



Financial Reporting Council

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Chairman: Sir Christopher Hogg

Chief Executive: Stephen Haddrill

Company Secretary: Anne McArthur

Pedro Solbes
European Financial Reporting Advisory Group
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Brussels

30 November 2009

Dear Pedro

IASC Foundation Review of the Constitution: Part 2 of the Constitution –Proposals for Enhanced Public Accountability.

The Financial Reporting Council (FRC) is the United Kingdom's independent regulator responsible for promoting confidence in corporate reporting and governance. We appreciate the opportunity to comment EFRAG's Draft Comment Letter (DCL) on the IASC Foundation's proposals for Enhanced Public Accountability.

The FRC has reviewed the proposals as set out in the Constitution Review and has responded directly to the IASC Foundation. I attach a copy of the FRC's letter to the IASCF.

Overall, the FRC agrees with EFRAG's draft response, with the following two exceptions.

First, we do not support EFRAG's view that the Constitution should expressly refer to a commitment by both the IASB and IASCF for principle-based standards. While the FRC supports the importance of principle-based standard-setting, it is not clear to us that there is a general understanding in the global community of what the trustees mean exactly by the term 'principle-based' and how it will manifest itself in the standard-setting process. In our view, these issues are properly dealt in the process used by the Trustees to monitor and review the IASB's compliance with the Constitution, rather than in the document itself.

Second, the FRC supports the name changes proposed by the IASCF, as outlined in questions 1 and 2 in the Trustees' invitation to comment.

If you would like to discuss any of the comments made above, then please contact Ian Wright on 020 7492 2330 or me on 020 7492 2390.

Yours sincerely

A handwritten signature in black ink that reads "Stephen Hadrill". The signature is written in a cursive style with a horizontal line underneath the name.

Stephen Hadrill

Chief Executive

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Tamara Oyre
Assistant Corporate Secretary
IASC Foundation
30 Cannon Street
London EC4M 6XH
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30 November 2009

Dear Tamara

IASC Foundation: Part 2 of the Constitution Review-Proposals for Enhanced Public Accountability.

The Financial Reporting Council (FRC) is the United Kingdom's independent regulator responsible for promoting confidence in corporate reporting and governance.

The FRC is a strong and committed supporter of the IASC Foundation and the IASB and welcomes the opportunity to comment on the Constitution Review proposals set out in the September 2009 consultation document. Our responses to the questions posed in the consultation document are set out in the appendix to this letter.

Our main concern relates to question 3, where in our view the reference to convergence in section 2 (d) of the Constitution should be removed. As we made clear in our response of 13 March 2009 to the Trustees' previous consultation, the convergence of national accounting standards and IFRS should not be an objective but rather considered as one of the means by which a set of high-quality globally accepted accounting standards could be enhanced. In addition, any decisions to converge national accounting standards with IFRS rest with the relevant national authorities, not the IASC foundation.

Our other main comments are as follows:

- On question 11 relating to the 'fast track' proposal, we believe that there should be a 30 day minimum consultation period; and
- On question 12, the proposal to consult Trustees and SAC when developing its technical agenda does not go far enough. We believe that the Board should consult more widely and publicly on its priorities as part of discharging its

accountability and in demonstrating that its activities are in the public interest.

If you would like to discuss any of the comments made above, then please contact Ian Wright on 020 7492 2330 or me on 020 7492 2390

Yours sincerely

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Stephen Hadrill

Chief Executive

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Appendix

Q1 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?

Yes. The FRC agrees that the existing name does not reflect the fact the organisation's primary product is International Financial Reporting Standards (IFRSs) and supports, for consistency, the Trustee's proposal to mirror this change of name..

Q2 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?

Yes. The FRC supports this change as it will ensure clarity and remove any scope for confusion.

Q3 The Trustees seek views on their proposal to change section 2 of the constitution 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?

The FRC supports the primary objective referred to in (a) above. We agree with (b) and (c) in context of that primary objective, but do not support the retention of objective (d) as discussed in our covering letter.

As mentioned in our comment letter of 13 March 2009 on the December 2008 consultation document we are in favour of the constitution focusing on the primary objective of the organisation, which we agree should refer to 'globally accepted financial reporting standards'.

Q4 The Trustees seek views on the proposal to amend section 3 of the Constitution as follows:

The governance of the ~~IASC~~ 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?

Yes. The FRC supports this clarifying amendment. As mentioned in our comment letter of 13 March 2009 we are in favour of section 3 being modified to reflect more accurately the creation and role of the Monitoring Board, as announced by the Trustees on 29 January 2009.

Q5 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 ~~IASC~~ 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) ~~(d)~~ two ~~four~~ Trustees appointed from any area, subject to maintaining ~~establishing~~ overall geographical balance.*

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

Yes. The FRC supports the specific recognition of Africa and South America and the allocation of the 2 new appointments from the existing other '4' appointments.

Q6 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?

Yes. The FRC supports the constitution providing for up to two vice-chairmen of the Trustees.

Q7 The Trustees seek views on the proposal to make no specific amendments to sections 13 and 15 (continued emphasis on effective Trustee oversight), but to address the valid and important concerns raised by commentators by way of enhanced accountability, consultation, reporting and ongoing internal due process improvements.

Yes. The FRC note the steps the Trustees have taken to reinforce public accountability and welcomes the intention to address the concerns raised by commentators.

Q8 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?

Yes. The FRC supports the changes. As mentioned in our comment letter of 13 March 2009 we agree that the Constitution should be amended to allow closer collaboration with other bodies, where there is a clear and demonstrable benefit to the achievement of the organisation's primary objective. We question whether those other bodies need to be 'official' and suggest that this word is deleted. For example, the Corporate Reporting Users Forum (CRUF) is an important body of users with an interest in standard-setting, but is not necessarily an 'official' body.

Q9 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 ~~IASB~~ 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.

Yes. The FRC support the Trustees proposal to appoint up to two Vice-Chairmen of the IFRS Board as this will provide continuity and assistance to the Chairman, particularly in the current financial environment.

Q10 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?

Yes. The FRC support the change in proposed term lengths, but as previously commented, the Constitution should make it clear that the renewal is not automatic. It is important that IASB members should include people with recent practical experience of IFRSs and related accounting matters.

Q11 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.

As mentioned in our comment letter of 13 March 2009, we support the notion of a separate fast track procedure for dealing with changes to IFRS in cases of greater urgency, which should happen only in rare circumstances and where there is a clear justification. But while we agree that there may be a case to shorten the due process under these circumstances it should not be dispensed with entirely. To do so, we believe, would seriously undermine the Board's credibility and introduce greater risk of fatal flaws in the standard issued. The FRC considers there should always be at least 30 days for consultation.

Q12 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;

The FRC is of the view that this proposal does not go far enough. As we said in our March comment letter, in our view periodic - perhaps - annual consultation with stakeholders on the IASB's agenda would be useful in prompting greater understanding about how the Board goes about setting its priorities and allocating its technical resources. We also believe that the Board should consult more widely on its priorities as part of discharging its accountability and in demonstrating that its activities are in the public interest. In our view, this would improve the agenda-setting process without compromising the IASB's independence in determining its technical agenda.

Q13 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.

The FRC agrees that it would be premature to make significant constitutional changes to the SAC as the changes made to the SAC in January 2009 will need to be carefully monitored, leaving the option to revisit the role and effectiveness of the SAC in the next Constitution Review.

Q14 The Trustees seek views on the proposal to amend section 48 by removing specific staff titles and replacing it with the term '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.

Yes. The FRC supports these proposals.