



Mr Tom Seidenstein
Director of Operations and Secretary
IASC Foundation
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UK

Berlin, 26. März 2004

Dear Tom

Constitutional review

GASC welcomes the opportunity to comment on the IASC Foundation's Constitution three years after the coming into force.

1 Name:

When the name was chosen, it was the obvious choice to keep the brand name of the predecessor organisation. Again, it was an obvious choice to label new standards International Financial Reporting Standards and the reconstituted Interpretations Committee International Financial Reporting Interpretations Committee. The coexistence of accounting and financial reporting in the labels of committees and "products" is not very helpful. It might be seen as somewhat drastic to change all the way to financial reporting; sooner or later we would welcome that move.

2 Objectives:

Taking up a specific objective to address special challenges facing small and medium-sized entities pre-empts the outcome of the debate on IASB's current project on SME financial reporting. If - as one possible scenario - only the disclosure level will be lowered, we see no need to rephrase the objectives. If - as another possible scenario - different recognition and measurement requirements will be developed depending on the addressees of financial information, we see a need for clear distinction between a set of standards for capital market oriented entities and another set for others.

It might be helpful to change the wording from "global accounting standards" to "global financial reporting standards" in paragraph 2 (a) and keep only the latter wording in paragraph 2 (c).

3 Trustees:

Number

We are not in a position to assess the effectiveness of trustees' meetings and any potential advantages or disadvantages of increasing or decreasing the number of trustees. Given experi-



ence with similar bodies, the risk of less effective meetings might outweigh the potential benefit of accommodating a broader range of views, which could be gained through consultation too.

Commitment

We fully endorse the current text requiring a firm commitment to the IASC and the IASB, to be financially knowledgeable and to have the ability to meet the time commitment.

Distribution

We fully endorse trustees representing the world's capital markets and the diversity of geographical and professional backgrounds. However, we would add the criterion of experience in applying IFRS. The number of countries or regions (e.g. Europe) requiring the use of IFRS has increased greatly since the current constitution came into force. The contribution brought to the debate stemming from actual experience is invaluable.

Independence of the standard-setting process/reviews

We fully support protecting the independence of the standard-setting process while ensuring an extensive due process and consultation. Setting intervals for reviews as such might not be the most appropriate measure. While there have to be regular intervals, other criteria have to be considered too, such as the impact of strategic decisions on the IASB work and the users of the standards and changes in the economic and regulatory environment. Therefore, a yearly review is appropriate if there are safeguards that far reaching decisions as the Norwalk agreement are not taken without consultation.

IASCF and IASB might gain from heightening their public profile.

Frequency of Reviewing the Constitution

Given the rapid changes in the global business environment, the period of five years should be retained.

4 IASB

Number of IASB members:

Over the last three years and a very heavy workload, the group of 14 seem to have grown into a team working together efficient and effective. The number of tasks arising from liaising with constituents and disseminating the status of the ongoing work could hardly be mastered by fewer members. Furthermore, directing staff might be improved by sharing the sponsorship of projects beyond current practice amongst the board members.

We see the merit of part-timers bringing very much hands-on experience to the debate. In recognition of the work load the number of full-timers should be at least ten, the number of part-timers no more than four.

Distribution of backgrounds

The current distribution should be retained. We do not encourage a change as the differing perspectives of preparers, auditors, financial analysts and academics brought to the debate are essential in developing high quality solutions. The actual experience in applying IFRS should be emphasized further.



Involvement of financial analysts / users of financial information

Financial analysts work in varying environments. Representatives of private investors such as pension funds or associations of minority shareholders could be encouraged to get involved.

Liaison Responsibilities

We fully support the current formal liaison relationships in order to promote convergence in an effective manner.

We understand that currently the liaison members take additional responsibility for countries not directly represented in the IASB. We support this direction to strengthen contacts with and to obtain input from these countries.

Otherwise the Standards Advisory Council is the appropriate platform for these countries to be involved in the work of the IASB. For practical reasons it is not possible to have a direct representation of every country in the world.

Due Process

The independence and legitimacy of the IASB are essential for the acceptance of their deliberations. The principles laid down in the constitution should not be diluted. One way of strengthening might be a more extensive cooperation with IASB's liaison standard-setters by holding public hearings and conducting field tests on a regional basis. Another step towards more acceptances might be more extensive and more timely communication on the decision process regarding complex issues. Yet another step might lay in inviting experts, chairpersons of working groups to participate in Board meetings.

5 International Financial Reporting Interpretations Committee (IFRIC)

IFRIC has now been in place for two years. So far, no interpretation has been finalised. This fact is seen as somewhat less than effective. Given that many standards have been under revision during that period, it would have been difficult for IFRIC to tread on safe ground. Furthermore, the issues taken up seem to be urgent, but not necessarily to a very wide constituency.

An effective and efficient interpretations body will be vital when regulators will start to look into IFRS financial statements as those will be the required information in Europe and elsewhere after 1 January 2005. The regulators in Europe (CESR) have already stated that they intend to look for IFRIC's support in lieu of providing another set of requirements themselves. IFRIC should draw on the network of liaison standardsetters for resources, staff and information. The leadership should clearly be with IFRIC. If this is not taken up with great urgency, the consistency in rigorous application – IASB's objective – will be lost.

The constitution provides for a member of IASB, the Director of Technical Activities or another senior member of the IASB staff or another appropriately qualified individual to chair the committee. Given the work load (not quantity in output), it might be reconsidered if the Director of Technical Activities could either spend more time on IFRIC matters and be released from other tasks or one of the other choices provided for in the constitution should be taken up.



6 Standards Advisory Council (SAC)

Objective

We deem the objective of (a) giving advice to the IASB on agenda decisions and priorities, (b) informing the IASB of the views of the organisations and individuals and (c) giving other advice to the IASB and the trustees appropriate as set out in paragraph 38 of the constitution. Some members of SAC might be under the impression that their advice is not taken into account. The objective of SAC is to serve as a platform for debate, not decision making. The phrasing “providing a forum for participation” seems to be chosen very carefully and should be retained.

The preface paragraph 18 takes up only point (a) above as subparagraph (c); it should be considered to add the equivalent of (b) above between subparagraphs (h) and (i).

Procedures

We deem the procedures appropriate. Having to consult in advance of major decisions has been seen as cumbersome on a few occasions. However, the need for decisions on major projects should not arise unexpectedly within a reasonable time frame for the agenda planning of at least three meetings a year.

Composition

The composition seems to strike the right balance of interested parties. As the term of the first round members draws to an end it might be helpful to renew (as provided for in the constitution) the appointments of some so as not to lose continuity.

Numbers

The constitution provides for thirty or more members. The current number is close to fifty. The provision in the constitution and the actual number are far apart. As it seems that the current number still allows productive debates, the constitution should be brought closer to reality that is probably “up to fifty”.

SAC Chairman

Current practice differs from the provision in the constitution that the Chairman of IASB should chair the SAC. An agenda committee has been set up which is not provided for in the constitution. As experience has shown, both practical arrangements work well. Furthermore, there are very valid arguments for a chairperson different from IASB to avoid conflicting interests. Therefore, the constitution should be adapted to current practice.

7 Chief Executive and Staff / Administration

We deem the administrative constitutional provisions appropriate.

If you would like to discuss any part of the above, please do not hesitate to contact me.

Best regards

Prof. Dr. Klaus Pohle