



**International  
Accounting Standards  
Committee Foundation**

30 Cannon Street, London EC4M 6XH, United Kingdom  
Telephone: +44 (0)20 7246 6410 Facsimile: +44 (0)20 7246 6411

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## **IASC Foundation Constitution Committee**

### **An Update on the Constitution Review for the Public Hearing in Mexico City**

**28 September 2004**

1. On 7 May 2004, the Constitution Committee published a paper *An Update on the Constitution Review and Information regarding Public Hearings*, outlining possible approaches to the ten issues identified by the Committee in the Constitution Review. These approaches were not formal recommendations but were meant to stimulate discussion at the public hearings.
2. Since May, the Committee has held three of four scheduled public hearings in New York, Tokyo and London. The last hearing will be held in Mexico City on 6 October.
3. With the benefit of the input received in the first three hearings, the Committee met on 22 September to reach some preliminary conclusions on the issues and possible approaches described in the May paper.
4. These preliminary conclusions are subject to further consideration after the Mexico City hearing. The Committee intends to meet again after the hearing, to finalise the recommendations to be presented to the full Trustees on 25 October. The recommendations will take the form of a detailed report. The report will also include a description of the philosophy that underpinned the Committee's analysis and the rationale for decisions taken.
5. Once the Trustees have reached a common position on recommendations, they will publish a report with proposed constitutional changes for public comment.
6. To bring participants in the Mexico City hearing up to date with the Committee's thinking, the Committee describes changes from the May paper as below.

#### **Topic 1 – Specific Reference to Small and Medium-sized Entities (SMEs) and Emerging Economies**

##### **A. SMEs and Emerging Economies**

7. The Committee proposes to recommend adopting the possible approach of the May paper, which includes mention in the organisation's objectives of the special needs of SMEs and emerging economies.

##### **B. Public Sector Accounting**

8. In response to comments received, the Committee considered whether it would be appropriate to include accounting for the public sector and not-for-profit entities in the organisation's objectives. The Committee currently believes that, because of other priorities and resource constraints, addressing public sector issues is impractical at present. The Committee will await the views of the IASB on not-for-profit entities before reaching any conclusion on that issue.

## Topic 2 – Geographical Distribution and Professional Background of the Trustees

9. The Committee proposes to recommend the following:

- (a) 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 (*same as the possible approach*).
- (b) Expanding the body of the Trustees to 22 individuals with the geographical distribution described in the May paper (*same as the possible approach*).
- (c) Amending Section 6 as follows to emphasise that the Trustees must have adequate understanding of implementation issues and the impact of the standard-setting process (*newly proposed by the Committee*):
  - 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~~ the world’s capital markets and a diversity of geographical and professional backgrounds.
- (d) Relaxing the requirements regarding professional backgrounds, by amending Section 7 and removing Section 8 as proposed in the possible approach.
- (e) Specifying that the Chairman may serve for a maximum of six years in that capacity (*newly proposed by the Committee*). Section 11 would be amended as follows:
  - 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.**

## Topic 3 – Trustees’ Oversight Role

### A. Trustees’ Oversight Role

10. The Committee proposes modifying the possible approach by adding ‘review compliance with the operating procedures’ as part of the Trustees’ oversight role. Section 16 would therefore be amended as follows:

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

- (c) review annually the strategy of the IASC Foundation and the IASB and its effectiveness, **including consideration of the IASB’s agenda**;
- (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;

## B. Educational Activities

11. The Committee proposes modifying the language on education suggested in the May paper, as follows:

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

- (i) **foster and review the development of educational programmes and materials that are consistent with the organisation's objectives.**

### Topic 4 – Funding of the IASC Foundation

12. The Committee currently recommends the following change in Section 14(a) (*newly proposed by the Committee*).

- 14(a) ~~assume responsibility for fundraising~~ **satisfy themselves that appropriate financing arrangements are in place.**

### Topic 5 – The Composition of the IASB

13. The Committee proposes maintaining the existing size of the IASB, at 14 members (*same as the existing provision in the Constitution*) but is proposing the following amendments to the Constitution.

- (a) Providing flexibility to increase the number of part-time members from two to up to four members (*same as the possible approach*)
- (b) Altering the main qualifications of the IASB members to ‘**professional competence and practical experience**’ (*same as the possible approach*), replacing ‘technical skill’ with ‘**technical expertise**’ as one of the elements in selecting and assembling the IASB members, and amending criterion 5 in the Annex to the Constitution to refer to IFRSs (*newly proposed by the Committee*).
- (c) Reinforcing that geographical criteria should not be the basis of selecting members of the IASB, while the Trustees should ensure that the IASB is not dominated by any particular constituency or geographical interest. The Committee is considering the following change in Section 21.
  - 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.
- (d) Relaxing the professional background of the IASB members, by adopting the modified Section 22 (*as proposed in the possible approach*).

### Topic 6 – The IASB's Liaison Relationships

14. The Committee proposes expanding the scope of liaison activities as recognised constituencies, and including regional bodies as parties to the IASB's liaison relationships. Section 23 should be amended as follows:

- 23 ~~Seven of the full-time members of the IASB 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: t t~~ **The selection 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.

## Topic 7 – Consultation Arrangements of the IASB

15. To reinforce the balance between the Trustees' oversight role and the independence of the IASB's standard-setting process, the Committee currently believes that Section 32(c) should be amended, with slight modification to the possible approach, as follows:

32 The IASB shall:

(c) have full discretion ~~over~~ **in developing and pursuing** the technical agenda of the IASB....

16. In addition, to maintain sufficient flexibility for the IASB and to address the concerns voiced at the hearings, the Committee proposes to recommend adding a subsection (g) to Section 32:

32 The IASB shall:

**(g) give reasons if it does not follow any of the non-mandatory procedures in (d)-(f).**

## Topic 8 – Voting Procedures of the IASB

17. The Committee proposes recommending a requirement of nine votes (64 per cent) for approval of an Exposure Draft, International Financial Reporting Standard or final Interpretation of the IFRIC (*the existing provision in the Constitution requires eight votes*).

## Topic 9 – Resources and Effectiveness of the International Financial Reporting Interpretations Committee

18. The Committee's recommendation and approach to the issue is unchanged from that described in the May paper.

## Topic 10 – Composition, Role and Effectiveness of the Standards Advisory Council

19. Consistently with its possible approach, the Committee proposes to recommend the following in respect to the Chairman of the SAC:

39 ..... ~~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.~~