



Organización Internacional de Comisiones de Valores  
International Organisation of Securities Commissions  
Organisation internationale des commissions de valeurs  
Organização Internacional das Comissões de Valores

Madrid 9 February 2004

Paul A. Volcker  
Chairman, IASC Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Mr. Volcker:

The Technical Committee (“TC”) of the International Organization of Securities Commissions (“IOSCO”), in conjunction with its Standing Committee No. 1 on Multinational Disclosure and Accounting (“SC1”), submits this letter regarding the International Accounting Standards Committee Foundation (“Foundation”) paper entitled *Identifying Issues for the IASC Foundation Constitution Review – An Invitation to Comment* (“Invitation to Comment”). Our committee members are securities regulators in the world’s most developed markets with liaison members from developing markets.

IOSCO has long supported the work of the International Accounting Standards Board (“IASB”) in its efforts to develop International Financial Reporting Standards (“IFRS”) as a high-quality set of accounting standards that can be applied globally. We believe that such standards are essential to facilitating cross border capital flows, economic growth and development of efficient markets. As you are aware, the TC, SC1 and individual IOSCO members played active roles in the 1998-2000 strategy review of the former International Accounting Standards Committee, and in the creation of the new Board as a full-time, independent professional body in 2001. We continue to believe, as we stated in response to the 1999 strategy review, that, “Standards setting can most easily and efficiently be carried out by a relatively small group of technical experts, regularly working together and acting with appropriate advice, guidance, and technical support, especially in specialist areas.”

We place a high degree of importance on the work of the IASB and the oversight provided by the IASC Foundation. We continue to take a high interest in the work of the IASB and the IFRS setting and interpretation process by actively monitoring and responding to proposed standards and interpretations. We believe that the fundamental structure of the IASC Foundation and its Trustees, the IASB, SAC and IFRIC is sound. However, in an environment of constant change, all organizations benefit from seeking constructive criticism of their objectives and processes with a view towards achieving continuous improvements in quality. The comments in this letter represent consensus views of the TC. We look forward to participating actively in the review and expect to make further comments at an appropriate time.

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## **KEY PRINCIPLES**

We believe that the following principles are fundamental to the Foundation's structure and processes.

- 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.***

To support the development of the highest quality standards, the IASB must be able to work in an environment of independence. While an effective standard-setting body must carefully consider all inputs, it must then make what it believes to be the best decision. As such, the independent decisions of the IASB should determine IFRS.

Additionally, it is important that individual Board members feel free to express the views on technical matters that they deem best. As such, we do not believe that Board members should be subject to calls for removal from Board service based upon the technical decisions that they support in good faith.

To further ensure the continued independence of the Board, 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 decision making.

- B. The needs of investors should be paramount in IFRS. The primary goal 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.***

IFRS should be set with a view towards providing the best information possible for investors. This information should have, to the extent practicable, the qualities of financial information discussed in the IASB Framework, including neutrality, transparency, relevance, reliability, timeliness, and comparability. Additionally, the standards need to be operational so that they are capable of reasonable and consistent interpretation and enforcement in capital markets around the world.

The current Foundation constitution states that:

“The objective of the Foundation is to develop, in the public interest, a single set of high-quality, understandable and enforceable global accounting standards that require high-quality and 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.”

We acknowledge that there are many users of financial statements other than investors (employees, regulators, taxing authorities, vendors, customers, etc.), and even more users of the Board's standards (preparers, auditors, etc.). In most cases, standards can be developed that meet the needs of investors as well as the needs of these other groups. When the needs of the various groups conflict, however, we believe the Board should resolve those conflicts in favor of the interests of investors.

- 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.***

It is important that IASB members be selected with a goal of assembling a Board that can best accomplish its objective. In evaluating individuals for potential Board membership, we believe the candidates' qualifications should be evaluated against all of the criteria set forth in the Annex. Thus, while it is necessary for Board members to have technical competency, it is also important that they be adept at listening to, understanding and properly considering both technical and practical concerns raised by stakeholders of the Board. In addition, the skills and expertise of individual Board members should be complementary to the skills and expertise of other Board members, allowing the Board, as a whole, to be as effective as possible.

We also believe that an element of cultural and professional diversity among Board members is essential to achieving technically sound standards that are capable of rigorous and consistent application worldwide. However, we are not in favor of fixed distribution requirements or quotas, as they limit the Trustees' ability to fully consider all candidates' qualifications and to choose the best individuals available.

- D. A credible authoritative standard setter needs a transparent and effective due process.***

Transparent and participative due process is an essential ingredient in development of IFRS. As we stated in 1999, "Ultimately, adoption of [IFRS] will come from satisfaction with a high-quality product that is the output of a robust standard setting process where participants – including those not participating as members of the standard setting body – believe their views have been heard and considered in the debate." We believe that this quote is as applicable now as it was in 1999, and we note that there are concerns about whether the Board's due process is operating as effectively as it should be. We provide more elaboration on this issue in our remarks in Comments 2 and 6.

## **SPECIFIC COMMENTS**

The following are our detailed comments in response to certain questions raised in the Invitation to Comment, which have been numbered to facilitate reference between questions/responses. We have not chosen to comment on all of the questions asked.

### **Selection of IASCF Trustees**

- 1) Does the potential benefit of expanding the number of Trustees, possibly to accommodate a broader range of views, outweigh the risk that meetings would become more cumbersome and less effective if larger, potentially reducing a strong sense of commitment and participating by individual members?***

***The Trustees have a largely fixed geographical distribution. Is such a fixed distribution appropriate, or does the current distribution need review?***

***Although a broad distribution of professional backgrounds is clearly necessary, is the distribution enshrined in the Constitution appropriate?***

Amongst the responsibilities of the Trustees are the identification and appointment of Board Members and the oversight of the Board's work. In order to perform these tasks, we believe it is important that the Trustees be "representative of the world's capital markets and a diversity of geographic and professional backgrounds." This will help to ensure that Board members will be selected from the widest possible range of candidates. We believe the current geographical allocation of Trustees provides diversity; however, we would not object to increasing the current number of Trustees if it were deemed necessary to better achieve the Foundation's objectives. We do have reservations similar to those expressed in the Invitation to Comment regarding an increase in size.

In addition, we do not believe it continues to be necessary for the International Federation of Accountants to nominate five of the 19 Trustees. Rather, the Trustees should ensure that the accounting profession is appropriately represented amongst the trustees, and should consult with IFAC and other groups that represent the profession to ensure appropriate representation is achieved. This consultation should be similar to that required in the Constitution as relates to preparers, academics, and users.

Finally, we believe it would be helpful for the Trustees to clarify the manner in which they will measure their accountability and success in meeting the Foundation's objective. Transparency on this point would help to improve stakeholders' understanding of the Trustees' role in the standard setting framework.

### **Independence of the Standard Setting Process**

***2) The intention of these provisions [contained in paragraph 14] is to protect the independence of the standard-setting process while ensuring sufficient due process and consultation. Does there need to be a specific requirement for the Trustees to review the strategy and the procedures of the IASB at intervals?***

The international standard-setting environment has proven to be difficult due to the competing desires of its various stakeholders as well as the challenges of different national standards setting frameworks and customary practices. In addition, the Board has had to contend with:

- The demands of a new organization coupled with resource constraints;
- A relatively short time frame for developing and revising a large number of accounting standards before 2005; and
- The need to simultaneously work with national accounting standard setters in order to achieve international convergence.

Due to the likely continuance of these challenges, we agree with the Constitution's current requirement that the Trustees oversee and review annually the strategy of the IASB, including broad strategic issues affecting IFRS. In their oversight role, the Trustees should evaluate whether the Board has access to adequate resources to effectively achieve its current and proposed work plan. The results of the annual review should be included in the Annual Report of the Foundation. Finally, due to the continuously changing dynamics of the global environment, we believe that the practice of performing a review of the Constitution at least every five years should continue.

## **Trustees feedback to individual board members**

Among the Trustees' responsibilities identified in paragraph 14 of the Invitation to Comment are periodic reviews of the Board's performance. However, it is unclear whether these reviews include the individual performance of either the board chairman or the board members. If not included, we encourage the Foundation to examine the pros and cons of including such a requirement in the revised Constitution. We would envision that such reviews would evaluate Board members against the same criteria (as set forth in the Annex) used to select Board members. Those criteria are:

- Demonstrated technical competency and knowledge of financial accounting and reporting.
- Ability to analyze.
- Communication skills.
- Judicious decision-making.
- Awareness of the financial reporting environment.
- Ability to work in a collegial atmosphere.
- Integrity, objectivity and discipline.
- Commitment to the IASC foundation mission and public interest.

Notwithstanding this suggestion, we believe that evaluations of individual Board members should not be based on technical decisions made in good faith. Evaluations should focus on how Board members can improve their contributions to the Board's work consistent with the stated criteria for selection.

## **Composition of IASB**

### ***3) Should the number of IASB members be reduced to make the Board more workable? Should the part-time positions be eliminated in recognition that the workload of IASB members is heavy and requires substantial time for consultation with interested parties?***

While we do not currently have strong consensus views regarding the appropriate size of the Board or the mix of full and part-time Board member positions, we do believe that consideration of these issues is appropriate. We note that the optimal Board (and staff) size might be affected by various process or other changes that come out of this review. In addition, we believe that the Trustees should evaluate the usefulness of the part-time Board member positions against the benefits that were intended to be gained by creating those positions.

The projects the Board is addressing are complicated, and we believe that the issues can best be addressed in an atmosphere that encourages discussion amongst Board members, and between Board members and staff. In addition, as the Board is responsible for the standards, it is important that Board members provide appropriate direction to staff as they analyze the issues and draft portions of standards. We observe that such direction and discussions are best facilitated if Board members are in the IASB offices. While we understand that the Board members' responsibilities for liaison work and other activities may often require them to be outside the office, we believe that the Trustees should consider whether the proper balance of time spent in the office versus at offsite meetings or working from remote locations has been achieved.

**4) *Should the requirement for this distribution of professional backgrounds be relaxed in light of the desirability of attracting the best-qualified individuals?***

We recognize and agree that there needs to be a balance between the professional backgrounds of the Board's 14 members in order to promote high-quality standards. This balance is necessary to avoid domination by any one professional background and to promote diverse viewpoints. In order to provide the desired diversity, the professional experiences of Board members should at least reflect the four backgrounds described in paragraph 22 of the Invitation to Comment (practicing auditors, preparers, users of financial statements, academic background). However, we do not believe that specific quotas for distribution are necessary to achieve this, nor do we believe that these are necessarily the only professional backgrounds that should be sought out. Rather, the Trustees must consider whether the backgrounds of the Board members, on the whole, provide for the representation of relevant viewpoints.

In addition to the professional backgrounds, it is also important that the Board have access to knowledge and expertise in as many areas of accounting and reporting as possible. We recommend that the Trustees continually consider whether the Board and its staff have the right mix of competencies and professional backgrounds to address the ongoing demands of this work plan.

**Involvement of the User Community**

**5) *The IASC Foundation (like other standard-setting organizations) has experienced difficulty in securing the involvement of the analyst and investment community ("users"). Is there any way to encourage that group to increase its involvement?***

Although the analyst and investment community is often viewed as the pool from which representatives of users of financial information are drawn, we believe that others may also be able to represent user views. For example, regulators, rating agencies and lenders also have extensive experience using financial statement information to analyze and evaluate financial performance of an entity and make decisions that may impact the capital markets.

**Principles of Due Process**

**6) *The Constitution describes the principles and elements of required due process for the IASB. The IASB's procedures are listed in more detail in the Preface to IFRS. If respondents do not believe the procedures laid out in the Constitution are sufficient, what should be added?***

Each project that the IASB undertakes tends to draw a significant amount of interest and debate from its stakeholders. We believe that the following changes or additions to the Board's current procedures may prove helpful in enhancing both the execution and the understanding of the Board's due process.

**a) *Ensure that all relevant steps of due process are performed.***

A robust standard setting process should provide a forum for concerns of stakeholders to be heard and considered. To this effect, we believe that the Constitution or the Preface to IFRS should include a rebuttable presumption that each of the steps of due process identified in the Preface to IFRS are relevant and should thus be included in the project plan. The Board should be required to explain its reasons for skipping any such steps.

Some have suggested that the Board should seek input from its stakeholders earlier in its projects than it typically does. While this may not be a universal view, we note that more frequent use of due process steps such as: (1) the creation and early consultation with steering committees and (2) the publication of discussion papers would provide stakeholders with the chance to provide input before an exposure draft is published.

**b) Provide advisory group members and the public with a clear description of the role that advisory groups play in the standard setting process.**

Advisory groups can play an important role in standard setting. However, it is important for these groups to be used effectively and for the Board, the staff, and the advisory group participants to have a clear understanding of the roles and the objectives of the group as well as how the group's input is to be considered by the Board. We are not sure that goals, objectives, and procedures have been effectively set and communicated to project advisory groups thus far. We believe the Board and the staff should set out such goals, objectives and procedures clearly before volunteers to be part of the group are sought.

While participation on an advisory group does not convey decision-making power, advisory group participants can provide valuable insights and information to IASB members. Market participants who are also influential decision makers within their organization seem to be the optimal candidates for these groups. Such individuals typically have the skills and insight necessary to provide valuable input to the Board, and the Board and staff should take steps to communicate the importance of having this level of persons volunteer to serve on the groups. Clarifying and clearly communicating goals, objectives, and procedures, as discussed in the previous paragraph, might be helpful in securing the commitment of appropriate participants.

The Board may also wish to examine whether smaller advisory groups would be easier to manage and create an atmosphere that is more focused and conducive to the healthy exchange of ideas.

**c) Make an outline of the IASB's plan for each project widely available to the public at the outset of each project. Update as necessary and supplement with periodic summaries of tentative decisions reached to date.**

IASB projects tend to continue for an extended period of time and specific parts of such projects are discussed in many different meetings. Without observing every meeting in which a given project is discussed, it may be difficult for interested parties to obtain a good understanding of the project, and the decisions reached to date. To this end, we would suggest that the Trustees examine methods to provide users with a better understanding of the current project status.

This might be achieved by providing enhanced outlines of each project to include more timely and detailed summaries. These summaries should be timely and, when applicable, clearly compare decisions reached to date with the applicable paragraph(s) in the related exposure draft or standard that is being revised. As stakeholders, we find such analyses to be valuable in tracking and understanding developments that occur during the Board's deliberations.

To identify other methods of updating the public on the Board's deliberations, the Trustees might consider examining the manner in which other organizations inform their constituencies during significant decision-making activities.

**d) Perform a review of the progress of lengthy projects.**

We note that the IASB has recently initiated reviews on its Performance Reporting and Insurance Projects, due to the fact that such projects had been on the active agenda for over two years without a statement being released. When deemed appropriate, we recommend that the Trustees oversee future reviews of long-standing projects. Such reviews should examine the progress of the project and help determine whether the project should be continued or modified. Involving a subgroup of the SAC or the project advisory group may be helpful in performing these reviews. In addition, we believe the results of the reviews should be made publicly available, so that they will be more transparent.

**e) Evaluate ways in which the Board could consider and document the cost -benefit implications of its projects.**

All standard-setters must evaluate whether the benefits of a new standard will outweigh the costs of developing, implementing, and enforcing that standard. We believe that the IASB does indeed consider these issues in selecting its projects and throughout the course of those projects. However, this consideration is neither formal nor transparent to many stakeholders. Although quantifying the costs and, especially, the benefits of new accounting standards can be difficult, we believe that improvement in communication of the Board's consideration of cost-benefit issues would be helpful.

**f) Make IASB, SAC, and IFRIC meetings available by telephone or webcast.**

In the past, IASB meetings have been available by telephone only if there is sufficient demand. We understand that the Board is evaluating the feasibility of making its meetings available to stakeholders via an internet webcast and note that the January Board meeting was made available in this way. We commend the Board for looking at this approach to enhance transparency. Providing broad access to Board meetings via both telephone and internet connection will likely generate goodwill between the Board and its stakeholders, and foster better understanding of the Board's progress by interested parties. Therefore, we hope that access by these means will be regularly available in the near future.

**g) Make Board papers available to the public prior to each meeting.**

We understand that the Board and the Foundation are currently considering making Board papers available to the public. We believe making papers available would be a significant improvement to the Board's transparency.

**Formal Liaison Relationships**

**7) *Does this kind of formal liaison relationship seem important for ensuring convergence of accounting standards? Should special consideration be given to liaison with emerging economies, not currently represented by the existing liaison relationships?***

As convergence is amongst the Foundation's goals, we support establishing and maintaining liaison relationships with organizations involved in the global capital markets. In order to promote the global use and rigorous application of IFRS, we encourage the Trustees to consider the following points:



- Whether those charged with maintaining liaison relationships in a particular jurisdiction should also include other stakeholders (e.g., national securities, banking, and other regulators, auditor oversight boards, user groups, etc.) in their liaison activities. These relationships would provide Board and its staff with a better understanding of the various issues involved in converging international accounting standards.
- Whether these formal liaison relationships could be established and maintained by parties other than Board members, such as senior members of the IASB staff.
- Whether such liaison relationships should have an established set of expectations on which to measure effectiveness.

### **Standards Advisory Council**

#### **8) *Are the current procedures and composition, in terms of numbers and professional backgrounds, of the SAC satisfactory? Is the SAC able to accomplish its objectives as defined in Section 38?***

We believe that the SAC has an important role to play in providing the Board with a global perspective as well as fostering broad support for IFRS. Many believe that the SAC could operate in a more efficient manner. Therefore we recommend that the Trustees re-examine the structure and operations of the SAC. The Trustees may wish to consider the following points, amongst others:

- Currently, the Constitution does not require the SAC to act in the public interest. We believe that all organizations falling under the umbrella of the Foundation should be required to do so.
- The IASB Chairman currently serves as the Chairman of the SAC. We believe that the IASB Chairman should not assume this role. Rather, the Chairman of the SAC should be selected from the population of SAC members, either by the Trustees, or by the SAC itself.
- As stated in the Constitution, the primary responsibility of the SAC is to provide advice to the Trustees and the Board on a variety of matters. Some perceive a lack of transparency regarding how the SAC's advice is considered by the IASB in its deliberations. Making summaries of SAC meetings available on the IASB's website would provide stakeholders with a better understanding of the advice provided by the SAC. Further understanding could also be achieved by disclosing in periodic updates and the IFRS' basis for conclusions the manner in which the Board considered such advice.

Additionally, the Trustees should consider whether:

- The SAC's current size facilitates or diminishes its ability to achieve its objectives of providing advice to the IASB and/or the Trustees.
- The SAC could benefit from establishing subcommittees on specific issues.
- The three objectives of the SAC are appropriate in scope or require further elaboration and/or definition.

## **OTHER COMMENTS**

### ***IFRIC***

Despite considerable efforts by the IFRIC and the IASB staff supporting it, we note that only four draft interpretations (and no final interpretations) have been issued since the IFRIC's creation 22 months ago. This may be indicative of the fact that: (a) the process by which IFRIC creates interpretations is too elaborate or (b) the scopes of the issues that IFRIC is addressing are too broad. As part of the review, we recommend that the Trustees examine whether revisions are required to the IFRIC's responsibilities, as identified in paragraph 37 of the Constitution, and the manner in which these responsibilities have been carried out.

### ***Review of the Framework***

Some have questioned whether projects on the Board's agenda have resulted in proposed or issued standards that are inconsistent with the IASB Framework. Indeed, the appropriateness of the Framework itself has been questioned. In noting this, we acknowledge that the Board has inherited its existing Framework from its predecessor organization. We also note that due to time concerns, the Board has not had the luxury of re-considering this Framework yet. To address concerns regarding the perceived inconsistencies, we believe that the Board should conduct a review of the Framework as soon as possible.

## **CLOSING REMARKS**

The TC is supportive of this review process and wish to have the opportunity to share views and thoughts with the Constitution Review Committee. We invite the Chairman of the Board of Trustees, the Constitution Review Committee and/or others from the Foundation to attend a meeting of the TC and/or SC1 if it would be considered helpful. In addition, we would appreciate having an opportunity for TC and SC1 representatives to participate in any roundtables or other discussion meetings that may be held during the course of the review. Please do not hesitate to contact Andrew Sheng, 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: 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

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

#### 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. Shokichi Takagi, 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. Pierre Godin, Président)*

Comisión Nacional del Mercado de Valores, **Spain**

*(Sr. Blas Calzada, Presidente)*

Swiss Federal Banking Commission (Commission fédérales des banques), **Switzerland**

*(Dr. Kurt Hauri, Président)*

Financial Services Authority, **United Kingdom**

*(Mr. Callum McCarthy, Chairman)*

Commodity Futures Trading Commission (CFTC), **United States of America**

*(Mr. James E. Newsome, Chairman)*

United States Securities and Exchange Commission, **United States of America**

*(Mr. Roel Campos, Commissioner)*