

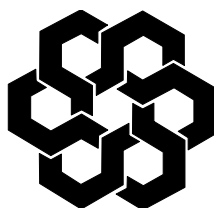
DISCUSSION PAPER

DECEMBER 1998

SHAPING IASC FOR THE FUTURE

**A Discussion Paper issued for comment by the
Strategy Working Party
of the International Accounting Standards Committee**

Comments to be submitted by 30 April 1999



**International
Accounting Standards
Committee™**

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This Discussion Paper is issued by the Strategy Working Party of the International Accounting Standards Committee for comment only. The Discussion Paper has not been considered by the Board of the International Accounting Standards Committee and does not necessarily represent the views of the Board.

Comments should be submitted in writing so as to be received by **30 April 1999**. All replies will be placed on the public record unless confidentiality is requested by the commentator. If commentators respond by fax or E-mail, it would be helpful if they could also send a hard copy of their response by post. Comments should be addressed to:

**The Secretary-General
International Accounting Standards Committee
166 Fleet Street
London EC4A 2DY
United Kingdom**

**Fax: +44 (0171) 353-0562
E-mail: CommentLetters@iasc.org.uk**

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**International Accounting Standards Committee, 166 Fleet Street, London EC4A 2DY, United Kingdom. Telephone: +44 (171) 353-0565, Fax: +44 (171) 353-0562, E-mail: iasc@iasc.org.uk
Internet: <http://www.iasc.org.uk>**

Executive Summary and Invitation to Comment

The International Accounting Standards Committee (IASC) completed the last review of its strategy and structure in 1994. Since then, IASC's main focus has been on a work programme, agreed with the International Organization of Securities Commissions (IOSCO), to complete a set of core standards that would be suitable for cross-border capital raising and listing purposes in all global markets. IASC plans to finish the work programme in 1998.

The completion of the core standards programme agreed with IOSCO is now imminent. However, challenging work still lies ahead for IASC. In particular, IASC needs to bring about convergence between national accounting standards and practices and high-quality global accounting standards. To this end, IASC needs an effective infrastructure that will bring its experience and current work together with those of national standard setters. Therefore, the IASC Board formed a Strategy Working Party in 1997 to consider what IASC's strategy and structure should be when it completes the work programme. The Strategy Working Party's terms of reference and membership are set out in Appendix 2.

The Strategy Working Party has approved this Discussion Paper to stimulate and focus discussion. The Working Party will consider the comments received on this Discussion Paper before preparing a final report to the IASC Board. In the meantime, members of the Working Party will be pleased to discuss the Discussion Paper with commentators.

A summary of the Working Party's recommendations is set out below. Following this summary, the Working Party has set out a number of questions. The Working Party welcomes answers to these questions and comments on any other aspects of the Discussion Paper. Comments should be submitted in writing so as to be received by **30 April 1999**.

EXECUTIVE SUMMARY

Introduction

1. International Accounting Standards have done a great deal both to improve and to harmonise financial reporting around the world. They are used:
 - (a) as a basis for national accounting requirements in many countries;
 - (b) as an international benchmark by some countries that develop their own requirements (including certain major industrialised countries, regional organisations such as the European Union, and an increasing number of emerging markets such as China and many other countries in Asia, Central Europe and the countries of the former Soviet Union);
 - (c) by stock exchanges and regulatory authorities that allow foreign or domestic companies to present financial statements in accordance with International Accounting Standards;
 - (d) by supra-national bodies that rely on IASC to produce accounting standards that improve the quality of financial reporting and the comparability of financial statements, instead of developing their own requirements;

- (e) by the World Bank Group and other development agencies that require borrowers and recipients of other forms of aid to follow high standards of financial reporting and accountability; and
 - (f) by a growing number of individual companies.
2. IASC has been successful in developing high quality International Accounting Standards that have gained increasing acceptance around the world. To build on that achievement, the Working Party believes that IASC should now be anticipating future needs and modifying its own role and structure in response to major changes in the environment in which IASC operates. Although IASC's existing structure has served it well, the Working Party believes that IASC needs to change its structure so that it can meet new challenges, and seize new opportunities, as effectively as it has met other challenges in the first 25 years of its life.
3. In recent years, changes in IASC's environment have placed strain on the organisational and financial resources of a body that relies, as IASC does, extensively on work by volunteers and on relatively informal contacts with national standard setters. The most important of these changes are:
- (a) a rapid growth in international capital markets, combined with an increase in cross-border listings and cross-border investment. These have led to efforts by securities regulators to develop a common "passport" for cross-border securities listings and to achieve greater comparability in financial reporting;
 - (b) efforts of global organisations (such as the World Trade Organisation) and regional bodies (such as the European Union, NAFTA, MERCOSUR and APEC) to dismantle barriers to international world trade;
 - (c) a trend towards the internationalisation of business regulation;
 - (d) increasing influence of International Accounting Standards on national accounting requirements and practice;
 - (e) accelerating innovation in business transactions;
 - (f) increasing demand from users for new types of financial and other performance information;
 - (g) new developments in the electronic distribution of financial and other performance information; and
 - (h) growing need for relevant and reliable financial and other performance information both in countries in transition from planned economies to market economies and in developing and newly industrialised economies.
4. These trends show a clear and growing demand from the market for the world to have high-quality global accounting standards that provide transparency and comparability. Indeed in October 1998:
- (a) the G-22 Working Party on Transparency and Accountability reported that: "weaknesses in the provision and use of information played a major part in the development and spread of recent international financial crises." The report

called for “a set of high quality, internationally acceptable accounting standards”; and

- (b) a declaration of G7 Finance Ministers and Central Bank Governors on 30 October stated, among other things: “We call upon (...) the IASC to finalise by early 1999 a proposal for a full range of internationally agreed accounting standards. IOSCO, IAIS, and the Basle Committee should complete a timely review of these standards. (...) We commit ourselves to endeavour to ensure that private sector institutions in our countries comply with these principles, standards and codes of best practice. We call upon (...) all countries which participate in global capital markets similarly to commit to comply with these internationally agreed codes and standards (...)”

Similarly, the Chairman of the Basle Committee on Banking Supervision has stated that “the Basle Committee considers transparency to be a key element of an effectively supervised, safe and sound banking system”.

- 5. IASC’s international structure and record of success have put it in a unique position to satisfy the demand for high-quality global accounting standards. However, IASC cannot take further success for granted. Among other things:

- (a) IASC’s role in the future is unlikely to be the same as in the past. In its early years, IASC acted mainly as a harmoniser - a body that selects an accounting treatment that already exists at the national level in some countries and then seeks worldwide acceptance of that treatment, perhaps with some modifications. IASC’s current structure has enabled IASC to play an effective role as a harmoniser. In more recent times, it has begun to combine that role with the role of a catalyst - a co-ordinator of national initiatives and an initiator of new work at the national level. In the future, IASC’s role as a catalyst and initiator should become more prominent;
- (b) the significance of IASC’s work has increased vastly in recent years. IASC’s structure worked well when IASC’s work affected a relatively small number of countries and enterprises. There is no guarantee that this structure will work without modification at a time when IASC’s work has a direct or indirect effect in almost every country;
- (c) innovation in business transactions is accelerating, demand from users for new types of financial and other performance information is increasing and there are rapid developments in electronic distribution of information. Also, the life cycle of standards in all fields – not just in accounting – is shrinking rapidly. In recent years, IASC has taken on a more innovatory role in certain areas, such as financial instruments. The Working Party believes that in future IASC will need to be an innovator and an initiator to a much greater extent than it is today. IASC needs a structure that will enable it to cope effectively with these and other new developments; and
- (d) since the beginning of 1997, IASC has been able to increase the length and frequency of Board meetings for the specific objective of completing the core standards programme agreed with IOSCO. It would be difficult for a group of volunteers to sustain this level of activity indefinitely.

6. An increasingly important challenge for IASC will be to work with national standard setters to bring about convergence between national accounting standards and International Accounting Standards around solutions requiring listed enterprises (i.e. enterprises with publicly traded equity or debt securities) and other economically significant enterprises to report high-quality, transparent and comparable information that will help participants in capital markets and others to make economic decisions. The standards of many countries are already converging with International Accounting Standards. However, trends such as globalisation and the increasing pace of business and financial change have made this task more urgent. The Working Party believes that IASC and national standard setters need to find new ways of working together to minimise unnecessary delays in reaching consensus and implementing the results of that consensus.
7. In the Working Party's view, IASC must now consider structural changes so that it can continue to meet the need for high-quality global accounting standards. If IASC fails to meet that need, other national, regional or international bodies are likely to emerge to fill the gap in response to market pressures and become de facto global or regional standard setters.

Objectives of IASC

8. The objectives of IASC as stated in its Constitution are:
 - (a) to formulate and publish in the public interest accounting standards to be observed in the presentation of financial statements and to promote their worldwide acceptance and observance; and
 - (b) to work generally for the improvement and harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements.
9. In the Working Party's view, it is important to focus IASC's objectives more precisely as follows:
 - (a) to develop International Accounting Standards that require high-quality, transparent and comparable information which will help participants in capital markets and others to make economic decisions; and
 - (b) to promote the use of International Accounting Standards by working with national standard setters to:
 - (i) bring about convergence, for listed enterprises (i.e. enterprises with publicly traded equity or debt securities) and other economically significant enterprises, between national accounting standards and International Accounting Standards; and
 - (ii) encourage national, regional and international authorities to permit or require unlisted enterprises that, individually, are not economically significant to use those International Accounting Standards if those Standards meet the needs of the users of the financial statements of such enterprises.

10. The Working Party believes that it is vital for IASC to continue to use an agreed conceptual Framework (the Framework for the Preparation and Presentation of Financial Statements) to ensure that its standards are of high quality and require transparent and comparable information to help participants in capital markets and others to make economic decisions. The Framework may need to be revised from time to time on the basis of IASC's experience of working with it.
11. The Working Party strongly supports the Framework's focus on information that will meet the needs of the capital markets and so also meet most of the common needs of other users.
12. The Working Party believes that IASC should continue, in close partnership with national standard setters and other constituents, to play an innovatory role in areas of increasing importance to IASC's constituents. Such areas may include:
 - (a) the growing use of new technology, such as the Internet and CD-ROMs, to deliver financial information in new ways. This may create a need for different or additional types of financial reporting standards; and
 - (b) emerging issues such as environmental reporting and accounting for human resources and intellectual capital;
 - (c) broader aspects of financial and other performance reporting outside the traditional financial statements, for example:
 - (i) financial reporting in a Management Discussion and Analysis ('MD&A'), Directors' Report, or similar document; and
 - (ii) prospective financial information; and
 - (iii) non-financial measures of performance.
13. The Working Party believes that IASC should, in developing International Accounting Standards, and in promoting their use, work closely with national standard setters to reach mutual agreement on what the highest quality result is. The aim is to ensure that national accounting standards and International Accounting Standards converge around high-quality solutions. The Working Party believes that IASC should work for convergence by:
 - (a) continuing to develop International Accounting Standards that build on the best features of existing and newly developed national standards. For topics where national standards do not yet exist, or are still evolving, IASC will need to work with national standard setters to develop high-quality requirements that lead to transparency and comparability;
 - (b) acting as a catalyst for, or initiator of, national developments in standard setting; and
 - (c) keeping existing International Accounting Standards under review in the light of the latest thinking at national and international levels. In some cases, this review may lead to the conclusion that a national standard provides greater transparency or comparability than an existing International Accounting

Standard. In such cases, IASC will need to consider amending its existing Standard.

14. The Working Party believes that IASC should, in partnership with national standard setters, make every effort to accelerate convergence between national and International Accounting Standards around solutions requiring listed and other economically significant enterprises in all countries to report high-quality, transparent and comparable information that will help participants in capital markets and others to make economic decisions. Although IASC and national standard setters have worked together successfully and narrowed the differences between accounting standards and procedures in different countries, the remaining differences cannot be eliminated overnight. In the Working Party's view:
 - (a) IASC's short-term aim should be for national accounting standards and International Accounting Standards to converge around high-quality solutions; and
 - (b) IASC's aim in the longer term should be global uniformity - a single set of high-quality accounting standards for all listed and other economically significant business enterprises around the world. It is not possible to forecast how long this will take, as different countries are likely to converge with uniform global standards at different rates.
15. The Working Party believes that:
 - (a) regulators and standard setters in each country should decide, in the light of local circumstances:
 - (i) whether International Accounting Standards are appropriate for small and medium-sized enterprises (SMEs) in that country;
 - (ii) how SMEs should be defined in that country; and
 - (iii) what accounting standards should be used by SMEs in that country; and
 - (b) it is likely that many countries will choose to bring accounting standards for smaller enterprises into line with International Accounting Standards. Therefore, IASC must be prepared to re-evaluate the entire package of International Accounting Standards from the view point of smaller enterprises.
16. In April 1998, the IASC Board approved a proposal for a project to investigate the accounting needs of countries in transition to a market economy and developing and newly industrialised countries. The Working Party supports IASC's continuing investigations in this area.

17. IASC's Constitution does not limit IASC's objectives to financial reporting by business enterprises. The Working Party believes that:
- (a) IASC should continue to concentrate on business enterprises in the private sector for the time being and maintain a close dialogue with the Public Sector Committee of IFAC, the International Federation of Accountants; and
 - (b) IASC should not focus on financial reporting by not-for-profit organisations, such as charities, at this stage. However, it is likely to become important for IASC to address this topic at some point in the future.

Structure of IASC

18. The current structure of IASC has significant strengths:
- (a) IASC has produced high-quality standards that command international support, without unnecessary delay, generally by using existing national standards as a starting point;
 - (b) the geographical spread of Board membership, and the requirement that a final standard must achieve a positive vote from three-quarters of the Board as currently constituted, mean that IASC must persuade a reasonably broad constituency that its proposals are appropriate - an important consideration for an organisation that cannot compel countries or individual enterprises to adopt its standards. At the same time, the required majority is not so high that progress is blocked;
 - (c) most Board delegations are currently made up of three individuals (two Board Representatives and one Technical Adviser). This permits a functional mix (preparers, auditors, standard setters, financial analysts, academics and others) from most countries on the Board and gives the Board the broad perspective that comes from a diversity of backgrounds;
 - (d) the part-time status of Board Representatives and technical advisers enables them to stay in touch with their constituents and to retain up-to-date experience of accounting practice in their countries;
 - (e) continuity of Board membership (both delegations and their individual representatives) speeds progress, promotes consistency and builds an atmosphere of collegiality and trust which is very important;
 - (f) the involvement of a wide range of people in IASC's process, through both the Board itself and Steering Committees, plays an important promotional and educational role for IASC; and
 - (g) IASC functions at remarkably low direct cost.
19. IASC has achieved a great deal with the current structure. It has developed high-quality and credible standards. Its standards are widely accepted by the international capital markets. A growing number of countries are either adopting International Accounting Standards as their own standards (in some cases, with relatively minor modifications) or drastically reducing provisions in their own standards that conflict with International Accounting Standards.

20. Despite the strengths of IASC's current structure, the changes in IASC's environment mean that structural changes are needed so that IASC can anticipate the new challenges facing it and meet those challenges effectively. The Working Party has identified the following key issues that must be addressed:
- (a) partnership with national standard setters - IASC should enter into a partnership with national standard setters so that IASC can work together with them to accelerate convergence between national standards and International Accounting Standards around solutions requiring high-quality, transparent and comparable information that will help participants in capital markets and others to make economic decisions;
 - (b) wider participation in the IASC Board - a wider group of countries and organisations should take part in the IASC Board, without diluting the quality of the Board's work; and
 - (c) appointment - the process for appointments to the IASC Board and key IASC committees should be the responsibility of a variety of constituencies, while ensuring that those appointed are competent, independent and objective.

The Working Party's proposals for making IASC's due process more effective are addressed in a separate section below.

21. The Working Party's proposals address these key issues by the following changes:
- (a) a partnership with national standard setters:
 - (i) Steering Committees would be replaced by a Standards Development Committee, on which national standard setters would play a major role in developing International Accounting Standards. The Standards Development Committee would also be responsible for approving the publication of final SIC Interpretations prepared by the Standing Interpretations Committee; and
 - (ii) the Standards Development Committee would be supported by a Standards Development Advisory Committee, which would act as a channel of communication with those national standard setters who are unable to participate directly in the Standards Development Committee because of its limited size;
 - (b) wider participation in the IASC Board - the Board would have a wider membership than at present. The Board would still be responsible for the final approval of International Accounting Standards and Exposure Drafts; and
 - (c) appointment - the Advisory Council would be replaced by Trustees. Among other things, the Trustees would appoint members of the Standards Development Committee, the Board and the Standing Interpretations Committee. The Trustees would also have responsibility for monitoring IASC's effectiveness and for finance.

22. Table 1 summarises the Working Party's proposals in these areas. Table 2 summarises certain consequential changes that the Working Party proposes. Figures 1 and 2 portray the current structure and the proposed new structure as organisation charts.

Table 1 - Summary of Amended Structure for IASC

Trustees	Board	Standards Development Committee (SDC)
<p><u>Function</u> Appoint Board, SDC and SIC Members and Board, SDC and SIC Chairmen, on recommendation of Selection Sub-Committee. Liaise with Board Members on appointment of Board Delegates. Trustees retain veto over their appointment (veto requires 9 votes out of 12). Ratify appointment (by SDC Chairman) of Technical Director and Commercial Director. Promote and ensure independence and objectivity of the Board, SDC and SIC. Do not participate in technical decisions or intervene in technical disputes between SDC and the Board. Monitor effectiveness of IASC’s structure and of the SDC and Board. Review broad strategic issues and political relationships. Promote IASC and its work.</p>	<p>Board Members appoint their Board Delegates, in consultation with Trustees. Approve Exposure Draft or Standard from the SDC. Discuss main technical issues in depth with SDC at an early stage and as projects progress. Regular guidance to SDC on its work plan. May add projects to SDC work plan, but not delete them. Comment on final SIC Interpretations before final SDC vote. Advise Trustees on broad strategic issues and political relationships. Explain and promote IASC’s work.</p>	<p>Develop Standards and EDs and submit to the Board. May issue Draft Statements of Principles, Discussion Papers and similar documents. May add projects to work plan or delete them. Consult Standards Development Advisory Committee. May set up task forces etc. or outsource detailed research to national standard setters. Approve final SIC Interpretations Advise Trustees on broad strategic issues and political relationships. Explain and promote IASC’s work.</p>

Table 1 (Continued)

Trustees	Board	Standards Development Committee
<p>Fund-raising. Also, approve IASC's budget and monitor efficient use of its resources. Publish an annual written report on IASC's activities and work of the Trustees. Report to members of IASC every two and a half years</p> <p><u>Membership</u></p> <p>12 Trustees (individuals):</p> <ul style="list-style-type: none"> • 6 appointed by constituents (3 from IFAC, 3 from bodies such as those currently on the Consultative Group), in consultation with existing Trustees. • 6 'at large', appointed by the Trustees on recommendation of a Selection Sub-Committee. <p>First 6 'at large' Trustees - appointed by Nominating Committee (current Advisory Council plus recent Chairmen of IASC/IFAC). All unpaid, except Chairman (part-time)</p> <p>May appoint Board Observers</p>	<p>No responsibility for fund-raising</p> <p>25 members (organisations):</p> <ul style="list-style-type: none"> • 20 country seats for professional accountancy bodies • 5 seats for other organisations with an interest in financial reporting <p>Each delegation represented by two part-time Board Delegates.</p> <p>All unpaid, except Chairman (part-time)</p> <p>Observers (may speak but not vote):</p> <ul style="list-style-type: none"> • SDC Members • IOSCO • European Commission • IFAC President (and chairs of IFAC's Public Sector and International Auditing Practices Committees) • Others (not many, but no formal limit) who can contribute to discussion 	<p>No responsibility for fund-raising</p> <p>11 members (individuals):</p> <ul style="list-style-type: none"> • Full-time Chairman • 6 to 8 voting members of their national standard setter (with sufficient technical, human and financial resources) • 2 to 4 from other groups (e.g. preparers, users, accountants in public practice, academics and, perhaps, regulators) <p>Full-time Chairman (effectively the Chief Executive Officer). At least 6 others full time, and all at least half-time (including time at national standard setter).</p> <p>No observers (but meetings open to public) SDC Members cannot be Board Delegates, but others from same country or organisation (other than a standard setter) may.</p>

Table 1 (Continued)

Trustees	Board	Standards Development Committee
<p><u>Factors considered in selection:</u></p> <ul style="list-style-type: none"> • Integrity, objectivity and commitment to maintain IASC as an organisation that develops high-quality standards. Act in public interest, not sectional interests. • Most from more developed countries, but preferably some from developing countries / countries in transition • Geographical and other balance • Special consideration to countries that use IAS or have high proportion of foreign operations / foreign trade • Able to make an active contribution to the work of the Trustees 	<ul style="list-style-type: none"> • Board Delegates to have technical competence, commitment to Framework, integrity and objectivity. Act in public interest, not sectional interests. • At least 14 more developed countries and at least 4 developing countries / countries in transition • Geographical and other balance • Special consideration to countries that use IAS or have high proportion of foreign operations / foreign trade • Able to make an active contribution to the work of the Board 	<ul style="list-style-type: none"> • Technical competence, commitment to Framework, integrity and objectivity. Act in public interest, not sectional interests. • If qualified candidates available, at least 7 from more developed countries and at least two from developing countries/countries in transition • Geographical and other balance • Special consideration to countries that use IAS or have high proportion of foreign operations / foreign trade • Able to make an active contribution to the work of the SDC
<p><u>Term</u></p> <p>Five years (renewable once). Six of first trustees (3 'constituency' and 3 'at large') to retire after two and a half years</p>	<p>Two and a half years, renewable without limit at discretion of the Trustees. No permanent seats. Planned rotation to balance continuity and turnover.</p>	<p>5 years, renewable once at discretion of the Trustees. First terms staggered. May subsequently appoint another individual from the same organisation.</p>
<p><u>Chairman</u></p> <p>Part-time non-executive (paid). Appointed by Trustees, on advice of Selection Sub-committee. First Chairman appointed by Nominating Committee (current Advisory Council plus recent past Chairmen of IASC and IFAC)</p>	<p>Part-time (50%) non-executive (paid). Appointed by Trustees. Main ambassador for IASC.</p>	<p>Appointed by Trustees. Full-time, effectively Chief Executive Officer. Some representative duties.</p>

Table 1 (Continued)

Trustees	Board	Standards Development Committee
<p><u>Voting</u> To veto appointment of a Board Delegate - 75% (9 out of 12).</p> <p>Propose changes to Constitution - 60% (8 out of 12): with approval by the Members of IASC (simple majority of those voting) and Board. Other decisions - simple majority of those present</p> <p><u>Finance</u> IASC to pay travel on IASC business and IASC staff support.</p> <p><u>Meetings</u> 2-3 times a year. Partly open to the public at the discretion of the Trustees</p>	<p>1 vote per delegation. To approve Standard or ED 60% (15 out of 25). If 9 or more SDC members vote to resubmit a proposal rejected by the Board, Board approval will require a simple majority (13 out of 25). Approve changes to Constitution - 60% (15 out of 25, as for Standard): also need approval by the Members of IASC and Trustees. Other decisions - simple majority of those present</p> <p>IASC to pay travel costs for one Board Delegate attending Board meetings. Board members to pay travel costs to Board meetings for second Board Delegate.</p> <p>3 times a year. Open to the public for discussion of technical issues.</p>	<p>Submit Standard or ED to the Board - 7 out of 11. Approve final SIC Interpretation - 7 out of 11.</p> <p>Other decisions (including issuing DSOP, Discussion Paper etc.) - simple majority of those present</p> <p>National standard setters and other constituencies to pay salaries, related costs, travel between IASC and home base and domestic staff support. IASC may pay for well-qualified individuals from poor countries or constituencies. IASC to pay travel on IASC business and IASC staff support.</p> <p>Every 1-2 months. Open to the public for discussion of technical issues.</p>

Table 2 - Amended Structure for IASC: Other Points

1. Members of IASC

Membership	As today - professional accountancy bodies that are members of IFAC
Chairman	None - meetings chaired by Chairman of Trustees
Functions	Receive report by Trustees Approval needed for changes to the Constitution (simple majority of those voting)
Meetings	Every two and a half years

2. Consultative Group

Membership	As today - organisations (mainly international) with an interest in financial reporting that are not voting members of the Board
Chairman	None - meetings chaired by Chairman of Board
Functions	Give feedback on IASC proposals, guidance on work plan priorities and advice on political relationships Receive reports on IASC's work
Meetings	1-2 times a year

3. Standing Interpretations Committee

Membership	12 individuals (as today). Observers: One Board Liaison Member; SDC Chairman; others as necessary (currently two: IOSCO, European Commission). All appointed by the Trustees or a sub-committee of Trustees.
Chairman	Separate Chairman - part-time, unpaid.
Functions	Approve and publish draft Interpretations. Submit final Interpretations to SDC for approval.
Meetings	Four times a year

Table 2 (Continued)

4. Standards Development Advisory Committee

Membership	Standard setters of countries not represented on SDC, at the invitation of the Trustees.
Chairman	SDC Chairman
Functions	Advise SDC whether its proposals are likely to be appropriate and operational in the domestic environment of the countries concerned.
Meetings	At least annually

5. Staff

Technical	Technical functions headed by Technical Director, appointed by the SDC Chairman (after ratification by the Trustees) and reporting to the SDC
Commercial	Commercial functions (including funding, copyright, office, equipment, communications) headed by Commercial Director, appointed by the SDC Chairman (after ratification by the Trustees) and reporting through the SDC Chairman to the Trustees.

Figure 1 - IASC – Current Structure

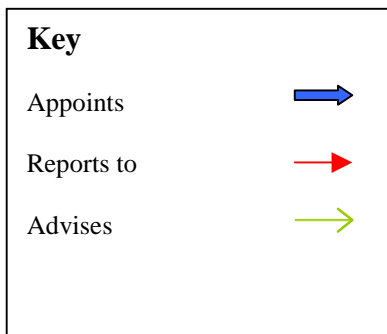
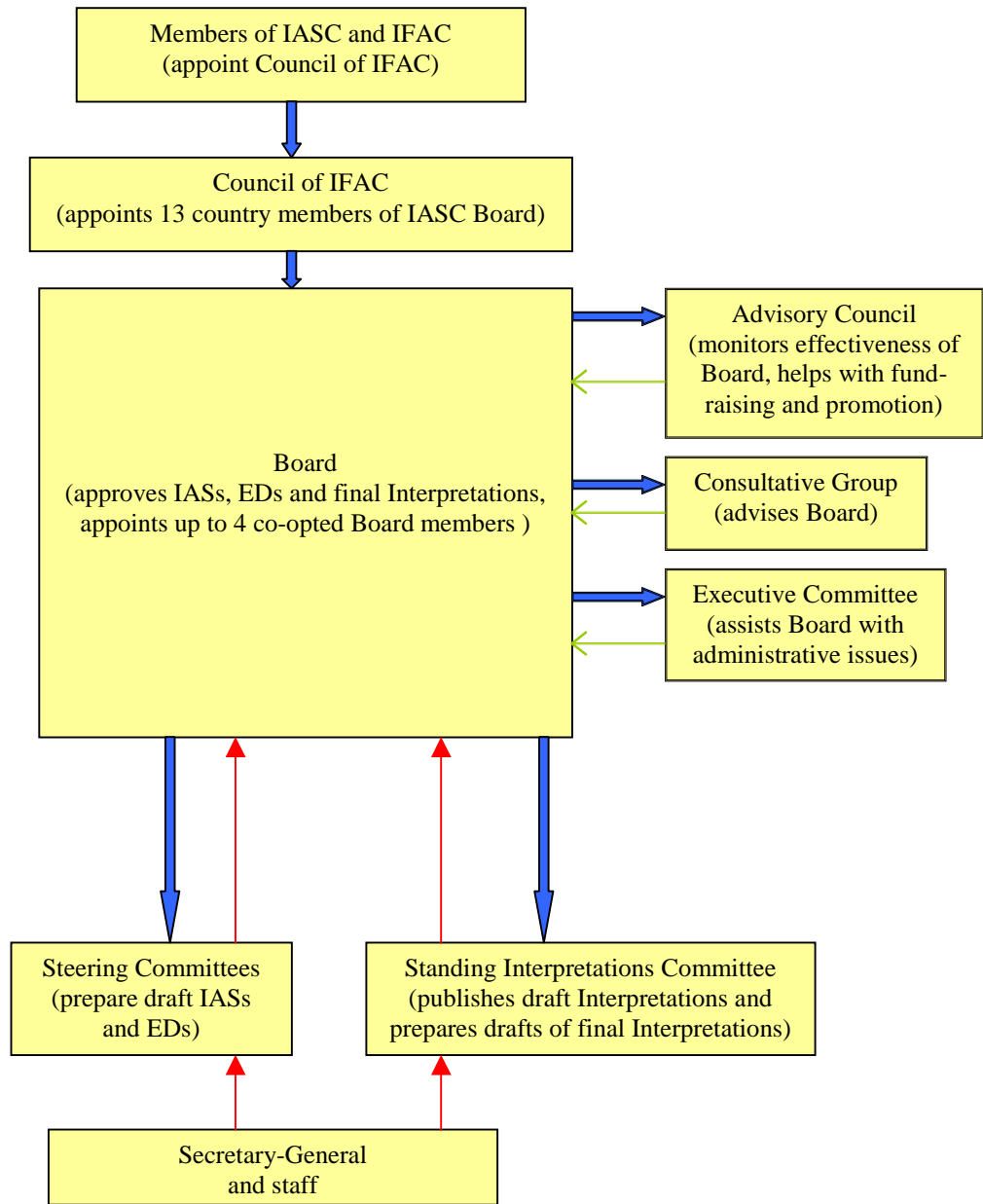
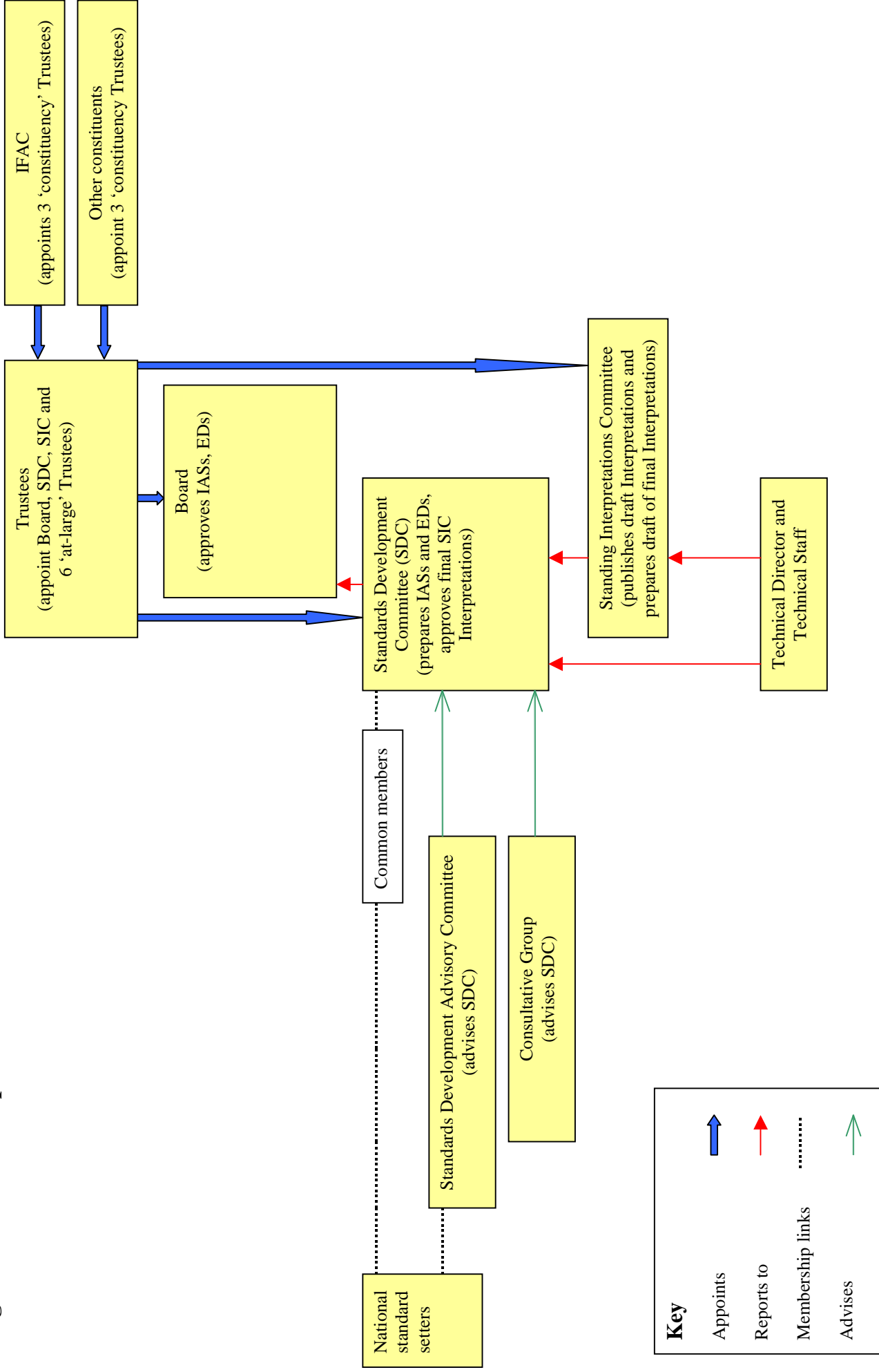


Figure 2 - IASC – Proposed New Structure



Approval of International Accounting Standards

23. The Working Party paid close attention to the question of the final authority to issue standards. In its discussions, the Working Party identified three crucial considerations:
 - (a) the need to convince users, preparers and IASC's other constituents that IASC's standards will meet their needs;
 - (b) the need to attract suitably qualified individuals to serve on the Standards Development Committee and the Board; and
 - (c) the need for the Standards Development Committee and the Board to work together closely and effectively for the public interest.
24. IASC cannot force anyone to use its Standards and so must rely on persuasion. It can persuade its constituents to use its Standards only if the Standards are of high quality and meet their needs. Also, IASC's constituents are more likely to use its Standards if they have a stake in, and play a part in, their development and participation by IASC's constituents is likely to improve the quality of the Standards.
25. One way to persuade IASC's constituents to accept its due process and its standards would be to set up an autonomous body of independent full-time and highly skilled experts, with a relatively small number of members for the sake of efficiency (an independent expert model). Another route would be to create a more broadly-based group from a larger number of countries and backgrounds (a constituency model).
26. The Working Party believes that neither of these extremes would secure sufficient worldwide support from IASC's constituents. Instead, the Working Party's proposal combines elements of both models: a group of independent experts (the Standards Development Committee) and a broader group (the Board), coupled with a high level of due process to ensure a wide range of input.
27. In developing its proposals, the Working Party was conscious of the need to attract talented and well-qualified individuals to serve on both the Standards Development Committee and the Board. It is unlikely that such individuals will make themselves available for a body that does not have genuine decision-making power.
28. It is clear that any structure that involves two bodies with genuine decision-making power can work only if the two bodies demonstrate a clear willingness to work together closely and effectively for the public interest. The Working Party believes that a constructive attitude of close and effective co-operation is a striking feature of the current Board and of IASC's Committees. Consequently, the Working Party is confident that the Standards Development Committee and the Board will achieve the close and effective relationship that will be needed. The Working Party also noted that constructive co-operation will not emerge if either the Standards Development Committee or the Board is unable to attract suitably qualified individuals.

29. With these three considerations in mind, the Working Party considered a range of different ways of specifying the respective powers of the Standards Development Committee and the Board. Among these were:
- (a) positive approval required by a majority or super-majority of the Board for all International Accounting Standards and Exposure Drafts;
 - (b) the Board (or perhaps a specified majority or a specified minority of the Board) has the power to reject proposed International Accounting Standards and Exposure Drafts;
 - (c) the Board (or perhaps a specified majority or a specified minority of the Board) has the power to return proposed International Accounting Standards and Exposure Drafts to the Standards Development Committee for re-consideration, but not to reject them indefinitely; and
 - (d) the Standards Development Committee must consult the Board, but the Board has no power to delay or reject International Accounting Standards or Exposure Drafts.
30. Individual members of the Working Party have preferences for different points in this range. Some members of the Working Party prefer option (a) above. Other members of the Working Party prefer option (d) above. However, the Working Party believes that the precise voting arrangements are less important than the need for the Standards Development Committee and the Board to work together constructively. As explained above, the Working Party is confident that the Standards Development Committee and the Board will achieve the close and effective relationship that will be needed.
31. The Working Party proposes that the publication of a Standard or Exposure Draft should require approval by 60% of the Board (15 votes out of 25). At present, an Exposure Draft requires a positive vote by two thirds of the Board; a final Standard requires a positive vote by three quarters of the Board. The Working Party further concluded that the Chairman of the Board should be required to ensure that the Board considers and votes on all proposed Exposure Drafts and Standards submitted by the Standards Development Committee within three months of receipt or, if later, at its next meeting.
32. If the Board rejects a proposed Exposure Draft or Standard, the Board should send the document back to the Standards Development Committee for further consideration, giving public reasons for its rejection. After considering the reasons given by the Board, the Standards Development Committee may decide to:
- (a) prepare a revised proposal and submit it to the Board for approval in the normal way; or
 - (b) resubmit its original proposal to the Board:
 - (i) if nine or more members of the Standards Development Committee have voted to resubmit the same proposal, Board approval should require a simple majority (13 votes out of 25); and

- (ii) if seven or eight members of the Standards Development Committee have voted to resubmit the proposal, the proposal should be treated in the same way as a new proposal. In other words, Board approval should require the normal 60% majority (i.e. 15 votes out of 25).
- 33. At present, each delegation has one vote. This means that Board delegations are sometimes forced to abstain where the members of the delegation are unable to agree among themselves. Given the current requirement for a positive vote by three quarters of the Board, an abstention is effectively the same as a vote against a Standard. This might suggest that each member of the delegation should be given an individual vote, to reduce the risk of deadlock. However, discussions among, say, 50 voting individuals would be much more cumbersome than discussions among 50 individuals representing 25 voting delegations. The Working Party recommends that IASC should retain the current practice that each delegation has one vote.
- 34. The Working Party believes that the Board should not have the power to amend proposed Exposure Drafts and Standards submitted by the Standards Development Committee.
- 35. The Working Party believes that the proposals set out in paragraphs 30 to 33 will ensure reasonably widespread acceptance for IASC's work, without undue risk of paralysing the work of the Standards Development Committee. It will also give genuine decision-making power to both bodies.
- 36. The Working Party recommends that the Board should have the right to add projects to the Standards Development Committee's work plan, but should not have the right to remove projects from the work plan. The Standards Development Committee should seek regular guidance on its work plan from the Board. The Standards Development Committee should also discuss the main technical issues in all its proposals with the Board in depth at an early stage and as projects progress.

Standing Interpretations Committee

- 37. The Working Party believes that the Standing Interpretations Committee (SIC) should continue to exist as a separate body, because neither the Board nor the Standards Development Committee would have sufficient time to develop their own Interpretations.
- 38. At present, Board approval is required for a final Interpretation. Some members of the Working Party believe that this should continue. However, a majority of the Working Party would prefer final approval by the Standards Development Committee, to minimise delays in issuing Interpretations that may be needed urgently and because they believe that the SIC's own due process makes formal approval by the Board unnecessary. They propose that this should require the same majority as a decision to submit an Exposure Draft or Standard to the Board for approval (seven votes out of 11).
- 39. When the SIC submits final Interpretations to the Standards Development Committee for approval, it should also send a copy to Board Members so that they can comment to the Standards Development Committee before it approves the final Interpretation.
- 40. The Working Party believes that members of the SIC should be appointed by the Trustees. To avoid delays in filling vacancies on the SIC, the Working Party

recommends that the Trustees should have the power to establish a Sub-Committee for this purpose.

Consultative Group

41. The Working Party believes that IASC should maintain the Consultative Group as a useful forum for dialogue with organisations (mainly international) that have an interest in financial reporting. The Consultative Group should meet once or twice a year with the Chairmen of the Standards Development Committee, Board and Trustees and others as appropriate. The meetings should be chaired by the Chairman of the Board. The purpose of the meetings should be for the Consultative Group to:
- (a) give feedback on IASC proposals, guidance on work plan priorities and advice on relationships with key constituencies; and
 - (b) receive reports on IASC's work

Members of IASC

42. The Working Party believes that the Members of IASC should continue to be the professional accountancy bodies that are members of IFAC and should continue to meet every two and a half years. The Members of IASC should meet under the Chairmanship of the Chairman of the Trustees to:
- (a) receive a report by the Trustees on their activities over the preceding two and a half years;
 - (b) receive reports by the Chairmen of the Board and the Standards Development Committee on the activities, work programme and future strategy of the Board and the Standards Development Committee; and
 - (c) ratify (by a simple majority of those voting) any changes to IASC's Constitution that have been approved by the Trustees and Board (see paragraph 183).

Staff

43. To play an equal role in partnership with national standard setters, IASC needs a core of high-quality technical staff (at least eight), at a central location. Some projects would be joint projects with national standard setters and staffed predominantly by the national standard setter concerned. However, IASC's own staff would need to monitor the staff work on these projects to ensure that the output meets IASC's needs.
44. The Working Party proposes that technical functions should be headed by a Technical Director, reporting to the Standards Development Committee. Commercial functions (including funding, copyright, office, equipment, communications) should be headed by a Commercial Director, reporting through the Chairman of the Standards Development Committee to the Trustees. The function of chief executive officer, currently performed by the Secretary-General, should pass to the Chairman of the Standards Development Committee.

Legal Structure

45. The Working Party recommends that the Board should consider ways of establishing IASC as a legal entity. The Working Party also believes that IASC should investigate the possibility of seeking charitable or similar status in those countries where such status would assist fund-raising.

Timetable for Change

46. A possible timetable for implementing the Working Party's proposals is set out in appendix 6. The Working Party recognises that this is a challenging timetable, which relies on the optimistic assumption that a provisional selection process can be largely completed before the members of IASC decide whether to approve the constitutional changes at their next meeting in May 2000.

Due Process

47. To safeguard IASC's legitimacy, IASC's due process must ensure that International Accounting Standards are of high quality, requiring transparent and comparable information that will help participants in capital markets and others to make economic decisions, and acceptable to the users and preparers of financial statements. The Working Party believes that:
- (a) all formal discussions of the Standards Development Committee, Standing Interpretations Committee (SIC) and Board on technical issues should be open to the public. However, certain discussions (primarily selection, appointment and other personnel issues) would need to be held in private. Portions of the Trustees' meetings should also be open to the public, at the discretion of the Trustees;
 - (b) IASC should make more use of new technology (such as the Internet, the web site, electronic observation of meetings), to overcome geographical barriers and the logistical problems in arranging for members of the public to attend open meetings of an international body;
 - (c) IASC should publish in advance the agendas for each meeting of the Standards Development Committee, Standing Interpretations Committee, Board and Trustees and should publish promptly the decisions made at those meetings (IASC currently publishes the agenda for Board meetings in its quarterly newsletter, *Insight*, and on its web site, and publishes Board decisions immediately after each Board meeting in *Update* and SIC decisions in *News from the SIC*); and
 - (d) when IASC publishes a Standard, it should continue its recently adopted practice of publishing a Basis for Conclusions to explain publicly how it reached its conclusions and to give background information that may help users of IASC standards to apply them in practice. IASC should also publish dissentient opinions (IASC's current Constitution prohibits this).

48. The Working Party believes that the Standards Development Committee should make use of the following, although there should be no requirement to do so for every project:
- (a) 'public hearings' to discuss proposed standards; and
 - (b) field tests (both in developed countries and in emerging markets) to ensure that proposals are practical and workable.

Where practicable, public hearings and field tests should be co-ordinated with national standard setters.

49. An important objective of the Working Party's model is closer co-ordination between IASC's due process and the due process of national standard setters, who will necessarily remain autonomous. The Working Party recognises that many national standard setters will not give up their own due process, nor can they give an irrevocable undertaking that they will tie themselves completely on every project to IASC's due process. However, the Working Party believes that IASC should aim to integrate IASC's due process more closely with national due process. This is something that will probably not happen overnight but will occur gradually as the relationship between IASC and national standard setters evolves. The Working Party's desired outcome is the following procedure for most, and preferably all, projects that have international implications:

- (a) IASC and national standard setters would co-ordinate their work plans so that when IASC starts a project, national standard setters would also add it to their own work plans so that they can play a full part in developing an international consensus. Similarly, where national standard setters start projects, IASC would consider whether it needs to develop a new Standard or revise its existing Standards;
- (b) IASC and national standard setters would co-ordinate their timetables so that national standard setters would aim to publish their own proposals at the same time as IASC proposals and so that the results from national exposure are available in time for IASC to consider, and vice versa. IASC may need, in certain cases, to slow down its own timetable to some extent so that national standard setters can satisfy their own due process requirements. However, to avoid giving national standard setters a veto in IASC's process, IASC would sometimes need to issue its own proposals without significant delay, even if some national standard setters were not yet ready to issue their own proposals;
- (c) members of the Standards Development Committee would not be required to vote for an IASC treatment in their national standard setters, since each country would remain free to adopt IASC standards with amendments or to adopt other standards. However, the existence of an international consensus is clearly one factor that members of national standard setters would consider when they decide how to vote on national standards;
- (d) IASC would continue to publish its own Exposure Drafts and other documents for public comment;
- (e) national standard setters would publish their own Exposure Drafts at approximately the same time as IASC Exposure Drafts and would seek

specific comments on any significant divergences between the two Exposure Drafts. The Working Party expects that market forces would make such divergences increasingly rare. In some instances, national standard setters may ask for specific comments on issues of particular relevance to their country or include more detailed guidance than is included in an International Accounting Standard; and

- (f) national standard setters would follow their own full due process, which they would, ideally, choose to integrate with IASC's due process. Issues arising would be considered by national standard setters. This integration would avoid unnecessary delays in completing standards and would also minimise the likelihood of unnecessary differences between the standards that result. In the same way as for Exposure Drafts, the Working Party expects that it will become increasingly rare for national standard setters to adopt standards that differ from International Accounting Standards.
50. The Working Party believes that there is now a case for IASC to extend its comment periods for Exposure Drafts and other documents. A minimum of four months may be appropriate, although particularly complex or controversial issues may warrant longer comment periods.
51. IASC has recently published German and Russian translations of its standards and is working on a Polish translation. These are the first translations that IASC has undertaken. The Working Party recommends that IASC should publish or promote translations of its standards into other languages, preferably on a self-financing basis. The objective of such translations is to:
- (a) promote the use of International Accounting Standards;
 - (b) ensure that users of International Accounting Standards have access to high quality translations; and
 - (c) raise revenue.
52. The Working Party believes that IASC should explore ways of establishing quality control of translations published by others, possibly by working with local standard setters and accountancy bodies.

Implementation, Enforcement and Training

53. The Working Party believes that it is not the role of IASC to review national standards in order to assess actively whether those national standards result in compliance with International Accounting Standards.
54. In the Working Party's view, identifying and dealing with departures by preparers from International Accounting Standards (or from national requirements that are consistent with International Accounting Standards) is primarily a matter for auditors, professional accountancy bodies, IFAC, national enforcement agencies and supranational bodies such as IOSCO and the Basle Committee. IASC does not have the resources to do this effectively. Also, IASC lacks both legal authority to take action and legal protection from those who dispute alleged departures.

55. The Working Party believes that IASC should give advice to national regulators and other enforcement agencies in their efforts to enforce national standards that comply with International Accounting Standards, but only if the regulator in question both:
- (a) pays for the advice on a fully self-financing basis; and
 - (b) gives IASC satisfactory indemnities against legal action by those who dispute alleged departures.
56. The Working Party believes that IASC should consider publishing training material, illustrative examples and other implementation guidance, such as staff bulletins and, perhaps, also giving training courses. The Working Party believes that IASC should not provide a technical enquiry service.

Funding

57. The current method of funding IASC is open to a number of criticisms:
- (a) although international travel and the need to research issues in an international context suggest a need for substantial resources, IASC's resources are remarkably modest. This leads to disproportionate demands on the time of Board Representatives, Technical Advisors and the staff;
 - (b) there is a conflict between the promotion of IAS (especially in poorer countries) and the need to raise funds ('the user pays'). For example, IASC's policy of charging for Exposure Drafts may deter comments;
 - (c) existing sources of revenue could be threatened by increased use of the Internet and by the increasing availability of national standards that are identical to, or very closely based on, International Accounting Standards;
 - (d) donations may undermine IASC's actual or perceived independence;
 - (e) there is a lack of geographical balance in corporate donations. As a result, it may appear that IASC gives more weight to the views of countries that provide a higher level of donations;
 - (f) IASC relies on volatile and uncertain sources of funding. This inhibits long-term planning, diverts scarce staff time and makes it difficult to recruit permanent staff;
 - (g) the direct and indirect cost of Board seats deters developing and emerging countries from applying to join the Board;
 - (h) the limitations of IASC's resources have forced it to prioritise projects aimed primarily at the needs of developed countries and to pay less attention to identifying and meeting any specific needs of developing countries and of countries in East and Central Europe and in Asia that are in transition from centrally planned economies to market driven economies; and
 - (i) many organisations (including accountancy bodies that are not on the Board, stock exchanges, governments and national standard setters and others) benefit from IASC's work but do not provide funding. Also, the fact that IASC's only

members are professional accountancy bodies is an impediment to fund-raising in some countries.

58. Preferably, IASC would need to increase its annual funding to around £5 million at current prices to implement the Working Party's proposals. This amount excludes costs that, under the Working Party's proposals, would be borne by national standard setters and others. These costs would amount to between, perhaps, £1 million and £1.5 million. The amount of £5 million also excludes time costs for volunteers.
59. The Working Party believes that IASC needs more secure funding based on a formula, not a constant money drive, so as not to divert Trustee and staff time. There may be a need to use different formulas in different countries. There are several different ways of raising national contributions:
- (a) directly from Board members (including perhaps observers) and/or Members of IASC;
 - (b) from a variety of groups in each country who benefit from IASC's work (e.g. preparers, users, regulators, the accountancy profession); or
 - (c) indirectly from groups who benefit from IASC's work, with Trustees and/or Members of IASC in each country taking responsibility for collecting the contributions for their countries. For example, it may be desirable to have some degree of commitment to funding over some minimum period, perhaps through organisations in each larger country, to facilitate longer-term planning.
60. The Working Party supports the general principle that those who benefit from IASC's work should pay for its work. The beneficiaries include users of financial statements, business enterprises, auditors, the accountancy profession in general, stock exchanges, regulators, central banks, governments and other government and intergovernmental agencies. However, it is not easy to identify all of those who benefit from IASC's work or to devise a fair way of sharing the cost between the different groups of beneficiaries. The Working Party would welcome suggestions on this.
61. In looking at various funding models, the Working Party considered a number of points, including the following:
- (a) the enterprises that gain the greatest financial benefit from IASC's work are listed enterprises. Therefore, stock exchanges should be an important source of funding. It would seem equitable that all stock exchanges should contribute on a collective basis to remove the incentive for some stock exchanges to be 'free riders' – benefiting from IASC's work without paying for it;
 - (b) Trustees or member bodies could, perhaps, act as agents for fund-raising in their own countries/constituencies, working to targets agreed to be fair;
 - (c) representation of a broad range of constituencies on the Standards Development Committee, Board and Foundation should help fund-raising, as constituents will be more willing to fund a process in which they have representation;
 - (d) IASC may be able to persuade enterprises to endow IASC with permanent capital, as a source of investment income to fund part or all of IASC's work;

- (e) without a fair and equitable agreement for sharing publications revenue, publications revenue might drop if national standard setters adopted IAS and companies looked to national requirements instead of to IASC pronouncements;
 - (f) by co-operating on projects on a rotational basis, national standard setters may save substantial costs overall. Therefore, it would be reasonable for national standard setters to devote significant resources to the Standards Development Committee (salary of the individual serving on the Standards Development Committee, travel costs, staff support, space, communications);
 - (g) professional accountancy bodies carry out the standard setting role in many countries. Some of them may be reluctant to finance an international body when the majority of their local members do not operate in the international arena, as those local members may not realise how international co-operation leverages the resources that are available for standard-setting. However, they may be able to contribute funding not only in cash but also through secondments and through outsourcing of work to them; and
 - (h) developing countries are unlikely to have the resources to pay a full contribution towards the cost of IASC. However, although any contribution structure is likely to include a subsidy from more established economies, this is likely to be in the public interest and in the interests of both developing and more established economies. Bodies such as the United Nations and the International Finance Corporation may be willing to support translations of International Accounting Standards and other work by IASC for emerging markets. They may also be willing to fund part of the cost of a Board seat for developing countries as IFAC does at present.
62. The Working Party sees merit in a funding model that relies more or less equally on funding from a number of reasonably well-defined groups. An example would be a model that looks to the accountancy profession, government and the business community to provide roughly equal proportions of IASC's funding. The most effective and efficient way to collect the business community's contribution might be through stock exchanges. The Working Party recognises that funding is a vital issue and aims to develop a more detailed funding plan during the period for public comment on this Discussion Paper. In the meantime, the Working Party would welcome comments on funding.

Conclusion

63. The completion of IASC's current work programme to develop the IOSCO core standards is now imminent. However, IASC will face even greater challenges as it works, in partnership with national standard setters, for further convergence between national standards. Therefore, it is vital to give IASC the right structure for the beginning of the twenty-first century. The Working Party invites all parties affected by accounting standards to play a full part in this important debate.

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