



Mr. Gerrit Zalm  
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cc: Tamara Oyre

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Ref.: FRP/HvD/SS/SR

Dear Mr. Zalm,

**Re: Part 2 of the IASCF Review of the Constitution: *Proposals for Enhanced Public Accountability***

(1) FEE (the Federation of European Accountants) welcomes the opportunity to comment on Part 2 of the IASCF Review of the Constitution: *Proposals for Enhanced Public Accountability*. FEE also wishes to reiterate a number of the views expressed at earlier occasions, including the meeting with you and some other Trustees of and 22 July 2009 and our comment letter on the ***Review of the Constitution: Identifying Issues for Part 2 of the Review*** of 27 March 2009.

(2) Our main observations are the following:

- We strongly support a specific reference to the principles-based approach in the Constitution. This would add to the credibility of the accounting standards as well as the IFRS Board and give a clear indication to the market of the direction in which the IFRS Board is heading when it expresses its support for principle-based standards;
- We support the introduction of a fast track procedure, but underlines the importance to use such a procedure only in rare circumstances and for issues of wide concern amongst the community of IFRS stakeholders;
- We continue to call on the IFRS Foundation to require a public consultation process on the IFRS Board work plan. A specific procedure or criteria needs to be in place - with appropriate oversight - for adding issues to, but also deleting issues from, the work plan.

## Detailed responses to questions asked in the paper

***Question 1: The Trustees seek views on the proposal to change the name of the organisation to the 'International Financial Reporting Standards Foundation', which will be abbreviated to 'IFRS Foundation'. The Trustees also seek views on the proposal to mirror this change by renaming the International Accounting Standards Board (IASB) as the International Financial Reporting Standards Board, which will be abbreviated to 'IFRS Board'. Do you support this change in name? Is there any reason why this change of name might be inappropriate?***

- (3) FEE would have no objections to the change in name and would see it merely as the aligning of the names of the Foundation and the Board with the name of the standards: IFRS.

***Question 2: The Trustees seek views on the proposal to replace all references to 'accounting standards' with 'financial reporting standards' throughout the Constitution. This would accord with the name change of the Foundation, the Board and the formal standards developed by the IASB-International Financial Reporting Standards (IFRSs). Do you support this change?***

- (4) FEE would have no objections to this change and would see it as a logical consequence of the change in name.

***Question 3: The Trustees seek views on their proposal to change section 2 as follows:***

*The objectives of the ~~IASB~~ IFRS Foundation are:*

*(a) to develop, in the public interest, a single set of high quality, understandable, ~~and enforceable~~ and globally accepted accounting-financial reporting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions;*

*(b) to promote the use and rigorous application of those standards;*

*(c) in fulfilling the objectives associated with (a) and (b), to take account of emerging economies and, as appropriate, the special needs of small and medium-sized entities ~~and emerging economies~~; and*

*(d) to bring about convergence of national accounting standards and ~~International Accounting Standards and~~ International Financial Reporting Standards (IFRSs, being the standards and interpretations issued by the IFRS Board) to high quality solutions.*

*Do you support the changes aimed at clarity?*

- (5) FEE doubts whether the changes proposed to Article 2 are helpful. We regret that some of our proposals in our letter of 27 March 2009 have not been further considered. In particular believe that the Constitution should be aligned with the new Conceptual Framework which has dual objectives: economic decision-making and stewardship. The Constitution should therefore also address stewardship in its objective since stewardship is a basic characteristic of accounting and financial reporting. Accountability of management is important for users and existing shareholders to take decisions about the ability of management to generate economic value. It has been the main reason for producing financial statements in Europe. For SME reporting, the objective of stewardship is even more important than the predictive value of reporting.
- (6) Furthermore we are of the opinion that subparagraph (c) remains unclear: what is meant by “taking account of, as appropriate”. The proposed changes have not brought the necessary clarification in this respect.
- (7) In addition we note that the Trustees have decided not to include a specific reference to principle based standards. We regret this decision. We would have welcomed, as stated in our comment letter of 27 March 2009 the expressed commitment by both the IFRS Board and the IFRS Foundation for principle-based standards. Therefore we strongly support a specific reference to the principle-based approach in the Constitution. This could be achieved by changing paragraph 2(a) of the Constitution to refer to “high quality, **principles-based**, understandable, enforceable and globally accepted financial reporting standards”. In addition a similar reference may need to be included in the Framework. We believe the IFRS Board should determine and set out the main attributes of principle-based standards. This would add to the credibility of the accounting standards as well as the IFRS Board and give a clear indication to the market of the direction in which the IFRS Board is heading when it expresses its support for principle-based standards.
- (8) As set out in our policy statement of July this year on the Future Approach to Setting Global Financial Reporting Standards we believe that the IASB’s convergence strategy has delivered good results since the IASB was created in 2000 and was appropriate during that period. Many countries have now either adopted IFRS in full or have substantially reduced the differences between IFRS and their national standards. The convergence project has been instrumental in eliminating the reconciliation requirement between IFRS and US GAAP and in advancing the objective of IFRS adoption in the US. FEE believes, however, that we are now in a period of diminished returns from further convergence due to the rapid increase in complexity, without hardly any additional benefit to investors that arises when seeking to eliminate increasingly smaller differences between IFRS and other standards. We are therefore of the opinion that the objective of convergence should be removed from the Constitution and paragraph 2(d) should focus on the adoption of IFRS.

**Question 4: The Trustees seek views on the proposal to amend section 3 of the Constitution as follows:**

*The governance of the IASB IFRS Foundation shall primarily rest with the Trustees and such other governing organs as may be appointed by the Trustees in accordance with the provisions of this Constitution. A Monitoring Board (described further in sections 18–23) shall provide a formal link between the Trustees and public authorities. The Trustees shall use their best endeavours to ensure that the requirements of this Constitution are observed; however, they ~~are empowered to~~ may make minor variations in the interest of feasibility of operation if such variations are agreed by 75 per cent of all the Trustees.*

**Do you support this clarifying amendment?**

- (9) We agree that the creation of a link between the Trustees and the Monitoring Board is a necessary, as well as appropriate, measure to establish such democratic oversight and to enhance the credibility of both the IFRS Foundation and the IFRS Board. We support the inclusion of the sentence referring to the Monitoring Board providing a formal link between the Trustees and the public authorities.
- (10) The Monitoring Board should be limited to exercising oversight over the governance of the IFRS Foundation. This should not include the right to participate in or exercise influence over the work plan and technical activities of the IFRS Board.

**Question 5: The Trustees seek views on the proposal to amend section 6 of the Constitution as follows to include one Trustee from each of Africa and South America:**

*All Trustees shall be required to show a firm commitment to the IFRS IASB Foundation and the IFRS Board IASB as a high quality global standard-setter, to be financially knowledgeable, and to have an ability to meet the time commitment. Each Trustee shall have an understanding of, and be sensitive to, the challenges associated with the adoption and application of high quality global accounting financial reporting standards developed for use in the world's capital markets and by other users. The mix of Trustees shall broadly reflect the world's capital markets and diversity of geographical and professional backgrounds. The Trustees shall be required to commit themselves formally to acting in the public interest in all matters. In order to ensure a broad international basis, there shall be:*

- (a) six Trustees appointed from the Asia/Oceania region;*  
*(b) six Trustees appointed from Europe;*  
*(c) six Trustees appointed from North America; and*  
*(d) one Trustee appointed from Africa;*  
*(e) one Trustee appointed from South America; and*  
*~~(f) four~~ two Trustees appointed from any area, subject to maintaining establishing overall geographical balance.*

***Do you support the specific recognition of Africa and South America?***

- (11) We believe that the geographical distribution of the Trustees is important. We consider that the current and prospective committed users of IFRS (preparers, users and other stakeholders) both in geographical terms and economic weight must be properly reflected in the appointment of the Trustees. Therefore we support the amendment introducing reserved seats for Africa and South America.

***Question 6: The Trustees seek views on the proposal to amend section 10 of the Constitution as follows to allow up to two Trustees to be appointed as vice-chairmen of the Trustees.***

*The Chairman of the Trustees, and up to two Vice-Chairmen, shall be appointed by the Trustees from among their own number, subject to the approval of the Monitoring Board. With the agreement of the Trustees, regardless of prior service as a Trustee, the appointee may serve as the Chairman or a Vice-Chairman for a term of three years, renewable once, from the date of appointment as Chairman or Vice-Chairman.*

***Do you support the constitutional language providing for up to two Vice-Chairmen?***

- (12) FEE has no objections to introducing up to two Vice-Chairmen.

***Question 7: The Trustees seek views on the proposal to make no specific amendments to sections 13 and 15, but to address the valid and important concerns raised by commentators by way of enhanced accountability, consultation, reporting and ongoing internal due process improvements.***

- (13) FEE agrees that there is no need to change the text of the Constitution and commends the IFRS Foundation intention to address concerns expressed by commentators such as on the agenda setting process by way of enhanced accountability, consultation, reporting and ongoing internal process improvements.

***Question 8: Section 28 would be amended as follows:***

*The ~~IASB~~ IFRS Board will, in consultation with the Trustees, be expected to establish and maintain liaison with national standard-setters and other official bodies ~~concerned with an interest in standard-setting in order to assist in the development of IFRSs and to promote the convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards~~ IFRSs.*

***Do you support the changes aimed at encouraging liaison with a broad range of official organisations with an interest in accounting standard-setting?***

- (14) FEE supports the suggested change in the wording of the Constitution and supports the IFRS Board consulting a broad range of organisations with an interest in financial reporting and or standard setting, including EFRAG.

**Question 9: The Trustees seek views on the proposal to amend section 30 of the Constitution as follows to permit the appointment of up to two Board members to act as vice chairmen of the IASB.**

*The Trustees shall appoint one of the full-time members as Chairman of the ~~IASB~~ IFRS Board, who shall also be the Chief Executive of the IASC IFRS Foundation. ~~One~~ Up to two of the full-time members of the ~~IASB~~ IFRS Board shall may also be designated by the Trustees as a Vice-Chairman, whose role shall be to chair meetings of the ~~IASB~~ IFRS Board in the absence of the Chairman or to represent the Chairman in external contacts in unusual circumstances (such as illness). The appointment of the Chairman and the designation as Vice-Chairman shall be for such term as the Trustees decide. The title of Vice-Chairman would not imply that the individual member (or members) concerned is (or are) the Chairman-elect.*

(15) FEE has no objections to introducing up to two Vice-Chairmen. It could be considered to introduce requirements concerning geographical spread and language diversity in the Constitution itself.

**Question 10: The Trustees seek views on the proposal to amend section 31 to allow for altered terms of appointment for IASB members appointed after 2 July 2009. The proposed amendment is to allow for Board members to be appointed initially for a term of five years, with the option for renewal for a further three-year term. This will not apply to the Chairman and Vice-Chairman, who may be appointed for a second five-year term. The Chairman or Vice-Chairman may not serve for longer than ten consecutive years. The proposed amendments to section 31 are as follows:**

*Members of the ~~IASB~~ IFRS Board appointed before 2 July 2009 shall be appointed for a term of up to five years, renewable once for a further term of five years. Members of the IFRS Board appointed after 2 July 2009 shall be appointed initially for a term of up to five years. Terms are renewable once for a further term of three years, with the exception of the Chairman and a Vice-Chairman. The Chairman and a Vice-Chairman may serve a second term of five years, but may not exceed ten years in total length of service as a member of the IFRS Board.*

**Do you support the change in proposed term lengths?**

(16) FEE has no objections to these changes.

**Question 11: The Trustees seek views on the proposal to insert in section 37 (to become section 38) of the Constitution an additional subsection as follows to allow the Trustees, in exceptional circumstances, to authorise a shorter due process period. Authority would be given only after the IASB had made a formal request. The due process periods could be reduced but never dispensed with completely.**

*The ~~IASB~~ IFRS Board shall:*

*(a) ...*

*(b) ...*

*(c) in exceptional circumstances, and only after formally requesting and receiving prior approval from the Trustees, reduce, but not eliminate, the period of public comment on an exposure draft below that described as the minimum in the Due Process Handbook.*

- (17) FEE supports this addition to the Constitution and underlines that importance to use such a procedure only in rare circumstances and for issues of wide concern amongst the community of IFRS stakeholders. FEE notes that the explanation of the proposal indicates that The Trustees decision should be made at a public meeting. It would be helpful to clarify what is meant by a public meeting and whether this could involve a telecom meeting. In case it must be a physical meeting it might be difficult to organise a meeting with a quorum of members at short notice.
- (18) FEE assumes that the SAC will be consulted on the use of the fast track procedure. This consultation process should also be specified in the Constitution.

***Question 12: The Trustees seek views on the proposal to amend section 37(d) (to become section 38) of the Constitution as follows to expressly provide that the IASB must consult the Trustees and the SAC when developing its technical agenda.***

*The ~~IASB~~ IFRS Board shall:*

*~~(e)(d)~~ have full discretion in developing and pursuing the technical agenda of the ~~IASB~~ IFRS Board, after consulting the Trustees (consistently with section 15(c)) and the SAC (consistently with section 44(a)), and over project assignments on technical matters: in organising the conduct of its work, the ~~IASB~~ IFRS Board may outsource detailed research or other work to national standard-setters or other organisations;*

- (19) We appreciate that it is proposed that the Constitution explicitly refers to the process of consultation on the technical agenda with the Trustees and the SAC. However, we strongly regret that no formal public consultation is envisaged. We acknowledge in particular that the SAC in its new composition is representing stakeholder organisations but believe that a public consultation in addition to SAC consultation is needed since the SAC can never be a comprehensive representation of all stakeholder interests and the IASB would just benefit from such wider contribution.
- (20) The agenda setting process has been identified as a main area for improvement, not only by FEE but by a wide range of European financial reporting stakeholders as discussed in the meeting of 22 July at the FEE premises with Mr. Zalm Chairman of the IFRS Foundation and some Trustees. In this respect we refer to our letter to Paul Cherry, Chairman of the SAC on the IASB agenda dated 6 November 2009.

- (21) FEE continues to call on the IFRS Foundation to require a regular public consultation process on the IFRS Board work plan. A specific procedure or criteria needs to be in place - with appropriate oversight - for adding issues to, but also deleting issues from, the work plan. Completion of such a public consultation would also assist in getting the priorities right and contribute to solving the problem of agenda overload, which is at present causing serious delay to some of the most important projects and is resulting in too many changes in the standards at relatively short intervals.
- (22) Before issues are added to the agenda, a needs analysis including an initial costs/benefits analysis needs to be carried out to demonstrate that there is a genuine need for a new standard in areas not already covered by an existing standard or a revised standard when an existing standard is deficient. In this context also the ability of preparers to apply new standards and of users to understand the consequences of the application of new standards has to be considered.
- (23) The heaviness of the agenda is of serious concern to us. Stakeholder organisations have at present significant difficulties to cope with the overload of IFRS Board pronouncements on which comments are sought within tight deadlines. Commenting on the current high number of IFRS Board pronouncements draws heavily on our limited resources and may have an impact on the quality of the comments submitted to the IFRS Board with the ultimate risk of diminishing quality of the resulting standards and thus financial reporting.
- (24) The IASB should change its strategy and concentrate exclusively on major improvements and simplifications in IFRS over the medium term. To this end, it should work together with standard setting bodies from around the world, so that all stakeholders can be fully engaged and ensure that the quality of IFRS is not compromised. The number of active projects should be reduced significantly and attention should be focused on those projects that really set the scene for the development of future standards.
- (25) It is of concern to us that situations have arisen where a clear majority of major categories of commentators expressed serious concerns about a proposed standard but their comments are rejected on the basis that they raise no new arguments and that these arguments have already been considered by the IASB during the development of the proposed standard. An example of such situations is the revision of IAS 19 on employee benefits. The fact that comments are raised by a substantial majority of major categories of commentators in all stages of the standard setting process, in itself, should oblige the Board to discuss the concerns again and to reconsider the impact assessment and needs analysis in order to assess whether all practical implications have been appropriately considered.

***Question 13: Trustees seek views on the proposal to make no amendment to sections 44 and 45 (renumbered as 45 and 46), which are the provisions relating to the SAC, at this time.***

- (26) FEE agrees that at this stage no further amendments are needed to the sections concerning the SAC. First further experience should be gained with the functioning of the new SAC on a representation basis.

(27) The Trustees should monitor the performance of the SAC in order to determine whether it now fulfils its intended function and role following its recent reorganisation.

***Question 14: The Trustees seek views on the proposal to amend section 48 by removing specific staff titles and replacing it with the term 'the senior staff management team'. Accordingly section 49 should be deleted. The Trustees also seek comment on the proposal to update the Constitution by removing all historical references that relate to when the organisation was established in 2001.***

(28) FEE has no objections to these amendments.

We would be pleased to discuss with you any aspect of this letter that you may wish to raise with us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Hans van Damme', is written over a horizontal line. The signature is stylized and cursive.

Hans van Damme  
President