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Berlin, 30. November 2009

Dear Ms. Oyre,

Re.: ASCG/GASB Comments on “Proposals for Enhanced Public Accountability”

On behalf of the Accounting Standards Committee of Germany (ASCG) and the German Accounting Standards Board (GASB) we are writing to comment on the IASCF ‘Proposals for Enhanced Public Accountability’. The ASCG and the GASB appreciate the opportunity to comment on the proposals. Our detailed comments are set out in the appendix; the key points are the following:

- We do not concur with the Trustees’ proposal not to include a specific reference to principle-based standards: we feel strongly that an explicit commitment, anchored in the constitution, to principle-based standards, should be made.
- We urge the Trustees to review the objective of bringing about convergence with national accounting standards. As more than 100 countries now follow IFRS the IASB should instead focus again entirely on the quality of its standards rather than seek convergence with few remaining countries.
- We reject the insertion of “primarily” and the paragraphs inserted following the first part of the Constitution Review as the governance of the IFRS Foundation should continue to firmly rest with the Trustees.
- We concur with the Trustees’ preliminary view that in exceptional circumstances due process may be shortened; however, the consultation period should never be shorter than 30 days.
- We would like to draw the Trustees’ attention to the number of issues being sent from the IFRIC to the IASB and back to IFRIC. IFRIC’s mandate to provide timely guidance might be challenging at times when the IASB’s work plan covers almost all standards; however, application of IFRS cannot be suspended until IASB and/or IFRIC have concluded on a preferred solution.

If you would like to discuss any matter raised in this letter, please do not hesitate to contact us.

Yours sincerely

Neubuerger

Knorr

*Accounting Standards
Committee of Germany*

*German Accounting
Standards Board*

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Appendix 1:

ASCG and GASB comments on the questions raised by the IASCF in the “Proposals for Enhanced Public Accountability”

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’.

ASCG and GASB support the change in name for both the International Financial Reporting Standards Foundation and the International Financial Reporting Standards Board.

Question2

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?

ASCG and GASB support this change.

Question 3

The Trustees seek views on their proposal to change section 2 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?

ASCG and GASB are generally supportive of the changes.

However, we would ask the Trustees to reconsider their decision not to include in the Constitution a specific reference to principle-based standards. We do not deem this being a level of detail not appropriate for a constitutional document; we would rather see the necessity for constitutional backing.

Further, we question whether bringing about convergence of national accounting standards and IFRS can still be seen as a valid objective: striving for high quality solutions seems to get lost when debating acceptable common solutions.

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 endeavour 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?

While ASCG and GASB welcome the attempt to clarify the link between the IFRS Foundation and the Monitoring Board, inserting the word “primarily” begs the question whether the governance of the IFRS Foundation will indeed rest with the Trustees.

It is not obvious to us why the second sentence starts with ‘A’ Monitoring Board while the header of section 18 refers to ‘The’ Monitoring Board as do all other references to the Monitoring Board.

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) ~~(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?

The ASCG and GASB agree with the specific recognition of Africa and South America. However, it should be clarified that the division between North and South America is seen as being south rather than north of Mexico.

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?

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.

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 ~~IASG~~ 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.

ASCG and GASB agree with providing for up to two Vice-Chairmen of the Trustees and up to two Vice-Chairmen of the IFRS Board. However, in both cases there should be a clear division of duties and provisions who will be the acting chair.

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.



While the ASCG and GASB agree that the constitution already provides the Trustees with the powers to ensure that their oversight functions are carried out effectively, actions taken to address the concerns to achieve enhanced accountability need to be clearly communicated.

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?

In general, ASCG and GASB agree with encouraging liaison with a broad range of organisations. It should be noted, though, that the reconstituted SAC already links the IFRS Board with a broad range of organisations with an interest in standard-setting.

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 length?

ASCG and GASB do not agree with the change proposed. We believe that all members of the board should have the same terms, i.e. there should be no 'first and second class citizens'. However, there should be a provision that in extremely rare cases the term of a board member could be extended if necessary to maintain the IASB's capacity to act.

There seems to be the following inconsistency in drafting:

the text leading up to question 10 talks about 'for an initial term of five years', the text of question 10 'initially for a term of five years', the marked copy of section 31 'initially



for a term of **up to** five years'. We assume that the marked text of section 31 including 'up to' is to be retained.

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.

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.

ASCG and GASB strongly support providing for exceptional circumstances, but retaining a minimum period for due process. The minimum due process described in the Due Process Handbook (i.e. 30 days) should indeed be respected in all cases.

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 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;

ASCG and GASB strongly support to expressly provide that the Board must consult the Trustees and the SAC when developing its technical agenda and to amend the Due Process Handbook accordingly.

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.

ASCG and GASB agree with not amending the sections relating to the SAC at this time as it would be premature after implementing changes only earlier this year.

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'. Accord-



ingly section 49 should be deleted.

The Trustees also seek comments on the proposal to update the Constitution by removing all historical references that relate to when the organisation was established in 2001.

ASCG and GASB support the changes proposed to section 48 and 49.

While we support removing all historical references, we fail to see why section 33 'The terms of appointment of members of the IFRS Board shall be staggered so that not all members retire at once' is kept. The current structure of terms would rarely lead to more than three members retiring in one given year.

Other comments

We would like to draw the Trustees' attention to the number of issues being sent from the IFRIC to the IASB and back to IFRIC. IFRIC's mandate to provide timely guidance might be challenging at times when the IASB's work plan covers almost all standards; however, application of IFRS cannot be suspended until IASB and/or IFRIC have concluded on a preferred solution.