

NOT FOR RELEASE TO THE
PUBLIC OR THE PRESS

IASCF TRUSTEES MEETING
PARIS, JUNE 2005
AGENDA PAPER 3

**Draft Final Report of the IASC Foundation Trustees
Changes in the IASC Foundation Constitution**

For discussion on 21 June 2005

Subject to change based on comment before the meeting

Table of Contents

	Page
Introduction	3
Revised Constitution (marked)	6
Revised Constitution (clean)	20
Commentary on the ten issues subject to review and the Trustees' conclusions	33
Appendices:	
Appendix 1: Process for the Constitution Review	
Appendix 2: Terms of Reference and Operating Procedures for the Standards Advisory Council	

Introduction

IN1. The Constitution, originally approved in 2000 and subsequently revised in 2001 and 2002, requires a review of the constitutional arrangements by the Trustees to have begun after the organisation's third year of operations and to be completed by the end of the fifth year, 5 February 2006. This final report presents the conclusion of the Trustees' Constitution Review, which was initiated in November 2003 and completed at the Trustees' meeting held in Paris in June 2005.

IN2. The Constitution Review has afforded the Trustees an opportunity to review not only the details of the Constitution but also the progress of the organisation during its first four years of operations. In initiating the review, the Trustees established a process that would permit the views of a wide range of parties with an interest in, and affected by, standard-setting to be heard. This process included the establishment of a committee of seven Trustees to manage the Constitution Review and serve as the primary contact with interested parties on constitutional issues. During the past two years, the Trustees have published two consultation papers, held public hearings in Asia, Europe, Latin America and the United States, held two sessions with the Standards Advisory Council, and met a large number of interested parties. The consultation process has included 140 organisations from six continents. (A fuller description of the consultations undertaken and a list of the organisations are at Appendix 1.)

IN3. The objective set out by the 2000 Constitution was clear. In response to the integration of the world's economies, the IASC Foundation, through its standard-setting body, the International Accounting Standards Board (IASB), should be committed to the creation of a single set of rigorous, internally consistent, and enforceable international accounting standards that could be faithfully and consistently applied throughout the world's capital markets. Since its formation in 2001, the IASB has made progress towards that goal. It has completed six entirely new standards and revised 17 existing standards inherited from its predecessor organisation in order to address concerns previously raised by securities regulators. As a result, an acceptable international accounting platform now exists.

IN4. Furthermore, companies and organisations in nearly 100 countries are now using International Financial Reporting Standards (IFRSs) as approved by the IASB, raising the prospect that IFRSs will be used in all major capital markets. Beginning this year, the countries of the European Union and the European Economic Area required the use of IFRSs, after their endorsement, for consolidated accounts of public traded companies. In addition to developed economies, such as Australia, Hong Kong and New Zealand, which have followed the EU's lead, emerging and transitional economies without established and credible accounting systems – China, India, Russia, much of the rest of Asia and Latin America – have increasingly committed themselves by policy or law to the common objective of international standards. Japan has recently agreed to a convergence project with the IASB.

IN5. Importantly, the IASB and the Financial Accounting Standards Board (FASB), the US's standard-setter, are working together in a focused and intensive manner to eliminate differences between IFRSs and US generally accepted accounting principles (US GAAP). While support from the US Securities and Exchange Commission (SEC) and the FASB for international convergence has been consistent and predates the formation of the IASB, the commitment to IFRSs in the US is growing. The most recent example of the firm US commitment to IFRSs was the announcements from the SEC following the meeting in April 2005 between European Commissioner Charlie McCreevy and SEC Chairman William Donaldson. At their meeting, they discussed a 'roadmap' that establishes a goal of eliminating the reconciliation requirement as early as possible between now and 2009 at the latest. Necessarily, reaching that goal will depend on sufficient progress on the

convergence projects underway and evidence of the consistent application and interpretation of IFRSs.

IN6. Having assessed the organisation's progress against the objectives laid out in the Constitution, the Trustees have concluded that the basic structure, set out by the 2000 Constitution, is sound and therefore have not contemplated fundamental change. Indeed, the 2000 Constitution, which established the IASC Foundation, was the result of an intensive debate of five years ago that focused on the principles that should underlie the organisation of the IASB. This debate involved interested parties from the accounting and corporate worlds and was the result of a carefully crafted structure agreed to by senior regulators from Europe, North America and elsewhere.

IN7. The central premise of the organisation that emerged from those discussions of five years ago was to foster the independence of judgement of a highly professional, decision-making IASB, appropriately protected from particular national or special interest pleading. Such a Board would need to work in a transparent fashion, with decisions made in open meeting, following extensive 'due process' and review procedures. The composition of the Trustees was deliberately designed to reflect a broad spectrum of interests. The Trustees are responsible for appointing members of the Board, for assuring adequate financing, and for general oversight. All of that implies concern about the procedures and responsiveness of the IASB, but the Trustees are not to opine on technical accounting matters. The revisions now being made to the Constitution and operational changes resulting from this review are meant to reinforce and enhance that basic structure.

IN8. While the Trustees are reaffirming the approach adopted five years ago, they have recognised the concerns that have been expressed about the organisation's procedures and the constitutional requirements. The Trustees' Constitution Committee identified ten areas where concerns had been raised, and the Committee and the full Trustees have evaluated the concerns and are making changes where appropriate. Some of those concerns have been rooted in misunderstanding about the nature of the organisation's operations. Some are mutually inconsistent. Others reflect real differences in philosophy and approach. Most importantly, the changes in the Constitution and operations address many of the areas of concern, and are intended

- to enhance the organisation's accountability through increased Trustee oversight and interaction with parties interested in, and affected by, accounting standards
- to improve transparency of operations through the development of new procedures and practices, including the establishment of a high-level advisory group of leaders of official international and regional organisations to assist in the Trustees' appointment process
- to emphasise the need for, and encourage, extensive consultation through formal and informal mechanisms, including a reinvigorated and more effective Standards Advisory Council, and expanded liaison beyond existing due process requirements,
- to highlight the commitment of the Trustees to ensuring that an independent IASB is composed of individuals that bring to its work not only technical expertise but a broad range of perspectives and skills, including practical experience, and
- to take explicit note of the special needs of small and medium-sized entities.

IN9. This report presents the Trustees' conclusions on the Constitution Review in the following manner:

- Section A shows the changes approved in the Constitution in marked-up format.
- Section B presents the Constitution, as approved at the June 2005 meeting of the Trustees, without marked-up changes.

- Section C is a discussion of the Trustees' conclusions on each of the ten issues identified for consideration as part of the Constitution Review. The arguments considered on all of the ten issues may be found in further detail in the Trustees' consultation paper of November 2004, *Review of the Constitution: Proposals for Change*.
- The appendices include a full description of the process undertaken for the Review, the approved terms of reference and operating procedures of the Standards Advisory Council, and a complete set of comment letters and statements provided to the Constitution Committee and Trustees.

SECTION A – Revised Constitution (marked)

(Deletions are shown as strike-through text. Additions are shown in bold.)

Preface

This Constitution was approved in its original form by the Board of the former International Accounting Standards Committee (IASC) in March 2000 and by the members of IASC at a meeting in Edinburgh on 24 May 2000.

At its meeting in December 1999, the IASC Board had appointed a Nominating Committee to select the first Trustees. These Trustees were nominated on 22 May 2000 and took office on 24 May 2000 as a result of the approval of the Constitution.

In execution of their duties under the Constitution, the Trustees formed the International Accounting Standards Committee Foundation on 6 February 2001. As a consequence of a resolution by the Trustees, Part C of the revised Constitution approved on 24 May 2000 ceased to have effect.

Reflecting the Trustees' decision to create the International Financial Reporting Interpretations Committee, and following public consultation, the Constitution was revised on 5 March 2002. Subsequently the Trustees amended the Constitution, with effect from 8 July 2002, to reflect other changes that had taken place since the formation of the IASC Foundation.

According to the provisions of the Constitution, the Trustees must review the provisions of the Constitution every five years. The Trustees initiated the first review of the Constitution in November 2003 and following a period of extensive consultation completed the review in June 2005. This version reflects changes adopted and approved by the Trustees on 21 June 2005 for effect on 1 July 2005.

IASC Foundation Constitution (revised)

(approved by the Members of IASC at a meeting in Edinburgh, Scotland on 24 May 2000 and revised by the IASC Foundation Trustees on 5 March and 8 July 2002 **and 21 June 2005**)

This Constitution consists of Part A and Part B. Part A deals with the organisation's name and objectives, and the membership and appointment of Trustees. Part B sets out the provisions that came into effect when the Trustees formed the International Accounting Standards Committee Foundation on 6 February 2001, following a Trustees' Resolution. In accordance with the Trustees' decision, Part C of the Constitution approved on 24 May 2000 no longer pertains.

PART A

Name and Objectives

1. The name of the organisation shall be the International Accounting Standards Committee Foundation (abbreviated as "IASC Foundation"). The International Accounting Standards Board (abbreviated as "IASB"), whose structure and functions are laid out in Sections ~~18-32~~~~19-33~~, shall be the standard-setting body of the IASC Foundation.
2. The objectives of the IASC Foundation 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) **in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and**
 - (d) ~~(c)~~ to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions.

Governance of the IASC Foundation

3. The governance of the IASC Foundation shall rest with the Trustees and such other governing organs as may be appointed by the Trustees in accordance with the provisions of this Constitution. The Trustees shall use their best endeavours to ensure that the requirements of this Constitution are observed; however, they are empowered to make minor variations in the interest of feasibility of operation if such variations are agreed by 75% of all the Trustees.

Trustees

4. The Trustees shall comprise **twenty-two** ~~nineteen~~ individuals. ~~The nineteen individuals selected by the Nominating Committee as Trustees prior to the coming into effect of this Constitution shall comprise the initial Trustees of the IASC Foundation.~~
5. The Trustees shall be responsible for the selection of all subsequent Trustees to fill vacancies caused by routine retirement or other reason. In making such selection, the Trustees shall be bound by the criteria set forth in Sections 6 and ~~7 and 8~~ and in particular shall undertake mutual consultation with international organisations as set out in Section 7, for the purpose of selecting an individual with a similar background to that of the retiring Trustee, where the retiring Trustee was selected through a process of mutual consultation with one or more international organisations.
6. All Trustees shall be required 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 an understanding of, and be sensitive to **the challenges associated with the adoption and application** ~~international issues relevant to the success of an international organisation responsible for the development~~ of high quality global accounting standards developed for use in the world's capital markets and by other users. The mix of Trustees shall **broadly reflect** ~~be representative of~~ the world's capital markets and a 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 North America;
 - (b) six Trustees appointed from Europe;
 - (c) **six** ~~four~~ Trustees appointed from the Asia/**Oceania** ~~Pacific~~ region; and
 - (d) **four** ~~three~~ Trustees appointed from any area, subject to establishing overall geographical balance.
7. **The Trustees shall comprise individuals that as a group provide an appropriate balance of professional backgrounds, including auditors, preparers, users, academics, and other officials serving the public interest. Two of the Trustees shall normally be senior partners of prominent international accounting firms. To achieve such a balance, Trustees should be selected after consultation with national and international organisations of auditors (including the International Federation of Accountants), preparers, users and academics. The Trustees shall establish procedures for inviting suggestions for appointments from these relevant organisations and for allowing individuals to put forward their own names, including advertising vacant positions.**
- ~~7. Five of the nineteen Trustees shall be nominated by the International Federation of Accountants (IFAC), subject to a process of mutual consultation between IFAC and the Nominating Committee or the Trustees, as the case may be, to ensure that prospective IFAC nominees are consistent with the maintenance of a balance of geographical and professional backgrounds. Two of the five Trustees nominated by IFAC shall normally be senior partners/executives from prominent international accounting firms. Three of the other Trustees shall be selected after consultation with international organisations of preparers, users and academics for the purpose of obtaining one Trustee from each of those backgrounds. Organisations consulted shall include the International Association of Financial Executives Institutes, the~~

~~International Council of Investment Associations and the International Association for Accounting Education and Research and/or other organisations of similar standing~~

- ~~8. Eleven *at-large* Trustees shall also be selected. The *at-large* designation indicates that such Trustees are not appointed through the consultation process with constituency organisations (IFAC, preparers, users or academics). *At-large* Trustees are expected to bring to the IASC Foundation strong public interest backgrounds that are complementary to those of Trustees nominated through the constituency process. The 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.~~
89. Trustees shall normally be appointed for a term of three years, renewable once: in order to provide continuity, some of the initial Trustees will serve staggered terms so as to retire after four or five years.
940. Subject to the voting requirements in Section ~~14-15~~, the Trustees may terminate the appointment of an individual as a Trustee on grounds of poor performance, misbehaviour or incapacity.
1044. The Chairman of the Trustees shall be appointed by the Trustees from among their own number. **With the agreement of the Trustees, regardless of prior service as a Trustee, the appointee may serve as the Chairman for a term of three years, renewable once, from the date of appointment as Chairman.**
- 1142 .The Trustees shall meet at least twice each year and shall be remunerated by the IASC Foundation with an annual fee and a per-meeting fee, commensurate with the responsibilities assumed, such fees to be determined by the Trustees. Expenses of travel on IASC Foundation business shall be met by the IASC Foundation.
1243. In addition to the powers and duties set out in Section ~~13-14~~, the Trustees may make such operational commitments and other arrangements as they deem necessary to achieve the organisation's objectives, including, but without limitation, leasing premises and agreeing contracts of employment with IASB members.
1344. The Trustees shall:
- (a) ~~assume responsibility for fundraising~~ **establishing and maintaining appropriate financing arrangements;**
 - (b) establish or amend operating procedures for the Trustees;
 - (c) determine the legal entity under which the IASC Foundation shall operate, provided always that such legal entity shall be a Foundation or other body corporate conferring limited liability on its members and that the legal documents establishing such legal entity shall incorporate provisions to achieve the same requirements as the provisions contained in this Constitution;
 - (d) review in due course the location of the IASC Foundation, both as regards its legal base and its operating location;
 - (e) investigate the possibility of seeking charitable or similar status for the IASC Foundation in those countries where such status would assist fundraising;

- (f) open their meetings to the public but may, at their discretion, hold certain discussions (normally only about selection, appointment and other personnel issues, and funding) in private; and
- (g) publish an annual report on the IASC Foundation's activities, including audited financial statements and priorities for the coming year.

1415. There shall be a quorum for meetings of the Trustees if 60% of the Trustees are present in person or by telecommunications: Trustees shall not be represented by alternates. Each Trustee shall have one vote and a simple majority of those voting shall be required to take decisions on matters other than termination of the appointment of a Trustee, amendments to the Constitution, or minor variations made in the interest of feasibility of operations, in which cases a 75% majority of all Trustees shall be required; voting by proxy shall not be permitted on any issue. In the event of a tied vote, the Chairman shall have an additional casting vote.

PART B

Trustees

1546. In addition to the duties set out in Part A, the Trustees shall:

- (a) 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;
- (b) appoint the members of the International Financial Reporting Interpretations Committee and the Standards Advisory Council;
- (c) review annually the strategy of the IASC Foundation and the IASB and its effectiveness, **including consideration, but not determination, of the IASB's agenda**;
- (d) approve annually the budget of the IASC Foundation and determine the basis for funding;
- (e) review broad strategic issues affecting accounting standards, promote the IASC Foundation and its work and promote the objective of rigorous application of International Accounting Standards and International Financial Reporting Standards, provided that the Trustees shall be excluded from involvement in technical matters relating to accounting standards;
- (f) establish and amend operating procedures, **consultative arrangements and due process** for the IASB, the International Financial Reporting Interpretations Committee and the Standards Advisory Council;
- (g) review compliance with the operating procedures, consultative arrangements and due process as described in (f);**
- (h) ~~(g)~~ approve amendments to this Constitution after following a due process, including consultation with the Standards Advisory Council and publication of an Exposure Draft for public comment and subject to the voting requirements given in Section ~~1415~~; and

(i) ~~(h)~~ exercise all powers of the IASC Foundation except for those expressly reserved to the IASB, the International Financial Reporting Interpretations Committee and the Standards Advisory Council; **and**

(j) foster and review the development of educational programmes and materials that are consistent with the IASC Foundation's objectives.

1647. The Trustees may terminate the appointment of a member of the IASB, the International Financial Reporting Interpretations Committee or the Standards Advisory Council, on grounds of poor performance, misbehaviour, incapacity or other failure to comply with contractual requirements, and the Trustees shall develop procedures for such termination.

1748. The accountability of the Trustees shall be ensured *inter alia* through:

- (a) a commitment made by each Trustee to act in the public interest;
- (b) their undertaking a review of the entire structure of the IASC Foundation and its effectiveness, such review to include consideration of changing the geographical distribution of Trustees in response to changing global economic conditions, and publishing the proposals of that review for public comment, the review commencing three years after the coming into force of this Constitution, with the objective of implementing any agreed changes five years after the coming into force of this Constitution (6 February 2006, five years after the date of the incorporation of the IASC Foundation); and
- (c) their undertaking a similar review subsequently every five years.

IASB

1849. The IASB shall comprise fourteen members, appointed by the Trustees under Section ~~15-16~~(a), of whom twelve shall be full-time members (the expression 'full-time' meaning that the members concerned commit all of their time in paid employment to the IASC Foundation) ~~and two~~. **The remaining two members shall be part-time members (the expression 'part-time' meaning that the members concerned commit most less than all of their time in paid employment to the IASC Foundation) and shall meet appropriate guidelines of independence, established by the Trustees.** The work of the IASB shall not be invalidated by its failure at any time to have a full complement of fourteen members, although the Trustees shall use their best endeavours to achieve a full complement.

1920. The ~~foremost~~ **main** qualifications for membership of the IASB shall be ~~technical expertise~~ **professional competence and practical experience**. The Trustees shall select members of the IASB so that it will comprise a group of people representing, within that group, the best available combination of technical **expertise and diversity of international business and market experience** ~~skills and background experience of relevant international business and market conditions~~ in order to contribute to the development of high quality, global accounting standards. No individual shall be both a Trustee and an IASB member at the same time.

2024. The selection of members of the IASB shall not be based on geographical criteria ~~representation~~, **but** the Trustees shall ensure that the IASB is not dominated by any particular constituency or geographical interest. In particular, the Trustees shall observe the general parameters set out in the Criteria for IASB Members which are attached to this Constitution.

2122. The Trustees shall select IASB members so that the IASB as a group provides an appropriate mix of recent practical experience among auditors, preparers, users and academics.

~~22. To achieve a balance of perspectives and experience, a minimum of five members of the IASB shall have a background as practising auditors, a minimum of three a background in the preparation of financial statements, a minimum of three a background as users of financial statements, and at least one an academic background. The Trustees shall select IASB members so that, at the beginning of their initial terms, there is a balance of recent and earlier experience in each category of members.~~

~~2223. Seven of the full-time members of the IASB will, in consultation with the Trustees, be expected to have formal liaison responsibilities establish and maintain **liaison** with national standard-setters **and other official bodies concerned with standard-setting** in order to promote the convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards. but shall not be voting members of the national standard setters: the selection process will therefore necessarily involve consultation between the Trustees and the national standard-setters concerned.~~

2324. Each full-time and part-time member of the IASB shall agree contractually to act in the public interest and to have regard to the IASB *Framework* (as amended from time to time) in deciding on and revising standards.

2425. The Trustees shall appoint one of the full-time members as Chairman of the IASB, who shall also be the Chief Executive of the IASC Foundation. One of the full-time members of the IASB shall also be designated by the Trustees as Vice-Chairman, whose role shall be to chair meetings of the IASB in the absence of the Chairman 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 concerned is the Chairman-elect.

2525. Members of the IASB shall be appointed for a term of up to five years, renewable once. The Trustees shall develop rules and procedures to ensure that the IASB is, and is seen to be, independent, and, in particular, on appointment, full-time members of the IASB shall sever all employment relationships with current employers and shall not hold any position giving rise to economic incentives which might call into question their independence of judgement in setting accounting standards. Secondments and any rights to return to an employer would therefore not be permitted. Part-time members of the IASB would not be expected to sever all other employment arrangements.

2627. The terms of appointment of members of the IASB shall be staggered so that not all members retire at once. To accomplish this, the Trustees shall consider initial terms of three years for some members, four years for others and a full five years for the remaining initial members.

~~2728. Full-time and part-time members of the IASB shall be remunerated at rates commensurate with the respective responsibilities assumed: such rates shall be determined by the Trustees. Expenses of travel on IASB business shall be met by the IASC Foundation.~~

2829. The IASB shall meet at such times and locations as it determines: meetings of the IASB shall be open to the public, but certain discussions (normally only about selection, appointment and other personnel issues) may be held in private at the discretion of the IASB.

2930. Each member of the IASB shall have one vote. On both technical and other matters, proxy voting shall not be permitted nor shall members of the IASB be entitled to appoint alternates to attend meetings. In the event of a tied vote, on a decision that is to be made by a simple majority of the members of the IASB present at a meeting in person or by telecommunications, the Chairman shall have an additional casting vote.

3034. The publication of an Exposure Draft, International Accounting Standard, International Financial Reporting Standard, or final Interpretation of the International Financial Reporting Interpretations Committee shall require approval by ~~nine~~ **eight** of the fourteen members of the IASB. Other decisions of the IASB, including the publication of a ~~Draft Statement of Principles~~ or discussion paper, shall require a simple majority of the members of the IASB present at a meeting that is attended by at least 60% of the members of the IASB, in person or by telecommunications.

3132. The IASB shall:

- (a) have complete responsibility for all IASB technical matters including the preparation and issuing of International Accounting Standards, International Financial Reporting Standards and Exposure Drafts, each of which shall include any dissenting opinions, and final approval of Interpretations by the International Financial Reporting Interpretations Committee;
- (b) publish an Exposure Draft on all projects and normally publish a ~~Draft Statement of Principles~~ or other discussion document for public comment on major projects;
- (c) have full discretion ~~over~~ **in developing and pursuing** the technical agenda of the IASB and over project assignments on technical matters: in organising the conduct of its work, the IASB may outsource detailed research or other work to national standard-setters or other organisations;
- (d)
 - (i) establish procedures for reviewing comments made within a reasonable period on documents published for comment,
 - (ii) normally form **working groups** ~~Steering Committees~~ or other types of specialist advisory groups to give advice on major projects,
 - (iii) consult the Standards Advisory Council on major projects, agenda decisions and work priorities, and
 - (iv)** normally issue bases for conclusions with International Accounting Standards, International Financial Reporting Standards, and Exposure Drafts;
- (e) consider holding public hearings to discuss proposed standards, although there is no requirement to hold public hearings for every project; ~~and~~
- (f) consider undertaking field tests (both in developed countries and in emerging markets) to ensure that proposed standards are practical and workable in all environments, although there is no requirement to undertake field tests for every project; **and**

- (g) **give reasons if it does not follow any of the non-mandatory procedures set out in (b), (d)(ii), d(iv), (e) and (f).**

3233. The authoritative text of any Exposure Draft or International Accounting Standard or International Financial Reporting Standard or Draft or final Interpretation shall be that published by the IASB in the English language. The IASB may publish authorised translations or give authority to others to publish translations of the authoritative text of Exposure Drafts and International Accounting Standards and International Financial Reporting Standards and Draft and final Interpretations.

International Financial Reporting Interpretations Committee

3334. The International Financial Reporting Interpretations Committee shall comprise twelve voting members, appointed by the Trustees under Section 15-46(b) for renewable terms of three years. The Trustees shall appoint a member of the IASB, the Director of Technical Activities or another senior member of the IASB staff, or another appropriately qualified individual, to chair the Committee. The Chair has the right to speak to the technical issues being considered but not to vote. The Trustees, as they deem necessary, shall appoint as non-voting observers representatives of regulatory organisations, who shall have the right to attend and speak at meetings. Expenses of travel on Committee business shall be met by the IASC Foundation.

3435. The Committee shall meet as and when required and nine voting members present in person or by telecommunications shall constitute a quorum: one or two IASB members shall be designated by the IASB and shall attend meetings as non-voting observers; other members of the IASB may attend and speak at the meetings. On exceptional occasions, members of the Committee may be allowed to send non-voting alternates, at the discretion of the Chair of the Committee. Members wishing to nominate an alternate should seek the consent of the Chair in advance of the meeting concerned. Meetings of the Committee shall be open to the public, but certain discussions (normally only about selection, appointment and other personnel issues) may be held in private at the Committee's discretion.

3536. Each member of the Committee shall have one vote. Members vote in accordance with their own independent views, not as representatives voting according to the views of any firm, organisation or constituency with which they may be associated. Proxy voting shall not be permitted. Approval of Draft or final Interpretations shall require that not more than three voting members vote against the Draft or final Interpretation.

3637. The Committee shall:

- (a) interpret the application of International Accounting Standards (IASs) and International Financial Reporting Standards (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 carrying out its work under (a) above, have regard to the IASB's objective of working actively with national standard-setters to bring about convergence of national accounting standards and IASs and IFRSs to high quality solutions;

- (c) publish after clearance by the IASB Draft Interpretations for public comment and consider comments made within a reasonable period before finalising an Interpretation; and
- (d) report to the IASB and obtain its approval for final Interpretations.

Standards Advisory Council

3738. The Standards Advisory Council, whose members shall be appointed by the Trustees under Section ~~15-16~~(b), provides a forum for participation by organisations and individuals, with an interest in international financial reporting, 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.

3839. The Council shall comprise thirty or more members, having a diversity of geographical and professional backgrounds, appointed for renewable terms of three years. ~~The Chairman of the IASB shall chair the Council.~~ **The Chairman of the Council shall be appointed by the Trustees, and shall not be a member of the IASB or a member of its staff. The Trustees shall invite the Chairman of the Council to attend and participate in the Trustees' meetings, as appropriate.**

3940. The Council shall normally meet at least three times a year. Meetings shall be open to the public. The Council shall be consulted by the IASB in advance of IASB decisions on major projects and by the Trustees in advance of any proposed changes to this Constitution.

Chief Executive and Staff

4044. As provided under Section ~~24-25~~, the Chairman of the IASB shall also be the Chief Executive of the IASC Foundation, and shall be subject to supervision by the Trustees.

4142. The Chief Executive shall be responsible for the staffing of the IASB, which shall include a Director of Technical Activities appointed by the Chief Executive in consultation with the Trustees: the Director of Technical Activities, while not a member of the IASB, shall be entitled to participate in the debate but not to vote at meetings of the IASB and the International Financial Reporting Interpretations Committee.

4243. A Director of Operations and a Commercial Director shall also be appointed by the Chief Executive in consultation with the Trustees. They shall have responsibility for publications and copyright, communications, administration, and finance under the supervision of the Chief Executive and for fundraising under the supervision of the Trustees.

Administration

4344. The administrative office of the IASC Foundation shall be located in such location as may be determined by the Trustees in accordance with Section ~~13-14~~(d).

4445. The IASC Foundation shall be a legal entity as determined by the Trustees and shall be governed by this Constitution and by any laws which apply to such legal entity, including, if appropriate, laws applicable because of the location of its registered office.

4546. The IASC Foundation shall be bound by the signature(s) of such person or persons as may be duly authorised by the Trustees.

Annex

International Accounting Standards Committee Foundation

Criteria for IASB Members

The following would represent criteria for IASB membership:

- 1. Demonstrated Technical Competency and Knowledge of Financial Accounting and Reporting.** All members of the IASB, regardless of whether they are from the accounting profession, preparers, users, or academics, should have demonstrated a high level of knowledge and technical competency in financial accounting and reporting. The credibility of the IASB and its individual members and the effectiveness and efficiency of the organisation will be enhanced with members who have such knowledge and skills.
- 2. Ability to Analyse.** IASB members should have demonstrated the ability to analyse issues and consider the implications of that analysis for the decision-making process.
- 3. Communication Skills.** Effective oral and written communication skills are necessary. These skills include the ability to communicate effectively in private meetings with IASB members, in public meetings, and in written materials such as accounting standards, speeches, articles, memos and correspondence with constituents. Communication skills also include the ability to listen to and consider the views of others. While a working knowledge of English is necessary, there should not be discrimination in selection against those for whom English is not their first language.
- 4. Judicious Decision-making.** IASB members should be capable of considering varied viewpoints, weighing the evidence presented in an impartial fashion, and reaching well-reasoned and supportable decisions in a timely fashion.
- 5. Awareness of the Financial Reporting Environment.** High quality financial reporting will be affected by the financial, business and economic environment. IASB members should have an understanding of the global economic environment in which the IASB operates. This global awareness should include awareness of business and financial reporting issues that are relevant to, and affect the quality of, transparent financial reporting and disclosure in the various capital markets worldwide, **including those using International Financial Reporting Standards.**
- 6. Ability to Work in a Collegial Atmosphere.** Members should be able to show respect, tact and consideration for one another's and constituents' views. Members must be able to work with one another in reaching consensus views based on the IASB's objective of developing high quality and transparent financial reporting. Members must be able to put the objective of the IASB above individual philosophies and interests.
- 7. Integrity, Objectivity and Discipline.** The credibility of members should be demonstrated through their integrity and objectivity. This includes intellectual integrity as well as integrity in dealing with fellow IASB members and constituents. Members should demonstrate an ability to be objective in reaching decisions. Members also should demonstrate an ability to show rigorous discipline and carry a demanding workload.
- 8. Commitment to the IASC Foundation's Mission and Public Interest.** Members should be committed to achieving the objective of the IASC Foundation of

establishing international accounting and financial reporting standards that are of high quality, comparable, and transparent. A candidate for the IASB also should be committed to serving the public interest through a private standard-setting process.

SECTION B – Revised Constitution (clean)

To take effect on 1 July 2005

Preface

This Constitution was approved in its original form by the Board of the former International Accounting Standards Committee (IASC) in March 2000 and by the members of IASC at a meeting in Edinburgh on 24 May 2000.

At its meeting in December 1999, the IASC Board had appointed a Nominating Committee to select the first Trustees. These Trustees were nominated on 22 May 2000 and took office on 24 May 2000 as a result of the approval of the Constitution.

In execution of their duties under the Constitution, the Trustees formed the International Accounting Standards Committee Foundation on 6 February 2001. As a consequence of a resolution by the Trustees, Part C of the revised Constitution approved on 24 May 2000 ceased to have effect.

Reflecting the Trustees' decision to create the International Financial Reporting Interpretations Committee, and following public consultation, the Constitution was revised on 5 March 2002. Subsequently the Trustees amended the Constitution, with effect from 8 July 2002, to reflect other changes that had taken place since the formation of the IASC Foundation.

According to the provisions of the Constitution, the Trustees must review the provisions of the Constitution every five years. The Trustees initiated the first review of the Constitution in November 2003 and following a period of extensive consultation completed the review in June 2005. This version reflects changes adopted and approved by the Trustees on 21 June 2005 for effect on 1 July 2005.

IASC Foundation Constitution (revised)

(approved by the Members of IASC at a meeting in Edinburgh, Scotland on 24 May 2000 and revised by the IASC Foundation Trustees on 5 March and 8 July 2002 and 21 June 2005)

This Constitution consists of Part A and Part B. Part A deals with the organisation's name and objectives, and the membership and appointment of Trustees. Part B sets out the provisions that came into effect when the Trustees formed the International Accounting Standards Committee Foundation on 6 February 2001, following a Trustees' Resolution. In accordance with the Trustees' decision, Part C of the Constitution approved on 24 May 2000 no longer pertains.

PART A

Name and Objectives

1. The name of the organisation shall be the International Accounting Standards Committee Foundation (abbreviated as "IASC Foundation"). The International Accounting Standards Board (abbreviated as "IASB"), whose structure and functions are laid out in Sections 18-32, shall be the standard-setting body of the IASC Foundation.
2. The objectives of the IASC Foundation 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) in fulfilling the objectives associated with (a) and (b), to take account of, 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 to high quality solutions.

Governance of the IASC Foundation

3. The governance of the IASC Foundation shall rest with the Trustees and such other governing organs as may be appointed by the Trustees in accordance with the provisions of this Constitution. The Trustees shall use their best endeavours to ensure that the requirements of this Constitution are observed; however, they are empowered to make minor variations in the interest of feasibility of operation if such variations are agreed by 75% of all the Trustees.

Trustees

4. The Trustees shall comprise twenty-two individuals.

5. The Trustees shall be responsible for the selection of all subsequent Trustees to fill vacancies caused by routine retirement or other reason. In making such selection, the Trustees shall be bound by the criteria set forth in Sections 6 and 7 and in particular shall undertake mutual consultation with international organisations as set out in Section 7, for the purpose of selecting an individual with a similar background to that of the retiring Trustee, where the retiring Trustee was selected through a process of mutual consultation with one or more international organisations.
6. All Trustees shall be required 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 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 and by other users. The mix of Trustees shall broadly reflect the world's capital markets and a 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 North America;
 - (b) six Trustees appointed from Europe;
 - (c) six Trustees appointed from the Asia/Oceania region; and
 - (d) four Trustees appointed from any area, subject to establishing overall geographical balance.
7. The Trustees shall comprise individuals that as a group provide an appropriate balance of professional backgrounds, including auditors, preparers, users, academics, and other officials serving the public interest. Two of the Trustees shall normally be senior partners of prominent international accounting firms. To achieve such a balance, Trustees should be selected after consultation with national and international organisations of auditors (including the International Federation of Accountants), preparers, users and academics. The Trustees shall establish procedures for inviting suggestions for appointments from these relevant organisations and for allowing individuals to put forward their own names, including advertising vacant positions.
8. Trustees shall normally be appointed for a term of three years, renewable once: in order to provide continuity, some of the initial Trustees will serve staggered terms so as to retire after four or five years.
9. Subject to the voting requirements in Section 14, the Trustees may terminate the appointment of an individual as a Trustee on grounds of poor performance, misbehaviour or incapacity.
10. The Chairman of the Trustees shall be appointed by the Trustees from among their own number. With the agreement of the Trustees, regardless of prior service as a Trustee, the appointee may serve as the Chairman for a term of three years, renewable once, from the date of appointment as Chairman.
11. The Trustees shall meet at least twice each year and shall be remunerated by the IASC Foundation with an annual fee and a per-meeting fee, commensurate with the responsibilities assumed, such fees to be determined by the Trustees. Expenses of travel on IASC Foundation business shall be met by the IASC Foundation.

12. In addition to the powers and duties set out in Section 13, the Trustees may make such operational commitments and other arrangements as they deem necessary to achieve the organisation's objectives, including, but without limitation, leasing premises and agreeing contracts of employment with IASB members.
13. The Trustees shall:
- a) assume responsibility for establishing and maintaining appropriate financing arrangements;
 - b) establish or amend operating procedures for the Trustees;
 - c) determine the legal entity under which the IASC Foundation shall operate, provided always that such legal entity shall be a Foundation or other body corporate conferring limited liability on its members and that the legal documents establishing such legal entity shall incorporate provisions to achieve the same requirements as the provisions contained in this Constitution;
 - d) review in due course the location of the IASC Foundation, both as regards its legal base and its operating location;
 - e) investigate the possibility of seeking charitable or similar status for the IASC Foundation in those countries where such status would assist fundraising;
 - f) open their meetings to the public but may, at their discretion, hold certain discussions (normally only about selection, appointment and other personnel issues, and funding) in private; and
 - g) publish an annual report on the IASC Foundation's activities, including audited financial statements and priorities for the coming year.
14. There shall be a quorum for meetings of the Trustees if 60% of the Trustees are present in person or by telecommunications: Trustees shall not be represented by alternates. Each Trustee shall have one vote and a simple majority of those voting shall be required to take decisions on matters other than termination of the appointment of a Trustee, amendments to the Constitution, or minor variations made in the interest of feasibility of operations, in which cases a 75% majority of all Trustees shall be required; voting by proxy shall not be permitted on any issue. In the event of a tied vote, the Chairman shall have an additional casting vote.

PART B

Trustees

15. In addition to the duties set out in Part A, the Trustees shall:
- (a) appoint the members of the IASB and establish their contracts of service and performance criteria;
 - (b) appoint the members of the International Financial Reporting Interpretations Committee and the Standards Advisory Council;

- (c) review annually the strategy of the IASC Foundation and the IASB and its effectiveness, including consideration, but not determination, of the IASB's agenda;
- (d) approve annually the budget of the IASC Foundation and determine the basis for funding;
- (e) review broad strategic issues affecting accounting standards, promote the IASC Foundation and its work and promote the objective of rigorous application of International Accounting Standards and International Financial Reporting Standards, provided that the Trustees shall be excluded from involvement in technical matters relating to accounting standards;
- (f) establish and amend operating procedures, consultative arrangements and due process for the IASB, the International Financial Reporting Interpretations Committee and the Standards Advisory Council;
- (g) review compliance with the operating procedures, consultative arrangements and due process as described in (f);
- (h) approve amendments to this Constitution after following a due process, including consultation with the Standards Advisory Council and publication of an Exposure Draft for public comment and subject to the voting requirements given in Section 14; -
- (i) exercise all powers of the IASC Foundation except for those expressly reserved to the IASB, the International Financial Reporting Interpretations Committee and the Standards Advisory Council; and
- (j) foster and review the development of educational programmes and materials that are consistent with the IASC Foundation's objectives.

16. The Trustees may terminate the appointment of a member of the IASB, the International Financial Reporting Interpretations Committee or the Standards Advisory Council, on grounds of poor performance, misbehaviour, incapacity or other failure to comply with contractual requirements, and the Trustees shall develop procedures for such termination.

17. The accountability of the Trustees shall be ensured *inter alia* through:

- (a) a commitment made by each Trustee to act in the public interest;
- (b) their undertaking a review of the entire structure of the IASC Foundation and its effectiveness, such review to include consideration of changing the geographical distribution of Trustees in response to changing global economic conditions, and publishing the proposals of that review for public comment, the review commencing three years after the coming into force of this Constitution, with the objective of implementing any agreed changes five years after the coming into force of this Constitution (6 February 2006, five years after the date of the incorporation of the IASC Foundation); and
- (c) their undertaking a similar review subsequently every five years.

IASB

18. The IASB shall comprise fourteen members, appointed by the Trustees under Section 15(a), of whom twelve shall be full-time members (the expression 'full-time' meaning that the members concerned commit all of their time in paid employment to the IASC Foundation). The remaining two members shall be part-time members (the expression 'part-time' meaning that the members concerned commit most of their time in paid employment to the IASC Foundation) and shall meet appropriate guidelines of independence, established by the Trustees. The work of the IASB shall not be invalidated by its failure at any time to have a full complement of fourteen members, although the Trustees shall use their best endeavours to achieve a full complement.
19. The main qualifications for membership of the IASB shall be professional competence and practical experience. The Trustees shall select members of the IASB so that it will comprise a group of people representing, within that group, the best available combination of technical expertise and diversity of international business and market experience in order to contribute to the development of high quality, global accounting standards. No individual shall be both a Trustee and an IASB member at the same time.
20. The selection of members of the IASB shall not be based on geographical criteria, but the Trustees shall ensure that the IASB is not dominated by any particular constituency or geographical interest. In particular, the Trustees shall observe the general parameters set out in the Criteria for IASB Members which are attached to this Constitution.
21. The Trustees shall select IASB members so that the IASB as a group provides an appropriate mix of recent practical experience among auditors, preparers, users and academics.
22. The IASB will, in consultation with the Trustees, be expected to establish and maintain liaison with national standard-setters and other official bodies concerned with standard-setting in order to promote the convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards.
23. Each full-time and part-time member of the IASB shall agree contractually to act in the public interest and to have regard to the IASB *Framework* (as amended from time to time) in deciding on and revising standards.
24. The Trustees shall appoint one of the full-time members as Chairman of the IASB, who shall also be the Chief Executive of the IASC Foundation. One of the full-time members of the IASB shall also be designated by the Trustees as Vice-Chairman, whose role shall be to chair meetings of the IASB in the absence of the Chairman 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 concerned is the Chairman-elect.
25. Members of the IASB shall be appointed for a term of up to five years, renewable once. The Trustees shall develop rules and procedures to ensure that the IASB is, and is seen to be, independent, and, in particular, on appointment, full-time members of the IASB shall sever all employment relationships with current employers and shall not hold any position giving rise to economic incentives which might call into question their independence of judgement in setting accounting standards. Secondments and

any rights to return to an employer would therefore not be permitted. Part-time members of the IASB would not be expected to sever all other employment arrangements.

26. The terms of appointment of members of the IASB shall be staggered so that not all members retire at once. To accomplish this, the Trustees shall consider initial terms of three years for some members, four years for others and a full five years for the remaining initial members.
27. Full-time and part-time members of the IASB shall be remunerated at rates commensurate with the respective responsibilities assumed: such rates shall be determined by the Trustees. Expenses of travel on IASB business shall be met by the IASC Foundation.
28. The IASB shall meet at such times and locations as it determines: meetings of the IASB shall be open to the public, but certain discussions (normally only about selection, appointment and other personnel issues) may be held in private at the discretion of the IASB.
29. Each member of the IASB shall have one vote. On both technical and other matters, proxy voting shall not be permitted nor shall members of the IASB be entitled to appoint alternates to attend meetings. In the event of a tied vote, on a decision that is to be made by a simple majority of the members of the IASB present at a meeting in person or by telecommunications, the Chairman shall have an additional casting vote.
30. The publication of an Exposure Draft, International Accounting Standard, International Financial Reporting Standard, or final Interpretation of the International Financial Reporting Interpretations Committee shall require approval by nine of the fourteen members of the IASB. Other decisions of the IASB, including the publication of a discussion paper, shall require a simple majority of the members of the IASB present at a meeting that is attended by at least 60% of the members of the IASB, in person or by telecommunications.
31. The IASB shall:
 - (a) have complete responsibility for all IASB technical matters including the preparation and issuing of International Accounting Standards, International Financial Reporting Standards and Exposure Drafts, each of which shall include any dissenting opinions, and final approval of Interpretations by the International Financial Reporting Interpretations Committee;
 - (b) publish an Exposure Draft on all projects and normally publish a discussion document for public comment on major projects;
 - (c) have full discretion in developing and pursuing the technical agenda of the IASB and over project assignments on technical matters: in organising the conduct of its work, the IASB may outsource detailed research or other work to national standard-setters or other organisations;
 - (d)
 - (i) establish procedures for reviewing comments made within a reasonable period on documents published for comment,
 - (ii) normally form working groups or other types of specialist advisory groups to give advice on major projects,

- (iii) consult the Standards Advisory Council on major projects, agenda decisions and work priorities, and
 - (iv) normally issue bases for conclusions with International Accounting Standards, International Financial Reporting Standards, and Exposure Drafts;
- (e) consider holding public hearings to discuss proposed standards, although there is no requirement to hold public hearings for every project;
- (f) consider undertaking field tests (both in developed countries and in emerging markets) to ensure that proposed standards are practical and workable in all environments, although there is no requirement to undertake field tests for every project; and
- (g) give reasons if it does not follow any of the non-mandatory procedures set out in (b), (d)(ii), d(iv), (e) and (f).
32. The authoritative text of any Exposure Draft or International Accounting Standard or International Financial Reporting Standard or Draft or final Interpretation shall be that published by the IASB in the English language. The IASB may publish authorised translations or give authority to others to publish translations of the authoritative text of Exposure Drafts and International Accounting Standards and International Financial Reporting Standards and Draft and final Interpretations.

International Financial Reporting Interpretations Committee

33. The International Financial Reporting Interpretations Committee shall comprise twelve voting members, appointed by the Trustees under Section 15(b) for renewable terms of three years. The Trustees shall appoint a member of the IASB, the Director of Technical Activities or another senior member of the IASB staff, or another appropriately qualified individual, to chair the Committee. The Chair has the right to speak to the technical issues being considered but not to vote. The Trustees, as they deem necessary, shall appoint as non-voting observers representatives of regulatory organisations, who shall have the right to attend and speak at meetings. Expenses of travel on Committee business shall be met by the IASC Foundation.
34. The Committee shall meet as and when required and nine voting members present in person or by telecommunications shall constitute a quorum: one or two IASB members shall be designated by the IASB and shall attend meetings as non-voting observers; other members of the IASB may attend and speak at the meetings. On exceptional occasions, members of the Committee may be allowed to send non-voting alternates, at the discretion of the Chair of the Committee. Members wishing to nominate an alternate should seek the consent of the Chair in advance of the meeting concerned. Meetings of the Committee shall be open to the public, but certain discussions (normally only about selection, appointment and other personnel issues) may be held in private at the Committee's discretion.
35. Each member of the Committee shall have one vote. Members vote in accordance with their own independent views, not as representatives voting according to the views of any firm, organisation or constituency with which they may be associated. Proxy voting shall not be permitted. Approval of Draft or final Interpretations shall require that not more than three voting members vote against the Draft or final Interpretation.
36. The Committee shall:

- (a) interpret the application of International Accounting Standards (IASs) and International Financial Reporting Standards (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 carrying out its work under (a) above, have regard to the IASB's objective of working actively with national standard-setters to bring about convergence of national accounting standards and IASs and IFRSs to high quality solutions;
- (c) publish after clearance by the IASB Draft Interpretations for public comment and consider comments made within a reasonable period before finalising an Interpretation; and
- (d) report to the IASB and obtain its approval for final Interpretations.

Standards Advisory Council

- 37. The Standards Advisory Council, whose members shall be appointed by the Trustees under Section 15(b), provides a forum for participation by organisations and individuals, with an interest in international financial reporting, 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.
- 38. The Council shall comprise thirty or more members, having a diversity of geographical and professional backgrounds, appointed for renewable terms of three years. The Chairman of the Council shall be appointed by the Trustees, and shall not be a member of the IASB or a member of its staff. The Trustees shall invite the Chairman of the Council to attend and participate in the Trustees' meetings, as appropriate.
- 39. The Council shall normally meet at least three times a year. Meetings shall be open to the public. The Council shall be consulted by the IASB in advance of IASB decisions on major projects and by the Trustees in advance of any proposed changes to this Constitution.

Chief Executive and Staff

- 40. As provided under Section 24, the Chairman of the IASB shall also be the Chief Executive of the IASB Foundation, and shall be subject to supervision by the Trustees.
- 41. The Chief Executive shall be responsible for the staffing of the IASB, which shall include a Director of Technical Activities appointed by the Chief Executive in consultation with the Trustees: the Director of Technical Activities, while not a member of the IASB, shall be entitled to participate in the debate but not to vote at meetings of the IASB and the International Financial Reporting Interpretations Committee.

42. A Director of Operations and a Commercial Director shall also be appointed by the Chief Executive in consultation with the Trustees. They shall have responsibility for publications and copyright, communications, administration, and finance under the supervision of the Chief Executive and for fundraising under the supervision of the Trustees.

Administration

43. The administrative office of the IASC Foundation shall be located in such location as may be determined by the Trustees in accordance with Section 13-(d).
44. The IASC Foundation shall be a legal entity as determined by the Trustees and shall be governed by this Constitution and by any laws which apply to such legal entity, including, if appropriate, laws applicable because of the location of its registered office.
45. The IASC Foundation shall be bound by the signature(s) of such person or persons as may be duly authorised by the Trustees.

Annex

International Accounting Standards Committee Foundation

Criteria for IASB Members

The following would represent criteria for IASB membership:

- 1. Demonstrated Technical Competency and Knowledge of Financial Accounting and Reporting.** All members of the IASB, regardless of whether they are from the accounting profession, preparers, users, or academics, should have demonstrated a high level of knowledge and technical competency in financial accounting and reporting. The credibility of the IASB and its individual members and the effectiveness and efficiency of the organisation will be enhanced with members who have such knowledge and skills.
- 2. Ability to Analyse.** IASB members should have demonstrated the ability to analyse issues and consider the implications of that analysis for the decision-making process.
- 3. Communication Skills.** Effective oral and written communication skills are necessary. These skills include the ability to communicate effectively in private meetings with IASB members, in public meetings, and in written materials such as accounting standards, speeches, articles, memos and correspondence with constituents. Communication skills also include the ability to listen to and consider the views of others. While a working knowledge of English is necessary, there should not be discrimination in selection against those for whom English is not their first language.
- 4. Judicious Decision-making.** IASB members should be capable of considering varied viewpoints, weighing the evidence presented in an impartial fashion, and reaching well-reasoned and supportable decisions in a timely fashion.
- 5. Awareness of the Financial Reporting Environment.** High quality financial reporting will be affected by the financial, business and economic environment. IASB members should have an understanding of the global economic environment in which the IASB operates. This global awareness should include awareness of business and financial reporting issues that are relevant to, and affect the quality of, transparent financial reporting and disclosure in the various capital markets worldwide, including those using International Financial Reporting Standards.
- 6. Ability to Work in a Collegial Atmosphere.** Members should be able to show respect, tact and consideration for one another's and constituents' views. Members must be able to work with one another in reaching consensus views based on the IASB's objective of developing high quality and transparent financial reporting. Members must be able to put the objective of the IASB above individual philosophies and interests.
- 7. Integrity, Objectivity and Discipline.** The credibility of members should be demonstrated through their integrity and objectivity. This includes intellectual integrity as well as integrity in dealing with fellow IASB members and constituents. Members should demonstrate an ability to be objective in reaching decisions. Members also should demonstrate an ability to show rigorous discipline and carry a demanding workload.

8. **Commitment to the IASC Foundation's Mission and Public Interest.** Members should be committed to achieving the objective of the IASC Foundation of establishing international accounting and financial reporting standards that are of high quality, comparable, and transparent. A candidate for the IASB also should be committed to serving the public interest through a private standard-setting process.

Section C – Commentary on the ten issues subject to review and the Trustees’ conclusions

C1. As mentioned in paragraph IN8 in the introduction, the Trustees considered ten major issues as part of the Constitution Review. The Trustees reached their conclusions on those ten topics following the Constitution Committee's review of the responses to the Trustees' initial consultation *Identifying Issues for the IASC Foundation Constitution Review*, published in November 2003. Additionally, to discuss these responses, the Constitution Committee had a meeting with the Standards Advisory Council. The ten issues were:

- (a) whether the objectives of the IASC Foundation expressly refer to the challenges facing small and medium-sized entities
- (b) number of Trustees and their geographical and professional distribution
- (c) the oversight role of the Trustees
- (d) funding of the IASC Foundation
- (e) the composition of the IASB
- (f) the appropriateness of the IASB's existing formal liaison relationships
- (g) consultative arrangements of the IASB
- (h) voting procedures of the IASB
- (i) resources and effectiveness of the International Financial Reporting Interpretations Committee (IFRIC)
- (h) the composition, role, and effectiveness of the Standards Advisory Council (SAC)

C2. In the months following the initial November 2003 consultation paper, the Trustees held a series of public hearings, met with the SAC, and solicited comment from a wide range of interested parties. (See Appendix 1) The Trustees published a discussion of the range of views on each of these topics with the Trustees' preliminary conclusions in November 2004 in the consultation document, *Review of the Constitution: Proposals for Change*. For a complete analysis readers are encouraged to refer to that document on the IASC Foundation's Website (www.iascfoundation.org).

C3. The Trustees discuss their conclusions on each of the ten topics below:

Topic 1: Whether the objectives of the IASC Foundation expressly refer to the challenges facing small and medium-sized entities

Relevant Section in the Constitution

3. The objectives of the IASC Foundation 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) **in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and**
- (d) ~~(e)~~ to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions.

C4. The Trustees have inserted in the organisation's objectives specific mention of small and medium-sized entities (SMEs) and emerging economies. The Trustees have concluded that it would not be appropriate to mention accounting standards for not-for-profit and public sector entities.

C5. The Trustees have made the change regarding SMEs in response to the perception of many interested parties that the existing objectives of the organisation are principally focused on producing accounting standards for sizeable public companies and users of financial statements. Much concern has been expressed throughout the consultation process that at least some complex standards need to be simplified or take account of the needs and capacity of SMEs. Indeed, recognising the relevance of the concerns and the important role that SMEs play in both developed and emerging economies, the IASB has started a project to address the particular problems of SMEs, established a working group for this project, and published a discussion document on this topic.

C6. The Trustees have expanded on the initial proposal of November 2004 by creating a separate subsection (c) in Section 2 of the Constitution to indicate that the concerns of SMEs and emerging markets relate both to the development of the standards and their application.

C7. The Trustees point out that the change is worded to enable the IASB to exercise its judgement on how to deal with these issues, while maintaining the rigour and essential consistency of the standards. This approach received the support of the large majority of the commentators on this issue, as well as the SAC.

C8. As mentioned above, the Trustees considered whether the organisation's objectives should include developing accounting standards for not-for-profit and public sector entities. While the Constitution would not prohibit the preparation of standards for not-for-profit and public sector entities, the Trustees believe that, because of other priorities and resource constraints, focusing on the public sector and not-for-profit entities is impractical at present. The Trustees plan to revisit the question of not-for-profit and public sector accounting in a few years' time.

Topic 2: Number of Trustees and their geographical and professional distribution

Relevant Sections in the Constitution

4. The Trustees shall comprise **twenty-two** ~~nineteen~~ individuals. ~~The nineteen individuals selected by the Nominating Committee as Trustees prior to the coming into effect of this Constitution shall comprise the initial Trustees of the IASC Foundation.~~
5. The Trustees shall be responsible for the selection of all subsequent Trustees to fill vacancies caused by routine retirement or other reason. In making such selection, the Trustees shall be bound by the criteria set forth in Sections 6 and ~~7~~ **7 and 8** and in particular shall undertake mutual consultation with international organisations as set out in Section 7, for the purpose of selecting an individual with a similar background to that of the retiring Trustee, where the retiring Trustee was selected through a process of mutual consultation with one or more international organisations.

6. All Trustees shall be required 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 an understanding of, and be sensitive to **the challenges associated with the adoption and application** ~~international issues relevant to the success of an international organisation responsible for the development~~ of high quality global accounting standards developed for use in the world's capital markets and by other users. The mix of Trustees shall **broadly reflect** ~~be representative of~~ the world's capital markets and a 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 North America;
- (b) six Trustees appointed from Europe;
- (c) **six** ~~four~~ Trustees appointed from the Asia/**Oceania** ~~Pacific~~ region; and
- (d) **four** ~~three~~ Trustees appointed from any area, subject to establishing overall geographical balance.

7. **The Trustees shall comprise individuals that as a group provide an appropriate balance of professional backgrounds, including auditors, preparers, users, academics, and other officials serving the public interest. Two of the Trustees shall normally be senior partners of prominent international accounting firms. To achieve such a balance, Trustees should be selected after consultation with national and international organisations of auditors (including the International Federation of Accountants), preparers, users and academics. The Trustees shall establish procedures for inviting suggestions for appointments from these relevant organisations and for allowing individuals to put forward their own names, including advertising vacant positions.**

~~7. Five of the nineteen Trustees shall be nominated by the International Federation of Accountants (IFAC), subject to a process of mutual consultation between IFAC and the Nominating Committee or the Trustees, as the case may be, to ensure that prospective IFAC nominees are consistent with the maintenance of a balance of geographical and professional backgrounds. Two of the five Trustees nominated by IFAC shall normally be senior partners/executives from prominent international accounting firms. Three of the other Trustees shall be selected after consultation with international organisations of preparers, users and academics for the purpose of obtaining one Trustee from each of those backgrounds. Organisations consulted shall include the International Association of Financial Executives Institutes, the International Council of Investment Associations and the International Association for Accounting Education and Research and/or other organisations of similar standing~~

~~8. Eleven *at-large* Trustees shall also be selected. The *at-large* designation indicates that such Trustees are not appointed through the consultation process with constituency organisations (IFAC, preparers, users or academics). *At-large* Trustees are expected to bring to the IASC Foundation strong public interest backgrounds that are complementary to those of Trustees nominated through the constituency process. The 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.~~

1044. The Chairman of the Trustees shall be appointed by the Trustees from among their own number. **With the agreement of the Trustees, regardless of prior service as a Trustee, the appointee may serve as the Chairman for a term of three years, renewable once, from the date of appointment as Chairman.**

C9. The Trustees have made the following changes to the Constitution:

- changed the term Asia/Pacific to Asia/Oceania
- expanded the number of Trustees from 19 to 22 to include two more members from the Asia/Oceania region and one more from any area
- provided for additional flexibility in the tenure of the Chairman of the Trustees
- relaxed the criteria related to the professional background of Trustees

Additionally, the Trustees are in the process of developing a high-level advisory group to assist in appointing Trustees (explained in C17).

Asia/Oceania

C10. The Trustees have changed the term 'Asia/Pacific' to 'Asia/Oceania' to make clear that North and South American countries on the Pacific Ocean are not intended to be treated as part of this grouping.

Number and geographical distribution of the Trustees

C11. The Trustees have expanded the number of Trustees from 19 to 22 with the knowledge that perspectives of individuals from some large economies outside Europe and North America have not been represented among the Trustees. The change is meant to provide flexibility to permit these perspectives to be included without increasing the number of the Trustees to a point where the conduct of business is impaired.

C12. The Trustees have also concluded that weighting a particular region because of its current use of IFRSs would be inconsistent with the organisation's objectives and might impede the objectives of developing global standards and convergence. First, reducing the relative representation of an area because it has not adopted IFRSs might reduce the incentive for it to participate in convergence. Second, to emphasise particular areas that are using IFRSs might focus the IASC Foundation and the IASB on regional and national concerns at the expense of the organisation's broader international objectives—as described in Section 2 of the Constitution. From a practical perspective, the Trustees note that the world's major economies, including those in Asia, Europe and North America, are committed to the use of IFRSs either through their formal adoption or by a policy of convergence.

Professional backgrounds of Trustees

C13. The Trustees have relaxed the specific requirements regarding professional backgrounds to ensure that the Trustees attract the highest quality individuals from all backgrounds, including those from the preparer and user communities. At the same time, the Trustees fully acknowledge their responsibility to ensure an appropriate balance of perspectives. The Trustees have maintained the requirement that two of the Trustees should normally be senior partners in major accounting firms, because of the particular relevance of accounting standards to the accounting profession.

Selection process

C14. The Trustees have not approved a constitutional change in the general selection process for the Trustees, but are developing a high level consultative group that would provide advice to the Trustees in the selection process.

C15. The Trustees acknowledge that some have voiced concern that the Trustees are a self-perpetuating body, which could become unresponsive to the realities of the marketplace and inadequately reflect the public's interest in standard-setting. The Trustees have concluded that the ultimate decision can and should remain with the Trustees, consistently with the need to maintain organisational independence and because of the absence of a suitable and practical alternative. In that light the Trustees have removed the specific role given to the International Federation of Accountants (IFAC) in the nominations process, but have indicated that IFAC is one of many organisations to be consulted.

C16. To help ensure confidence in the selection process, the Trustees will continue its existing practices aimed at transparency, which include:

- advertising all open positions and contacting relevant organisations in the regions where the vacancies arise.
- consulting relevant professional organisations, when a particular background is sought to ensure balance of different perspectives;
- careful review of the applicants by a committee of Trustees, before making a full recommendation to the Trustees.

C17. Furthermore, the Trustees will establish **a high level advisory group to consist of five to seven leaders of official international and regional organisations**. This body will be consulted on the nominations before the Trustees' ultimate decision on Trustee appointments. The Trustees will continue its discussions in the coming weeks with the intention of establishing this advisory group within the next two months. The Trustees expect that the high level group will need to meet at least once a year.

Term of the Chairman

C18. The Trustees have made a change regarding the Chairman's term, to enable the Chairman to serve in that capacity for up to six years, as would be the case if the Chairman was appointed from outside the Trustees.

Topic 3: The oversight role of the Trustees

Relevant Sections in the Constitution

1546. In addition to the duties set out in Part A, the Trustees shall:

- (a) 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;
- (b) appoint the members of the International Financial Reporting Interpretations Committee and the Standards Advisory Council;
- (c) review annually the strategy of the IASC Foundation and the IASB and its effectiveness, **including consideration, but not determination, of the IASB's agenda**;
- (d) approve annually the budget of the IASC Foundation and determine the basis for funding;
- (e) review broad strategic issues affecting accounting standards, promote the IASC Foundation and its work and promote the objective of rigorous application of International Accounting Standards and International Financial Reporting Standards, provided that the Trustees shall be excluded from involvement in technical matters relating to accounting standards;
- (f) establish and amend operating procedures, **consultative arrangements and due process** for the IASB, the International Financial Reporting Interpretations Committee and the Standards Advisory Council;
- (g) review compliance with the operating procedures, consultative arrangements and due process as described in (f);**
- (h) ~~(g)~~ approve amendments to this Constitution after following a due process, including consultation with the Standards Advisory Council and publication of an Exposure Draft for public comment and subject to the voting requirements given in Section ~~1415~~; ~~and~~
- (i) ~~(h)~~ exercise all powers of the IASC Foundation except for those expressly reserved to the IASB, the International Financial Reporting Interpretations Committee and the Standards Advisory Council; **and**
- (j) foster and review the development of educational programmes and materials that are consistent with the IASC Foundation's objectives.**

C19. The revisions and actions proposed in the revised Constitution reinforce the organisation's central premise that decisions on accounting standards should be made by the independent professional board, the IASB. However, the Trustees have taken steps, both operationally and constitutionally, to strengthen their oversight role and to enhance the IASB's accountability. The changes include:

- Reflecting the need for the IASB to be sensitive to business practices and public policy considerations, a specific requirement has been added to require the Trustees' 'consideration' of the IASB's agenda.
- The revised Constitution reflects the Trustees' responsibility to approve the consultative arrangements and due process requirements and to ensure compliance with these procedures.

C20. The Trustees believe that the IASB must retain the ability to set its agenda and that a requirement to approve the agenda would be inconsistent with the aim of leaving the technical decision-making process to an appointed expert group, the IASB. The purpose of emphasising formal 'consideration' of the IASB's agenda is consistent with the Trustees' strategic oversight function and will enhance accountability without impairing the IASB's essential independence. The Trustees believe that the IASB should ensure transparency in the agenda-setting process, including consultation with the Standards Advisory Council in a public meeting before adding new topics to the IASB's agenda. The IASB will present its draft agenda and discuss it with the Trustees in a public meeting. Specifically, the formal consideration of the agenda will include:

- a requirement for the IASB to explain the factors considered in adding a topic to, or not including a topic in, its agenda and the priority that the IASB assigns to a particular topic;
- a timetable for the various topics;
- a discussion of the procedures and criteria that the IASB used in establishing its agenda.
- an opportunity for the IASB to demonstrate its understanding of the full range of views expressed by interested parties on a particular issue and how these views have been taken into account in the development of projects.

C21. In practice, as part of their regular Trustees' meetings in public session, the Trustees review and discuss with the IASB Chairman and Vice Chairman and often the full IASB:

- the current work programme and the progress being made;
- projected future work; and
- important issues that have arisen and are under consideration.

C22. The Trustees also intend to keep themselves informed through regular meetings with the reconstituted Standards Advisory Council and other public and private sector officials with an interest in accounting standard-setting issues. Furthermore, the recent creation of the Trustees' Procedures Committee will also enhance the Trustees' ability to ensure that the IASB is following the appropriate procedures for its agenda-setting, including consultation with the Standards Advisory Council, and that all relevant issues are submitted for discussion.

Educational activities

C23. The specific provision related to educational activities reflects the Trustees' belief that the IASC Foundation could play an important, if limited, role in encouraging the consistent application and interpretation of IFRSs. The benefit of educational efforts would be particularly evident in parts of the world where professional organisations have been slow to develop or are under-resourced. In making its proposal and consistently with the existing practice, the Trustees were concerned that output from educational activities might become an additional layer of official interpretation. Rather, they intend to have the IASC Foundation's educational efforts serve as a catalyst for educational efforts by other organisations.

Topic 4: Funding of the IASC Foundation

Relevant Section in the Constitution

1344. The Trustees shall:

- (a) assume responsibility for ~~fundraising~~ **establishing and maintaining appropriate financing arrangements;**

C24. As the November 2004 consultation document recognised, the IASC Foundation depends in substantial part upon contributions from public and private sources. Occasionally, some observers have suggested that dependence on voluntary contributions could pose certain risks. One is a possible lack of objectivity because of the temptation to provide special consideration in the standard-setting process to important financial supporters. Conversely, there have been suggestions that supporters, dissatisfied with the outcome of a rigorous standard-setting process, might withdraw funding and disrupt the IASB's work. In practice, up to now neither of those concerns has materialised.

C25. In adopting and maintaining funding arrangements, the Trustees' chief concern has been to develop a sustainable, broadly spread system of funding that ensures the independence of the IASB's operations. The IASC Foundation is currently funded by nearly 200 international companies, accounting firms, central banks, and international organisations that made five-year funding commitments. The original commitments end in 2005, but the Trustees have had some positive preliminary indications that a number of companies and organisations are prepared to continue to support the IASC Foundation beyond their initial funding pledge.

C26. Nevertheless, there is strong sentiment that an even more broadly based and better-assured funding mechanism should be developed. For this reason, the Trustees have established a long-term funding committee to examine the various options proposed, including the concept of a voluntary or mandatory fee-based system. The Committee is investigating other funding mechanisms, such as listing fees or country-specific funding requirements spread by an agreed formula over a broad number of businesses, and is consulting the relevant official bodies that would be responsible for organising such a system.

C27. The new wording of the Constitution permits some flexibility in the manner of financing, while ensuring that responsibility for ensuring financing of the organisation remains with the Trustees.

Topic 5: The composition of the IASB

Relevant Sections in the Constitution

1849. The IASB shall comprise fourteen members, appointed by the Trustees under Section 15 46(a), of whom twelve shall be full-time members (the expression 'full-time' meaning that the members concerned commit all of their time in paid employment to the IASC Foundation) ~~and two~~. **The remaining two members shall be** part-time members (the expression 'part-time' meaning that the members concerned commit **most less than all** of their time in paid employment to the IASC Foundation) **and shall meet appropriate guidelines of independence, established by the Trustees**. The work of the IASB shall not be invalidated by its failure at any time to have a full complement of fourteen members, although the Trustees shall use their best endeavours to achieve a full complement.

1920. The ~~foremost~~ **main** qualifications for membership of the IASB shall be ~~technical expertise~~ **professional competence and practical experience**. The Trustees shall select members of the IASB so that it will comprise a group of people representing, within that group, the best available combination of technical **expertise and diversity of international business and market experience** ~~skills and background experience of relevant international business and market conditions~~ in order to contribute to the development of high quality, global accounting standards. No individual shall be both a Trustee and an IASB member at the same time.

2024. The selection of members of the IASB shall not be based on geographical criteria ~~representation~~, **but** ~~the~~ Trustees shall ensure that the IASB is not dominated by any particular constituency or geographical interest. In particular, the Trustees shall observe the general parameters set out in the Criteria for IASB Members which are attached to this Constitution.

2122. The Trustees shall select IASB members so that the IASB as a group provides an appropriate mix of recent practical experience among auditors, preparers, users and academics.

22. ~~To achieve a balance of perspectives and experience, a minimum of five members of the IASB shall have a background as practising auditors, a minimum of three a background in the preparation of financial statements, a minimum of three a background as users of financial statements, and at least one an academic background. The Trustees shall select IASB members so that, at the beginning of their initial terms, there is a balance of recent and earlier experience in each category of members.~~

C28. The Trustees have made several modifications in the Constitution to highlight their commitment to ensuring that an independent IASB is composed of individuals that bring to its work not only technical expertise but a broad range of perspectives and skills, including practical experience. From an operational perspective, the Trustees have concluded that the current number of members and mix of full-time and part-time members is appropriate.

Full-time and part-time members

C29. The Trustees recognise the benefit of having part-time members of the IASB: candidates have been attracted who would not have been interested in a full-time commitment and who provide a different perspective of issues related to standard-setting issues. At the same time, the Trustees do not believe that it is practical to expand the number of part-time members at this time. The majority of the Trustees believed that having more part-time members would make the IASB's workload more difficult to manage and could raise questions regarding possible conflicts of interests.

Criteria and composition of IASB membership

C30. As mentioned throughout the report, the Trustees have emphasised the need to preserve the IASB's independence. At the same time, the Trustees believe that the criteria for selecting IASB members listed in the main portion of the Constitution should be broadened. The Trustees note that the new wording is consistent with the criteria listed in the Annex to the Constitution, which now includes a specific provision to require an understanding of how IFRSs affect the world's capital markets.

C31. The Trustees concluded that adding specific criteria regarding geographical representation on the IASB would be inconsistent with the Constitution's aim of encouraging independent, unbiased and expert participation, aiming toward international convergence. The Trustees point out that the logic of the organisational arrangements is that decision-making is delegated to professional standard-setters, who do not make the decision as representatives of particular countries, but on the basis of the technical merits and broad practicality of a particular argument with the objective of worldwide application of a standard.

C32. The Trustees have relaxed the professional background criteria, now in Section 21 of the Constitution (formerly in Section 22). This change allows the Trustees discretion in finding an appropriate mix of skills and to ensure that the IASB members as a group are equipped to deal with the highly technical aspects of standard-setting and are sensitive to practical problems of application and use.

Topic 6: Appropriateness of the IASB's existing formal liaison relationships

Relevant Section in the Constitution

~~2223. Seven of the full-time members of the~~ **The IASB will, in consultation with the Trustees,** be expected to have formal liaison responsibilities establish and maintain **liaison** with national standard-setters **and other official bodies concerned with standard-setting** in order to promote the convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards. ~~but shall not be voting members of the national standard-setters; the selection process will therefore necessarily involve consultation between the Trustees and the national standard-setters concerned.~~

C33. The Trustees have revised the Constitution to acknowledge that liaison activities are already conducted with a wide range of parties, and to expand the range of organisations that the Constitution recognises. The changes also take into account that the IASB has important liaison relationships with bodies that are concerned with standard-setting, but could not be described as national 'standard-setters', such as the European Financial Reporting Advisory Group (EFRAG) or its successor.

C34. The Trustees believe that liaison activities are important to achieving the organisation's objective, as described in Section 2 of the Constitution. Liaison activities permit active communication between the IASB and relevant organisations to ensure action and co-operation towards the goals of high quality accounting standards and convergence.

C35. At the same time, the Trustees recognise the need for flexibility to enable the organisation to adapt to a changing environment. To acknowledge that the IASB should be in liaison with a broad range of national standard-setters, the Trustees have expanded the

scope of liaison recognised in the Constitution beyond the bodies for whom seven of the Board members have until now provided formal links. In practice, this already occurs.

C36. In reaching their conclusion, the Trustees avoided introducing additional detail about the nature of liaison activities. The Trustees recognise that the extent and depth of liaison required will depend on the organisation involved. Balancing the need for flexibility with the desire for the Trustees to exercise oversight, the amendment permits the IASB to determine particular liaison responsibilities in consultation with the Trustees.

C37. The Trustees also note that the IASB recently published, for public comment, a draft memorandum of understanding that could govern the IASB's relationships with other bodies concerned with standard-setting. The Trustees will discuss with the IASB the comments received from the consultation.

Topic 7: Consultative arrangements of the IASB

Relevant Sections in the Constitution

3132. The IASB shall:

- (a) have complete responsibility for all IASB technical matters including the preparation and issuing of International Accounting Standards, International Financial Reporting Standards and Exposure Drafts, each of which shall include any dissenting opinions, and final approval of Interpretations by the International Financial Reporting Interpretations Committee;
- (b) publish an Exposure Draft on all projects and normally publish a ~~Draft Statement of Principles or other~~ discussion document for public comment on major projects;
- (c) have full discretion **over-in developing and pursuing** the technical agenda of the IASB and over project assignments on technical matters: in organising the conduct of its work, the IASB may outsource detailed research or other work to national standard-setters or other organisations;
- (d) (i) establish procedures for reviewing comments made within a reasonable period on documents published for comment,
 - (ii) normally form **working groups** ~~Steering Committees~~ or other types of specialist advisory groups to give advice on major projects,
 - (iii) consult the Standards Advisory Council on major projects, agenda decisions and work priorities, and
 - (iv) normally issue bases for conclusions with International Accounting Standards, International Financial Reporting Standards, and Exposure Drafts;
- (e) consider holding public hearings to discuss proposed standards, although there is no requirement to hold public hearings for every project; ~~and~~
- (f) consider undertaking field tests (both in developed countries and in emerging markets) to ensure that proposed standards are practical and workable in all environments, although there is no requirement to undertake field tests for every project; **and**
- (g) **give reasons if it does not follow any of the non-mandatory procedures set out in (b), (d)(ii), d(iv), (e) and (f).**

C38. The Trustees recognise the significance of appropriate due process and consultative arrangements and the responsibility of the Trustees in that respect. The Trustees also believe that a proper balance between the Trustees' oversight role and the IASB's independence in formulating and pursuing its consultative arrangements should be maintained. The change in the Constitution is meant to emphasise that needed balance and to bring the wording of the Constitution into line with existing practice.

C39. The reason for the change in Section 31(c) is to recognise that while the IASB maintains full discretion over the development and pursuit of its agenda, the IASB must undertake consultative steps referred to in Section 15 (c) and Section 31 (d).

C40. The Trustees believe that the 'comply or explain' requirement, described in Section 31(g), when combined with the operational steps implemented by the IASB and the oversight provided by the Trustees, will enhance public confidence in the IASB's deliberations.

C41. The Trustees recognise that many commentators have expressed concern about the IASB's procedures and due process. However, in making these changes, the Trustees have resisted calls to set out in the Constitution a still more extensive, and potentially sterile, 'due process' checklist. Rather, the new wording more clearly recognises that the Trustees have a responsibility for assuring that the IASB, with Trustee oversight, consults in a meaningful way, taking account of the practical implications for business of its standards.

C42. Consistently with that objective, the Trustees have encouraged the IASB to consult more fully with representative groups in the early stages of formulating its ideas in particularly complex and difficult areas. One reflection of the increased emphasis on consultation is the creation of three new working groups to meet regularly with the IASB to consider several of the most difficult conceptual and practical problems in accounting. The IASB has established working groups now for insurance and financial instruments accounting and on the project for performance reporting.

C43. The Trustees also note that they and the IASB has taken several steps to enhance confidence in the IASB's procedures and to encourage more active participation by interested parties:

- As a result of experience and input from a number of interested parties, including the European Commission, the IASB proposed and implemented a number of enhancements to its due process to make its deliberations more transparent. This included the provision of meeting papers, the broadcasting of meetings on its Website, the posting of near-final drafts of documents on its Website, and an emphasis on the use of working groups. The IASB sought public comment on its procedures in March 2004.
- Taking account of those enhancements, the IASB developed a handbook of its operating procedures, which was published for public comment.
- The Trustees have established a Procedures Committee that reviews:
 - the IASB's operating procedures
 - proposed due process and subsequent compliance on particular projects, and
 - composition of advisory groups on technical projects

Topic 8: Voting Procedures of the IASB

Relevant Section in the Constitution

3034. The publication of an Exposure Draft, International Accounting Standard, International Financial Reporting Standard, or final Interpretation of the International Financial Reporting Interpretations Committee shall require approval by ~~nine~~ **nine** of the fourteen members of the IASB. Other decisions of the IASB, including the publication of a ~~Draft Statement of Principles~~ or discussion paper, shall require a simple majority of the members of the IASB present at a meeting that is attended by at least 60% of the members of the IASB, in person or by telecommunications.

C44. The Trustees have increased the requirement for publication of an Exposure Draft or an IFRS (including Interpretations) to nine votes from eight votes. The Trustees, on balance, have accepted the argument, as urged by many commentators, that having qualified majority voting for a particular standard would provide more credibility for the standard upon adoption. At the same time, the Trustees recognise that the possibility exists that increasing the required majority could compromise the efficiency of its work and the quality of standards—to get standards approved by the necessary supermajority, the IASB might be forced to add special exceptions and compromises, which might increase complexity and reduce the quality of the accounting standard. The Trustees felt that their amendment provides a suitable balance.

Topic 9: Resources and effectiveness of the IFRIC

Relevant Section in the Constitution

3637. The Committee shall:

- (a) interpret the application of International Accounting Standards (IASs) and International Financial Reporting Standards (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 carrying out its work under (a) above, have regard to the IASB's objective of working actively with national standard-setters to bring about convergence of national accounting standards and IASs and IFRSs to high quality solutions;
- (c) publish after clearance by the IASB Draft Interpretations for public comment and consider comments made within a reasonable period before finalising an Interpretation; and
- (d) report to the IASB and obtain its approval for final Interpretations.

C45. The Trustees have not made any constitutional change on this topic and noted that many of the comments during the Constitution Review on this topic reflected operational issues rather than constitutional questions.

C46. The Trustees, however, recognise the importance of ensuring that the IFRIC has sufficient resources to address the demand for interpretations in a timely manner, especially with the application of IFRSs in EU Member States and other countries starting from 2005. The Trustees have authorised the hiring of additional senior staff to handle IFRIC matters.

C47. Furthermore, the Trustees encouraged the IFRIC to conduct its own broad internal review of its operations. This review addressed the issues on which commentators voiced concern, including the timeliness of guidance, transparency of operations, and the IFRIC's co-ordination with other interpretative bodies.

C48. The Trustees have now published the IFRIC's conclusions for public comment, and the Trustees' Procedures Committee will consider the comments after the 31 July deadline.

Topic 10: The composition, role, and effectiveness of the Standards Advisory Council (SAC)

Relevant Sections in the Constitution

~~3738~~. The Standards Advisory Council, whose members shall be appointed by the Trustees under Section ~~15-16~~(b), provides a forum for participation by organisations and individuals, with an interest in international financial reporting, 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.

~~3839~~. The Council shall comprise thirty or more members, having a diversity of geographical and professional backgrounds, appointed for renewable terms of three years. ~~The Chairman of the IASB shall chair the Council.~~ **The Chairman of the Council shall be appointed by the Trustees, and shall not be a member of the IASB or a member of its staff. The Trustees shall invite the Chairman of the Council to attend and participate in the Trustees' meetings, as appropriate.**

~~3940~~. The Council shall normally meet at least three times a year. Meetings shall be open to the public. The Council shall be consulted by the IASB in advance of IASB decisions on major projects and by the Trustees in advance of any proposed changes to this Constitution.

C50. Like the concerns raised regarding the IFRIC, many of the concerns regarding the SAC were operational in nature, not requiring constitutional changes. The Trustees have made an important change in the Constitution regarding the SAC's Chairman. The Trustees have now separated the chairmanship of the IASB and the SAC. The Trustees have also wished to strengthen the link between the SAC and the Trustees and thus have included a specific provision to invite the SAC Chairman to attend and participate in the Trustees' meetings.

C51. While not making many constitutional changes related to the SAC, the Trustees have taken steps to emphasise the role of the SAC and to make its operations more effective. First and foremost, the Trustees have provided clearer guidance regarding the role of the SAC by stating that it should provide broad strategic advice on the IASB's agenda priorities and insight regarding possible benefits and costs of particular proposals. In this way, the SAC could become a more effective sounding board for the IASB for larger issues, rather than highly technical discussions better suited to other consultative processes.

C52. The Trustees asked the existing SAC to put forward some recommendations in the form of a draft Terms of Reference and Operating Procedure. Following public comment, the Trustees approved the Terms of Reference at their March 2005 meeting (see Appendix 2).

C53. The Trustees are now reconstituting the SAC with an objective of reducing the number of members from 50 to a more cohesive and well-focused group and to recruit suitable members for the reconstituted SAC.

APPENDIX 1 Process for the Constitution Review

Establishment of the IASC Foundation Constitution

1. After a period of extended public consultation, the Board of the International Accounting Standards Committee (IASC, the predecessor of the IASC Foundation) in March 2000 and the members of IASC on 24 May 2000 approved the Constitution of the proposed International Accounting Standards Committee Foundation (IASC Foundation).
2. At its meeting in December 1999, the IASC Board appointed a Nominating Committee to select the first Trustees, who would become the Trustees of the IASC Foundation. Those Trustees were nominated on 22 May 2000 and took office on 24 May 2000 as a result of the approval of the Constitution. As a consequence of a resolution by the Trustees, Part C (relating to the operating arrangements of the former IASC) of the Constitution ceased to have effect from 24 May 2000.
3. In executing their duties under the Constitution, the Trustees formed the IASC Foundation on 6 February 2001.
4. Reflecting the Trustees' decision to create the International Financial Reporting Interpretations Committee, and following public consultation, the Constitution was revised on 5 March 2002 to define the mandate of that Committee. Subsequently the Trustees made certain editorial amendments to the Constitution, with effect from 8 July 2002, to reflect other changes that had taken place since the formation of the IASC Foundation.

Initiating Constitution Review

5. Section 18(b) of the Constitution states that the Trustees, in order to ensure their accountability, should undertake, among others:

... a review of the entire structure of the IASC Foundation and its effectiveness, such review to include consideration of changing the geographical distribution of Trustees in response to changing global economic conditions, and publishing the proposals of that review for public comment, the review commencing three years after the coming into force of this Constitution, with the objective of implementing any agreed changes five years after the coming into force of this Constitution (6 February 2006, five years after the date of the incorporation of the IASC Foundation);

The review, completed at the June 2005 meeting of the Trustees, was initiated in accordance with this requirement.

6. At their meeting in July 2003, the Trustees agreed that they should initiate the review as soon as possible and should consider the full range of issues raised by the Constitution. The Trustees established the Constitution Committee with responsibilities for coordinating the review and for making any recommendations for constitutional changes to the full Trustees.
7. The Committee's first step was to publish a consultation paper *Identifying Issues for the IASC Foundation Constitution Review*, which invited respondents to suggest issues for the Committee to review. The comment period ended on 11 February 2004. The Committee received 70 comment letters, all of which have been posted on the IASC Foundation's Website and are freely available to the public. A list of all

organisations that have participated in the review, either through written submissions or participation in a public hearing.

8. To discuss the responses received to the initial consultation paper, the Committee met three times—twice on its own and once with the Standards Advisory Council (SAC). The Committee then identified ten major issues to be taken up as part of the review and published these issues on the IASC Foundation Website on 22 March 2004.
9. Additionally, the Committee established a subcommittee of the SAC to offer suggestions on various options available to the Trustees and to comment on proposals made by the Committee.

Developing proposals

10. Based upon its discussions with the other Trustees, the SAC, liaison national standard-setters, and the Committee of European Securities Regulators, the Committee developed some possible approaches for the ten major issues identified. The Committee published these possible approaches on the IASC Foundation's Website on 7 May 2004.
11. In posting the possible approaches, the Committee emphasised that the particular approaches suggested were meant to enhance, not to end, the consultation process. The Committee was seeking to encourage responses from interested parties.
12. To that end, the Committee held a series of public hearings to provide an opportunity for interested parties to give their reactions to the preliminary approaches. During the months from June to October 2004, four hearings were scheduled in Asia (Tokyo), Europe (London) and North America (New York and Mexico City). Sixty-four organisations participated in the hearings or submitted views to the Committee.
13. Taking account of the feedback received from the public hearings, the Constitution Committee developed recommendations that were presented for the Trustees' review at their 25 October 2004 meeting. As a result of that meeting, the Trustees agreed upon proposals to publish for comment. In November 2004, the Trustees published *Review of the Constitution: Proposals for Change*.

Concluding the Review

14. The Trustees received 71 comment letters as a result of their November 2004 publication. The Trustees also held a series of meetings with interested parties in Europe during the comment period, which ended in February 2005.
15. At the March 2005 meeting of the Trustees, staff provided the Trustees with an analysis of the commentary and provided the Trustees with an options paper to enable the Trustees to reach conclusion on the ten topics under consideration.
16. The Trustees reach conclusion at their public meeting in March 2005 on all of the ten topics, with the exception of the topics of the number and geographic composition of and selection process for the Trustees. The Trustees agreed to undertake further consultations on those open issues following the March 2005.
17. The final report now reflects the conclusions of March 2005 and those reached following consultations on the remaining open issues.

**LIST OF ORGANISATIONS PARTICIPATING WILL BE INCLUDED IN FINAL PRINT
FORMAT**

APPENDIX 2

This Charter was proposed by the SAC on 7 July 2004 and approved by the Trustees in March 2005.

STANDARDS ADVISORY COUNCIL OF THE INTERNATIONAL ACCOUNTING STANDARDS BOARD

TERMS OF REFERENCE AND OPERATING PROCEDURES

I. OBJECTIVES AND SCOPE OF ACTIVITIES

1. The primary objective of the Standards Advisory Council of the International Accounting Standards Board (SAC) is to provide a forum where the International Accounting Standards Board (IASB) consults individuals, and representatives of organisations affected by its work, that are committed to the development of high quality International Financial Reporting Standards (IFRSs). As part of that consultative process the SAC gives advice to the IASB on a range of issues which includes, but is not limited to, the following:
 - input on the IASB's agenda;
 - input on the IASB's project timetable (work programme) including project priorities, and consultation on any changes in agenda and priorities; and
 - advice on projects, with particular emphasis on practical application and implementation issues, including matters relating to existing standards that may warrant consideration by the International Financial Reporting Interpretations Committee.

In view of the importance of the IASB's agenda and priorities, once these have been determined by the IASB, changes thereto are expected to be the subject of consultation with the SAC.

When considered appropriate by the members of the SAC, or on the request of the Trustees of the International Accounting Standards Committee Foundation (the "Trustees"), the SAC also provides input to the Trustees on matters relating to the activities of the SAC or the IASB and any other relevant issues.

2. A secondary objective of the SAC is to support the IASB in the promotion and adoption of IFRSs throughout the world. This may include the publishing of articles supportive of IFRSs and addressing public meetings on the same subject. Any such views expressed are personal, and should not create the impression that they are the opinions of the SAC. (This objective does not preclude SAC members from participating in genuine and objective critiques of the work of the IASB to assist better understanding and transparency of issues and solutions.)

II. COMPOSITION AND MEMBERSHIP

3. The SAC composed of individuals, or representatives of organisations, interested in the development of high quality IFRSs. The membership provides for a broad geographical spread and a range of functional backgrounds that include members drawn from user groups, preparers, financial analysts, academics, auditors, regulators and professional accounting bodies. In addition, certain international organisations may be granted permanent seats on the SAC by the Trustees. Official observer status may also be granted by the Trustees to other bodies and organisations, which are influential in the global financial community.

4. A panel of the Trustees considers nominations and, where applicable, their origins and/or the organisations that may be represented, to determine whether nominee associations and individuals are suitable for membership and to ensure a broad geographical spread and a range of functional backgrounds.
5. Members are appointed for an initial term of three years and, depending upon the need to maintain a proper balance and for continuity, may be asked to remain for up to a further period of three years. A maximum period of service of six years is permitted.
6. In the interests of retaining an active and engaged membership, individuals who do not attend in person three consecutive meetings will be asked to stand down from the SAC.
7. The Trustees appoint members to the SAC in an individual or representative capacity, and at SAC meetings members are expected to express their individual views unless it is expressly stated that they are the opinions of the organisations they represent. No sourcing record is made of organisational or individual views in the SAC minutes. In adopting this convention the SAC is mindful that discussion at a SAC meeting may often be free-ranging and an individual's contribution might be unduly hampered if reference had to be made back to an organisation before a view was expressed at the meeting. SAC members are free to table written materials for circulation, prior to the meeting, should they wish.

III. CHAIR

8. The Chair of the SAC is appointed by the Trustees from nominations submitted by the SAC. The term of office of the Chair is three years renewable for up to three years, subject to a maximum of six years.
9. The Chair provides leadership to the SAC in ensuring that the IASB receives timely and effective input that contributes to the development of high quality IFRS enjoying broad acceptance. To achieve this goal, the Chair monitors actively the progress of the IASB's work programme, projects and priorities and works closely with the Chairman of the IASB and senior staff to identify, on a timely basis, matters on which the SAC's advice should be sought. Specifically, the duties of the Chair include, but are not limited to, the following:
 - working with the senior staff of the IASB and IASC Foundation to ensure the preparation of timely and appropriate materials to facilitate the conduct of the SAC meetings;
 - conducting meetings of the SAC;
 - reviewing the draft minutes of SAC meetings before distribution to members;
 - appointing the Agenda Committee of the SAC;
 - acting as the liaison between the SAC and the IASB and the Trustees;
 - keeping abreast of developments within the IASB and informing members of the SAC of these matters, if considered necessary, between meetings;
 - assisting the Trustees in the identification of new members of the SAC;
 - briefing new members of the SAC on its operations and their role and responsibilities; and
 - assisting the Chairman of the IASB in promoting the adoption of IFRSs throughout the world.
- at the request of the Trustees, attend and participate in the Trustees' meetings

IV. OPERATING PROCEDURES

10. In order to ensure that the SAC operates efficiently and effectively the following operating procedures are adopted:

Meeting Details

11. Generally, the SAC meets three times per year for a period of two days, but additional meetings may be convened at the request of the Chair.
12. The Chairman of the IASB, the IASB Director of Technical Activities and those IASB members and staff who are responsible for items on the agenda are required to attend SAC meetings. IASB members are generally required to attend the meetings so that they can hear at first hand the views of the SAC.
13. Secretarial support for the meetings, as well as the recording of the minutes, is the responsibility of a designated member of the IASB secretariat.
14. The meetings of the SAC are open to the public except for administrative items, which are dealt with in closed session.

Meeting Agenda and Papers

15. The Agenda Committee, appointed by the Chair from amongst the members, is responsible for preparing the agenda for each meeting in consultation with the IASB secretariat. All SAC members are encouraged to submit to the Agenda Committee items for consideration for inclusion in the agenda in advance of the meeting date and in accordance with the timing determined by the Chair.
16. Written materials supporting SAC agenda items are provided before each meeting. A briefing paper highlighting those issues on which specific guidance is sought from the SAC is usually prepared for each technical item on the agenda. The extent of the supporting documentation is dependent on the complexity of the issues involved and the need for SAC members to be adequately briefed. The following should be the norms for distribution of material to SAC members by the Secretariat:
 - minutes of each meeting are distributed to SAC members within thirty days following each SAC (or subcommittee of SAC) meeting;
 - the agenda for each SAC meeting, including a brief description of each agenda item, is distributed to SAC members at least thirty days before each SAC meeting; and
 - all detailed agenda papers are distributed to SAC members at least ten days before each SAC meeting.

Conduct of Meetings

17. The conduct of technical topics is generally prefaced by an introduction of the topic by the relevant IASB member or staff, and may include papers prepared and/or delivered by SAC members. The extent of these briefings is dependent on the complexity of the topic. At the meeting members are invited to comment on the questions raised by the IASB or any other related matters. Depending upon the issue, the Chair may call for a formal poll to demonstrate to the IASB the extent of support within the SAC for a particular point of view.

If the IASB ultimately takes a position on a particular issue that differs from a polled expression of the SAC, feedback is given at the next meeting of the SAC on the reasons for the IASB's decision.

Subcommittees

18. In order to improve the quality of comment submitted to the IASB on a specialised topic, the Chair may call for the establishment of a subcommittee of knowledgeable SAC members to provide expert comment. This subcommittee reports to the SAC, which in turn presents its views to the IASB.

V. TRAVEL AND ACCOMMODATION COSTS

19. Members of the SAC or the organisations they represent meet their own travel and accommodation costs.

VI. APPROVAL AND CHANGES

20. The Trustees have approved the terms of reference and operating procedures and any changes thereto require their concurrence.