



Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
Organisation Internationale des commissions de valeurs
Organizaçáo Internacional das Comissões de Valores

16 February 2005

Erik Wong
Project Manager
IASC Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Erik,

The Technical Committee ("TC") of the International Organization of Securities Commissions ("IOSCO"), in conjunction with this Standing Committee No. 1 on Multinational Disclosure and Accounting ("SC1"), submits this letter regarding the International Accounting Standards Committee Foundation ("Foundation") paper entitled *Review of the Constitution – Proposals for Change* ("Proposal"). Our committee members are securities regulators in the world's most developed markets with liaison members from developing markets.

As we indicated in our letter dated 9 February 2004, we place a high degree of importance on the work of the IASB and the oversight provided by the IASC Foundation. In doing so, we actively monitor and respond to the proposed standards and interpretations. We are pleased to see that Foundation's proposals have incorporated many of the changes that were recommended in our February 2004 comment letter.

We have a number of additional comments that we would like the Foundation to consider, that emanate from the four key principles that we identified in our February letter:

- A. **It is important to protect the independence of the IASB.** This review effort, and any resulting amendments to the Foundation's Constitution, should reinforce the independence of the standard setting process.
- B. **The needs of investors should be paramount in IFRS.** The primary goals of accounting and financial reporting should be to provide transparent, relevant, and reliable information about the financial position and results of operations of an entity.
- C. **Board members should be chosen based on their knowledge and qualifications, as well as their ability to help the Board complete its mission.** Trustees should select Board members with a view towards assembling the Board that, taken as a whole, can best meet the needs of investors by establishing high-quality standards.
- D. **A credible authoritative standard setter needs transparent and effective due process.**

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We believe that these principles are fundamental to the Foundation's structure and processes, and consider it critical that any changes to the Constitution resulting from comments received regarding the Proposal must not jeopardize observance of these principles.

SPECIFIC COMMENTS

Topic #2: Number of Trustees and their geographical and professional distribution

The Committee believes that the structural changes proposed for the number of trustees and their geographical distribution are appropriate. We do however recommend that the Foundation consider restoring the original wording of the second sentence of paragraph 6. The original wording "shall have an understanding of, and be sensitive to, international issues relevant to the success of an international organization responsible for the development of high quality global standards...etc" would encompass the thoughts expressed in the proposed new wording. As the proposal is currently worded, this sentence seems to have a negative focus and seems to invite doubt as to whether it is possible to meet the Foundation's stated objective of developing "a single set of high quality, understandable and enforceable global accounting standards." We believe that the original wording of this sentence accurately and appropriately conveys the mindset required for current and future trustees, if such trustees are to ensure that the stated objections of the foundation will be met.

Topic #3: The oversight role of the Trustees

While we believe that the proposed changes to paragraph 16 of the Constitution largely reflect the current working relationship between the IASB and the Trustees and are consistent with our view that a credible standard setter requires a transparent and effective due process (principle D above), we question the insertion of language that could be interpreted as interference with the independence of the IASB and the Board's ability to set its own standards setting agenda. We observe that a fine line exists between the Trustees' ability to consider the Board's agenda, and their stated intention not to determine such agenda. For example, we encourage and expect that Board members are and will be free to consult with Trustees on matters regarding the Board's strategic mission and policies. In addition, we believe that the Trustees should, as a matter of principle, be free to refer items for the Board to consider as possible future agenda items. Notwithstanding these expectations, we believe that it is of the utmost importance that the independence of the IASB be protected. In order to ensure that future Trustees and constituents of the IASB do not misconstrue the Trustees' ability to "consider, but not determine" the IASB's agenda, we would suggest that the Foundation consider including a sentence in the Constitution explicitly indicating that the Trustees do not have the ability to veto or otherwise change the agenda set forth by the IASB.

As we stated in our February letter, the IASB has encountered a fair amount of resource constraints in its short existence. Thus, we would like to repeat our suggestions that the Trustees, in their oversight role, "evaluate whether the Board has access to adequate resources to effectively achieve its current and proposed work plan"¹, and that the Trustees "should seek to identify and maintain one or more sources of financing that free the Board from concerns that financial pressure could compromise the IASB's ability to complete its work or the independence of its

¹ Response to question 2 of February 2004 Invitation to Comment.

decision making.”² To this effect, we would like to see some specific recognition in the Constitution of the Trustees’ responsibility to see that the IASB has the human and financial resources necessary to achieve its mission.

Topic #5: *The composition of the IASB*

The proposed addition of the phrase “...including those using International Financial Reporting Standards” at the end of the last sentence of paragraph 5 of the Annex to the Constitution seems, to almost all of our members, to detract from the IASB’s role and status as the developer of a set of standards for worldwide use. By suggesting that the Board members should specifically have knowledge of issues in particular markets (i.e., markets that use IFRS), the revised paragraph seems to place undue emphasis on particular markets or suggest that the Board should concentrate its efforts on writing standards for those markets, as opposed to all the global markets. This is inconsistent with Section 2(a) of the Constitution, which states that an objective of the IASC Foundation is to “develop...a single set of high quality, understandable and enforceable global accounting standards...to help participants in the world’s capital markets and other users make economic decisions.” As the objective is to develop standards that can be used globally, any specific reference that makes the knowledge of issues in some markets more important than the knowledge of issues in others seems contrary to the goal. Because of this, nearly all of our members, believe that this phrase should not be added.

Paragraph 91 of the Proposal suggests that the purpose of adding the phrase referred to above would be “reflect the desire for IASB members to have some practical knowledge and understanding of the use of IFRSs...” If this is the case, a more direct statement to that effect might accomplish the goal. For example, the second sentence of paragraph 5 of the Annex could be replaced by “Thus, IASB members should have an overall knowledge and understanding of the use and impact of IFRSs.” The revised paragraph would then read:

- 5 Awareness of the Financial Reporting Environment.** High quality financial reporting will be affected by the financial, business and economic environment. Thus, IASB members should have an overall knowledge and understanding of the use and impact of IFRSs. This global awareness should include awareness of business and financial reporting issues that are relevant to, and affect the quality of, transparent financial reporting and disclosure in the various capital markets worldwide.

Such a statement would be consistent with the expectation that Board members should understand the body of standards they would be responsible for updating and enhancing.

A small number of our members take the position that jurisdictions that use IFRSs have a stronger interest in the further development of IFRSs. Those members support the change proposed by the Trustees to emphasize knowledge of conditions in jurisdictions using IFRS.

Topic #10: *The composition, role and effectiveness of the Standards Advisory Council (SAC)*

In our February 2004 comment letter, we recommended that the Trustees consider the following:

- Involving a subgroup of the SAC in a Trustee review of long-standing IASB projects.
- Requiring the IASB to make summaries of SAC meetings available on its website, and

² Key Principle A of response to February 2004 Invitation to Comment.

- Requiring that the basis for conclusions of a new standard include a discussion of advice provided by the SAC, and the manner in which such advice was taken into account by the Board in developing the final version of new standards.

The Technical Committee observes that none of these recommendations appear to have resulted in proposed changes to the operating procedures of the IASB or the SAC. While we are pleased that many of the recommendations made in our February letter have resulted in proposed changes to the Constitution and/or the operating procedures of the IASB, we are disappointed to see that our recommendations regarding the transparency of the IASB's interactions with the SAC were not adopted.

Due to their nature, we do not expect these recommendations to be acted upon as part of the Constitution review. In recognition of the fact that the success of the IFRS setting process will be based in part, transparency of the IASB's processes to its constituency, we trust that these recommendations will be re-considered in future initiatives involving the operating procedures of the IASB.

CLOSING REMARKS

The Trustees' review process demonstrates the importance placed by the Trustees' on ensuring that the IASB be recognized as the pre-eminent developer of high quality financial reporting standards that are capable of being interpreted, applied and enforced on a global basis. We appreciate the efforts that the Trustees have taken to incorporate comments received from the Technical Committee and as well as other commenters into the Proposal document.

We trust that our comments contained in this letter will receive similar consideration, and welcome having the opportunity to discuss these concerns with the Board of Trustees if the need arises. To this effect, please do not hesitate to contact myself as Chairman of the Technical Committee, or Scott Taub, Chairman of Standing Committee No. 1, or any of our members, regarding the review.

Sincerely,



Andrew Sheng
Chairman, Technical Committee

Attachment: Members of the IOSCO Technical Committee

cc: Paul A. Volcker, Chairman IASC Foundation
Tom Seidenstein, Director of Operations and Secretary, IASC Foundation

ATTACHMENT

Members of the IOSCO Technical Committee

Chairman

Mr. Andrew Sheng, Chairman, Securities and Futures Commission, Hong Kong

Vice Chairman

M. Michel Prada, Président Autorité des marchés financiers, France

Members

Australian Securities and Investments Commission, Australia
(Mr. Jeffrey Lucy, Chairman)

Autorité des marchés financiers, France
(M. Michel Prada, Président)

Bundesanstalt für Finanzdienstleistungsaufsicht (BAFin), Germany
(Mr. Jochen Sanio, President)

Securities and Futures Commission, Hong Kong
(Mr. Andrew Sheng, Chairman)

Commissione Nazionale per le Società e la Borsa, Italy
(Dr. Lamberto Cardia, Chairman)

Financial Services Agency, Japan
(Mr. Hirofumi Gomi, Commissioner)

Comisión Nacional Bancaria y de Valores, Mexico
(Mr. Jonathan Davis, Presidente)

The Netherlands Authority for the Financial Markets, Netherlands, The
(Mr. A.W.H. Docters Van Leeuwen, Chairman)

Ontario Securities Commission, Ontario
(Mr. David A. Brown, Chair)

Commission des valeurs mobilières du Québec, Quebec
(M. Jean St-Gelais, Président)

Comisión Nacional del Mercado de Valores, Spain
(Sr. Manuel Conthe, Presidente)

Swiss Federal Banking Commission (Commission fédérales des banques), Switzerland
(Dr. Kurt Hauri, Président)

Financial Services Authority, United Kingdom
(Mr. Hector Sants, Managing Director, Wholesale and Institutional Markets)

United States Securities and Exchange Commission, United States of America
(Mr. Roel Campos, Commissioner)

Commodity Futures Trading Commission (CFTC), United States of America
(Ms. Sharon Brown-Hruska, Acting Chairperson)