

July 2008

International Accounting Standards Committee Foundation

REVIEW OF THE CONSTITUTION

Public Accountability and the Composition of the IASB
Proposals for Change

Comments to be submitted by 20 September 2008



International
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Discussion Document

Review of the Constitution
**Public Accountability and the
Composition of the IASB**

Proposals for change

July 2008

Comments to be received by 20 September 2008

This discussion document sets out proposals by the Trustees of the International Accounting Standards Committee (IASC) Foundation to amend the Constitution. The IASC Foundation publishes this document for comment only. Comments on the proposals should be submitted in writing so as to be received by **20 September 2008**.

Respondents are asked to send their comments electronically to
Tamara Oyre
Assistant Corporate Secretary
IASC Foundation
email: constitutionreview@iasb.org

All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence.

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Proposals and issues for the Constitution Review

Introduction

The Trustees of the International Accounting Standards Committee (IASC) Foundation have initiated their second five-yearly review of the organisation's constitutional arrangements. The IASC Foundation Constitution sets out both the governance structure and the operating procedures of the Foundation and its independent standard-setting body, the International Accounting Standards Board (IASB).

The Constitution states that the Trustees should undertake:

a review of the entire structure of the IASC Foundation and its effectiveness, such review to include consideration of changing the geographical distribution of Trustees in response to changing global economic conditions, and publishing the proposals of that review for public comment, the review commencing three years after the coming into force of this Constitution, with the objective of implementing any agreed changes five years after the coming into force of this Constitution (6 February 2006, five years after the date of the incorporation of the IASC Foundation [Section 17(b)], and

a similar review subsequently every five years. [(Section 17(c))

The previous review was concluded in June 2005, which was earlier than required by the Constitution. As a result, the second Constitution Review must be complete by June 2010.

At their meeting on 17 and 18 March 2008, the Trustees agreed a process for conducting this review. This process is set out in the Appendix to the proposals.

Following the normal time line, the Review should be complete by the end of 2009. However, there are two issues—one related to the Foundation in terms of its governance and public accountability (the creation of a Monitoring Group) and another concerning the composition of the IASB—where the Trustees have already received input and where delay in implementation to 2010 is not appropriate. Thus the Trustees propose, as the Constitution permits, to deal with these issues separately and in an accelerated time frame, with a view to implementation after 1 January 2009.

The Trustees are therefore asking interested parties to comment on proposals made in this document regarding a proposed Monitoring Group and the composition of the IASB.

The Trustees invite comments on all matters in this discussion document.

Comments are most helpful if they

- (a) indicate the specific paragraph or paragraphs to which the comments relate
- (b) contain a clear rationale
- (c) include any alternative that the Trustees should consider.

The Trustees point out that interested parties will have an opportunity to comment on other elements of the Constitution as part of the second part of the review. In seeking views on this document, the Trustees would particularly welcome answers to the following questions included in the document.

Questions related to the Monitoring Group

- Q1 Do you support the creation of a link to a Monitoring Group in order to create a direct link of public accountability to official institutions?
- Q2 The proposals contemplate a Monitoring Group comprising representatives of seven public authorities and international organisations with a link to public authorities. While recognising that the Monitoring Group is an autonomous body, the Trustees would welcome comments regarding the Monitoring Group's membership and whether other organisations accountable to public authorities and with an interest in the functioning of capital and other financial markets should be considered for membership.
- Q3 The Trustees will remain the body primarily responsible for the governance of the organisation and the oversight of the IASB. Their responsibility to a Monitoring Group will enable regulatory and other authorities responsible for the adoption of IFRSs to review the Trustees' fulfilment of their constitutional duties. Does the formulation of the Monitoring Group's mandate and the Trustees' reporting responsibilities, as described in the proposed Section 19, appropriately provide that link, while maintaining the operational independence of the IASC Foundation and the IASB?

- Q4 Given the proposed creation of a Monitoring Group, would there be a continued need for the Trustee Appointments Advisory Group* in the selection of Trustees? If so, what should be the role and composition of the Trustees Appointments Advisory Group?

The Trustees would welcome any additional comments related to the Monitoring Group proposal.

Questions related to the IASB's composition

- Q5 Do you support the principle behind expanding the IASB's membership to 16 members in order to ensure its diversity, its ability to consult, liaise and communicate properly across the world, and its legitimacy?
- Q6 Do you agree with the geographical formulation suggested by the Trustees?
- Q7 The Trustees are suggesting that the Constitution should provide flexibility on the matter of part-time membership. Do you support that proposal?

The Trustees would welcome additional comments on the proposals.

Responses

Respondents should submit comments in writing so as to be received no later than **20 September 2008**.

Respondents are asked to send their comments electronically to
Tamara Oyre
Assistant Corporate Secretary
IASC Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom
email: constitutionreview@iasb.org

* The Trustee Appointments Advisory Group is a high level and broadly representative advisory group to help the Trustees in discharging their responsibility for nominating and appointing highly qualified and interested individuals as Trustees. The Advisory Group was created to increase consultation between the Trustees and official international and regional organisations with an interest in accounting standard-setting.

Adapting for a changing world

- 1 In seven years, the IASC Foundation and its independent standard-setting board, the IASB, have made great progress towards the establishment of a common, internationally accepted set of accounting standards. More than 100 countries have agreed to require or permit the adoption of International Financial Reporting Standards (IFRSs) or have established time lines towards the adoption of IFRSs. The second Constitution Review provides an opportunity for the Trustees, the body responsible for the organisation's governance, to assess the continued appropriateness and relevance of the existing governance arrangements described in the IASC Foundation's Constitution.
- 2 When the Foundation's predecessor body established the IASC Foundation in 2000, the new structure was based on the operating premise that accounting standards should be set, following an extensive and transparent due process, by a highly professional, independent body, the IASB, appropriately protected from particular national, sectoral or special interest pleading.
- 3 The Trustees believe that the fundamental premise of the original Constitution remains sound. It was only in June 2005, following extensive consultation throughout the world, that the Trustees completed their first five-yearly Constitution Review, when this premise was reaffirmed. The organisation's independence has reinforced confidence in its ability to set standards in the public interest by helping to ensure that the creation of IFRSs is not beholden to special interests.
- 4 At the same time, the Trustees have recognised, and continue to recognise, the need to demonstrate the organisation's public accountability. As a result of the Constitution Review completed in June 2005, the Trustees have taken various steps to reinforce their public accountability. These have included steps to formalise their oversight function more clearly and to enhance the IASB's due process. For example, the Trustees have:
 - established a framework to assess their effectiveness in carrying out their constitutional responsibilities
 - created the Due Process Oversight Committee (previously called the Procedures Committee)
 - enhanced the procedures for performance reviews of the IASB
 - implemented regular meetings with various interested external parties, including public officials and business, investor and accountancy organisations

PROPOSALS AND ISSUES FOR THE CONSTITUTION REVIEW

- deepened their interaction with the IASB to discuss matters related to the organisation's strategy and performance.
- 5 As part of their oversight responsibilities, the Trustees have encouraged and approved enhancements to the IASB's due process. Specifically, the IASB:
- broadcasts over the Internet all of its meetings and meetings of its working groups
 - posts on its Website enhanced observer notes to enable interested parties to follow the IASB's deliberations
 - provides a minimum of one year between the approval and the required application of new IFRSs or major amendments to IFRSs
 - emphasises consultation through the increased use of discussion papers, working groups and longer comment periods
 - has introduced feedback statements, impact assessments and post-implementation reviews, and provides greater feedback to interested parties.
- 6 In early 2007, in the light of the rapid advance of IFRS adoption and increased interaction with external parties, the Trustees initiated a review of the organisation's strategy. The Trustees believed that a long-term assessment of the organisation's objectives and future would be useful in preparing for the Constitution Review that is now under way. As part of the review process, the Trustees met prominent stakeholders from around the world with an interest in accounting standard-setting, including regulators, accounting and business organisations, and the Standards Advisory Council.
- 7 The strategy review highlighted the need to enhance now the public accountability of the IASC Foundation, if the IASB is to become the world's accounting standard-setter, a clear organisational objective. Therefore, the Trustees believe that addressing this issue of public accountability should be a fast-track priority for the Constitution Review. Following their meeting in October-November 2007, the Trustees announced their intention to consult immediately on their proposal for a Monitoring Group comprising representatives of public authorities as the first step of the Constitution Review. The relevance of this priority was confirmed when a group of regulators (the International

Organization of Securities Commissions, the European Commission, the Japan Financial Services Agency, and the US Securities and Exchange Commission) issued in November 2007 a press release regarding the IASC Foundation's public accountability.

- 8 The strategy review also emphasised the practical benefits that would be associated with the expansion of the IASB to 16 members and the addition of provisions related to the IASB's geographical diversity. The expansion of the IASB would enable it to engage more efficiently and effectively with interested parties throughout the world and bring new perspectives to its deliberations. Furthermore, the addition of a geographical component would strengthen the legitimacy of the IASB in the view of the countries choosing to adopt IFRSs. At the same time, the Trustees believe that the Constitution's emphasis on 'professional competence and practical experience' should remain paramount. Accordingly, IASB members must commit themselves formally to acting in the public interest by, among other things, continuing to put the objective of the IASB above individual philosophies and interests,^{*} thereby not acting as a representative of any geographical component with which they may be associated.

Proposals on public accountability and IASB composition

Enhancing public accountability

- 9 As discussed above, in the first part of the Constitution Review the Trustees will address issues related to the organisation's public accountability. In determining how to consider accountability in the context of their responsibilities, the Trustees are guided by the organisation's objectives, as laid out in the Constitution. The Constitution states:

The objectives of the IASC Foundation are:

- (a) 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;
- (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, as appropriate, the special needs of small and medium-sized entities and emerging economies; and

* Annex to the Constitution

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- (d) to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions.
- 10 In fulfilling those objectives, the Trustees are accountable not to a single group, but to the wide range of international stakeholders that have an interest in the IASC Foundation's efforts to achieve its objectives. To ensure the transparency of their work and public accountability to these broad interests, the Trustees have identified stakeholder groups with which they maintain regular contact and are establishing mechanisms to receive input outside formal consultations. These stakeholder groups include official organisations, policymakers, investor groups and private sector institutions from around the world.
- 11 The Trustees continue to believe an approach to accountability that requires active engagement of that broad range of stakeholders remains appropriate. The Trustees emphasise that they will continue to take steps to enhance the organisation's relationships with these groups, either through the Standards Advisory Council, or through formal engagement and other liaison with interested parties.
- 12 At the same time, the Trustees recognise the challenge of clearly demonstrating public accountability that arises from the unique nature of the organisation when compared with other international organisations and with national accounting standard-setters, which normally report to national securities regulators, governments or parliaments. Unlike traditional national standard-setting bodies, the IASB has no authority to impose its standards on countries and does not have a direct reporting mechanism to governments or other public officials. The IASB, a private sector body establishing financial reporting standards that become law in many jurisdictions, is also unique compared with all other international standard-setting activities, which are generally committees of national officials mandated to pursue a national interest.

Establishing a formal link to public institutions

- 13 To address the unique situation described in paragraph 12, the Trustees are proposing constitutional amendments to create a link between the Trustees and a 'Monitoring Group'. Importantly for the purposes of the IASC Foundation's public accountability, the members of a Monitoring Group would primarily be representatives of public authorities and of international organisations that have requirements for accountability to public authorities.

- 14 In the absence of a single authority that mandates the use of a single set of financial reporting standards throughout the world's capital markets, a Monitoring Group would be created. Its membership would include public authorities generally charged with the adoption or recognition of financial reporting standards and international organisations with a mandate that includes facilitating the development and effective functioning of capital markets.
- 15 To formalise the link described in paragraph 13, the members of the Monitoring Group would establish a group outside the IASC Foundation's organisational framework. This group would establish its own charter and working procedures. The proposals set out in this document would create a formal recognition of the Monitoring Group within the IASC Foundation's Constitution and set the basis for establishing a link between the Trustees and a 'Monitoring Group'.
- 16 As envisaged, the Monitoring Group would have a monitoring and review function to ensure that the Trustees are fulfilling their constitutional obligations and that the selection of Trustees is conducted in an appropriate and transparent manner. The terms of reference of the relationship between the Monitoring Group and the Trustees would be encapsulated in a Memorandum of Understanding, which would be developed after the membership of the group is agreed and would be made public when completed. The Trustees would recommend that the Memorandum of Understanding should be subject to public consultation before its completion. As an independent group, the Monitoring Group would establish its own operating procedures.
- 17 The Trustees believe that the establishment of a link to the Monitoring Group will complement and enhance confidence in the governance of the organisation, while still safeguarding the independence of the standard-setting process. Under the new arrangement, the governance function of the IASC Foundation would remain primarily with the Trustees, and the independence of the standard-setting function and the responsibilities of the Trustees as laid out in the existing Constitution would continue with the exception of the approval of Trustee appointments and reappointments and a new requirement for the Trustees to report to the Monitoring Group.
- 18 **Mandate of the Monitoring Group:** The Monitoring Group would be responsible for approving the selection of Trustees after an agreed nomination process. The Monitoring Group would be entitled to recommend candidates as Trustees and would provide input on all elements of the nomination process. The Trustees would administer the

process and put forward nominations for approval by the Monitoring Group. The Trustees would also report to the Monitoring Group regularly to enable it to address whether and how the Trustees are fulfilling the requirements set out in the Constitution, particularly in Sections 13 and 15. The Constitutional requirements for the Trustees include:

- appointing members to the IASB
- reviewing the strategy of the IASC Foundation and the IASB and its effectiveness, including consideration, but not determination, of the IASB's agenda
- reviewing the IASB's operating procedures, consultative arrangements and due process (including those associated with feedback statements and impact assessments).
- ensuring the adequacy and appropriateness of the financing arrangements, including the budget, for the IASB and other IASC Foundation activities
- supporting the use and rigorous application of the standards.

19 **Composition of the Monitoring Group:** Consistently with paragraph 14 above, the membership of the Monitoring Group should reflect the balance of the world's capital markets. Membership of the Monitoring Group should also reflect the interests of developed and emerging economies and international institutions that have accountability requirements to public authorities and play an active role in promoting the transparency of financial reporting and the development and effective functioning of capital markets.

20 At the outset, the Monitoring Group would comprise the following:

- (a) the responsible member of the European Commission,
- (b) the managing director of the International Monetary Fund,
- (c) the chair of the IOSCO Emerging Markets Committee,
- (d) the chair of the IOSCO Technical Committee (or vice chair or designated securities commission chair in cases where either the chairman of an EU securities regulator, commissioner of the Japan Financial Services Agency or chairman of the US Securities and Exchange Commission is the chair of the IOSCO Technical Committee),
- (e) the commissioner of the Japan Financial Services Agency,

- (f) the chairman of the US Securities and Exchange Commission, and
- (g) the president of the World Bank.

The Monitoring Group's membership would be reconsidered over time relative to its objectives.

The Monitoring Group: changes in the constitutional language

- 22 To reflect the objectives described above regarding the creation of the Monitoring Group, the Trustees propose the following amendments to the Constitution:

Revision to Section related to Trustee appointments

The **Monitoring Group (described further in Sections 18-23)** Trustees shall be responsible for the selection approval of all **Trustee appointments and reappointments**, subsequent Trustees to fill vacancies caused by routine retirement or other reason. In approving making such selection, the **Monitoring Group** Trustees shall be bound by the criteria set out forth in Sections 6 and 7.^{1,2} **The Trustees and the Monitoring Group shall agree a nomination process that will entitle the Monitoring Group to recommend candidates and provide other input, and in particular In administering the nomination process and putting forward nominations to the Monitoring Group for approval, the Trustees** shall undertake mutual consultation with international organisations as set out in Section 7, for the purpose of selecting an individual with a similar background to that of the retiring Trustee, where the retiring Trustee was selected through a process of mutual consultation with one or more international organisations.

Revised Section related to Trustee accountability

- 17 The accountability of the Trustees shall be ensured *inter alia* through:
- (a) a commitment made by each Trustee to act in the public interest;
 - (b) **their commitment to report to and engage with the Monitoring Group according to the terms described in Sections 18-23.**

- ~~(b)~~(c) their undertaking a review of the entire structure of the IASC Foundation and its effectiveness, such review to include consideration of changing the geographical distribution of Trustees in response to changing global economic conditions, and publishing the proposals of that review for public comment, the review commencing three years after the coming into force of this Constitution, with the objective of implementing any agreed changes five years after the coming into force of this Constitution (6 February 2006, five years after the date of the incorporation of the IASC Foundation); and
- ~~(e)~~(d) their undertaking a similar review subsequently every five years.

New Sections creating the Monitoring Group

- 18 A Monitoring Group will provide a formal link between the Trustees and public authorities. A Memorandum of Understanding will be agreed between the Monitoring Group and the Trustees describing the interaction of the Monitoring Group with the Trustees. This Memorandum of Understanding will be made available to the public.**
- 19 The responsibilities of the Monitoring Group shall be:**
 - (a) to participate in the process for appointing Trustees and to approve the appointment of Trustees according to the guidelines in Sections 5-8.**³
 - (b) to review and provide advice to the Trustees on their fulfilment of the responsibilities set out in Sections 13 and 15.**^{4,5} **The Trustees shall make an annual written report to the Monitoring Group.**
 - (c) to meet the Trustees or a subgroup of the Trustees at least once annually, and more frequently as appropriate. The Monitoring Group shall 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 Group has referred for timely consideration by the IASC Foundation or the IASB.**

- 20 The Monitoring Group shall develop a charter that sets out its organisational, operating and decision-making procedures. The charter shall be made public.**
- 21 Initially, the Monitoring Group shall comprise:**
- (a) the responsible member of the European Commission,**
 - (b) the managing director of the International Monetary Fund,**
 - (c) the chair of the IOSCO Emerging Markets Committee,**
 - (d) the chair of the IOSCO Technical Committee (or vice chair or designated securities commission chair in cases where either the chairman of an EU securities regulator, commissioner of the Japan Financial Services Agency or chairman of the US Securities and Exchange Commission is the chair of the IOSCO Technical Committee),**
 - (e) the commissioner of the Japan Financial Services Agency,**
 - (f) the chairman of the US Securities and Exchange Commission, and**
 - (g) the president of the World Bank.**
- 22 The Monitoring Group shall reconsider its composition from time to time relative to its objectives.**
- 23 The Monitoring Group shall reach decisions to approve the appointment of Trustees and establish any common positions by consensus.**

Expanding the IASB and making explicit a geographical component

- 22 As part of the Constitution Review completed in 2005, the Trustees considered the question of the size and composition of the IASB. The Trustees concluded at that time that they should maintain the size of the IASB at 14 members, two of whom are part-time. The Trustees decided to maintain the constitutional language on geographical issues—
- The selection of members of the IASB shall not be based on geographical criteria, but the Trustees shall ensure that the IASB is not dominated by any particular constituency or geographical interest.
- 23 The Trustees believe that the Constitution’s emphasis on ‘professional competence and practical experience’ should remain paramount. Furthermore, the Trustees reaffirm the relevance of the eight criteria for IASB members in the Annex of the Constitution.⁶

- 24 At the same time, with a growing number of countries adopting IFRSs, the Trustees have concluded that they should amend the Constitution relating to the IASB's size and geographical diversity.
- 25 The Trustees have concluded that there are strong reasons to expand the IASB to 16 members. These include:
- **IASB members needed for liaison:** As the IASB becomes the global standard-setter, the consultation, liaison and communications task for IASB members continues to grow. This needs to be shared broadly, while permitting time for IASB members to work with staff and relevant internal working groups in developing international accounting standards.
 - **Diversity as providing legitimacy:** While professional competence (particularly technical expertise) and practical experience are the foremost criteria for IASB selection, the diversity of IASB members (professional and geographical) provides legitimacy in the eyes of many who adopt the standards.
 - **Diversity as enabling new perspectives:** The introduction of IASB members from different backgrounds has enabled the IASB to account for issues that may not have been raised in the past.
- 26 In expanding the IASB to 16 members, the Trustees believe that the Constitution should introduce guidance regarding drawing the most competent person from the deepest and broadest geographical pool possible. Therefore, the Trustees propose that normally the IASB should comprise:
- (a) four members from the Asia/Oceania region;
 - (b) four members from Europe;
 - (c) four members from North America;
 - (d) one member from Africa;
 - (e) one member from South America; and
 - (f) two members appointed from any area, subject to maintaining overall geographical balance.
- 27 The Trustees have concluded that they could identify qualified candidates from each of the regions, in line with the constitutional emphasis on professional competence, practical experience and diversity of professional backgrounds. The Constitution already states, '... the Trustees shall ensure that the IASB is not dominated by any particular

constituency or geographical interest.’ At the same time, the Trustees recognise the practical benefits arising from diversity of IASB membership described above, while providing stronger assurance that the IASB will be global in drawing its resources.

- 28 The Trustees believe that geographical considerations for selecting IASB members would not diminish the importance of the other criteria for IASB membership, including that each IASB member must contractually agree to ‘act in the public interest ... in deciding on and revising standards.’⁷ Geographical considerations would not change this. Geographical diversity should not lead to IASB members acting as if they represent a geographical constituency.
- 29 The Trustees do not believe that expanding the IASB’s membership will impair the IASB’s ability to make decisions in a timely fashion, but will benefit the IASB in its ability to consult interested parties throughout the world.
- 30 In making these proposals, the Trustees have considered the consequences for voting majorities, part-time membership, and transitional provisions. First, the Trustees will maintain a supermajority requirement in the Constitution, which would rise to 10 of 16 members. Second, the Trustees are recommending flexibility in the Constitution regarding the question of part-time membership in line with the existing Constitution’s provisions regarding the relative balance of full-time and part-time members (with the possibility of from zero to three part-time members). While the Trustees believe that the IASB should largely remain a full-time board for operational and independence reasons, the Trustees note that part-time positions have attracted highly qualified candidates in the past and are one way that the IASB could access practical expertise. Third, to minimise disruption to the IASB’s work programme, the Trustees are proposing a transition period of up to four years for the IASB’s expansion to be completed.

The IASB: Changes in the constitutional language

- 31 The Trustees propose the following amendments to the Constitution related to the IASB’s composition:

Size and composition

- ~~18~~ 24 The IASB shall comprise fourteen members **increasing to sixteen members at a date no later than 1 July 2012. The members of the IASB are** appointed by the Trustees under Section 15(a).⁵ **Up to three members may be part-time members (the expression 'part-time' meaning that the members concerned commit most of their time in paid employment to the IASC Foundation) and shall meet appropriate guidelines of independence, established by the Trustees. The remaining members** ~~of whom twelve shall be full-time members (the expression 'full-time' meaning that the members concerned commit all of their time in paid employment to the IASC Foundation). The remaining two members shall be part-time members (the expression 'part-time' meaning that the members concerned commit most of their time in paid employment to the IASC Foundation) and shall meet appropriate guidelines of independence, established by the Trustees. The work of the IASB shall not be invalidated by its failure at any time to have a full complement of fourteen members, although the Trustees shall use their best endeavours to achieve a full complement.~~
- 19 25 The main qualifications for membership of the IASB shall be professional competence and practical experience. The Trustees shall select members of the IASB, **consistently with the Criteria for IASB Members set out in the Annex to the Constitution**, so that it will comprise a group of people representing, within that group, the best available combination of technical expertise and diversity of international business and market experience in order to contribute to the development of high quality, global accounting standards. **The members of the IASB shall be required to commit themselves formally to acting in the public interest in all matters.** No individual shall be both a Trustee and an IASB member at the same time.
- 20 26 ~~The selection of members of the IASB shall not be based on geographical criteria, but the Trustees shall ensure that the IASB is not dominated by any particular constituency or geographical interest. In particular, the Trustees shall observe the general parameters set out in the Criteria for IASB Members which are attached to this Constitution. In a manner consistent with the Criteria for IASB Members set out in the Annex to the Constitution and in order to ensure a broad international basis, there shall normally be, by 1 July 2012:~~

- (a) **four members from the Asia/Oceania region;**
- (b) **four members from Europe;**
- (c) **four members from North America;**
- (d) **one member from Africa;**
- (e) **one member from South America; and**
- (f) **two members appointed from any area, subject to maintaining overall geographical balance.**

The work of the IASB shall not be invalidated by its failure at any time to have a full complement of members according to the above geographical allocation, although the Trustees shall use their best endeavours to achieve the geographical allocation.

Voting majorities

~~30~~ 36 Publication of an Exposure Draft, ~~International Accounting Standard,~~ or an International Financial Reporting Standard, ~~(including an International Accounting Standard or an final Interpretation of the International Financial Reporting Interpretations Committee)~~ shall require approval by nine ~~of the fourteen~~ members of the IASB, **if there are fewer than 16 members, or by ten members if there are 16 members.** Other decisions of the IASB, including the publication of a discussion paper, shall require a simple majority of the members of the IASB present at a meeting that is attended by at least 60% per cent of the members of the IASB, in person or by telecommunications.

Appendix: Organising the Constitution Review in a transparent and open way

- A1 Though emphasising early on the priority of public accountability, the Trustees will conduct a thorough and transparent Constitution Review that will enable interested parties to raise any issues they wish the Trustees to consider and to provide opportunities to comment on proposals. This appendix describes how the Trustees expect to conduct the Review.
- A2 The Trustees have now established a Constitution Committee, which comprises the following Trustees:
- Gerrit Zalm, Chairman of the Trustees
 - Philip Laskawy, Vice Chairman of the Trustees
 - Bertrand Collomb
 - Samuel DiPiazza
 - Aki Fujinuma
 - Pedro Malan
 - Antonio Vegezzi.
- A3 The Trustees as a whole will reach conclusions on the Constitution Review and the Constitution Committee will help manage the process. The Trustees have established the following procedures to help ensure an efficient and transparent process:
- The Constitution Committee will make non-binding recommendations to the Trustees, and the Trustees as a whole will make final decisions regarding any changes in the Constitution.
 - Any discussions related to the Constitution during the full Trustees' meetings will be held during the public sessions of Trustees' meetings.
 - The Constitution Committee will engage in intensive public consultations before making recommendations to the full Trustees. The consultations will include:
 - discussions with interested parties
 - possibly, public meetings or round-table discussions around the world

- the publication of papers to assist those attending the public discussions of the Trustees or the Committee to follow the deliberations.
- the publication of all proposals with a period for public comment before the Trustees reach a conclusion.

A4 In launching the Constitution Review, the Trustees are seeking to balance their immediate priority—addressing issues related to public accountability—and the need to have a thorough and inclusive process on other elements of the Constitution. Therefore, the Trustees will advance the Constitution Review in two parts. First, in this document, the Trustees are making proposals aimed at the organisation’s public accountability and issues of size and geographical diversity of the standard-setting body, the IASB. Second, the Trustees will proceed with the review of other issues in the Constitution.

A5 On that basis, the Trustees envisage the following time line for the review:

Date	Action step
March–April 2008	Trustees developed preliminary proposals and document for Constitution Review.
May–June 2008	Trustees to meet interested parties to discuss proposals
June–July 2008	Publication of proposals concerning public accountability and IASB size/geographical diversity—the first part of the Constitutional Review. Comment period to end in September.
June–August 2008	Trustees to meet interested parties to discuss proposals on the first part
September 2008	Constitution Committee to develop proposals to present to the full Trustees, based upon analysis of comment letters and other input on the proposals in the first part.
October 2008	Trustees to conclude the first part of Constitution Review at Beijing meeting. Changes to take effect for 1 January 2009.
October or November 2008	Trustees to publish a discussion document inviting views on other issues to be included in the Constitution Review—the second part of the Review.
October 2008–January 2009	Trustees to meet interested parties to discuss the second part of Constitution Review.

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February 2009	Trustees to develop list of issues and the Constitution Committee to develop proposals.
April 2009	Trustees to publish other constitutional proposals on issues identified.
April–October 2009	Trustees to hold a series of meetings, possibly including public round-table discussions, on proposals
October–November 2009	Conclusion of the Constitution Review. Any changes will take effect from 1 January 2010—six months earlier than required.

End notes

1 Constitution Section 6

All Trustees shall be required to show a firm commitment to the IASC Foundation and the 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 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 a 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 North America;
- (b) six Trustees appointed from Europe;
- (c) six Trustees appointed from the Asia/Oceania region; and
- (d) four Trustees appointed from any area, subject to establishing overall geographical balance.

2 Constitution Section 7

The Trustees shall comprise individuals that as a group provide an appropriate balance of professional backgrounds, including auditors, preparers, users, academics, and other officials serving the public interest. Two of the Trustees shall normally be senior partners of prominent international accounting firms. To achieve such a balance, Trustees should be selected after consultation with national and international organisations of auditors (including the International Federation of Accountants), preparers, users and academics. The Trustees shall establish procedures for inviting suggestions for appointments from these relevant organisations and for allowing individuals to put forward their own names, including advertising vacant positions.

3 Constitution Section 8

Trustees shall normally be appointed for a term of three years, renewable once: in order to provide continuity, some of the initial Trustees will serve staggered terms so as to retire after four or five years.

4 **Constitution Section 13**

The Trustees shall:

- (a) assume responsibility for establishing and maintaining appropriate financing arrangements;
- (b) establish or amend operating procedures for the Trustees;
- (c) determine the legal entity under which the IASC Foundation shall operate, provided always that such legal entity shall be a Foundation or other body corporate conferring limited liability on its members and that the legal documents establishing such legal entity shall incorporate provisions to achieve the same requirements as the provisions contained in this Constitution;
- (d) review in due course the location of the IASC Foundation, both as regards its legal base and its operating location;
- (e) investigate the possibility of seeking charitable or similar status for the IASC Foundation in those countries where such status would assist fundraising;
- (f) open their meetings to the public but may, at their discretion, hold certain discussions (normally only about selection, appointment and other personnel issues, and funding) in private; and
- (g) publish an annual report on the IASC Foundation's activities, including audited financial statements and priorities for the coming year.

5 **Constitution Section 15**

In addition to the duties set out in Part A, the Trustees shall:

- (a) appoint the members of the IASB and establish their contracts of service and performance criteria;
- (b) appoint the members of the International Financial Reporting Interpretations Committee and the Standards Advisory Council;
- (c) review annually the strategy of the IASC Foundation and the IASB and its effectiveness, including consideration, but not determination, of the IASB's agenda;
- (d) approve annually the budget of the IASC Foundation and determine the basis for funding;
- (e) review broad strategic issues affecting accounting standards, promote the IASC Foundation and its work and promote the objective of rigorous application of International Accounting Standards and International Financial Reporting Standards,

provided that the Trustees shall be excluded from involvement in technical matters relating to accounting standards;

- (f) establish and amend operating procedures, consultative arrangements and due process for the IASB, the International Financial Reporting Interpretations Committee and the Standards Advisory Council;
- (g) review compliance with the operating procedures, consultative arrangements and due process as described in (f);
- (h) approve amendments to this Constitution after following a due process, including consultation with the Standards Advisory Council and publication of an Exposure Draft for public comment and subject to the voting requirements given in Section 14;
- (i) exercise all powers of the IASC Foundation except for those expressly reserved to the IASB, the International Financial Reporting Interpretations Committee and the Standards Advisory Council; and
- (j) foster and review the development of educational programmes and materials that are consistent with the IASC Foundation's objectives.

6 **Annex to the Constitution: Criteria for IASB Members**

The following would represent criteria for IASB membership:

- 1 **Demonstrated Technical Competency and Knowledge of Financial Accounting and Reporting.** All members of the IASB, regardless of whether they are from the accounting profession, preparers, users, or academics, should have demonstrated a high level of knowledge and technical competency in financial accounting and reporting. The credibility of the IASB and its individual members and the effectiveness and efficiency of the organisation will be enhanced with members who have such knowledge and skills.
- 2 **Ability to Analyse.** IASB members should have demonstrated the ability to analyse issues and consider the implications of that analysis for the decision-making process.
- 3 **Communication Skills.** Effective oral and written communication skills are necessary. These skills include the ability to communicate effectively in private meetings with IASB members, in public meetings, and in written materials such as accounting standards, speeches, articles, memos and correspondence with constituents. Communication skills also include the ability to listen to and consider the views of others. While a working knowledge of English is necessary, there should not be

discrimination in selection against those for whom English is not their first language.

- 4 **Judicious Decision-making.** IASB members should be capable of considering varied viewpoints, weighing the evidence presented in an impartial fashion, and reaching well-reasoned and supportable decisions in a timely fashion.
- 5 **Awareness of the Financial Reporting Environment.** High quality financial reporting will be affected by the financial, business and economic environment. IASB members should have an understanding of the global economic environment in which the IASB operates. This global awareness should include awareness of business and financial reporting issues that are relevant to, and affect the quality of, transparent financial reporting and disclosure in the various capital markets worldwide, including those using International Financial Reporting Standards.
- 6 **Ability to Work in a Collegial Atmosphere.** Members should be able to show respect, tact and consideration for one another's and constituents' views. Members must be able to work with one another in reaching consensus views based on the IASB's objective of developing high quality and transparent financial reporting. Members must be able to put the objective of the IASB above individual philosophies and interests.
- 7 **Integrity, Objectivity and Discipline.** The credibility of members should be demonstrated through their integrity and objectivity. This includes intellectual integrity as well as integrity in dealing with fellow IASB members and constituents. Members should demonstrate an ability to be objective in reaching decisions. Members also should demonstrate an ability to show rigorous discipline and carry a demanding workload.
- 8 **Commitment to the IASC Foundation's Mission and Public Interest.** Members should be committed to achieving the objective of the IASC Foundation of establishing international accounting and financial reporting standards that are of high quality, comparable, and transparent. A candidate for the IASB also should be committed to serving the public interest through a private standard-setting process.

7 **Constitution Section 23**

Each full-time and part-time member of the IASB shall agree contractually to act in the public interest and to have regard to the IASB *Framework* (as amended from time to time) in deciding on and revising standards.