operations of the IASB. This will also address any perceived conflict of interest if the Trustees are responsible for fund raising activities.

#### **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 agree with the proposed change in the length of terms. However, we are concerned that the proposed mechanism may not provide the flexibility that the Trustees intended. In circumstances where projects are nearly completed or at their critical stage, the Constitution should allow those IASB members who are important to



those projects to extend their term of services even though they may have already served the Board for 8 years in order to prevent disruption to the standard-setting activities of those projects. The constitution should perhaps limit the maximum term that a Board Member can serve to not exceeding, say 10 years.

#### **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.

While 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 important that constituents have sufficient time to respond to proposals and provide comments and we have serious concerns that whether this can be achieved in a shorter comment period. In addition, we would like to reiterate that the IASB should not bypass its due process in response to pressure from any jurisdiction or organization. Furthermore, we consider that “exceptional circumstances” should also be clearly defined where a 30 day comment period is imposed instead of the normal 3 month comment period.

In addition, we encourage the IASB performs an early post-implementation review of changes made and their effectiveness after the issuance of new standards and significant changes to existing standards.

#### **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)(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 proposed amendment to introduce mandatory consultation about the agenda with the Trustees and the SAC. The establishment of the reconstituted SAC from the beginning of 2009 provides an opportunity to obtain a wide range of views of key representative organizations on the IASB's agenda.

In addition, we believe that the process by which the IASB's technical agenda and work priorities are set should be more transparent, with an explanation of the rationale behind the agenda-setting decision publish for the benefit of the constituents. Besides, regular review of the Work Plan in response to change in business environment is also necessary.

### **Question 13**

**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.**

Given the recent changes to the composition of the SAC, we agree that no further significant constitutional changes to the SAC is required at present. However, we encourage the SAC play a more active role in the standard-setting process. In our 25 March 2009 comments, we suggest that at each SAC meeting, each SAC member representing their jurisdiction or organization should be allowed a set time to explain briefly the outstanding issues remaining in their jurisdiction. Also, we recommend an IASB Technical Director should be present to take note of these matters and thereafter follow up the issues with the IASB. We encourage the Trustees constantly monitor the SAC's operation and effectiveness in achieving its objectives.

### **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 have no particular comments on this proposal.



**Other Comments:**

**Sustainable and independent funding process**

We note that the Trustees currently are undertaking a review of the funding of the organization. We believe that the funding of the IASB and IASC Foundation should be structured in such a way that it is sustainable so that the IASC Foundation can commit to long term projects and that the funding process and structure do not jeopardize the independence of the standard setting process.