

INVITATION TO COMMENT

The Working Party welcomes comments on the questions set out below and on any other aspects of its proposals. If commentators put forward other proposals, the Working Party would like them to explain how their proposals satisfy the objectives identified by the Working Party.

Comments should be submitted in writing so as to be received by **30 April 1999**. All replies will be put on public record unless confidentiality is requested by the commentator. Comments should be addressed to:

**The Secretary-General
International Accounting Standards Committee
166 Fleet Street
London EC4A 2DY
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Fax: +44 (171) 353-0562
E-mail: CommentLetters@iasc.org.uk

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.

The Working Party particularly welcomes answers to the following questions, with reasons for those answers.

Objectives

- Q1. Do you agree that 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.

These proposed comments should be read in the light of the Working Party's comments on the focus of IASC's work. Do you have any comments on the focus of IASC's work? (see paragraphs 28-70)

Structure of IASC - Key Issues

Q2. The Working Party has identified the following key issues that must be addressed to give IASC a structure that will enable it to continue meeting its objectives:

- (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.

Do you agree that these are the key issues to be addressed in developing an effective structure for IASC? (see paragraphs 112-123) The Working Party's proposals for improving IASC's due process are discussed separately below (see Question 6).

Structure of IASC - Addressing the Key Issues

Q3. 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.

These proposals are set out in paragraphs 124-200 and summarised in tables 1 and 2 on pages 12 to 17 and in Figures 1 and 2 on pages 18 and 19.

Do you support the Working Party's proposals? Should any changes be made to these proposals? Should the Working Party consider any other ways of meeting the needs identified above? If commentators put forward other proposals, the Working Party would like them to explain how their proposals satisfy the objectives identified by the Working Party.

Approval of International Accounting Standards

- Q4. 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.

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.

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 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 proposed Exposure Drafts and Standards submitted by the Standards Development Committee within three months of receipt or, if later, at its next meeting.

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).

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.

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.

The Working Party believes that these proposals will ensure reasonably widespread acceptance for IASC's work, without undue risk of paralysing the work of the Standards Development Committee. This will also give genuine decision-making power to both bodies.

Do you support this proposal (see paragraphs 164-178)?

Under the Working Party's proposal, positive approval by the Board would still be required for all International Accounting Standards and Exposure Drafts. Do you agree that such Board approval should be required? Or do you believe that the Board should have no power to delay or reject Standards or Drafts?

If you do not support the proposal set out in paragraphs 164-178, please indicate what changes should be made and explain how your proposal will address the following 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.

Approval of SIC Interpretations

- Q5. At present, Board approval is required for a final Interpretation. Do you agree that:
- (a) a SIC final Interpretation should require approval by the Standards Development Committee, and that approval by the Board should no longer be required; and
 - (b) the approval of a final Interpretation should require the same majority in the Standards Development Committee as a decision to submit an Exposure Draft or Standard to the Board for approval (seven votes out of 11)?

Should any other changes be made to the structure or operations of the SIC (see paragraphs 96-99 and 184-189)?

Due Process

- Q6. Should any changes be made to IASC's due process (see paragraphs 108-110 and 201-214)? In particular, should IASC:
- (a) open all discussions of the proposed Standards Development Committee, Standing Interpretations Committee and Board on technical issues to the public;
 - (b) open portions of Trustees' meetings to the public, at the discretion of the Trustees;
 - (c) make more use of new technology, such as the Internet, the web site, and electronic observation of open meetings;
 - (d) publish in advance the agendas for each meeting of the Standards Development Committee, Standing Interpretations Committee, Board and Trustees and 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. IASC also publishes Board decisions immediately after each Board meeting in *Update* and SIC decisions in *News from the SIC*);
 - (e) publish a Basis for Conclusions with its Standards;
 - (f) publish with its Standards any dissentient opinions (i.e. statements explaining why one or more Board Members or members of the Standards Development Committee voted against the Standards);
 - (g) hold public hearings for some or all projects (without a requirement to do so in every case);
 - (h) carry out field tests of some or all of its proposals (without a requirement to do so in every case);
 - (i) publish translations of International Accounting Standards (as well as other documents, such as Exposure Drafts);
 - (j) ask Members of IASC, or others, to control the quality of those translations that IASC does not publish itself;

- (k) lengthen comment periods for Exposure Drafts and other documents;
- (l) distribute Exposure Drafts (and other documents issued for comment) without charge, if it is financially feasible to do so; or
- (m) make other changes to its due process (please specify these changes)?

Implementation, Enforcement and Training

Q7. Should IASC:

- (a) be more pro-active in reviewing national standards in order to assess whether those national standards result in compliance with International Accounting Standards;
- (b) 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:
 - (i) pays for the advice on a fully self-financing basis; and
 - (ii) gives IASC satisfactory indemnities against legal action by those who dispute alleged departures;
- (c) be more pro-active in identifying departures from International Accounting Standards and reporting those departures to national enforcement agencies, supranational bodies such as IOSCO or the Basle Committee, IFAC or IASC's own Member bodies;
- (d) publish training material, illustrative examples and other implementation guidance, such as staff bulletins;
- (e) introduce a technical enquiry service;
- (f) hold training courses (if you think that IASC should provide training, please specify whether such courses should be self-financing); or
- (g) do anything else to improve the implementation, enforcement and training of International Accounting Standards?

These issues are discussed in paragraphs 215-220.

Funding

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.

- Q8. Should IASC make any changes to the way in which it is funded? (paragraphs 221-235)

Do you support a funding model that relies more or less equally on funding from a number of reasonably well-defined groups? If you support such a model, which groups should participate in the funding and on what basis? 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.

Do you have any other suggestions for funding IASC?

Other Comments

- Q9. Do you have any other comments on the structure of IASC?

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