



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

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Our ref: ICAEW Rep 123/09

Your ref:

Tamara Oyre
International Accounting Standards Board
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By email: toyre@iasb.org

Dear Tamara

PROPOSALS FOR ENHANCED ACCOUNTABILITY

The Institute of Chartered Accountants in England and Wales is pleased to respond to your request for comments on the IASC Foundation's Proposals for Enhanced Accountability, issued in September 2009.

Please do not hesitate to contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

ICAEW REP 123/09

Response to the Consultation Paper issued by the IASC Foundation in September 2009, *Proposals for Enhanced Accountability*

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the ICAEW) welcomes the opportunity to comment on the *Proposals for Enhanced Accountability*, published by the International Accounting Standards Committee Foundation (IASCF) for comment in September 2009.

WHO WE ARE

2. The ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. As a world leading professional accountancy body, the ICAEW provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The ICAEW is a founding member of the Global Accounting Alliance with over 775,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The ICAEW ensures these skills are constantly developed, recognised and valued.
4. In December 2008, the ICAEW established a new Financial Reporting Faculty, dedicated to extending practical assistance to IFRS users both in the UK and internationally. The members of the Faculty's Advisory Group include senior investors, regulators, standard setters, academics, auditors and preparers from the UK, the U.S. and elsewhere. This submission was developed by the Faculty's Financial Reporting Committee.

THE ICAEW AND IFRS

5. The ICAEW believes strongly in the benefits to investors and business of truly international standards, and has been a persistent champion of the creation of a single set of high quality global accounting standards and their application by publicly traded and other companies around the world. In our view the *prima facie* case for moving to a single set of global accounting standards has been bolstered by recent economic events, which have clearly illustrated the interdependencies of capital markets worldwide, as recognised by recent G20 meetings. Differences between standards - even relatively small differences in detail - have caused difficulty for regulators, investors and other users of reported financial information trying to understand global issues and to formulate an effective and internationally-coordinated response to the financial crisis.
6. The ICAEW made a significant contribution to the successful adoption of IFRS by UK listed companies in 2005/2006, and our expertise in this area was reflected in our selection by the European Commission to deliver a comprehensive study in 2007 covering all aspects of first time application of IFRS by European Union member states. In 2008 the ICAEW was commissioned by the United Nations to prepare a follow-up report on the UK experience of IFRS implementation, which was presented in Geneva in October 2008. The reports can be found respectively at www.icaew.com/ecifrsstudy; and www.icaew.com/index.cfm/route/161454. In preparing this submission we have drawn on these reports, alongside the extensive experience of our members in IFRS reporting.

7. Our continuing support for the International Accounting Standards Board (IASB) and its standards is not offered lightly, or unconditionally. It is set firmly in the context of what we see as the fundamental aims of standard setting: the development of accounting standards that are high quality and neutral, providing the foundation for transparent and comparable financial statements that improve investor confidence in the reliability and transparency of published information. To that end we believe firmly that accounting standards should only be issued by an independent standard setter with an appropriate mandate and level of technical expertise, following transparent due process and making decisions solely in the public interest, and more specifically to protect the interests of investors. We note - and welcome - the support of the G20 for these broad principles, and it is against these fundamentals that we have assessed the case for further change to the Constitution. We have also taken the opportunity below to reiterate in more detail our views on independent standard setting.

REFORM OF THE CONSTITUTION

8. The ICAEW has been closely involved at each stage of the review of the constitutional arrangements of the IASCF. We have submitted comments to all the consultation papers on the Constitution issued since February 2004 and have been represented at each of the public hearings held in London since that time. Although we do not advocate a more prescriptive Constitution or a significant increase in its scope at this time, we regard the ongoing process of debate and reform as key to the success of the IASB and to wider acceptance of its legitimacy as a global standard setter. The importance of achieving an appropriate and widely-respected governance structure for the IASC Foundation as the IASB increasingly assumes a global role of profound economic significance should not be underestimated.
9. We have no major objections to the proposed changes to the Constitution, with the exception of the proposed reduction in the term of appointments to the IASB Board (see our response to question 11 below). However, we explain below in our responses to questions to 4, 5, and 13 that it will be important to review the effectiveness of a number of the other proposed changes in say two years time. A review should also be undertaken of the impact on the Board's operational effectiveness of the recent increase in its size - which we did not support - as part of the Trustees' general review of the effectiveness of the Board under paragraph 15 (c) of the Constitution.

INDEPENDENT STANDARD SETTING

Due process

10. Regular and inclusive dialogue with constituents is a hallmark of an effective and credible standard setting process. IASB due process is generally transparent and compares favourably with the due process of major national standard setters and regulators. We welcome recent, significant improvements in IASB due process arrangements and procedures and in particular the highly effective outreach undertaken in the context of the reform of IAS 39. This provides a model for future IASB due process in relation to controversial proposals.
11. Whilst we believe that the process of review and improvement must continue to ensure that IASB due process is seen as the embodiment of best practice in global standard setting, we agree that there is no need to change the text of the Constitution at this time. We recognise that adding new layers of due process may have a negative impact on operational effectiveness, and do not advocate further mandatory requirements, although there are areas - such as the use of advisory groups and field testing - where

the effectiveness of current arrangements continues to be variable and should be kept under review.

12. One key aspect of the due process undertaken prior to the publication in November 2009 of IFRS 9 was a greater willingness of the IASB Board to re-deliberate proposals which attracted significant adverse comment. There should be no turning back on this point. The Board has in the past been roundly criticised for its perceived unwillingness to reconsider decisions in such circumstances, especially where the staff concluded that no new substantive arguments had been raised by constituents. A widespread lack of support for proposals, whilst not a reason in itself not to proceed, should be seen to result in a process of reflection, further field testing and engagement with concerned stakeholders.
13. The Board should also in our view be willing to re-expose new requirements wherever significant changes are made to the original proposals, and to expose IASB agenda priorities, and the scope and key elements of the Board's work programme, to periodic public consultation. This is particularly important at present given the need to plan for a change in focus from 2011 from convergence with US GAAP to post-implementation reviews and a small number of major projects crucial for the long-term improvement of financial reporting. Convergence in future - whether to US or any other national GAAP - should invariably play second fiddle to the overriding objective of setting robust, understandable and high quality standards.

Politics, Regulators and Standard Setting

14. There appears to be wide acceptance internationally of the principle that accounting standards should only be issued by a properly constituted and independent standard setter with an appropriate mandate and level of technical expertise, following transparent due process. However, there is less clarity over the meaning of 'independent' in this context. In our view, it means the ability to make decisions solely in the public interest, and more specifically to protect the interests of investors, without strong external pressure to reach particular conclusions not supported by the quality of the arguments deployed. Accounting solutions should be determined on their technical merit, not according to political weight or to further social or economic policy objectives. Where decisions are seen to be influenced unduly by pressure from governmental or regulatory organisations or the lobbying of particular interest groups, the result tends to be a lack of adequate due process or rigorous exposition of the technical or legal issues involved. Recent pressure on both the IASB and FASB to eliminate differences in their financial instruments standards, sometimes without full due process, is a case in point. It has tended to damage the credibility of the standard setting process and is likely to lead to long-term damage to the credibility and quality of financial reporting and to the confidence of investors in capital markets.
15. Regulators are of course an important stakeholder in the financial reporting process, but often have a distinct focus, not necessarily aligned with the interests of investors - the primary users of annual financial statements under the IASB *Framework*. Regulators should in our view have no particular influence over the determination of the detailed requirements of accounting standards for general purpose financial reporting. Whilst it is desirable in principle for regulators to use GAAP financial information as their initial point of reference, they tend to have the power to obtain any extra information needed to supplement or adjust the published financial statements. In some cases they may not, but that does not mean financial reporting should be regarded as a proxy. Financial stability and prudential supervision should always be delivered principally through regulatory regimes. Any attempt in the light of the financial

crisis to align regulatory and financial reporting objectives very closely runs the risk of deep and lasting damage to the capital markets.

RESPONSES TO SPECIFIC QUESTIONS

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?

16. We have no objections to the proposed change in name if the Trustees think it advantageous, although we doubt whether there is much confusion in practice about the responsibility of the IASB for IFRS. We also note that the 'IASB' is now a recognised global brand and there may therefore be a significant downside to the change.

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?

17. We agree that this proposal has some logic, although we do not attach much significance to the change.

Question 3

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

The objectives of the IASC 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?

18. We do not object to the proposed changes, and strongly support the inclusion in the Constitution of an express reference to the challenges faced by SMEs. However, we

remain of the view that paragraphs 2 (a) and 2 (c) should be modified to reflect the fact that, alongside its primary objective of producing standards for the global capital markets, the IASC Foundation has a very important secondary objective - developing separate products more suitable for entities without public accountability. This is now clearer than ever given the profile and importance of the new IFRS for SMEs, but is not set out unambiguously in paragraph 2 of the Constitution.

19. We are aware that some stakeholders strongly support inclusion of a reference to principles-based standards in paragraph (a). We firmly believe that a single set of robust and well-understood standards is far more effective in promoting high quality financial reporting than a complex and diverse body of accounting literature. An approach to standard-setting based primarily on principles rather than prescriptive rules results in clearer and more understandable standards and reduces the opportunities for circumventing the intentions of standard setters. Thus we believe it would be appropriate to include a reference to a principles-based approach in the Constitution, providing no attempt is made to define the concept of 'principles-based' standards or standard-setting at this level. In our view such a venture would be fruitless and unsuccessful as the balance between principles and supporting rules can only be dealt with on a pragmatic basis as standards are developed.
20. We therefore suggest that if any change is made to embed the notion of principles-based standards, paragraph 2 (a) of the Constitution is simply amended to refer to "high quality, *principles-based*, understandable, enforceable and globally-accepted financial reporting standards".

Question 4

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?

21. Yes. We support the proposal as an important improvement in the public accountability credentials of the IASB. The scope of the Board's membership, and its success in allaying concerns over accountability should be kept under review in the light of experience and as the reach of the IASB's standards grows. At the same time, we continue to hope that the appointment of the Monitoring Board will assist the Trustees and the members of the IASB, collectively and individually, to resist overt political pressure and lobbying in the technical standard setting process.
22. We continue to have two concerns. Firstly, it is imperative that the operational and technical independence of the IASB be maintained, and paragraph 19 of the new version of the Constitution (effective 1 February 2009) does not make this sufficiently clear. With this in mind we suggested that it is spelt out in paragraph 19c of the revised Constitution that it relates to aspects of governance only. As this suggestion has not been taken up, we would strongly recommend that the operation of the new arrangements be reviewed two years after they come into force.

23. Secondly, we would like in this context to be clear that the creation of the Monitoring Board should not lead to the imposition of a financial stability objective in the standard setting process. As discussed above, the aim of financial reporting is to provide information to the providers of debt and equity capital: while information gathered for general purpose financial reporting provides the starting point for regulatory reporting, the two have different purposes. Financial stability should be delivered principally through regulatory regimes, and financial stability considerations should not affect the way that financial reporting standards are set. Any attempt to closely align the two objectives runs the risk of deep and lasting damage to the capital markets.

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 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) [tba] Trustees appointed from any area, subject to maintaining establishing overall geographical balance.***

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

24. We believe that the geographical distribution of the Trustees is important, and welcome the proposed appointment of Trustees from Africa and South America. However, we have reservations about the number of reserved seats, as we would also emphasise the importance of ensuring that the best calibre candidates are appointed and the need to ensure that all key capital markets and stakeholder groups are adequately represented. Again, we suggest that the operation of geographic criteria is reviewed after two years.

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?

25. We welcome this proposal given the need for the Trustees to engage and influence policy makers and other stakeholders pro-actively and to respond quickly to emerging political and regulatory concerns.

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.

26. As discussed above, we agree that there is no need to change the text of the Constitution at this time. We welcome recent, significant improvements in IASB due process arrangements and procedures and in particular the highly effective outreach undertaken in the context of the reform of IAS 39 and the willingness of the Board to redeliberate proposals which attracted significant adverse comment. This provides a model for future IASB due process in relation to controversial proposals.

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?

27. We agree that the IASC Foundation should be permitted to collaborate with a range of organisations around the world with similar objectives, providing that there is no detrimental impact on due process or the integrity and independence of the IFRS standard setting process, nor any move to mix prudential and financial reporting objectives. We are not convinced that changes to the Constitution are needed to allow collaboration: the Constitution should essentially be high level, and in our view collaboration is more of an operating procedure matter. However, we do not object to the changes proposed.

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.

28. We support this proposal, which reflects the onerous responsibilities of the position of IASB chairman.

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?

29. No, we are not convinced that this change would be beneficial, firstly as many major standard-setting projects take many years to complete, and secondly as we understand that it takes new Board members a substantial period of time to become familiar with the range of issues and considerations involved in relation to setting standards for the world. A ten year period of service is, in our view, about right. If the Trustees are so concerned to ensure they have sufficient flexibility to bring in new board members on a more regular basis, we suggest they keep the 10 year term, but split between 4/3/3 year stints, which would of course mean that incumbent board members should not be reappointed as a matter of course.

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.

30. We remain doubtful that it is necessary to include a 'fast track' procedure in the Constitution. In reality, given the nature of the financial reporting process, we doubt that there are many genuinely urgent issues that warrant a reduction in comment periods. In general, the importance of eliciting high quality and comprehensive comments on proposed changes from global constituents and testing and assessing the practical impacts of those changes far outweighs any concerns regarding the speed of the standard setting process. Rushed amendments to standards to fix perceived problems will tend to cause more problems than they solve. However, if such a procedure is to be added to the Constitution, the proposed wording is acceptable.

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.

31. We regard the proposed change as an improvement, but remain strongly of the view that IASB agenda priorities, and the scope and key elements of the Board's work programme, should be the subject of a periodic public consultation, perhaps every two or three years. This is particularly important at present given the need to plan for a change in focus from 2011 from convergence with US GAAP to post-implementation reviews and a small number of major projects crucial for the long-term improvement of financial reporting.

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.

32. We support this approach, but encourage the Trustees to closely monitor the performance of the SAC and its Chairman over the next few years, and ensure that the IASB is seen to listen and respond to its advice.

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.

33. We have no objections to these amendments, but continue to believe that the Constitution should make greater reference to senior IASB staff positions. The role of the staff in ensuring that IASB technical work, due process and outreach is of the highest quality is crucial. Accordingly, we still believe that the Constitution should, for example, refer to the attributes required of senior IASB staff, and the procedures for appointments, including in particular the need to advertise posts externally.

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