



**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

---

## **IASC Foundation Constitution Committee**

### **An Update on the Constitution Review and Information regarding Public Hearings**

**7 May 2004**

1 On 22 March, the Constitution Committee posted a paper *Next Steps for the Constitution Review following initial consultation* on the IASC Foundation Website. That paper noted that the Constitution Committee:

- had identified ten main issues for consideration, but had not yet reached conclusions on them.
- would be establishing a subcommittee of the Standards Advisory Council (SAC) to provide guidance on the Constitution Review.
- would hold a series of public hearings to provide an additional opportunity for public comment.

This paper provides further information on these three points.

#### **Issues for the Review and Preliminary Approaches**

2 The Constitution Committee has identified ten main issues for consideration. Whilst the Committee has yet to reach conclusions, it has begun to develop approaches on those issues. Attached, as Appendix A, is a table that suggests possible approaches to these issues.

3 The Committee emphasises that the particular approaches suggested are meant to enhance the consultation process. The Committee seeks to encourage specific reactions from

invited participants at the scheduled public hearings or written submissions regarding the preliminary views from other interested parties.

### **Subcommittee of the Standards Advisory Council**

4 The Committee paper of 22 March noted that the Trustees had asked the SAC to establish a subcommittee to offer suggestions on various options available to the Trustees and to comment on proposals made by the Constitution Committee. Such an SAC subcommittee has been established, and comprises the following:

#### **Members:**

- **Peter Wilmot**, Vice Chairman, SAC; Chairman, Accounting Practices Board, South Africa
- **Ian Ball**, Chief Executive, International Federation of Accountants (IFAC), New Zealand
- **John Carchrae**, Representative of the International Organization of Securities Commissions (IOSCO); Chief Accountant, Ontario Securities Commission, Canada
- **Nelson Carvalho**, Professor, Universidade de São Paulo; Partner, NCV Consulting, Brazil
- **Mike Conway**, Partner, KPMG LLP, United States
- **David Damant**, Chairman, Accounting Advocacy Committee, United Kingdom Society of Investment Professionals, United Kingdom
- **Peter Day**, Executive General Manager of Finance, AMCOR Limited, Australia
- **Maija Torrko**, Senior Vice President, Corporate Controller, Nokia Corporation, Finland
- **Willem Van Der Loos**, Retired Vice President, Corporate Control, Philips International BV, The Netherlands

#### **Observers:**

- European Commission
- Japanese Financial Services Agency
- US Securities and Exchange Commission

5 The Constitution Committee will meet the SAC Subcommittee in New York on Wednesday, 2 June, beginning at 2.00 pm (New York time). The meeting will be open to public observers. The meeting will focus on two items:

- Preliminary approaches suggested by the Constitution Committee (see Appendix A)
- Draft terms of references for the SAC, as proposed by the SAC Subcommittee

Information for public observers, including registration details, will be posted in advance on the IASC Foundation Website.

### Information regarding Public Hearings

6 The Constitution Committee has agreed to hold a series of public hearings to provide an opportunity for interested parties to give their reactions to the preliminary approaches, described in Appendix A. The times and venues for the meetings follow:

<b>Date and Time</b> <i>(time subject to change)</i>	<b>City</b>	<b>Venue</b>
<b>3 June</b> 8:30 a.m.-2:30 p.m.	New York, NY United States	Baruch College Baruch College, Vertical Campus 55 Lexington Avenue Room 14-220 (14 <sup>th</sup> Floor) New York, NY 10010 United States
<b>29 June</b> 9:00 a.m.-4:30 p.m.	London, UK	IASC Foundation offices 30 Cannon Street London EC4M 6XH United Kingdom
<b>13 July</b> Morning (times to be announced)	Tokyo, Japan	Nippon Keidanren Keidanren Kaikan 1-9-4, Otemachi, Chiyoda-ku, Tokyo 100-8188 Japan
<b>6 October</b> Afternoon (times to be announced)	Mexico City, Mexico	Venue to be announced

7 Space for hearing participants will be limited. (The hearings will be open to public observers.) The Trustees will be inviting a limited number of organisations to participate in the hearings in order to gain a broad range of views of those parties affected by and with an interest in standard-setting. Invited organisations will be asked to comment on the preliminary approaches by providing a written statement as well as oral testimony.

8 Other organisations will be able to indicate their interest in participating in these public hearings. Those organisations interested in participating should do so **at least 14 days in advance of the hearing** concerned by writing to the Committee at the following address:

Trustees' Constitution Committee  
IASC Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Attn: Tom Seidenstein  
Director of Operations

Email: [constitution@iasb.org.uk](mailto:constitution@iasb.org.uk)  
Fax: +44 (0)20 7246 6411

In their request to appear at the public hearings, interested organisations should indicate who would represent it (please include name and position within the organisation), as well as the preferred date and time to appear.

8 Because of space and time constraints, the Constitution Committee will not be able to accommodate all interested organisations. If interested groups or individuals are not selected to participate in the hearings because of limited space, they will be invited to provide written submissions for the Constitution Committee.

Appendix A – CONSTITUTION OPTIONS WORKSHEET – DRAFT		10/05/2004	page 1 of 16
TOPIC <i>(as listed in the Committee's paper of 22/3/04 on the IASCF Website)</i>	WORDING IN THE PRESENT CONSTITUTION <i>(paragraph number reflects numbering as it appears in the Constitution)</i>	COMMENT FROM CONSULTATION PERIOD <i>(a summary of views from comment letters on the particular issue)</i>	A POSSIBLE APPROACH <i>(Any approach indicated represents preliminary thinking by the Committee and is meant to stimulate public comment)</i>

<p><b>1. Whether the objectives of the IASC Foundation should expressly refer to the challenges facing small- and medium-sized entities (SMEs)</b></p>	<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>	<ul style="list-style-type: none"> <li>• A majority of respondents believed that including such an objective would be a good idea. However, when we raised the issue with the SAC, views were mixed.</li> <li>• Some of those who supported the inclusion of wording regarding SMEs urged the Trustees to consider issues of emerging economies.</li> <li>• Those that did not favour the inclusion of special wording regarding SMEs noted that the IASB already had a project on SMEs without specific mention in the Constitution, and were worried that such a focus might divert resources from more pressing needs, or believed that the accounting treatment for SMEs should be no different from that for listed companies.</li> </ul>	<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 2b of the Constitution to include <b>(new words in bold)</b>:</p> <p>“(b) to promote the use and rigorous application of those standards, <b>taking account of the special needs of small- and medium-sized entities and emerging economies</b>; 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>
--	--	--	---

Appendix A – CONSTITUTION OPTIONS WORKSHEET – DRAFT		10/05/2004	page 2 of 16
TOPIC <i>(as listed in the Committee's paper of 22/3/04 on the IASCF Website)</i>	WORDING IN THE PRESENT CONSTITUTION <i>(paragraph number reflects numbering as it appears in the Constitution)</i>	COMMENT FROM CONSULTATION PERIOD <i>(a summary of views from comment letters on the particular issue)</i>	A POSSIBLE APPROACH <i>(Any approach indicated represents preliminary thinking by the Committee and is meant to stimulate public comment)</i>

<b>2. Number of Trustees and their geographical and professional distribution</b>	<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"> <li>• six Trustees appointed from North America;</li> <li>• six Trustees appointed from Europe;</li> <li>• four Trustees appointed from the Asia/Pacific region; and</li> <li>• three Trustees appointed from any area, subject to establishing overall geographical balance.</li> </ul> <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 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</p>	<ul style="list-style-type: none"> <li>• Nearly all commentators believe that the current distribution required review.</li> <li>• Frequent suggestions on geographical criteria for selecting Trustee were: <ul style="list-style-type: none"> <li>○ Giving additional weight to those countries that are committed to the use of IFRSs</li> <li>○ Giving the Asia-Pacific region and Latin America greater representation on the Trustees.</li> <li>○ Expanding representation from emerging markets</li> <li>○ Including representatives from standard-setting bodies that adopt IFRSs</li> </ul> </li> <li>• The majority of respondents believed that the review process should examine the backgrounds of the Trustees. Specifically the Trustees should examine whether: <ul style="list-style-type: none"> <li>○ Five positions should be designated for IFAC</li> </ul> </li> </ul>	<p><b><u>Geographical distribution and amount of Trustees</u></b></p> <p>The Committee has suggested the following approach on the issue of geographical distribution and the size of the board of Trustees:</p> <ul style="list-style-type: none"> <li>• References to “Asia/Pacific” should be changed to “Asia/Oceania” to reflect the fact that North American countries on the Pacific Ocean were not meant to be considered as part of this grouping.</li> <li>• 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"> <li>○ Six Trustees appointed from North America;</li> </ul> </li> </ul>
---	--	--	--

Appendix A – CONSTITUTION OPTIONS WORKSHEET – DRAFT		10/05/2004	page 3 of 16
TOPIC (as listed in the Committee's paper of 22/3/04 on the IASCF Website)	WORDING IN THE PRESENT CONSTITUTION (paragraph number reflects numbering as it appears in the Constitution)	COMMENT FROM CONSULTATION PERIOD (a summary of views from comment letters on the particular issue)	A POSSIBLE APPROACH (Any approach indicated represents preliminary thinking by the Committee and is meant to stimulate public comment)
	<p>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>nominees. (Opinion was mixed.)</p> <ul style="list-style-type: none"> <li>○ Weight should be given to individuals with practical experience with IFRSs.</li> <li>○ More positions should be designated for preparers and users.</li> <li>○ At the very least, the term “at large” requires clarification.</li> </ul> <ul style="list-style-type: none"> <li>● Some commentators questioned the selection process for the Trustees in general. In particular, some worried that selection process was not sufficiently transparent, would not have the confidence of the necessary statutory authorities in the long run, and was self-sustaining.</li> </ul>	<ul style="list-style-type: none"> <li>○ Six Trustees appointed from Europe</li> <li>○ Six Trustees appointed from the Asia/Oceania region; and</li> <li>○ Four Trustees appointed from any area, subject to establishing overall geographical balance.</li> </ul> <ul style="list-style-type: none"> <li>● 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 likely increase the amount of Trustees from countries using IFRSs.</li> </ul> <p>[continued]</p>

Appendix A – CONSTITUTION OPTIONS WORKSHEET – DRAFT		10/05/2004	page 4 of 16
TOPIC <i>(as listed in the Committee's paper of 22/3/04 on the IASCF Website)</i>	WORDING IN THE PRESENT CONSTITUTION <i>(paragraph number reflects numbering as it appears in the Constitution)</i>	COMMENT FROM CONSULTATION PERIOD <i>(a summary of views from comment letters on the particular issue)</i>	A POSSIBLE APPROACH <i>(Any approach indicated represents preliminary thinking by the Committee and is meant to stimulate public comment)</i>
			<p><b><u>Professional Backgrounds and Selection of the Trustees</u></b></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 with 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 section 7 and deleting section 8 of the Constitution, per below:</p>



Appendix A – CONSTITUTION OPTIONS WORKSHEET – DRAFT		10/05/2004	page 5 of 16
TOPIC <i>(as listed in the Committee's paper of 22/3/04 on the IASCF Website)</i>	WORDING IN THE PRESENT CONSTITUTION <i>(paragraph number reflects numbering as it appears in the Constitution)</i>	COMMENT FROM CONSULTATION PERIOD <i>(a summary of views from comment letters on the particular issue)</i>	A POSSIBLE APPROACH <i>(Any approach indicated represents preliminary thinking by the Committee and is meant to stimulate public comment)</i>

			<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>
--	--	--	---

Appendix A – CONSTITUTION OPTIONS WORKSHEET – DRAFT		10/05/2004	page 6 of 16
TOPIC <i>(as listed in the Committee's paper of 22/3/04 on the IASCF Website)</i>	WORDING IN THE PRESENT CONSTITUTION <i>(paragraph number reflects numbering as it appears in the Constitution)</i>	COMMENT FROM CONSULTATION PERIOD <i>(a summary of views from comment letters on the particular issue)</i>	A POSSIBLE APPROACH <i>(Any approach indicated represents preliminary thinking by the Committee and is meant to stimulate public comment)</i>

<b>3. The oversight role of the Trustees</b>	16 In addition to the duties set out in Part A, the Trustees shall:	There is a view that the Trustees should strengthen the language regarding their oversight (particularly over the IASB's deliberative procedures), and demonstrate more clearly how they are fulfilling this function.	The Committee is suggesting 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.
	(c) review annually the strategy of the IASC Foundation and the IASB and its effectiveness; (e) review broad strategic issues affecting accounting standards, promote the IASC Foundation and its work and promote the objective of rigorous application of International Accounting Standards and International Financial Reporting Standards, provided that the Trustees shall be excluded from involvement in technical matters relating to accounting standards; (f) establish and amend operating procedures for the IASB, the International Financial Reporting Interpretations Committee and the Standards Advisory Council;		<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, <b>including careful consideration of the IASB's agenda;</b></p> <p>(f) establish, <del>and</del> <b>amend and approve</b> operating procedures, <b>consultative arrangements and due process</b> for the IASB, the IFRIC and the SAC;</p> <p>The Committee is considering 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>

Appendix A – CONSTITUTION OPTIONS WORKSHEET – DRAFT		10/05/2004	page 7 of 16
TOPIC <i>(as listed in the Committee's paper of 22/3/04 on the IASCF Website)</i>	WORDING IN THE PRESENT CONSTITUTION <i>(paragraph number reflects numbering as it appears in the Constitution)</i>	COMMENT FROM CONSULTATION PERIOD <i>(a summary of views from comment letters on the particular issue)</i>	A POSSIBLE APPROACH <i>(Any approach indicated represents preliminary thinking by the Committee and is meant to stimulate public comment)</i>
<b>4. Funding of the IASC Foundation</b>	14 The Trustees shall:  (a) assume responsibility for fundraising	While the Constitution is silent on the method of fundraising, there is a feeling among those responding to the comment that the Committee or another group of the Trustees will need to examine the funding structure of the IASC Foundation. It is noted that a long-term funding committee of the Trustees has already been established and is examining options.	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.  The Committee would welcome views regarding how such a system of fees could be established.
<b>5. The composition of the IASB</b>	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).  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	<ul style="list-style-type: none"> <li>The great majority of respondents believed the IASB should remain a body with 14 members, with part-time members.</li> <li>Some commentators suggested that the Trustees should consider adding more part-time positions or making the provisions in the Constitution more flexible to permit more part-time members, when appropriate.</li> <li>While the majority of commentators agreed that "technical expertise" should be the foremost qualification for IASB selection, there was a belief that the IASB as a whole should have</li> </ul>	<p><b><u>Size of the IASB, and full-time v. part-time</u></b></p> <ul style="list-style-type: none"> <li>The Committee believes that the size of the IASB should remain fourteen.</li> <li>The Committee is suggesting that the Constitution 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 part-time four members.</li> </ul> <p><i>[continued]</i></p>

Appendix A – CONSTITUTION OPTIONS WORKSHEET – DRAFT		10/05/2004	page 8 of 16
TOPIC (as listed in the Committee's paper of 22/3/04 on the IASCF Website)	WORDING IN THE PRESENT CONSTITUTION (paragraph number reflects numbering as it appears in the Constitution)	COMMENT FROM CONSULTATION PERIOD (a summary of views from comment letters on the particular issue)	A POSSIBLE APPROACH (Any approach indicated represents preliminary thinking by the Committee and is meant to stimulate public comment)
	<p>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. 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><u>an appropriate mix of skills</u> – including communications skills to assist with consultations. This includes a requirement for <u>recent</u> practical experience.</p> <ul style="list-style-type: none"> <li>Many commentators believed that the Trustees should <u>broaden the geographical representation of the IASB</u>. Suggestions included: <ul style="list-style-type: none"> <li>Strengthening representation from areas that apply IFRSs</li> <li>Limits on the amount of members from a particular country, expanding on the principle that “the IASB is not dominated by any particular constituency or geographical interest”</li> </ul> </li> <li>A large number of commentators wrote that more recent practical experience from the user and preparer communities was needed among the IASB's members.</li> </ul>	<p>To reflect these preliminary views, section 19 of the Constitution could be modified in the following way:</p> <p>“19. The IASB shall comprise fourteen members, appointed by the Trustees under Section 16(a), of whom <b>at least ten and no more than</b> 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). <del>and two</del> <b>The remaining members shall be known as</b> 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><b><u>Criteria for selection of IASB members</u></b></p> <p>To better reflect the criteria laid out in the appendix of the Constitution, the Committee is suggesting amending the first sentence of section 20 in the following manner:</p>

Appendix A – CONSTITUTION OPTIONS WORKSHEET – DRAFT		10/05/2004	page 9 of 16
TOPIC <i>(as listed in the Committee's paper of 22/3/04 on the IASCF Website)</i>	WORDING IN THE PRESENT CONSTITUTION <i>(paragraph number reflects numbering as it appears in the Constitution)</i>	COMMENT FROM CONSULTATION PERIOD <i>(a summary of views from comment letters on the particular issue)</i>	A POSSIBLE APPROACH <i>(Any approach indicated represents preliminary thinking by the Committee and is meant to stimulate public comment)</i>
			<p>20 The foremost qualification for membership of the IASB shall be <del>technical expertise</del> <b>professional competence and practical experience</b>. <i>(The remainder of section 20 would remain unchanged.)</i></p> <p><b><u>Issue of Geographical Representation</u></b></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.</p> <p>The Committee recognises that the Trustees must seek to obtain an appropriate balance of experiences and perspectives among the IASB's members.</p> <p><i>[continued]</i></p>

Appendix A – CONSTITUTION OPTIONS WORKSHEET – DRAFT		10/05/2004	page 10 of 16
TOPIC <i>(as listed in the Committee's paper of 22/3/04 on the IASCF Website)</i>	WORDING IN THE PRESENT CONSTITUTION <i>(paragraph number reflects numbering as it appears in the Constitution)</i>	COMMENT FROM CONSULTATION PERIOD <i>(a summary of views from comment letters on the particular issue)</i>	A POSSIBLE APPROACH <i>(Any approach indicated represents preliminary thinking by the Committee and is meant to stimulate public comment)</i>
			<b><u>Professional Backgrounds of IASB Members</u></b>  The Committee is suggesting that section 22 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 academic, and at minimum there should be at least one IASB member that has recent experience in each of these fields.
<b>6. The appropriateness of the IASB's existing formal liaison relationships</b>	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.	The Trustees asked, "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?" <ul style="list-style-type: none"> <li>The great majority believed that <u>liaison relationships remain important</u> in ensuring convergence and preserving links to local economies.</li> </ul>	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 the ones currently recognised in the Constitution.

Appendix A – CONSTITUTION OPTIONS WORKSHEET – DRAFT		10/05/2004	page 11 of 16
TOPIC <i>(as listed in the Committee's paper of 22/3/04 on the IASCF Website)</i>	WORDING IN THE PRESENT CONSTITUTION <i>(paragraph number reflects numbering as it appears in the Constitution)</i>	COMMENT FROM CONSULTATION PERIOD <i>(a summary of views from comment letters on the particular issue)</i>	A POSSIBLE APPROACH <i>(Any approach indicated represents preliminary thinking by the Committee and is meant to stimulate public comment)</i>
		<ul style="list-style-type: none"> <li>Many believed that the <u>liaison relationships should reflect the countries that use IFRSs</u>. Furthermore, most European commentators believed that EFRAG should be recognised formally in the Constitution.</li> <li>Some commentators believed that the Trustees should reconsider the specific countries with liaison relationships – particularly noting the need for broader relationships with the Asia-Pacific region.</li> <li>Views, however, were mixed on <u>whether there should be a formal relationship with emerging economies</u>, because the needs and views of emerging economies varied greatly. Many suggested that informal relationships with emerging economies may be sufficient.</li> </ul>	<p>Therefore, the Committee is suggesting modifying section 23 in the following manner:</p> <p><del>23. Seven of the full time members of the IASB will be expected to have formal liaison responsibilities</del> <b>liaise</b> with national standard-setters in order to promote the convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards <del>but shall not be voting members of the national standard-setters.</del> <b>The selection process of the national standard-setters for liaison and the manner of liaison</b> will therefore necessarily involve consultation between the Trustees and the national 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>

Appendix A – CONSTITUTION OPTIONS WORKSHEET – DRAFT		10/05/2004	page 12 of 16
TOPIC <i>(as listed in the Committee's paper of 22/3/04 on the IASCF Website)</i>	WORDING IN THE PRESENT CONSTITUTION <i>(paragraph number reflects numbering as it appears in the Constitution)</i>	COMMENT FROM CONSULTATION PERIOD <i>(a summary of views from comment letters on the particular issue)</i>	A POSSIBLE APPROACH <i>(Any approach indicated represents preliminary thinking by the Committee and is meant to stimulate public comment)</i>

<b>7. Consultative arrangements of the IASB</b>	32 The IASB shall:	<ul style="list-style-type: none"> <li>A majority of the respondents noted a widespread perception that the IASB's due process was not sufficiently rigorous and required enhanced consultation and transparency. A range of views existed regarding the appropriate steps to address this perception: <ul style="list-style-type: none"> <li>Many, including securities regulators, believed that there should be a presumptive obligation to carry out all of the steps laid out in both the Constitution and the Preface. If the IASB chose to skip a particular step (such as the use of field tests), it must explain why to the SAC and general public.</li> <li>Some commentators called for the IASB to formalise these procedures and to publish a handbook or charter of procedures related to its due process.</li> <li>There was a belief among many of the commentators</li> </ul> </li> </ul>	<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 <del>over the</del> <b>in pursuing the</b> technical agenda of the IASB ...."</p> <p>The Committee also notes that the IASB has recently published a</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 period on documents published for comment, (ii) normally form Steering Committees or other types of specialist advisory groups to give advice on major projects, (iii) consult the Standards Advisory Council on major projects, agenda decisions and work</p>		



Appendix A – CONSTITUTION OPTIONS WORKSHEET – DRAFT		10/05/2004	page 13 of 16
TOPIC <i>(as listed in the Committee's paper of 22/3/04 on the IASCF Website)</i>	WORDING IN THE PRESENT CONSTITUTION <i>(paragraph number reflects numbering as it appears in the Constitution)</i>	COMMENT FROM CONSULTATION PERIOD <i>(a summary of views from comment letters on the particular issue)</i>	A POSSIBLE APPROACH <i>(Any approach indicated represents preliminary thinking by the Committee and is meant to stimulate public comment)</i>
	<p>priorities and</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>that the IASB should expand comment periods and make more use of discussion groups, field tests, and expert advisory groups. Additionally, some critics of the current due process called for the IASB to conduct impact and cost-benefit analyses.</p>	<p>document related to its own consultative procedures, and the Trustees will be considering the IASB's proposals following the end of the comment period.</p>
<b>8. Voting procedures of the IASB</b>	<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>Many commentators believed that the Trustees should consider requiring a <u>supermajority</u> of two-thirds for final decisions to be approved.</p>	<p>The Constitution requires eight members to approve a standard (57 percent of the IASB). The Committee is currently considering:</p> <ol style="list-style-type: none"> <li>1. Maintaining the existing 8-vote requirement</li> <li>2. Requiring 9 votes (64%) for an Exposure Draft, International Accounting Standard, International Financial Reporting Standard, or final Interpretation of the IFRIC.</li> </ol>

Appendix A – CONSTITUTION OPTIONS WORKSHEET – DRAFT		10/05/2004	page 14 of 16
TOPIC <i>(as listed in the Committee's paper of 22/3/04 on the IASCF Website)</i>	WORDING IN THE PRESENT CONSTITUTION <i>(paragraph number reflects numbering as it appears in the Constitution)</i>	COMMENT FROM CONSULTATION PERIOD <i>(a summary of views from comment letters on the particular issue)</i>	A POSSIBLE APPROACH <i>(Any approach indicated represents preliminary thinking by the Committee and is meant to stimulate public comment)</i>
9. Resources and effectiveness of the International Financial Reporting Interpretations Committee (IFRIC)	<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>	<ul style="list-style-type: none"> <li>• Though the Trustees did not ask a question regarding the IFRIC, a large number of respondents, including regulators and accounting firms, raised the issue of IFRIC's operations. They noted that the IFRIC must be able to respond rapidly to the numerous interpretation issues arising from 2005 implementation. There was a perception that the IFRIC: <ul style="list-style-type: none"> <li>○ did not have sufficient staff resources to address the post-2005 issues</li> <li>○ had a process that was too cumbersome to address issues more rapidly</li> <li>○ should make better use of national standard-setters to ensure convergence</li> <li>○ should have more independence from the IASB</li> </ul> </li> </ul>	Many of the comments reflect operational issues related to the IFRIC, rather than Constitutional ones. The Trustees are examining these issues, and the IFRIC is already conducting an internal review of its procedures, and recommendations will be made to the Trustees.

Appendix A – CONSTITUTION OPTIONS WORKSHEET – DRAFT		10/05/2004	page 15 of 16
TOPIC <i>(as listed in the Committee's paper of 22/3/04 on the IASCF Website)</i>	WORDING IN THE PRESENT CONSTITUTION <i>(paragraph number reflects numbering as it appears in the Constitution)</i>	COMMENT FROM CONSULTATION PERIOD <i>(a summary of views from comment letters on the particular issue)</i>	A POSSIBLE APPROACH <i>(Any approach indicated represents preliminary thinking by the Committee and is meant to stimulate public comment)</i>

<b>10. The composition, role, and effectiveness of the SAC</b>	<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>	<ul style="list-style-type: none"> <li>The great majority agreed with the objective of the SAC as set out in paragraph 38, but many questioned whether the current composition and procedures enabled that objective to be fulfilled. Nearly all commentators requested the Constitution Committee to consider whether the SAC need to be reorganised and the procedures enhanced.</li> <li>Commentators broadly felt that the IASB should be more accountable to SAC views and should engage the SAC more closely in its strategic decisions. The following points were made: <ul style="list-style-type: none"> <li>Some suggested that the SAC should be given the right to cast a formal vote on issues, and if the IASB did not follow the SAC's advice, then the IASB would need to explain its position.</li> <li>The SAC should review projects that are subject to "sunset reviews" (ie being</li> </ul> </li> </ul>	<p>The Trustees place particular emphasis on the role of the SAC and its input into the IASB's deliberations. At the same time, similar to the comments regarding 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>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 Committee is suggesting that the Constitution be modified to state:</p> <ul style="list-style-type: none"> <li>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).</li> </ul>

Appendix A – CONSTITUTION OPTIONS WORKSHEET – DRAFT		10/05/2004	page 16 of 16
TOPIC <i>(as listed in the Committee's paper of 22/3/04 on the IASCF Website)</i>	WORDING IN THE PRESENT CONSTITUTION <i>(paragraph number reflects numbering as it appears in the Constitution)</i>	COMMENT FROM CONSULTATION PERIOD <i>(a summary of views from comment letters on the particular issue)</i>	A POSSIBLE APPROACH <i>(Any approach indicated represents preliminary thinking by the Committee and is meant to stimulate public comment)</i>
		<p>reviewed because the projects remained on the IASB's agenda for a certain period of time without reaching conclusion).</p> <ul style="list-style-type: none"> <li>○ There should be a closer link between the Trustees and the SAC to ensure that the IASB is listening to SAC advice.</li> <li>● Comment letters reflected a range of views whether the size of the SAC should be reduced. <ul style="list-style-type: none"> <li>○ The <u>majority believed that the SAC was too large</u> to function effectively.</li> <li>○ Some, however, argued that it was necessary to have an SAC of such size to engage the relevant interested parties.</li> <li>○ Many asked the Trustees to examine the need for subgroups of the SAC to focus on particular topics (such as SMEs, emerging economies, convergence, etc.) to provide strategic advice to the IASB.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>● The Constitution should make specific mention of the requirement for regular liaison between the Trustees and the SAC.</li> </ul>