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DSR – öffentliche SITZUNGSUNTERLAGE

DSR-Sitzung:	129. /09.03.2009 / 16:45 – 18:45 Uhr
TOP:	05 – IASCF – Constitution Review
Thema:	Erstellung einer Stellungnahme zum Konsultationspapier an die IASCF (Stellungnahmeentwurf V1)
Papier:	05b_IASCF_Constitution_Review_II_CL_Entwurf_V1

Anmerkung:

Dieser Entwurf enthält nur die Ergebnisse der Diskussion aus der 128. DSR Sitzung. Frage 5 sowie die Fragen 10-14 wurden bislang im DSR noch nicht oder nicht abschließend diskutiert.

TBD – To Be Discussed



Appendix – Answers to the questions of the discussion paper

Frage an den DSR:

Hat der DSR Anmerkungen zu den Formulierungsvorschlägen?

Objectives of the organisation

Question 1:

The Constitution defines the organisation's primary objective in the following manner:

to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting 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.

In fulfilling that objective, the organisation is

to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies

Does the emphasis on helping 'participants in the world's capital markets and other users make economic decisions', with consideration of 'the special needs of small and medium-sized entities and emerging economies', remain appropriate?

As stated above, the primary objective of the IASCF is to develop a single set of global accounting standards and in doing so to take account of special needs of small and medium sized entities (SME) and emerging economies. However, the GASB does not agree with the use of the term "single set". To incorporate the needs of SMEs and emerging economies into a single set of standards would be a balancing act. Instead, the GASB proposes to use the term "global set" with a strong primary focus on capital market oriented entities – including SME - and to allow for variances. Should the IASCF nevertheless adhere to the objective of developing a "single set" of standards, the GASB is of the opinion that the addition to the objective ("*to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies*") should be deleted. Independent of the term used, we cannot think of any special needs for emerging economies that would need to be taken account of in financial reporting standards.

Furthermore the GASB would like to point out that the cost-benefit criterion should be added to the objective and that we feel the term "accounting standard" to be no longer appropriate. Instead of being applicable to the accounting only, the standards and other guidance developed by the IASB and IFRIC refer to financial reporting. Additionally, the currently developed guidance on Management Reporting, the XBRL taxonomy and the



educational initiative would not be covered by the term “accounting” and do not represent “standards”. Therefore we propose to use a different term which describes more precisely the output of the IASB’s/IFRIC’s work, e.g. “a framework for financial reporting including standards, interpretations and other guidance”.

Question 2

In the opinion of the Trustees, the commitment to drafting standards based upon clear principles remains vitally important and should be enshrined in the Constitution. Should the Constitution make specific reference to the emphasis on a principle-based approach?

The GASB agrees that the Constitution should make specific reference to the emphasis on a principle-based approach. However, since the term “principle-based” is considered to be rather imprecise we propose to develop criteria when a principle, e.g. “high-quality” or “understandable” is achieved. Set criteria will assist trustees in conducting their oversight role - trustees will be able to compare standards/guidance developed by the IASB/IFRIC against the principles and criteria in the constitution and evaluate whether the objective of the IASCF is met.

Additionally, we propose to add the principle “practicable” to the objective. We are aware that “practicability” can have a wide range of meanings from regulations being easily implemented to regulations being only possible to be implemented with extensive effort. As a guideline in the development of financial reporting guidance and for the purpose of this paper we would define the opposite, “impracticability”, as “circumstance where the basic conditions are highly dissonant and a requirement can not be implemented”. An example for something being impracticable in financial accounting would be “full fair value accounting”.

Question 3

The Constitution and the IASB’s *Framework* place priority on developing financial reporting standards for listed companies. During the previous review of the Constitution some commentators recommended that the IASB should develop financial reporting standards for not-for-profit entities and the public sector. The Trustees and the IASB have limited their focus primarily to financial reporting by private sector companies, partly because of the need to set clear priorities in the early years of the organisation. The Trustees would appreciate views on this point and indeed whether the IASB should extend its remit beyond the current focus of the organisation.

The GASB is of the opinion that the IASB in developing financial reporting standards/guidance should continue to focus on entities in the public interest. However, we consider the term “listed companies” to be too narrow and propose to concentrate on “capital market oriented companies” instead, i.e. companies which have issued any equity or debt instruments in a capital market.



Furthermore, we feel that the workload of the IASB is already too extensive to increase its responsibility even further and propose to postpone the issue of whether or not the IASB should develop financial reporting standards for not-for-profit entities and the public sector to a future constitutional review.

Question 4

There are other organisations that establish standards that are either based upon or have a close relationship with IFRSs. The IASC Foundation already recognises the need to have close collaboration with accounting standard-setting bodies. Should the Constitution be amended to allow for the possibility of closer collaboration with a wider range of organisations, whose objectives are compatible with the IASC Foundation's objectives? If so, should there be any defined limitations?

In general, the GASB is highly in favor of close collaboration of the IASCF with other organizations. However, we are not aware that collaboration of the IASB with other organizations is currently prohibited. Discussions, working arrangements with expert councils as well as other kinds of collaboration with other organizations, such as National Standard Setters (NSS), already exist today and therefore we do not see a need to amend the constitution in this respect.

Should, however, the constitution nevertheless be amended to allow for the possibility for closer collaboration with other organizations, it should be clearly defined which organizations are meant to be worked with. For example, we would consider collaboration of the IASB with the International Valuation Standards Committee (IVSC) or with National Standard Setters to be useful since it would answer the purpose of the IASB. The constitution should clearly define the criteria for the organizations considered for collaboration.

Additionally, the term "collaboration" should be clearly defined. We are aware that the definition of collaboration ranges from advisory discussions to implementation of or reference to regulations of other organizations in IASB standards. However, we would only agree to a definition which ascertains, that full responsibility for standards or any other guidance issued by the IASB remains with the IASB only. Consequently, we agree to a definition allowing for outsourcing preparatory work to other organizations but not to a definition allowing for outsourcing the development of parts of a standard whether these parts being included in the standard or the IASB/IFRIC standards refer to the other organizations standards.



Governance of the organization

Question 5

The first part of the review of the Constitution proposed the establishment a formal link to a Monitoring Group. Under this arrangement, the governance of the organisation would still primarily rest with the Trustees. Although the first part of the review has not yet been completed, the Trustees would welcome views on whether the language of Section 3 should be modified to reflect more accurately the creation of the Monitoring Group and its proposed role.

TBD

Trustees

Question 6

The Trustees are appointed according to a largely fixed geographical distribution. Is such a fixed distribution appropriate, or does the current distribution need review?

Currently, the constitution states that the mix of Trustees should broadly reflect the world's capital markets and a diversity of geographical and professional backgrounds. To ensure a broad international basis, there are to be six Trustees appointed from North America, six Trustees appointed from Europe, six Trustees appointed from the Asia/Oceania region and four Trustees appointed from any area. However, the numbers are not comprehensible since the criterion on which the "world's capital markets" are measured, e.g. market capitalization, number of listed companies, etc. is not defined. We propose to clearly define the criterion before deciding on the distribution of Trustees.

The GASB is of the opinion, that the Board of Trustees should not only comprise members from countries which already apply or are in the process of implementing IFRS. We believe that the best possible standards should be developed by the best possible people and governance should be provided by the best possible, highly experienced people. In the context of trustee appointment we define "experience" as having seniority and governance competence as well as experience with capital markets, not necessarily extensive IFRS experience.

However, we believe that the above question actually splits into two issues:

1. geographical vs. non-geographical distribution of Trustees and
2. fixed vs. non-fixed distribution of Trustees.

Should the distribution of Trustees continue to be based on geographical regions, we are of the opinion that this distribution should not be fixed but subject to regular reviews based on defined criteria (e.g. market capitalization, etc.).



If, however, the distribution should remain fixed, we believe that the criterion for the distribution should be changed since with the continuous changes in the global capital markets, the fixed distribution will in due course no longer reflect the world's capital markets.

Whichever distribution will be set in the final constitution, we are of the opinion, that experience as described above is an essential prerequisite for Trustees. However, a geographical distribution of Trustees is also important and should not be completely abandoned. The geographic criterion ascertains a fair distribution of Trustees over the major economic regions and is especially important for funding reasons.

Question 7

Sections 13 and 15 set out the responsibilities of the Trustees. The intention of these provisions is to protect the independence of the standard-setting process while ensuring sufficient due process and consultation—the fundamental operating principle of the organisation. In addition to these constitutional provisions, the Trustees have taken steps to enhance their oversight function over the IASB and other IASC Foundation activities. The Trustees would welcome comments on Sections 13 and 15, and more generally on the effectiveness of their oversight activities.

Based on the development in the global financial markets over the past months and the efforts made by the IASB due to demands from the markets, politics and other areas, we believe that the IASCF constitution should include clear regulations the Board must comply with in similar situations (“emergency process”) and compliance with which the Trustees must oversee. The process should clearly define what can be done, what can not be done, how it should be done, etc. This would not only increase the acceptance of requirements developed under application of the “emergency procedure” but also give guidance to the Board on how to proceed. Additionally, third parties would have guidelines against which to reconcile their demands so that they will not request anything unreasonable from the IASB.

Additionally, we are of the opinion that the agenda setting process of the IASB needs to be more transparent and that the Trustees need to enhance their oversight to ascertain transparency of the process.

**Question 8**

The Trustees are responsible for ensuring the financing of the IASC Foundation and the IASB. Since the completion of the previous review of the Constitution, the Trustees have made progress towards the establishment of a broad-based funding system that helps to ensure the independence and sustainability of the standard-setting process. (For an update on the funding status, see <http://www.iasb.org/About+Us/About+the+IASC+Foundation/Funding.htm>).

However, the Trustees have no authority to impose a funding system on users of IFRSs. The Trustees would welcome comments on the progress and the future of the organisation's financing.

The first duty of the Trustees set out in par. 13 (a) of the constitution is to “assume responsibility for maintaining appropriate financing arrangements”. As set out in par. 15 (d) further powers of the trustees are to “approve annually the budget of the IASC Foundation and determine the basis for funding”. We like to point out that the current means of funding the IASCF do not ensure its independence and therefore propose to review and revise the IASCF funding. The Members of the Monitoring Board should promote an appropriate funding system, e.g. the introduction of a levy on listed companies, in their respective organizations or regions.

International Accounting Standards Board**Question 9**

Commentators have raised issues related to the IASB's agenda-setting process. The Constitution gives the IASB 'full discretion in developing and pursuing its technical agenda'. The Trustees have regularly reaffirmed that position as an essential element of preserving the independence of the standard-setting process. However, they would welcome views on the IASB's agenda-setting process and would appreciate it if, in setting out views, respondents would discuss any potential impact on the IASB's independence.

The existing constitution gives the IASB “full discretion in developing and pursuing its technical agenda”, with which we fully agree. However, we are of the opinion, that the agenda setting and the development of the IASB work plan should be more transparent. Therefore we propose that the IASB's agenda papers should not only discuss the issues proposed for addition to the agenda but also why the proposed issues should be added to the agenda now and not later and the implications of additions on other agenda items as well as the IASB work plan.

Question 10

The Constitution describes the principles and elements of required due process for the IASB. The IASB's procedures are set out in more detail in the *IASB Due Process Handbook*. If respondents do not believe the procedures laid out in the Constitution are sufficient, what should be added? If respondents believe that the procedures require too much time, what



part of the existing procedures should be shortened or eliminated? The Trustees would also welcome comments on recent enhancements in the IASB's due process (such as post-implementation reviews, feedback statements, and effect analyses) and on the *IASB Due Process Handbook*.

TBD

Question 11

Should a separate 'fast track' procedure be created for changes in IFRSs in cases of great urgency? What elements should be part of a 'fast track' procedure?

TBD

Standards Advisory Council

Question 12

Are the current procedures and composition, in terms of numbers and professional backgrounds, of the Standards Advisory Council (SAC) satisfactory? Is the SAC able to accomplish its objectives as defined in Section 38?

TBD

Question 13

Attached to this discussion document are the terms of reference for the SAC, which describe the procedures in greater detail. Are there elements of the terms of reference that should be changed?

TBD



Other Issues

Question 14

Should the Trustees consider any other issues as part of this stage of their review of the Constitution?

TBD

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