

**Constitution Review
International Accounting Standards Committee Foundation**

**Preliminary Recommendations by the Constitution Committee
to the IASC Foundation Trustees for Consideration
at the 25 October Trustees' Meeting**

Revised -- 20 October 2004

I. Context of the Constitution Review

1. The Constitution, approved in 2000 and subsequently revised in 2001 and 2002, requires a review of the constitutional arrangements by the Trustees to begin after the organisation's third year of operations. To meet that requirement, the Trustees established a committee (known as the Constitution Committee) to manage the review process, consult interested parties and make recommendations to the full Trustees. The Committee began its work in November 2003, and a description of the consultations undertaken is in Appendix I.

2. The Constitution review has afforded the Committee, and the Trustees generally, with an opportunity to review not only the details of the Constitution but also the progress of the organisation in achieving its objective during the first three years of operations. The existing text of the Constitution defines the organisation's objectives as follows:

- (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) to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions.

3. In a little more than three years, the IASC Foundation and the IASB have made progress towards achieving those objectives. The IASB has completed five entirely new standards and revised 17 existing standards inherited from its predecessor organisation. Taken in its entirety, this work provides a workable platform for advancing common international standards. This platform is now ready for companies adopting the standards beginning in January 2005.

4. The IASC Foundation Trustees and the IASB have worked to promote the use of the standards throughout the world. Through establishing formal liaison relationships with national and regional standard-setting bodies, the IASB has created a network of standard-setting bodies to provide feedback from their local constituencies and to conduct project research. Some of the IASB members also have liaison assignments with these bodies. The Trustees have established an education function at the IASC Foundation to help facilitate the application of the IASB's standards. Lastly, the Trustees and the IASB hold meetings with policymakers and regulators to discuss the adoption of International Financial Reporting Standards (IFRSs) and, in the case of the IASB, the impact and quality of particular accounting proposals.

5 Progress towards the third of the three objectives described above has been substantial. During the past two years, many countries have agreed to adopt IFRSs for publicly traded companies by either 1 January 2005 or 1 January 2007. The European Union has adopted a regulation that will require publicly traded companies to apply a significant majority, and in some cases, all, of the IFRSs beginning next year. It is expected that in addition to the more than 7,000 publicly traded companies in Europe, hundreds of thousands of unlisted companies will choose to adopt IFRSs, depending upon various national rules.

6. The momentum towards adopting international standards is not limited to the European Union. Recently, Australia, New Zealand, Russia and South Africa have followed the EU's lead in requiring the adoption of IFRSs. A Deloitte & Touche survey now estimates that 92 countries will encourage, permit or require the use of IFRSs for financial reporting of publicly traded companies by January 2005. Many African and Asian countries, such as China and many of the ASEAN countries, have a policy of seeking convergence of national standards with IFRSs. Similarly, among Latin American countries, Costa Rica, Venezuela, the Dominican Republic and Panama have adopted IFRSs, and Peru has a formal policy of convergence. Mexico has established a new body with the specific mandate of convergence, and intensive discussions regarding the acceptance of IFRSs in Brazil are taking place.

7. Additionally, the IASB and the US standard-setter, the Financial Accounting Standards Board (FASB), have made much progress on the convergence of IFRSs and US GAAP during the past two years. This convergence drive began formally after the first FASB-IASB joint meeting in September 2002. At that meeting, in a decision later formalised by a memorandum of understanding known as the 'Norwalk Agreement', the two boards agreed to try to eliminate the differences between their existing standards in the near term and to work together on long-term projects to ensure that the principles behind, if not the precise wording of, the new standards will be the same. In October 2004, the IASB reached an agreement with the Accounting Standards Board of Japan (ASBJ) to begin discussions to identify and minimise differences between Japanese GAAP and IFRSs.

8. While progress toward global adoption of IFRSs is evident, there are clear challenges. Some of these challenges are intellectual. The IASB is tackling difficult conceptual issues, on which there is little or no consensus. Some of the more challenging topics already on the IASB's agenda include insurance accounting, leasing, pensions and financial instruments—to name a few. Reaching a common international standard on such topics will not be easy. Therefore, the Constitution Review has emphasised the need to maintain and even strengthen the IASB's consultation process in order to engage fully those affected by standard-setting and to evaluate the many options in an even-handed manner.

9. At the same time, it is clear that the decision of whether to adopt IASB standards as a whole or individually rests with national and regional bodies, such as the European Union, since the organisation has no ability to impose its standards on the world. While committed to using IFRSs beginning in 2005, the Accounting Regulatory Committee of the European Union has recently recommended making certain hedging requirements in IAS 39, the standard on financial instruments, optional. The issue of financial instruments is a complex and controversial one, which will bear renewed consideration over the period ahead. Meanwhile, the newly amended IAS 39 is the result of an extended consultation process, in which the issues have been intensively deliberated over the past year. So long as standards are developed in such a deliberate, well-informed and open manner, it needs to be recognised that failure to accept particular standards on a national or regional basis will impair the consistency and quality of accounting standards that the world's markets demand.

II. Philosophy of the Constitution Review

10. Against this backdrop, the Committee has concluded that the basic elements of the original structure, first recommended by the IASC's Strategy Working Party and then approved by IASC in 2000, have proved to be sound. On the other hand, some of the concerns raised by those parties responding to the Committee's possible approaches on the issues of the Trustees' oversight role, the Trustees' and IASB's composition, and the IASB's operating procedures are strongly held and warrant attention. The Committee has considered and addressed these concerns in reaching its preliminary recommendations.

11. The Constitution approved by IASC in 2000 established a structure that recognized the need both to assure the quality of the standards and the accountability of the standard-setting process to the public, which the organisation serves. The result is a carefully conceived process, whereby the technical and frequently difficult and controversial decisions in setting accounting standards are the responsibility of an independent expert group with diverse practical and professional backgrounds. The process is overseen by a broadly representative Trustee body. While not opining on technical accounting decisions, the Trustees ensure that decisions of the IASB are taken with due care, only after appropriate and extensive consultation, and using the Board's best professional judgement. The purpose of this system is to protect the integrity of the standard setting process from political and parochial pressures and from purely national considerations.

III. Proposed Recommendations

12. The Committee has concluded that the Trustees should address many of the concerns voiced about the organisation's structure and the Constitution by making a number of limited changes without fundamentally altering the basic framework of the Constitution. Specifically, the purposes of the changes are:

- to recognise and express more clearly the Trustees' oversight responsibilities over the IASB's processes
- to expand the geographical and professional backgrounds of the Trustees, while providing some flexibility on the specific professional requirements to ensure that the IASC Foundation attracts the highest quality Trustee candidates
- to highlight the commitment of the Trustees to ensuring that an independent IASB is composed of individuals that bring to the work not only technical expertise but a broad range of perspectives and skills, including practical experience
- to emphasise the need for 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 take account of the special needs of small and medium-sized entities and emerging economies

The preliminary recommendations in the attached paper are aimed at accomplishing those goals.

IV. The Revised Constitution

13. The result of the recommended changes in the Constitution would be to protect the IASC Foundation and the IASB's independence in developing accounting standards for the public interest. At the same time, the proposed changes will help to ensure that the organisation remains responsive to the requirements of the marketplace and the many parties that seek a voice in the development of broadly accepted, high quality international accounting standards. This is accomplished in the following ways:

- **A widely representative body of Trustees:** The Committee recommends expanding the number of Trustees from 19 to 22 in order to broaden geographical representation, particularly from the Asia/Oceania region and emerging economies, and to assume an appropriate diversity of professional experience. As the representative body, an expanded body of Trustees will be better able to ensure that the views and concerns of interested parties throughout the world are being heard and that the organisation's operations and objectives are better understood.
- **An independent IASB benefiting from diverse experience:** Although the IASB already includes persons with extensive experience in preparing and analysing financial reports, there is a desire among many of those who participated in the review to ensure better that the membership of the IASB reflects the broad range of interests affected and understands the practical implications of the IASB's decisions. In emphasising the need to maintain an independent board that is not reflective of specific national or sectoral interests, the Committee believes that broadening the criteria for selecting members will ensure that the IASB remains connected to practical issues related to standard-setting. Additionally, the Committee recommends additional flexibility in the Constitution to permit up to four part-time members.
- **Assurance of consultation beyond requirements in the Constitution:** The Constitution describes several steps that the IASB must take as part of its formal due process. The Constitution also lists other steps that are optional. In addition to the steps outlined in the Constitution, the IASB has established procedures based upon the best practice of national standard-setters. It is clear, however, that many constituents wish the IASB to go beyond existing national practices and to demonstrate in an open and fair manner that it is considering all available options and views. The Committee therefore recommends some changes in language to enhance the consultative arrangements and expand the scope of liaison activities, which will mesh with operational changes that the IASB itself has already proposed.
- **Improved Trustee oversight of due process and consultative issues:** The Trustees have always played an oversight role. The changes that are proposed will clarify areas in which the Trustees have responsibility and will ensure that the IASB continues to expand and be accountable its consultations on major topics.

The preliminary recommendations are laid out in the following section.

VI. PRELIMINARY RECOMMENDATIONS WORKSHEET

Topic 1: Whether the objectives of the IASC Foundation should expressly refer to the challenges facing small and medium-sized entities		
Wording in the present Constitution	A possible approach as described in the paper of 7 May 2004	Preliminary recommendations
<p>2 The objectives of the IASC Foundation are:</p> <p>(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;</p> <p>(b) to promote the use and rigorous application of those standards; and</p> <p>(c) to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions.</p>	<p>The Committee is considering including some specific mention of the special needs of small and medium-sized entities and emerging economies. This could be accomplished by modifying Section 2(b) of the Constitution to include (new words in bold):</p> <p>‘(b) to promote the use and rigorous application of those standards, taking account of the special needs of small- and medium-sized entities and emerging economies; and’</p> <p>The Committee recognises that educational activities could play a special role in reinforcing these objectives. Therefore, special mention should be made of the organisation's educational efforts when the Trustees' duties are discussed in Section 16 of the existing Constitution.</p>	<p><u>Small and medium-sized entities (SMEs) and emerging economies</u></p> <p>There was a general acceptance that SMEs and emerging economies may have ‘special needs’, as was recognised by the Committee. These special needs largely stem from SMEs' lack of resources and the wide variations in financial infrastructure and hence in the capacity to implement complex accounting standards.</p> <p>However, comments on the possible approach were mixed. Those who supported special mention in the Constitution welcomed the acknowledgement of the issues described above and believed that without any mention of the problem, the issues of SMEs and emerging economies would be lost. On the other hand, others, while recognising the challenges facing SMEs and emerging economies, were troubled about making special mention of particular groups in the Constitution. Many commented that the IASB was already accounting for those special needs without specific mention in the Constitution, because the IASB had started a project on SMEs.</p>

		<p>Having considered those view and acknowledging that the IASB should be able to exercise its discretions related to SMEs and emerging economies, the Committee recommends to modify Section 2(b) in the following manner:</p> <p>‘(b) to promote the use and rigorous application of those standards, taking account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and’</p> <p>The Committee also considered two other issues that were raised in response to this topic.</p> <p><u>Accounting standards for not-for-profit and public sector entities</u></p> <p>Some respondents suggested that the organisation’s objectives should include developing accounting standards for not-for-profit and public sector entities.</p> <p>The Constitution would not prohibit the preparation of standards for not-for-profit entities and the public sector. Presumably these entities could be covered by the term ‘other users’ in objective 2(a).</p> <p>The issue is one of organisational strategy, which is the domain of the Trustees but not necessarily appropriate for the Constitution. The Committee considered that, because of other priorities and resource constraints, focusing on the public sector and not-for-profit entities is impractical at present.</p> <p>The Committee noted that the Public Sector Committee of</p>
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Topic 2: Number of Trustees and their geographical and professional distribution		
Wording in the present Constitution	A possible approach as described in the paper of 7 May 2004	Preliminary recommendations
<p>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.... The mix of Trustees shall be representative of the world’s capital markets and a diversity of geographical and professional backgrounds. The Trustees shall be required to commit formally to acting in the public interest in all matters. In order to ensure a broad international basis, there shall be:</p> <ul style="list-style-type: none"> • six Trustees appointed from North America; • six Trustees appointed from Europe; • four Trustees appointed from the Asia/Pacific region; and • three Trustees appointed from any area, subject to establishing overall geographical balance. <p>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</p>	<p>Geographical distribution and number of Trustees</p> <p>The Committee has suggested the following approach:</p> <ul style="list-style-type: none"> • References to ‘Asia/Pacific’ should be changed to ‘Asia/Oceania’ to reflect that North American countries on the Pacific Ocean were not meant to be considered as part of this grouping. • While the Committee believes that the Trustees have functioned effectively as a group, the Committee is considering expanding the Trustees to provide more representation from the Asia/Oceania region and emerging economies. One possibility being considered is expanding the Trustees to 22 members: <ul style="list-style-type: none"> ○ six Trustees appointed from North America; ○ six Trustees appointed from Europe ○ six Trustees appointed from the Asia/Oceania region; and ○ four Trustees appointed from any area, subject to establishing overall 	<p><u>Asia/Oceania</u></p> <p>The Committee proposed changing 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.</p> <p>There were no objections to this proposal among the submissions received in the public hearings, and the Committee recommends the change to the Constitution.</p> <p><u>Number of Trustees</u></p> <p>An overwhelming majority of the respondents agreed with, or did not object to, the proposed enlargement of the body of the Trustees. If the Trustees support a geographical mix as suggested in the possible approach, expanding their number to allow more representation from the Asia/Oceania region and emerging economies makes sense. Assuming that the geographical composition remains as suggested, the Committee recommends expanding the number of the Trustees to 22.</p> <p><u>Geographical distribution of the Trustees</u></p> <p>Views were mixed, but strongly held, on how the Trustees should be distributed geographically. Respondents from North America and Asia/Oceania did not support weighting</p>

<p>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....</p> <p>8 Eleven <i>at-large</i> Trustees shall also be selected. The <i>at-large</i> designation indicates that such Trustees are not appointed through the consultation process with constituency organisations (IFAC, preparers, users or academics). <i>At-large</i> 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 <i>at-large</i> Trustees from relevant organisations and for allowing individuals to put forward their own names.</p>	<p>geographical balance.</p> <ul style="list-style-type: none"> The Committee has the view that providing special consideration for countries that use IFRSs on the organisation’s committees would not be consistent with its mission of serving the global capital markets and of encouraging convergence. However, the Committee notes that the expansion of the Trustees in Asia/Oceania and emerging economies, where use of IFRSs is prevalent, would be likely to increase the Trustees from countries using IFRSs. <p>Professional background and selection of the Trustees</p> <p>The Committee believes that the Trustees should remain responsible for the selection of Trustees when vacancies arise (Section 5 of the Constitution). Some comment letters criticised the selection process on the basis that the process lacked transparency. While the Trustees might need to improve communications regarding their processes, the Committee notes that the Trustees have advertised for applicants for all vacant positions. Additionally, the Trustees have consulted the relevant organisations in the region where the vacancies arose in order to achieve an appropriate balance of professional backgrounds.</p> <p>The Committee suggests that the requirements regarding professional backgrounds should be relaxed. This could be accomplished by replacing</p>	<p>representation in favour of countries applying IFRSs.</p> <p>Some argued that the strict numerical guidelines should be dropped, and that the Trustees should have the freedom to select the most qualified candidates subject to achieving a general balance of perspectives. Most commentators, however, recognised that it was appropriate to have some numerical guidelines at present to ensure that regions were fairly represented.</p> <p>European respondents argued that it made sense to weight the Trustees (and the IASB, as discussed later) in favour of those countries using IFRSs. The basis for this argument is that the Trustees are responsible for oversight and selection and should be aware of the issues that affect IFRS-user countries.</p> <p>In deciding whether to maintain its position on the question of special consideration for countries that use IFRSs, the Committee examined the organisation’s objectives and the Trustees’ duties laid out in the Constitution. The objectives listed in Section 2 call for the organisation to work ‘in the public interest’ towards ‘global accounting standards’ through a process of ‘convergence of national accounting standards’ and IFRSs.</p> <p>Weighting a particular region because of its current position on IFRSs might impede the objective of developing global standards. First, reducing the relative representation of an area because it has not adopted IFRSs at present might reduce its incentive to participate in convergence. Second, to emphasise particular areas that are using IFRSs might focus the IASC Foundation and the IASB on narrow regional or national concerns at the expense of their broader international objectives—as described in Section 2.</p>
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	<p>Section 7 and deleting Section 8 of the Constitution, as below.</p> <p>‘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. To achieve such a balance, Trustees should be selected after consultation with international organisations of auditors, preparers, users and academics. Organisations consulted shall include the International Federation of Accountants and national and international bodies representing 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.’</p>	<p>In order to ensure that the Trustees have adequate understanding of implementation issues and the impact of the standard-setting process, Section 6 of the Constitution could be strengthened. Assuming that the number of the Trustees is expanded to 22 and the possible approach in geographical distribution is accepted by the Trustees, the Committee recommends the following wording for Section 6.</p> <p>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 formally to acting in the public interest in all matters. In order to ensure a broad international basis, there shall be:</p> <ul style="list-style-type: none"> • Six Trustees appointed from North America; • Six Trustees appointed from Europe; • Six Trustees appointed from the Asia/Oceania region; and • Four Trustees appointed from any other area, subject
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		<p>to establishing overall geographical balance.</p> <p>The Trustees should consider whether the Constitution should make specific mention of Latin America as a region in the paragraph above, either as a separate point or as part of the four Trustees who are to be appointed from any other area.</p> <p><u>Professional background and selection of the Trustees</u></p> <p>An overwhelming majority of the respondents agreed with, or did not object to, the proposed professional background of the Trustees.</p> <p>In adopting the preliminary approach, and in order to simplify the language of Section 7, the Committee recommends Section 7 be amended as below, and removing Section 8.</p> <p>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. To achieve such a balance, Trustees should be selected after consultation with national and international organisations of auditors (including the International Federations of Accountants), preparers, users and academics. Organisations consulted shall include the International Federation of Accountants and national and international bodies representing 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</p>
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		<p>their own names, including advertising vacant positions.’</p> <p>Participants throughout the consultations emphasised the need for a more transparent process for selecting the Trustees. A rigorous selection process is already in place that includes the following steps:</p> <ul style="list-style-type: none"> • At present, the Trustees advertise all open positions and contact the relevant organisations in the specific region where the vacancy arises. • When a vacancy arises for a position that requires a specific professional background, the Trustees liaise with the relevant professional organisations, such as IFAC, and various corporate and user organisations. • A committee of Trustees reviews the nominations and applications and make a formal recommendation to the full Trustees. <p><i>External nominating body?</i></p> <p>Some respondents called for an outside nominating body to select Trustees, similar to that established for the IFAC. Such an external body seems unnecessary in the case of the IASC Foundation. First, there is a question of who would decide who sits on such a nominating body. Second, the situation of the IASC Foundation Trustees is different from IFAC’s. IFAC has the responsibility for setting rules and guidelines for its own members and thus has a self-regulatory function. The IASC Foundation is an independent entity and does not regulate its own members, and therefore no inherent conflict of interest exists.</p>
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		<p><i>IFAC mention</i></p> <p>Other respondents questioned the need to refer to IFAC in Section 7 as one of the organisations to be consulted in the selection of the Trustees. Those respondents noted that no other external organisation was mentioned.</p> <p>Those supporting the reference to IFAC noted that IFAC has strong historical ties with the organisation, has a well-organised membership and global structure that assists in the nominations process, and has nominated candidates with a background outside accounting.</p> <p>The Committee recommends that the arguments in support have sufficient weight to warrant retaining the specific mention. The Committee notes that, under the recommendation, the Constitution would no longer require five of the Trustees to be nominated formally by IFAC. This would broaden the consultation process.</p> <p><u>Terms of the Trustees and the Chairman</u></p> <p>The current Constitution allows Trustees to serve two three-year terms. Some of the Trustee committees have questioned whether this is the appropriate length of service for operational purposes. The Constitution Committee concluded that the current length of terms makes sense, but additional flexibility should be permitted for the position of Chairman.</p> <p>The question of allowing a future Chairman, if appointed from the existing group of Trustees, to serve beyond six years was raised. One possibility would be to allow a Chairman to serve up to, but no more than, six years in that</p>
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		<p>role. To provide for this, the Committee recommends amending Section 11 in the following manner:</p> <p>11 The Chairman of the Trustees shall be appointed by the Trustees from among their own number. With the agreement of the Trustees, the appointee may serve as the Chairman for a period of up to six years.</p> <p>Any such change affecting the position of the Chairman should be effective for the next Chairman appointed.</p>
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Topic 3: The oversight role of the Trustees		
Wording in the present Constitution	A possible approach as described in the paper of 7 May 2004	Preliminary recommendations
<p>16 In addition to the duties set out in Part A, the Trustees shall:</p> <p>(c) review annually the strategy of the IASC Foundation and the IASB and its effectiveness;</p> <p>(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;</p> <p>(f) establish and amend operating procedures for the IASB, the International Financial Reporting Interpretations Committee and the Standards Advisory Council;</p>	<p>The Committee suggests strengthening the language of the Constitution in the following ways to emphasise both the Trustees’ oversight role and the organisation’s responsibilities in providing educational services.</p> <p>16 In addition to the duties set out in Part A, the Trustees shall:</p> <p>(c) review annually the strategy of the IASC Foundation and the IASB and its effectiveness, including careful consideration of the IASB’s agenda;</p> <p>(f) establish, and amend and approve operating procedures, consultative arrangements and due process for the IASB, the IFRIC and the SAC;</p> <p>The Committee is considering adding the following duty to the list in Section 16 to account for the organisation’s educational responsibilities:</p> <p>“to develop and review educational programmes, as appropriate.”</p>	<p><u>The Trustees’ oversight role</u></p> <p>Reflecting the support shown in the public hearings and the written submissions, the Committee emphasises the Trustees’ oversight role in its recommendations. While not calling for a change in the basic premise of the Constitution (including the independence of the IASB in its decision-making process), the Committee is recommending some fine-tuning in the Constitution to clarify the Trustees’ responsibilities for oversight of the IASB.</p> <p>The Committee recommends approving the general approach suggested in the paper of 7 May with some modifications for clarification, as follows:</p> <p>16. In addition to the duties set out in Part A, the Trustees shall:</p> <p>(c) review annually the strategy of the IASC Foundation and the IASB and its effectiveness, including consideration of the IASB’s agenda;</p> <p>(f) establish, and amend and approve review compliance with the operating procedures, consultative arrangements and due process for the IASB, the International Financial Reporting Interpretations Committee and the Standards Advisory Council;</p> <p>Several respondents questioned whether ‘consideration’</p>

		<p>would give the Trustees the ultimate right to approve the IASB’s agenda. The entitlement to consider the IASB’s agenda should not be confused with the right to approve the agenda, which is for the IASB to determine and approve subject to appropriate consultation under the Trustees’ oversight. The purpose of consideration is to determine, consistently with the Trustees’ oversight role, whether the IASB has followed appropriate procedures and criteria for establishing its agenda and has received input on its agenda decisions.</p> <p>Some respondents called for a specific requirement for the Trustees to approve the IASB agenda. Such a requirement would be inconsistent with the aim of leaving the technical decision-making process to an appointed expert group, the IASB.</p> <p>The slight modification in Section 16(f) from the approach of the paper of 7 May makes the use of the word ‘approve’ redundant. However, reviewing compliance would be consistent with the Trustees’ existing role, and is supported by respondents.</p> <p><u>Educational activities</u></p> <p>Views were mixed on whether the Foundation should develop and review educational programmes.</p> <p>Although educational activities could promote the understanding and consistent application of IFRSs, significant resources could be required if the organisation were to play an active part in such activities. Such a broad educational effort, however, was not envisaged.</p>
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Topic 4: Funding of the IASC Foundation		
Wording in the present Constitution	A possible approach as described in the paper of 7 May 2004	Preliminary recommendations
<p>14 The Trustees shall:</p> <p>(a) assume responsibility for fundraising;</p>	<p>The Trustees have established a long-term funding committee to examine the various options proposed, including the concept of adopting a fee-based system, similar to the one created in the United States.</p> <p>The Committee would welcome views regarding how such a system of fees could be established.</p>	<p>A majority of the respondents believed that any funding arrangement should be sufficiently broad-based to reflect the many parties that benefit from the development of IFRSs, while maintaining the independence of the IASB's decision-making process.</p> <p>Many commentators advocated a system using a form of listing or registration fee, similar to the one established in the United States for the US Financial Accounting Standards Board. On the other hand, there were concerns about the practicability of implementing such a system, and about the level of acceptance among relevant entities.</p> <p>Funding becomes a problem particularly in the years beyond 2005, when the initial financial commitments from the IASC Foundation's contributors expire.</p> <p>The Committee underscores the importance of completing a study of various funding mechanisms, including the desirability and practicality of a fee-based system, as soon as possible. The Committee noted that discussions, including several members of the Committee, are underway and continuing. The Trustees should report on progress when possible.</p> <p>Consistent with the Trustees' responsibility for the organisation's finances and permits alternative funding arrangements, the Committee recommends the following</p>

		change in language in Section 14(a) . 14(a) assume responsibility for fundraising satisfy themselves that appropriate financing arrangements are in place.
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Topic 5: The Composition of the IASB		
Wording in the present Constitution	A possible approach as described in the paper of 7 May 2004	Preliminary recommendations
<p>19 The IASB shall comprise fourteen members, appointed by the Trustees under Section 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 part-time members (the expression “part-time” meaning that the members concerned commit less than all of their time in paid employment to the IASC Foundation) ...</p> <p>20 The foremost qualification for membership of the IASB shall be technical expertise. 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 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.</p> <p>21 The selection of members of the IASB shall not be based on geographical representation.</p>	<p>Size of the IASB, and full-time vs part-time</p> <ul style="list-style-type: none"> • The Committee believes that the size of the IASB should remain fourteen. • The Committee is suggesting that the Constitution should provide some flexibility regarding the number of part-time members. One possibility is to require no less than two part-time members and no more than four part-time members. <p>To reflect these preliminary views, Section 19 of the Constitution could be modified as follows:</p> <p>19 The IASB shall comprise fourteen members, appointed by the Trustees under Section 16(a), of whom at least ten and no more than 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 members shall be known as part-time members (the expression “part-time” meaning that the members concerned commit less than all of their time in paid employment to the IASC Foundation) ...”</p>	<p><u>Size of the IASB</u></p> <p>The Committee originally recommended that the IASB should remain at fourteen members. A board of this size enables the IASB to benefit from a broad range of backgrounds and to perform its liaison function. An overwhelming majority of respondents supported this recommendation.</p> <p>The Committee therefore confirms its recommendation.</p> <p><u>Full time vs part time membership</u></p> <p>The rationale for providing some flexibility in the Constitution for the number of part-time members is that many believe that part-time members could bring practical experience to the IASB because of their other responsibilities. Additionally, providing some flexibility could encourage additional capable candidates, who might have a strong preference for either a full-time or part-time position, to apply. For example, at present those interested only in part-time responsibilities must wait until part-time vacancies arise.</p> <p>The Committee recognises that expanding the number of part-time members beyond four might raise questions about conflicts of interest and independence.</p>

<p>The Trustees shall ensure that the IASB is not dominated by any particular constituency or geographical interest. In particular, when making appointments to the IASB, the Trustees shall observe the general parameters set out in the <i>Criteria for IASB Members</i> which are attached to this Constitution.</p> <p>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.</p>	<p>Criteria for selecting IASB members</p> <p>To reflect better the criteria laid out in the appendix of the Constitution, the Committee suggests amending the first sentence of Section 20 as follows:</p> <p>20 The foremost qualification for membership of the IASB shall be technical expertise professional competence and practical experience. <i>(The remainder of Section 20 would remain unchanged.)</i></p> <p>Geographical representation</p> <p>The Committee believes that adding criteria regarding geographical representation would be inconsistent with the Constitution’s aim of ensuring the independence of the standard-setting process. Therefore, the Committee does not recommend changing Section 20 on this point.</p> <p>The Committee recognises that the Trustees must seek to obtain an appropriate balance of experience and perspectives among the IASB’s members.</p> <p>Professional background of IASB members</p> <p>The Committee suggests that Section 22 should be modified to relax the requirements regarding specific backgrounds. Instead there should be a requirement to obtain an appropriate mix of practical experience among auditors, preparers, users and academics, and at minimum there should be at least one IASB member with recent</p>	<p>Also, many respondents noted that many part-timers would find it difficult to manage the workload of a full-time standard-setting body, and part-timers have little time for liaison activities. This would shift liaison duties to a reduced number of full-time IASB members. (The Committee noted that the two present part-time members are able to perform their duties at a very high level, although achieving this requires some flexibility by their other employers regarding their other commitments.)</p> <p>Balancing those considerations, the Committee recommends the Trustees to adopt the approach originally suggested:</p> <p>19 The IASB shall comprise fourteen members, appointed by the Trustees under Section 16(a), of whom at least ten and no more than 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 members shall be known as part-time members (the expression “part-time” meaning that the members concerned commit <u>at least half but less than all</u> of their time in paid employment to the IASC Foundation)....”</p> <p>In making its recommendation, the Committee emphasises the Trustees’ oversight function in ensuring the independence of part-time members in the IASB. Part-time members, like full-time members, are required to disclose their financial interests and professional involvement.</p> <p>The additional words of ‘at least half’ in the paragraph above related to the time commitment of part-time members indicate that part-timers will be required to devote at least 50</p>
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	<p>experience in each of these fields.</p>	<p>per cent of their time to the IASB.</p> <p>Those who do not support this recommendation are particularly concerned about the ability to meet the time commitment and the consequences for reallocating liaison responsibilities.</p> <p><u>Criteria for selecting IASB members</u></p> <p>A majority of respondents agreed with, or did not object to, broader criteria for selecting IASB members. The Committee's intention in including broader criteria is to signal that the IASB membership should reflect a broad range of skills (as noted in the Annex to the Constitution) and should not be limited to accounting or audit technicians.</p> <p>At the same time, many respondents urged the Trustees to retain the words 'technical expertise' in the list of primary criteria. Those respondents noted that readers could broadly construe 'technical expertise' to mean expertise in accounting practices and an ability to grasp technical accounting issues.</p> <p>After considering various comments, and to reflect better the criteria laid out in the Annex to the Constitution, the Committee recommends modifying Section 20 as follows:</p> <p>20 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 business and market experience skills in order to contribute to the</p>
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		<p>development of high quality, global accounting standards. No individual shall be both a Trustee and an IASB member at the same time.</p> <p>The suggested amendments to Section 20 embody elements of professional competence, practical experience and technical expertise in evaluating IASB members' candidature. They should also be read in the context of the criteria already in the Annex to the Constitution.</p> <p>The Committee also recommends amending paragraph 5 of the Criteria attached to the Constitution to reflect the desire to have some practical knowledge and understanding of using IFRSs on the Board. Therefore, an amended paragraph 5 of the Annex to the Constitution should read:</p> <p>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.</p> <p><u>Geographical composition</u></p> <p>Opinion on this question was divided, as with the geographical composition of the Trustees.</p> <p>The Committee has previously stated that introducing geographical elements into the IASB's membership would</p>
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		<p>be inconsistent with the aim of ensuring the independence of the IASB. Elaborating on that point, the Committee pointed out that the logic of the current 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 of a particular argument. This would imply that there should not be changes the Committee's initial position.</p> <p>The Committee recognises the weight of opinion on this question, particularly in Europe. The strongest argument for some geographical basis for membership is the need to have an understanding of the impact of IFRSs as they are adopted throughout the world. Furthermore, many proponents of some geographical component in selection argued that there are different perspectives that are not being adequately captured by the current IASB.</p> <p>The Committee does acknowledge that section 21 is not entirely consistent on the issue of geographical representation, and therefore recommends revising the section in the following manner:</p> <p>21. 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 <i>Criteria for IASB Members</i> which are attached to this Constitution.</p> <p>One member (Japanese) of the Committee suggested the</p>
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		<p>Constitution specify a percentage (25%) to limit the weight of members among the IASB from any single country in order to ensure that the IASB is not dominated by any particular constituency or geographical interest. However, the Committee is concerned about the difficulty in enforcing a strict rule, because Board members would have extensive working experience in a number of countries before joining the IASB, and in some cases, possess multiple nationalities.</p> <p><u>Professional backgrounds of IASB members</u></p> <p>The Committee recommends adopting the possible approach, and replacing Section 22 as follows.</p> <p>22 The Trustees shall select IASB members so that the IASB as a group provides an appropriate mix of practical experience among auditors, preparers, users and academics, and includes at least one IASB member who has recent experience in each of these fields.</p> <p>In making its recommendation, and in response to concerns expressed by some respondents, the Committee emphasises that the relaxation of specific requirements in the professional backgrounds of IASB members should not be interpreted as an intention to reduce the number of preparers and users on the IASB. However, the requirements regarding professional backgrounds combined with the liaison requirements have the consequence of limiting the options in selecting replacements of those IASB members who have formal liaison responsibilities.</p>
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Topic 6: The appropriateness of the IASB's existing formal liaison relationships		
Wording in the present Constitution	A possible approach as described in the paper of 7 May 2004	Preliminary recommendations
<p>23 Seven of the full-time members of the IASB will be expected to have formal liaison responsibilities with national standard-setters 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.</p>	<p>The Committee believes that liaison activities remain important. At the same time, the Committee recognises that the Constitution requires some flexibility to enable the Trustees to adapt to a changing environment. While the Committee has not assessed whether existing liaison relationships should be adjusted, there is a recognition that the IASB should liaise with a broad range of national standard-setters, beyond those currently recognised in the Constitution.</p> <p>Therefore, the Committee suggests modifying Section 23 as follows:</p> <p>23 Seven of the full-time members of theIASB will be expected to have formal liaison responsibilities liaise with national standard-setters 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: theselection process of the national standard-setters for liaison and the manner of liaison will therefore necessarily involve consultation between the Trustees and the national</p>	<p>The majority of the respondents agreed that liaison relationships would remain important for achieving the Foundation's objectives, and thought that maintaining existing formal relationships with standard-setters (including the European Financial Reporting Advisory Group) would be important. At the same time, there was widespread agreement with the Committee's view that the IASB should liaise with a broad range of national standard-setters, beyond those currently recognised in the Constitution.</p> <p>Therefore, the Committee recommends the following modifications in its initial approach to accommodate the comments, as follows:</p> <p>23 Seven of the full-time members of theIASB will, in consultation with the Trustees, be expected to have formal liaison responsibilities liaise with national standard-setters and regional bodies in order to promote the convergence of national accounting standards and International Financial Reporting Standards. but shall not be voting members of the national standard-setters: theselection process of the national standard-setters for liaison and the manner of liaison will therefore necessarily involve consultation between the Trustees and the national standard-setters concerned.</p>

	<p>standard-setters concerned.</p> <p>The Trustees also will review the operational effectiveness of the existing 'formal' liaison relationships, though this may not lead to any change in the Constitution or the existing relationships.</p>	<p>The Committee is aware that the IASB has discussed the effectiveness of existing liaison relationships with national standard-setters at the end of September, and the Committee looks forward to the report of these discussions.</p> <p>The Trustees should consider whether they should provide more specific definition regarding particular liaison responsibilities.</p>
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Topic 7: Consultative arrangements of the IASB		
Wording in the present Constitution	A possible approach as described in the paper of 7 May 2004	Preliminary recommendations
<p>32 The IASB shall:</p> <p>(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;</p> <p>(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;</p> <p>(c) have full discretion over 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;</p> <p>(d) (i) establish procedures for reviewing comments made within a reasonable</p>	<p>The Committee recognises the significance of appropriate due process and consultative arrangements and the responsibility of the Trustees in that respect. At the same time, the Committee does not want to enshrine additional detail in the Constitution related to due process, because issues related to the review of the IASB’s due process are covered as part of the Trustees’ duties, discussed above – including the requirement to review and approve the IASB’s due process and consultative arrangements.</p> <p>Consistent with the Trustees’ oversight role described above, the Committee is suggesting modifying section 32 (c) to read:</p> <p>“The IASB shall:</p> <p>(c) have full discretion over the in pursuing the technical agenda of the IASB”</p> <p>The Committee also notes that the IASB has recently published a document related to its own consultative procedures, and the Trustees will be considering the IASB’s proposals after the end of the comment period.</p>	<p><u>Recommended change in wording of Section 32(c)</u></p> <p>The Committee continues to recognise the significance of appropriate due process and consultative arrangements and the responsibility of the Trustees in that respect. The Committee also believes that the proper balance between the Trustees’ oversight role and the IASB’s independence in formulating and pursuing its consultative arrangements should be reinforced. Therefore, consistently with its recommendation on the Trustees’ oversight role described above, the Committee recommends adopting the proposed wording for Section 32(c), as follows:</p> <p>32 The IASB shall:</p> <p>(c) have full discretion over in developing and pursuing the technical agenda of the IASB</p> <p>The reason for the proposed change is to rectify the impression that having full discretion over the technical agenda implies that there are no required consultative steps in setting the agenda (eg discussions with the Standards Advisory Council, reviewing priorities with the Trustees, and review of advisory groups and procedures with the Trustees, among others).</p> <p>In arriving at its recommendation, the Committee emphasised that the suggested wording should not be</p>

<p>period on documents published for comment,</p> <p>(ii) normally form Steering Committees or other types of specialist advisory groups to give advice on major projects,</p> <p>(iii) consult the Standards Advisory Council on major projects, agenda decisions and work</p> <p>(iv) normally issue bases for conclusions with International Accounting Standards, International Financial Reporting Standards, and Exposure Drafts;</p> <p>(e) consider holding public hearings to discuss proposed standards, although there is no requirement to hold public hearings for every project; and</p> <p>(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.</p>		<p>interpreted as an intention to undermine the IASB's independence in standard-setting. For that reason, the Committee recommends adding 'developing' to Section 32(c) to indicate that an external body (including the Trustees) will not impose an agenda on the IASB.</p> <p><u>The IASB's due process</u></p> <p>Section 32(d)-(f) describes elements of the IASB's due process. The Constitution requires some specific steps and makes others optional. Many respondents called for these optional steps to be made mandatory, including the use of field tests on new projects.</p> <p>As stated previously, the Committee recognises the significance of appropriate due process and consultative arrangements and the responsibility of the Trustees in that respect. At the same time, the Committee does not want to enshrine in the Constitution additional detail related to due process.</p> <p>To maintain sufficient flexibility for the IASB and to address the concern of constituent groups, the Committee recommends adding a paragraph to Section 32:</p> <p>32 The IASB shall:</p> <p>(g) give reasons if it does not follow any of the non-mandatory procedures in (d)-(f).</p> <p>Such a 'comply or explain' requirement for the IASB's due process would be consistent with that followed by other regulatory organisations.</p> <p>The Committee is reviewing the IASB's recommendations following the IASB's paper aimed at improving its due</p>
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		<p>process. Furthermore, the Trustees have established a Committee to review the IASB's proposed due process on particular projects and the composition of proposed advisory groups on technical projects.</p> <p>The 'comply or explain' requirement, combined with the additional emphasis on Trustee oversight, should enhance the public's confidence in the IASB's deliberations.</p>
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Topic 8: Voting procedures of the IASB		
Wording in the present Constitution	A possible approach as described in the paper of 7 May 2004	Preliminary recommendations
<p>31 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 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.</p>	<p>The Constitution requires eight members to approve a standard (57 per cent of the IASB). The Committee is currently considering:</p> <ol style="list-style-type: none"> 1 Maintaining the existing 8-vote requirement 2 Requiring 9 votes (64%) for an Exposure Draft, International Accounting Standard, International Financial Reporting Standard, or final Interpretation of the IFRIC. 	<p>Views were strongly held both for a simple majority and for a supermajority system requiring nine votes or more.</p> <p>The Committee recognised the argument, as described by many respondents, that having a larger majority voting for a particular standard would provide more credibility for the standard upon adoption. The Committee noted that only one standard has been passed by a majority of less than nine votes and most by a majority of eleven votes or more.</p> <p>On the other hand, increasing the required majority to ten or more votes might compromise 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.</p> <p>The Committee accepts the merits of both arguments and recognise that there is a need for balance in the approach to voting. Balancing the merits and concerns of the two mechanisms, the Committee recommends requiring nine votes (64 per cent) for approval of an Exposure Draft, International Financial Reporting Standard or final Interpretation of the IFRIC.</p> <p>Therefore, Section 31 should read:</p> <p>31 The publication of an Exposure Draft, International Financial Reporting Standard, or final Interpretation</p>

		<p>of the International Financial Interpretations Committee shall require approval by 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 per cent of the members of the IASB, in person or by telecommunications.</p>
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Topic 9: Resources and effectiveness of the International Financial Reporting Interpretation Committee (IFRIC)		
Wording in the present Constitution	A possible approach as described in the paper of 7 May 2004	Preliminary recommendations
<p>37 The Committee shall:</p> <p>(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;</p> <p>(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;</p> <p>(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</p> <p>(d) report to the IASB and obtain its approval for final Interpretations</p>	<p>Many of the comments reflect operational issues related to the IFRIC, rather than constitutional questions. The Trustees are examining these issues, and the IFRIC is already conducting an internal review of its procedures; recommendations will be made to the Trustees.</p>	<p>An overwhelming majority of the respondents were concerned that the IFRIC might not have sufficient resources to meet in a timely manner the growing demand for interpretations, especially following the introduction of IFRS accounts for thousands of companies in 2005.</p> <p>The Committee noted that the only major issue related to the existing Constitution raised in the submissions is the question of the IFRIC's due process. Some commentators suggested that the IFRIC should have the ability to 'short cut' its due process to produce prompter guidance. While there is a necessity to produce timely guidance, the Committee recognises the difficulty in eliminating sufficient due process, in the light of the concerns raised about the IASB's procedures. It is recommended that the Trustees do not alter the constitutional sections related to the IFRIC.</p> <p>The issue regarding the IFRIC's operations is sufficient to warrant the Trustees' consideration as part of their oversight role. As noted in the paper of 7 May, the IFRIC is at present conducting its own operational review. The Trustees received a preliminary report in June. The Committee is aware of discussions in relation to expanding the members of the IFRIC and voting procedures. Suggested changes to the Constitution, where applicable, will be considered once the operation review is finalized</p> <p>Because of the public's interest in the functioning of the IFRIC, the Committee or the Trustees plan to provide some</p>

		public update in the issues being discussed as part of the review of the IFRIC's operations.
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Topic 10: The composition, role, and effectiveness of the Standards Advisory Council (SAC)		
Wording in the present Constitution	A possible approach as described in the paper of 7 May 2004	Preliminary recommendations
<p>38 The Standards Advisory Council, whose members shall be appointed by the Trustees under Section 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.</p> <p>39 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.</p>	<p>The Trustees place particular emphasis on the role of the SAC and its input into the IASB's deliberations. At the same time, like the comments about the IFRIC, some of the comments received on the SAC relate to operational matters and not to issues necessarily to be addressed by constitutional changes. The Constitution Committee has asked the SAC to make some specific suggestions and will consider preliminary recommendations put forward by the SAC in June.</p> <p>The Committee is suggesting that the Constitution be modified:</p> <ul style="list-style-type: none"> ▪ to state that the Trustees select the Chairman of the Standards Advisory Council, and the Chairman shall not be a member of the IASB or IASB staff. (Therefore, the Chairman of the IASB will no longer serve as Chairman of the SAC). ▪ to make specific mention of the requirement for regular liaison between the Trustees and the SAC. 	<p><u>Composition, role and effectiveness of the SAC</u></p> <p>There was a general view among respondents that the Constitution and the Trustees should provide clearer guidance on the role of the SAC. The large majority of respondents expressed concern that the SAC as currently constituted was unable to provide useful guidance to the IASB, and that it was unclear how the IASB used the SAC's input.</p> <p>As stated previously, the Trustees place particular emphasis on the role of the SAC and its input into the IASB's deliberations. At the same time, some of the comments received on the SAC relate to operational matters and not to issues necessarily to be addressed by constitutional changes.</p> <p>With that in mind, the Committee tasked the SAC with putting forward some recommendations through a draft Charter for the Committee to review. The Committee has reviewed the proposed Charter, and recommends approval with some minor alterations. The proposed charter is attached in Appendix II. The Committee also notes that the Trustees will need to consider reducing the number of SAC members in selecting the new SAC. Some respondents suggested that the Trustees could accomplish this if the IASB used other fora for gathering the input of national standard-setters (many exist already). This would remove the need to include representatives of national standard-</p>

		<p>setters on the SAC.</p> <p><u>Chairman of the SAC</u></p> <p>An overwhelming majority of the respondents agreed with the suggestion that the SAC and the IASB should have separate chairmen. Most comments also welcomed regular liaison between the Trustees and the SAC as mentioned in the possible approach.</p> <p>The Committee therefore recommends these changes, and amend Section 39 of the Constitution, as follows:</p> <p>39. 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 may invite the Chairman of the Council to attend the Trustees' meetings, as appropriate.</p> <p>The Committee recognises that such a Chairman will need to devote a significant portion of his or her time to the management of the SAC and liaison with the IASB and SAC. Therefore, the Trustees should consider that this will require an individual who would devote up to 30 per cent of his or her time to the SAC Chairman's role.</p> <p>Some respondents called for a formal requirement in the Constitution for the SAC Chairman to sit as an observer with the right to participate in IASB deliberations.</p>
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APPENDIX I

Consultations by the Constitution Committee

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).

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.

In executing their duties under the Constitution, the Trustees formed the IASC Foundation on 6 February 2001.

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.

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 current review was initiated in accordance with this requirement..

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.

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 letters, all of which have been posted on the IASC Foundation's Website and are freely available to the public.

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.

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.

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.

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.

To that end, the Committee agreed to hold 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). Table 1 below listed out the 64 organisations that have participated in the public hearings or submitted views to the Committee.

Table 1 - List of organisations provided written submissions and attended hearings

	Organizations	Geographic Representation	Industry Category
1	Accounting Standards Board, Canada	North America	Standard setter
2	Accounting Standards Review Board, New Zealand	Australia / New Zealand	Standard setter
3	American Institute of Certified Public Accountants	North America	Professional body
4	Australian Institute of Company Directors	Australia/ New Zealand	Preparer
5	Basel Committee on Banking Supervision	International	Preparer
6	Capital Guardian Trust Company	North America	Preparer
7	CFA Institute	International	Users
8	Colegio de Contadores de Chile	Latin America	Standards setter
9	Colegio de Contadores Públicos Costa Rica	Latin America	Standards setter
10	Colombian Securities Authority	Latin America	Gov't body/ Regulator
11	Comisión Nacional Bancaria y de Valores, Mexico	Latin America	Gov't body/ Regulator
12	Comisión Nacional de Valores, Argentina	Latin America	Gov't body/ Regulator
13	Conseil National de la Comptabilité	Europe	Standard setter
14	Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C. (CINIF)	Latin America	Standards setter
15	Conselho Federal de Contabilidde do Brazil	Latin America	Standards setter
16	Council of Institutional Investors	North America	Users
17	CPA Australia	Australia / New Zealand	Professional body
18	Deloitte	N/A	Accounting firm
19	Ernst & Young	N/A	Accounting firm
20	European Central bank	Europe	Preparer
21	European Commission	Europe	Gov't body / Regulator
22	European Financial Reporting Advisory Group	Europe	Others
23	European Round Table	Europe	Preparer
24	Federacion Argentina de Consejos Profesionales en Ciencias Economicas	Latin America	Standards setter
25	Federación de Colegios Contadores Públicos del Perú	Latin America	Standards setter

**Table 1 - List of organisations provided written submissions and attended hearings
(cont'd)**

Organizations	Geographic Representation	Industry Category
26 Federaci3n de Contadores P3blicos de Venezuela	Latin America	Standards setter
27 Federal Reserve System, the US	North America	Gov't body / Regulator
28 F3d3ration Bancaire Europ3e	Europe	Preparer
29 F3d3ration des Experts Comptables Europ3eens	Europe	Professional body
30 Financial Reporting Council, Australia	Australia / New Zealand	Gov't body / Regulator
31 Financial Reporting Council, the UK	Europe	Regulator
32 Financial Services Agency, Japan	Japan	Gov't body / Regulator
33 Grant Thornton	N/A	Accounting firm
34 Group of 100	Australia / New Zealand	Preparer
35 HSBC	N/A	Preparer
36 Institut der Wirtschaftspr3ufer	Europe	Professional body
37 Institute of Chartered Accountants in Australia	Australia / New Zealand	Professional body
38 Institute of Chartered Accountants in England and Wales	Europe	Professional body
39 Instituto Dos Auditores Independientes Do Brasil	Latin America	Standards setter
40 Instituto Mexicano de Contadores P3blicos	Latin America	Professional body
41 Instituto Nacional de Contadores P3blicos de Colombia	Latin America	Standards setter
42 International Association of Accounting Education and Research	International	Others
43 International Association of Insurance Supervisors	International	Gov't body / Regulator
44 International Federation of Accountants	International	Professional body
45 International Organisation of Securities Commissions	International	Gov't body / Regulator
46 Japanese Bankers Associations	Japan	Preparer
47 Japanese Institute of Certified Public Accountants	Japan	Professional body
48 KPMG	N/A	Accounting firm
49 l'Union des Industries de la Communaut3e Europ3enne	Europe	Preparer
50 Life Insurance Association of Japan	Japan	Preparer
51 Lynn Turner	N/A	Users
52 Malaysian Accounting Standards Board	Asia excluding Japan	Standard setter
53 Ministry of Economy, Trade and Industry, Japan	Japan	Gov't body / Regulator
54 Ministry of Finance, China/ China Accounting Standards Committee	Asia excluding Japan	Gov't body / Regulator
55 National Association of Insurance Commissions	North America	Preparer
56 National Insurance Company Trade Association - NAMIC	International	Preparer
57 Nippon Keidanren	Japan	Preparer
58 Ohio Retirement System	North America	Users
59 Pricewaterhouse Coopers	N/A	Accounting firm
60 Secretar3a de Hacienda y Cr3dito P3blico	Latin America	Gov't body/ Regulator
61 Securities and Exchange Commission	North America	Gov't body / Regulator
62 Securities and Futures Commission, Hong Kong	Asia excluding Japan	Gov't body / Regulator
63 The Committee of European Securities Regulators	Europe	Gov't body / Regulator
64 World Bank	International	Others

APPENDIX II

Modified and Proposed based on SAC's Final Draft on 7th July 2004

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 with individuals, and representatives of organisations affected by its work, that are committed to the development of high quality international financial reporting standards (IFRS). 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 IFRS throughout the world. This may include the publishing of articles supportive of IFRS 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 is comprised of individuals, or representatives of organisations, interested in the development of high quality IFRS. 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 were 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 (the "Chair") is elected by the Trustees from nominations submitted by the SAC. The term of office of the Chair is three years renewable up to a further period of 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 Chair 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 prior to 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 IFRS throughout the world.
- at the request of the Trustees, attend 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 Chair of the IASB, the IASB Director of Technical Activities and those IASB board members and staff who are responsible for items on the agenda are required to attend SAC meetings. IASB board members are generally required to attend the meetings so that they can hear 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 other than 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 prior to 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 be distributed to SAC members within thirty days following each SAC (or sub committee of SAC) meeting;
- the agenda for each SAC meeting, including a brief description of each agenda item, be distributed to SAC members at least thirty days prior to each SAC meeting; and
- all detailed agenda papers be distributed to SAC members at least ten days prior to 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 staff or board member, and may include papers prepared by, and / or delivered by, SAC members. The extent of these briefings is dependent on the complexity of the topic. During 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. In the event that 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 as to the reasons for the IASB's decision.

Sub Committees

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

V. TRAVEL AND ACCOMODATION 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.