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Trustees enhance public accountability through new Monitoring Board, complete first part of Constitution Review

The Trustees of the IASC Foundation, the oversight body of the International Accounting Standards Board (IASB), today announced important amendments to the organisation's Constitution, as well as a summary of other agreements reached at the Trustees' meeting in New Delhi, India, on 15 and 16 January 2009.

Highlights:

- Significant enhancement to the organisation's public accountability by establishing a link to a Monitoring Board of public authorities
- IASB to be expanded from 14 to 16 members by 2012, with criteria added to ensure geographical diversity
- Enhanced liaison with investor groups
- Constitutional changes directly address G20 recommendations
- Free availability of core standards through the public website.

In 2007 the Trustees conducted a strategic review of the IASC Foundation, which included discussions with relevant public authorities. This review addressed the issue of public accountability and the composition, geographical diversity and the size of the International Accounting Standards Board (IASB). There was extensive public consultation, including round-table discussions on the proposals emerging from the strategic review. These proposals were exposed for public comment in July 2008. Over 70 responses from organisations and individuals were received, and these generally supported the proposal on public accountability.

Establishing a link to public authorities

The constitutional changes represent significant enhancements to existing governance arrangements. Underpinning the organisation's structure is the internationally accepted principle that global accounting standards should be developed by an independent IASB. The IASB reaches conclusions following a transparent and open due process that considers the views of all stakeholders. An independent and geographically diverse body of Trustees oversees the IASB. Under the constitutional changes, the Trustees themselves will be publically accountable to a Monitoring Board of public authorities.

This basic approach to the architecture of governance is similar to that in place in many national jurisdictions for accounting standard-setters. The consultation process revealed strong and consistent support among investors and other stakeholders on the need to maintain, within agreed due process, the independence of the IASB's decision-making. At the same time, stakeholders understood the need to establish a formal linkage to public authorities, where none was previously defined, and strongly encouraged the organisation's efforts to enhance its public accountability. All the Monitoring Board members also supported the independence of the IASB's decision-making within the new governance framework.

The Monitoring Board will comprise the relevant leaders from the Emerging Markets and Technical Committees of the International Organization of Securities Commission (IOSCO), the European Commission, the Japan Financial Services Agency (FSA), and the US Securities and Exchange Commission (SEC). The Basel Committee on Banking Supervision will sit as a formal observer at Monitoring Board meetings.

The Monitoring Board's main responsibilities are to ensure that the Trustees continue to discharge their duties as defined by the IASC Foundation Constitution, as well as approving the appointment or reappointment of Trustees. It is envisaged that the Monitoring Board will meet the Trustees at least once a year, or more often if appropriate.

The relationship and responsibilities of the participating organisations are described in the Memorandum of Understanding (MoU) developed by the members of the Monitoring Board and the Trustees. The Trustees formally approved the MoU in New Delhi. The formal

process of signing the MoU is now under way and should be completed shortly. (The text of the MoU is attached to this press release.)

New guidelines in IASB membership

The Trustees also approved a constitutional change that will expand the IASB to 16 members and provides guidelines regarding geographical diversity. The criteria for IASB membership remains that the ‘main qualifications shall be professional competence and practical experience’. At the same time, in order to ensure a broad international basis by July 2012, there will normally be four members from the Asia/Oceania region; four members from Europe; four members from North America; one member from Africa; one member from South America; and two members appointed from any area, subject to maintaining overall geographical balance.

Concerted effort to liaise more closely with investor groups

The Trustees recognise that the investor community is a key stakeholder in the organisation, but that standard-setting bodies have commonly experienced difficulty in achieving a sufficiently close engagement with investors. To complement the existing contact with investors, there will be regular liaison with the wide range of investor groups now to be represented in the reconstituted Standards Advisory Council (SAC). The IASC Foundation will announce the membership of the reconstituted SAC shortly.

Constitutional changes directly address G20 recommendations

The constitutional changes—the link to public authorities and the new guidelines for IASB membership—directly address the recommendations made by the G20 last November on public accountability and membership of the standard-setting board. The other recommendations related to the standards have all now been separately actioned by the IASB. A comprehensive summary and a recent Trustees’ letter discussing the organisation’s response to the G20 conclusions are available from the public website.

Free availability of standards through the public website

Separately from the constitutional issues, the Trustees, responding to many public requests, agreed that the IASB’s standards, but not the accompanying documents such as the basis for

conclusions or implementation guidance, should become available free of charge through the IASB's website.

Commenting on the constitutional amendments, Gerrit Zalm, Chairman of the Trustees and former deputy prime minister and finance minister of the Netherlands, said:

The Trustees have responded positively on the questions of public accountability and IASB membership. We recognise the need for change in the emerging global framework of standard-setting. The IASB as an independent standard-setter and the Trustees as the oversight body are strengthened by the enhanced governance provided by the link to public authorities through the Monitoring Board. The new arrangements ensure the independence of the IASB within a broader oversight and monitoring system.

END

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Notes to the Editors

About the IASC Foundation

1. The International Accounting Standards Committee (IASC) Foundation, based in London, is the oversight body of the International Accounting Standards Board (IASB). The governance of the organisation rests with 22 Trustees. Six of the Trustees must be selected from the Asia/Oceania region, six from Europe, six from North America, and four from any region.

2. The IASC Foundation, through the IASB, is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. The IASC Foundation is funded by contributions from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations.

Appendix

Conclusions of the meeting of the IASC Foundation Trustees New Delhi, India 15 and 16 January 2009

The Trustees of the International Accounting Standards Committee Foundation (IASC Foundation), the governing body of the International Accounting Standards Board (IASB), today announced the conclusions reached during their meeting held in New Delhi, India, on 15 and 16 January 2009.

Review of the IASC Foundation's Constitution

Completion of the first part of the Review

In July 2008 the Trustees published for public comment a discussion document, *Review of the Constitution: Public Accountability and the Composition of the IASB*, that set out proposals forming the first part of the constitutional review including enhancements to the governance and public accountability of the IASC Foundation, as well as the composition, geographic diversity and size of the IASB.

Using the conclusions of their strategic review in 2007, the Trustees completed a consultation process in 2008 that included round-table discussions in London and a public comment period, and led to more than 70 responses from individuals and organisations. A report detailing the Trustees' conclusions will be published shortly. Under the new constitutional arrangements, the Trustees will establish a link to a Monitoring Board comprising public authorities in order to replicate the relationship that has generally existed in national identities between accounting standard-setters and capital market authorities.

The responsibilities of the Monitoring Board will be:

- (a) to participate in the process for appointing Trustees and to approve the appointment of Trustees according to the guidelines set out in the IASC Foundation's Constitution.
- (b) to review and provide advice to the Trustees on their fulfilment of the responsibilities set out in IASC Foundation's Constitution. The Trustees will make an annual written report to the Monitoring Board.

- (c) to meet the Trustees or a subgroup of the Trustees at least once annually, and more frequently as appropriate. The Monitoring Board will have the authority to request meetings with the Trustees or separately with the Chairman of the Trustees (with the Chairman of the IASB as appropriate) about any area of work of either the Trustees or the IASB. These meetings may include discussion of, and any IASC Foundation or IASB proposed resolution of, issues that the Monitoring Board has referred for timely consideration by the IASC Foundation or the IASB.

The formation of the Monitoring Board is intended to enhance public accountability of the IASC Foundation whilst not impairing the independence of the standard-setting process.

The initial composition of the Monitoring Board will be the relevant leaders of the IOSCO Technical Committee, the IOSCO Emerging Markets Committee, the Japanese Financial Services Agency and the US Securities and Exchange Commission, and the responsible member of the European Commission. The Chairman of the Basel Committee on Banking Supervision will attend as an observer.

The relationship between the Trustees and the Monitoring Board is described by a Memorandum of Understanding (MoU), which is attached to this document. The constitutional change will become effective from 1 February 2009.

The Trustees have concluded that the maximum number of members of the IASB should be increased from 14 to 16 by July 2012, with up to three positions being permitted for part-time members. The Trustees concluded that the expansion of the IASB to 16 would enable the IASB to discharge its increasing liaison functions in an improved manner, while not negatively affecting the efficiency of the IASB's deliberative processes.

Whilst professional competence and practical experience will remain the primary considerations for membership of the IASB, the Trustees have added to this additional guidelines regarding geographical diversity to help ensure that membership of the IASB broadly reflects worldwide capital allocation. Thus, membership of the IASB will be four members drawn from each of the Asia/Oceania region, Europe and North America respectively, one member from South America, one member from Africa and two members from any area, subject to overall geographical balance.

Second part of the Review

In December 2008 the Trustees published for public comment a discussion document, *Review of the Constitution; Identifying Issues for Part 2 of the Review*, that seeks views on the full range of constitutional issues that were not addressed in the first part of the review, such as the need for emergency due process procedures. Comments on the discussion paper should be submitted by 31 March 2009. Round tables on the Trustees' preliminary conclusions will be held internationally during the third and fourth quarters of 2009.

Review of the IASB's response to the financial crisis

Much of the meeting was given to a review of the IASB's response to the global financial crisis, and in particular the actions and ongoing work by the IASB and the IASC Foundation in response to the conclusions reached by G20 leaders at their meeting in Washington, DC, USA, in November 2008.

The formation of the Monitoring Board and changes to the composition, geographic diversity and size of the IASB are consistent with the G20 recommendations, and the Trustees expressed their support for the steps being taken by the IASB in responding to the crisis. A comprehensive summary of the IASB's and the IASC Foundation's response to the G20 conclusions is available on the IASB website.

Review of IASB working groups

The Due Process Oversight Committee reviewed the preliminary findings on the effectiveness of IASB working groups. The Due Process Oversight Committee agreed to meet the IASB to discuss possible action to address the findings.

Whilst the concept of using working groups remains well supported, the findings identified areas for possible improvement of the process. The Trustees also agreed to keep working group members informed of these findings and resulting recommendations.

IFRSs and the IFRS for Non-publicly Accountable Entities to be available without charge from the IASB website

IFRSs are not currently available free of charge, although the IASC Foundation waives its copyright in jurisdictions adopting IFRSs into law. To facilitate dissemination of and access to IFRSs, the Trustees have concluded that IFRSs and the future IFRS for Non-publicly Accountable Entities (formerly called the IFRSs for SMEs), excluding the accompanying

documents such as the basis for conclusions or implementation guidance, should become available free of charge in .pdf format from the IASB website as soon as possible. A further announcement will be made once the IFRSs are available for download.

Board appointments

The Trustees approved the change in status of Stephen Cooper from part-time to full-time member of the IASB.

The Trustees also confirmed the reappointment of Jan Engström to serve a second five-year term as a member of the IASB from May 2009.

Five-year review of the funding and resources of the organisation

The Trustees initiated an exercise to assess the needs of the organisation as it becomes the global standard-setter. The Trustees are examining the financial needs over the next five years and will receive a second report at their meeting in London in April 2009.

The Trustees reviewed progress made towards long-term funding goals based on four principles, namely:

- **Broad-based:** A sustainable long-term financing system must expand the base of support to include major participants in the world's capital markets, including official institutions, in order to ensure diversification of sources.
- **Compelling:** A system must carry with it enough pressure to make free riding very difficult. This could be accomplished through a variety of means, including official support from the relevant regulatory authorities and formal approval by the collecting organisations.
- **Open-ended:** The financial commitments should be open-ended and not contingent on any particular action that would infringe on the independence of the IASC Foundation and the IASB. This should include sustained support from official international organisations, central banks and the major accounting firms.
- **Country-specific:** The funding burden should be shared by the major economies of the world on a proportionate basis, using GDP as the key determining factor of measurement. Each country should meet its designated target in a manner consistent

with the principles above. Trustees should be assigned to specific countries to assist in the development of the funding scheme.

It was noted that in 2008 significant progress was made in advancing the funding initiative and helping to ensure the great majority of major economies of the world contributed a proportionate amount to the organisation. Contributions in 2008 are expected to reach nearly £14 million, up from £10.5 million in 2007. This growth is explained by the following:

- In Europe, France, Germany, Italy, Luxembourg, the Netherlands, Norway, Spain, Sweden and the United Kingdom have established or are establishing levy or national payment systems. The European Commission is also proposing an EU-wide payment for 2010 and beyond.
- In the Asia-Oceania region, the Japanese contribution grew from US\$2 million to US\$2.8 million, a 40 per cent increase. China, Hong Kong SAR, and India introduced funding systems and grew their respective contributions as well. Australia, Korea and New Zealand maintained their level of financial support.
- In North America, funding in the United States continued to advance. The organisation housing the Canadian standard-setting authority has agreed to facilitate a broad Canadian contribution in 2009.

Similar systems are also being considered by other countries, and the Trustees remain committed to assisting in this process.

Quality assurance process for XBRL taxonomy and role in the development of IFRS-related extensions to be considered

The IASC Foundation develops the official IFRS XBRL taxonomy. To help ensure the quality and integrity of the taxonomy, the IASC Foundation established the XBRL Advisory Council and the XBRL Quality Review Team—a group of external experts who provide input to and review the taxonomy. As more countries adopt the IFRS taxonomy for official purposes, the Trustees agreed that it would be useful to assess the effectiveness of the quality assurance process again. The Due Process Oversight Committee will lead this effort.

Proper use of the IFRS Taxonomy for financial reporting generally requires extensions. However, widespread use of extensions that are developed independently would lead to a decrease in comparability between similar entities.

The mandate of the IASC Foundation XBRL team currently does not include the development of extensions to the core IFRS Taxonomy. Advice on the possible development of standardised extensions to the IFRS Taxonomy has been sought from the XBRL Advisory Council as well as the IASB. The Trustees will give further consideration to this issue through the Due Process Oversight Committee.

END

MEMORANDUM OF UNDERSTANDING TO STRENGTHEN THE INSTITUTIONAL FRAMEWORK OF THE INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE FOUNDATION

PREAMBLE

The European Commission, the International Organization of Securities Commissions, the Financial Services Agency of Japan, and United States Securities and Exchange Commission (collectively referred to as “capital markets authorities” for the purposes of this Memorandum of Understanding), which together represent authorities responsible for setting the form and content of financial reporting in the majority of the world’s capital markets, and the Trustees of the International Accounting Standards Committee Foundation (“IASCF”):

Considering that capital markets authorities are generally charged with the development and administration of accounting standards;

Considering that capital markets authorities historically have looked to private or stand-alone bodies to assist in establishing accounting standards;

Considering that capital markets authorities generally oversee national accounting standard setters to ensure that they are capable of improving the accuracy, transparency, comparability and effectiveness of financial reporting and the protection of investor interests;

Considering that accounting standard-setters should strive to keep their standards current to reflect changes in the business environment, as well as consider promptly emerging accounting issues and changing business practices;

Recognizing that the International Accounting Standards Board (“IASB”) is a stand-alone international accounting standard-setter committed to developing, in the public interest, a single set of high quality, understandable and enforceable global standards, also known as International Financial Reporting Standards (“IFRS”);

Recognizing that the IASB develops accounting standards for use by companies from developed and developing economies;

Recognizing that IFRS are increasingly used around the world, yet the IASCF has no formal relationship to capital markets authorities;

Asserting that establishing a formal relationship between capital markets authorities and the IASCF will facilitate the ability of these authorities to effectively discharge their mandates relating to investor protection, market integrity and capital formation;

Recognizing that the IASB is overseen by an independent body, the IASCF, which is charged with serving the public interest;

Desiring to further enhance the public accountability of the IASCF to support the increasing use of IFRS around the world;

Recognizing that the IASCF has changed its constitution to recognize the role of the IASCF Monitoring Board in reinforcing the public accountability of the IASCF Trustees;

Affirming and supporting the independence of the IASCF in setting high-quality accounting standards, through the IASB, for use around the world, and

Desiring to help strengthen this independence by supporting the establishment of a non-voluntary, transparent and stable funding platform for the IASCF;

Have reached the following understanding:

ARTICLE I: DEFINITIONS

For purposes of this Memorandum of Understanding (“MOU”),

1. “IASCF Monitoring Board” or “Monitoring Board” means a body established by agreement among its members, the mission and operation of which are described in its charter. Its relationship to the IASCF is described in this MOU. Its initial members are:
 - The European Commission;
 - The Emerging Markets Committee and the Technical Committee of the International Organization of Securities Commissions (“IOSCO”);
 - The Financial Services Agency of Japan; and
 - The US Securities and Exchange Commission.

The Basel Committee on Banking Supervision shall participate in the IASCF Monitoring Board as an observer with voice but no vote.

2. “IASCF Constitution” means the _____ 2009 Constitution of the IASCF, as amended from time to time.¹
3. “Trustees” means the Trustees of the IASCF, whose roles are described in the IASCF Constitution.

¹ Located at www.iasb.org

ARTICLE II: GENERAL PROVISIONS

4. The IASCF Monitoring Board and the Trustees agree to collaborate in the manner specified in this MOU.
5. This MOU does not alter the terms of the relationship between the Trustees and the IASB. This MOU also does not alter the Trustees' responsibilities as described in the IASCF Constitution.

ARTICLE III: PURPOSE AND DUTIES OF THE IASCF MONITORING BOARD

6. Purpose of the IASCF Monitoring Board

The primary purpose of the IASCF Monitoring Board is to serve as a mechanism for formal interaction between capital markets authorities and the IASCF, thereby facilitating the ability of capital market authorities that allow or require the use of IFRS in their jurisdictions to effectively discharge their mandates relating to investor protection, market integrity and capital formation. The IASCF Monitoring Board will help ensure the public accountability of the IASCF by monitoring and reinforcing the public interest oversight function of the IASCF, as well as to promote the continued development of IFRS as a high-quality set of global accounting standards.

7. Duties of the IASCF Monitoring Board

The principal responsibilities of the IASCF Monitoring Board are to:

- i) Participate in the Trustee nominations process;
- ii) Approve Trustee nominees;
- iii) Review the adequacy and appropriateness of Trustee arrangements for financing the IASB;
- iv) Review the Trustees' oversight of the IASB's standard setting process, in particular with respect to its due process arrangements;
- v) Confer with the Trustees regarding their responsibilities, in particular in relation to the regulatory, legal and policy developments that are pertinent to the IASCF's oversight of the IASB; and
- vi) Refer matters of broad public interest related to financial reporting for consideration by the IASB through the IASCF.

8. Trustee Selection

- A. Criteria for the selection or reappointment of a Trustee are those contained in the IASCF Constitution.
- B. In accordance with paragraph 7 of the IASCF Constitution, the Trustees shall establish procedures to invite applications for Trustee positions, including advertising vacant positions. These procedures shall be agreed by the IASCF Monitoring Board. The selection process will be administered by the Trustees in a transparent manner.
- C. The Trustees will propose a candidate for each open Trustee position. The Trustees shall provide the reasoning behind their choice of candidate. The IASCF Monitoring Board may submit names for the Trustees' consideration.
- D. Each Trustee candidate must be approved by the IASCF Monitoring Board.
- E. The Trustees will nominate a Chair from among their members, subject to the approval of the IASCF Monitoring Board.

9. IASB Oversight, Due Process and Funding

- A. The IASCF Monitoring Board will confer with the Trustees regarding their oversight responsibilities in the following principal areas:
 - i. procedures relating to the due process and general oversight of the IASB;
 - ii. the IASB's agenda-setting process and work program, including the adequacy of the IASB's resources in the light of its work program;
 - iii. the adequacy of the IASB's procedures to ensure prompt and fair consideration of changes to IFRS accounting principles and standards so as to take into account emerging accounting issues and changing business practices;
 - iv. the IASB's due process, including the process for carrying out impact assessments and cost-benefit analyses;
 - v. the IASB's efforts to improve the accuracy and effectiveness of financial reporting and to protect investors; and
 - vi. the adequacy and appropriateness of the sources of funding and any other revenue arrangements of the IASCF, as well as the annual budget of the IASCF.
- B. The IASCF Monitoring Board may refer accounting issues to, and will confer regarding these issues with, the Trustees and the IASB Chair.
 - i. The Trustees will work with IASB to ensure these issues are addressed in a timely manner.

- ii If the IASB determines that consideration of the issue(s) identified by the IASCF Monitoring Board is not advisable or that the issue(s) cannot be resolved within the time frame suggested by the Monitoring Board, the Trustees should:
 - 1. call on the IASB to undertake all reasonable efforts to consider issue(s) in a manner that is consistent with the public interest, taking into account the protection of investors.
 - 2. call on the IASB to explain its position through the Trustees regarding the IASB's position on the issue(s); and
 - 3. promptly notify the IASCF Monitoring Board of the IASB's position.

ARTICLE IV: COMMUNICATION BETWEEN THE IASCF MONITORING BOARD AND THE TRUSTEES

- 10. The Trustees shall communicate with the IASCF Monitoring Board regarding their work, including in the following ways:
 - A. The Trustees shall report on the work of the IASCF annually in writing;
 - B. The Trustees shall meet regularly with the IASCF Monitoring Board to discuss its work. By common agreement of the two Chairpersons, other organizations with public policy responsibilities related to financial reporting may be invited to participate in these meetings on an *ad hoc* basis;
 - C. Upon request of the IASCF Monitoring Board, the Trustees, the Chairman of the Trustees, or the Chairpersons of the Trustees and the IASB shall meet with the IASCF Monitoring Board regarding any area of work of either the IASCF or the IASB. Without limitation, these discussions may cover the status of any matter that the IASCF Monitoring Board has referred for timely consideration by the IASCF and/or the IASB.
 - D. The IASCF Monitoring Board members shall update the IASCF and/or its staff on significant events in the regulatory environment (including those that relate to audit requirements and practices), or other areas to assist the IASCF in carrying out its responsibilities.
 - E. From time to time, the IASCF Monitoring Board and the Trustees shall discuss the functioning of this MOU and discuss whether changes are appropriate. Changes must be approved by a consensus among all signatories to this MOU.

ARTICLE V: TERMINATION

- 11. The IASCF Monitoring Board or the Trustees may terminate this MOU upon 60 days written notice.

Signed at _____, this ____ day of _____, 2009.