

International Accounting Standards Committee Foundation

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IDENTIFYING ISSUES FOR THE  
IASC FOUNDATION CONSTITUTION REVIEW  
An Invitation to Comment

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NOVEMBER 2003



**International  
Accounting Standards  
Committee Foundation®**

IASC Foundation Constitution review

This consultation paper on issues to be considered in the IASC Foundation's review of its Constitution is published by the IASC Foundation for comment only. Comments should be submitted in writing so as to be received by 11 February 2004.

All replies will be put on the public record unless confidentiality is requested by the commentator. If commentators respond by fax or email, it would be helpful if they could also send a hard copy of their response by post.

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## Introduction and invitation for comment

The Trustees are reviewing the IASC Foundation's Constitution. As a preliminary step, the Constitution Committee (chaired by Paul Volcker) is seeking public comment regarding issues that require the attention of the Constitution Committee and the other Trustees.

At their meeting on 4 November 2003, the Trustees discussed the need to consult interested parties on the full range of issues that may arise on the Constitution. This paper provides only a summary of the issues, and respondents are invited to refer to the full text of the Constitution, which is freely available on the IASB's Website. In inviting comments, the Constitution Committee has raised several questions on particular issues, but the Committee emphasises that all areas of the Constitution are subject to review.

Those wishing to suggest constitutional issues for the Committee to review are asked to send their suggestions in writing in time to arrive no later than **11 February 2004**, to:

Tom Seidenstein  
Director of Operations and Secretary  
IASC Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom  
email: [constitution@iasb.org.uk](mailto:constitution@iasb.org.uk)

## Summary of the issues in the Constitution

This paper summarises the issues as they appear in the Constitution. The numbering corresponds to the numbering of the sections in the Constitution. Several questions raised by the Constitution Committee are inset in boxes. Interested parties are asked to comment on those questions and any other issues that they believe merit attention.

### A Name and objectives

- 1 **Name:** The first section sets out the name of the organisation.
- 2 **Objectives:** This section sets out the objectives of the organisation, which 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) to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions.

**Should there be a specific objective to address the special challenges facing small and medium-sized entities (SMEs)?**

### B Governance of the IASC Foundation

- 3 **Governance:** This section places the governance of the IASC Foundation with the Trustees and requires the Trustees to work within the framework of the Constitution.

## C Trustees

- 4 **Number of Trustees:** This section stipulates that the Trustees shall consist of 19 individuals.

**Does the potential benefit of expanding the number of Trustees, possibly to accommodate a broader range of views, outweigh the risk that meetings would become more cumbersome and less effective if larger, potentially reducing a strong sense of commitment and participation by individual members?**

- 5 **Selection of Trustees:** This section makes the Trustees responsible for the selection of new Trustees in the event of vacancies.
- 6 **Commitment and distribution:** The section requires all Trustees “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 understanding of, and be sensitive to, international issues relevant to the success of an international organisation responsible for the development of high quality global accounting standards for use in the world’s capital markets and by other users. 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:
- 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.”

**The Trustees have a largely fixed geographical distribution. Is such a fixed distribution appropriate, or does the current distribution need review?**

**7 and 8 Backgrounds of the Trustees:** The Constitution mandates that five of the 19 Trustees be nominated by the International Federation of Accountants (IFAC) – two of which are normally senior partners from major firms. Three other Trustees are to be selected after consultation with international organisations of preparers, users, and academics for the purpose of choosing one from each of those backgrounds. The Constitution calls for 11 “at-large” Trustees.

**Although a broad distribution of professional backgrounds is clearly necessary, is the distribution enshrined in the Constitution appropriate?**

- 9 Terms:** Trustees are appointed for a term of three years, renewable once.
- 10 Termination:** The Constitution enables the Trustees to terminate an appointment on the grounds of “poor performance, misbehaviour, or incapacity.”
- 11 Appointment of Chairman:** The Chairman of the Trustees shall be appointed by the Trustees from their own number.
- 12 Meetings and fees:** This section requires the Trustees to meet at least twice each year and provides for annual and per-meeting fees.
- 13 Signing authority:** The Trustees have the authority to act on behalf of the Foundation in the signing of contracts, leases, and other organisational matters.
- 14 and 16 Duties of the Trustees:** The Constitution states the Trustees shall:
- (a) assume responsibility for fundraising;
  - (b) establish or amend operating procedures for the Trustees;
  - (c) determine the legal entity ...;
  - (d) review in due course the location of the IASC Foundation ...;
  - (e) investigate the possibility of seeking charitable or similar status ...;

- (f) open their meetings to the public but may, at their discretion, hold certain discussion (normally only about selection, appointment and other personnel issues, and funding) in private;
- (g) publish an annual report ....;
- (h) 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;
- (i) appoint the members of the IFRIC and the SAC;
- (j) review annually the strategy of the IASC Foundation and the IASB and its effectiveness;
- (k) approve annually the budget of the IASC Foundation and determine the basis for funding;
- (l) review broad strategic issues affecting accounting standards, promote the IASC Foundation and its work ..., provided that the Trustees shall be excluded from involvement in technical matters relating to accounting standards;
- (m) establish and amend operating procedures for the IASB, IFRIC and the SAC;
- (n) approve amendments to the Constitution;
- (o) exercise all powers of the IASC Foundation except those expressly reserved to the IASB, IFRIC, and the SAC.

**The intention of these provisions is to protect the independence of the standard-setting process while ensuring sufficient due process and consultation. Does there need to be a specific requirement for the Trustees to review the strategy and the procedures of the IASB at intervals?**

- 15 Quorum and Voting:** The Constitution requires a quorum of 60 per cent of the Trustees, a simple majority on most matters, and a 75 per cent majority on issues concerning the Constitution.

**17 Termination of Appointments:** The Trustees have the right to terminate appointments to the IASB, IFRIC, and SAC but only on grounds of “poor performance, misbehaviour, incapacity or other failure to comply with contractual requirements.”

**18 Commitment to the Public Interest and Review of the Constitution:** This section requires the Trustees

- to make a commitment to act in the public interest and
- to review the Constitution every five years.

**Should the language of the Constitution be changed to require a review of the Constitution “at least every ten years” rather than every five years?**

## D IASB

**19 Number of IASB members:** The Constitution sets out the requirement to have 14 members, two of which are part-time.

**Should the number of IASB members be reduced to make the Board more workable?**

**Should the part-time positions be eliminated in recognition that the workload of IASB members is heavy and requires substantial time for consultation with interested parties?**

**20 and 21 Qualifications for the IASB:** The foremost qualification for membership shall be “technical expertise.” The selection of members of the IASB shall not be based on geographical representation. The Trustees shall ensure that the IASB is not dominated by any particular constituency or geographical interest.



**22 Distribution of professional backgrounds:** The Constitution requires that the IASB members shall include:

- a minimum of five with a background as practising auditors
- a minimum of three with a background as preparers
- a minimum of three with a background as users of financial statements
- at least one with an academic background.

**Should the requirement for this distribution of particular professional backgrounds be relaxed in light of the desirability of attracting the best qualified individuals?**

**The IASC Foundation (like other standard-setting organisations) has experienced difficulty in securing the involvement of the analyst and investment community (“users”). Is there any way to encourage that group to increase its involvement?**

**23 Liaison Responsibilities:** “Seven of the full-time members of the IASB will be expected to have formal liaison responsibilities with national standard-setters...” Currently, the Trustees have selected formal liaison relationships with standard-setters in Australia and New Zealand, Canada, France, Germany, Japan, the United Kingdom, and the United States. These standard-setters were chosen on the basis of resources available for cooperative projects with the IASB, their experience with standard-setting issues, and the relative importance of the particular jurisdiction in the world economy.

**Does this kind of formal liaison relationship seem important for ensuring convergence of accounting standards? Should special consideration be given to liaison with emerging economies, not currently represented by the existing liaison relationships?**

- 24 Commitment to Public Interest and the Framework:** The members of the IASB must act in the public interest and be committed to the IASB *Framework*.
- 25 Chairman and Vice Chairman:** The Trustees have the authority to appoint the chairman and vice-chairman. The chairman also serves as the chief executive of the IASC Foundation. There is no right of accession for the vice-chairman.
- 26 Terms and Independence of Members:** Full-time members are appointed to renewable terms of five years and must sever all ties with former employers. There must be no right to return to former employers.
- 27 Staggering of Terms:** The Constitution permitted the Trustees to stagger initial terms.
- 28 Remuneration:** “Full-time and part-time members of the IASB shall be remunerated at rates commensurate with the respective responsibilities....”
- 29 IASB meetings:** The IASB must meet in public, except for the discussion of administrative matters.
- 30 Voting on Technical Decisions:** This section establishes a requirement of a simple majority of the number of IASB members present at the meeting to approve a decision.
- 31 Voting on a Final Document:** The Constitution requires approval of at least eight IASB members for the publication of an Exposure Draft, Standard, or final Interpretation.
- 32 Duties of the IASB:** The Constitution states that the IASB shall:
- (a) have complete responsibility for technical matters;
  - (b) publish an Exposure Draft on all projects and normally some form of discussion paper for public comment on major projects;
  - (c) have full discretion over its technical agenda;
  - (d) establish procedures for reviewing comments; normally form advisory groups on major projects; consult the SAC on major projects, agenda decisions and work priorities; and issue a Basis for Conclusions with its documents;

- (e) consider holding public hearings to discuss proposed standards;
- (f) consider the use of field tests to ensure that standards could be implemented.

**The Constitution describes the principles and elements of required due process for the IASB. The IASB's procedures are listed in more detail in the *Preface to International Financial Reporting Standards*. If respondents do not believe the procedures laid out in the Constitution are sufficient, what should be added?**

- 33 Official Language:** The authoritative text of the IASB is in the English language, though the IASB may publish authorised translations.

## **E International Financial Reporting Interpretations Committee (IFRIC)**

- 34 Composition of IFRIC:** The Committee consists of 12 voting members and one non-voting Chairman (who is the IASB Director of Technical Activities). The Trustees have the power to appoint non-voting observers, and have exercised the power by appointing one from the European Commission and one from IOSCO.
- 35 Meetings and Quorums:** The quorum is set at nine members and members may send non-voting alternates to the meetings. One or two IASB members are to be designated as official observers. Committee meetings are to be held in public.
- 36 Voting:** Each Committee member has one vote. Members vote in accordance with their own independent views and not as representatives of a particular organisation. Approval of Draft or final Interpretations shall require “not more than three voting members vote against the Draft or final Interpretation.”

**37 Duties of IFRIC:** The IFRIC shall:

- (a) interpret the application of IASs and 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 doing its work, have regard to the IASB's objective of convergence of national practices and the IASB's standards to high quality solutions;
- (c) publish after clearance by the IASB Draft Interpretations for comment;
- (d) report to the IASB and obtain its approval for Interpretations.

**F Standards Advisory Council (SAC)**

**38 Composition:** The SAC shall "provide a forum for participation by organisations and individuals, 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.

**39 Size of the SAC:** The Constitution calls for a Council of "thirty or more members." Also this section calls for the IASB chairman to serve as chairman of the SAC.

**40 Meetings and public duties:** The SAC meets three times a year in public sessions. The Constitution requires that the SAC "be consulted by the IASB in advance of IASB decisions on major projects and by the Trustees in advance of any proposed changes to the Constitution."

**Are the current procedures and composition, in terms of numbers and professional backgrounds, of the SAC satisfactory? Is the SAC able to accomplish its objectives as defined in Section 38?**

**Is the manner of selection of the SAC chairman appropriate?**

**G Chief Executive and Staff**

- 41 Chief Executive:** This section makes the IASB Chairman the Chief Executive of the IASC Foundation, and as such subject to supervision by the Trustees.
- 42 Appointment of Technical Staff:** The Chief Executive shall be responsible for staffing the IASB, and in consultation with the Trustees shall appoint a Director of Technical Activities.
- 43 Appointment of Other Staff:** In consultation with the Trustees, the Chief Executive shall appoint a Director of Operations and Commercial Director.

**H Administration**

- 44 Location:** The Trustees have the authority to select the location of the IASC Foundation's offices.
- 45 Legal Entity:** The Trustees have the authority to determine the legal entity of the IASC Foundation.
- 46 Signatories:** The IASC Foundation shall be bound by the signature(s) of such person or persons as may be duly authorised by the Trustees.