



The South African Institute of Chartered Accountants

12 September 2008

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Dear Ms Oyre

**SAICA SUBMISSION ON THE INTERNATIONAL ACCOUNTING  
STANDARDS COMMITTEE FOUNDATION (IASCF) REVIEW OF THE  
CONSTITUTION: PUBLIC ACCOUNTABILITY AND THE COMPOSITION OF  
THE IASB PROPOSALS FOR CHANGE**

In response to your request for comments on the IASCF *Review of the Constitution: Public Accountability and the Composition of the IASB Proposals for Change*, attached please find the comment letter prepared by The South African Institute of Chartered Accountants (SAICA). Please note that SAICA is not only a professional body, but also secretariat for the Accounting Practices Board (APB), the official standard-setting body in South Africa. The SAICA comment letter includes the views of the APB and that of the Accounting Practices Committee (APC), which is the technical advisory body to the APB.

We would like to thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact me should you wish to discuss any of our comments.

Yours sincerely

**Sue Ludolph**  
**Project Director – Accounting**

cc: Moses Kgosana (Chairman of the Accounting Practices Board)  
Prof Alex Watson (Chairman of the Accounting Practices Committee)

## SAICA SUBMISSION ON REVIEW OF THE CONSTITUTION

### GENERAL COMMENTS

We commend the Trustees of the IASCF on their proposals as set out in the discussion paper *Review of the Constitution – Public Accountability and the Composition of the IASB: Proposals for Change*, which has been published as part of the first step in its five yearly review. This is a demonstration of the Trustees' commitment in addressing and responding to changes in the global markets, and also ensuring the IASCF's Trustees remain publicly accountable and are transparent in their governance structures.

### SPECIFIC COMMENTS ON THE MONITORING GROUP

#### Question 1

*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?*

In light of the Trustees objectives of increasing transparency, governance and public accountability, we support the creation of a Monitoring Group in order to create a direct link of public accountability to official institutions. We believe that establishing a Monitoring Group comprising of individuals that are independent to the organisation to oversee the selection of Trustees, would enhance the overall objective of promoting public accountability and transparency within the governance structures of the organisation.

Whilst we support the formation of a Monitoring Group in concept, we are concerned that the proposed amendments to the Constitution do not clearly indicate the role of the Monitoring Group, nor do they limit the powers of the Monitoring Group. The roles of the Trustees and the Monitoring Group need to be clearly articulated in the Constitution as explained in our response to question 3.

#### Question 2

*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.*

We support the proposals that the Monitoring Group comprise of selected public authorities and international organisations. However, we are concerned that the achievement of the IASCF's objectives as set out in the Constitution, particularly, section 2(c) which states "*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*" could potentially not be achieved. The proposed membership of the Monitoring Group currently comprises of members mainly from developed economies in the northern hemisphere. To achieve its objectives of serving its emerging markets, we recommend that the Monitoring Group must have representatives from emerging markets.

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The proposed membership does not appear to reflect the geographical dispersion, as much as the IASCF's structures intend to achieve. Our recommendation would ensure a more rounded representation is achieved as well as ensuring that financial reporting needs of small and medium-sized entities and specific issues facing emerging economies are considered.

While we support the appointment of public authorities and international organisations, we have a concern that the membership of this Group could be dominated by individuals from political backgrounds who, as we suggest in response to question 3, could be tempted to extend their powers. Relevant stakeholders in financial reporting, for example, academics, users, preparers and auditors are not represented in this group even though the current Constitution, in paragraph 7, refers to such stakeholders as serving the public interest. For example, the effective functioning of capital markets is also dependent on public authorities charged with the adoption or recognition of auditing standards accepting that they can audit financial statements prepared using financial reporting standards. In addition, the effective functioning of capital markets is also dependent on the support of some non public entities, such as groups representing users and preparers. We recommend that consideration be given to extending the membership of the Monitoring Group to include representatives of the above groups of people.

### Question 3

*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' fulfillment 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?*

We support the view that the Trustees be primary responsible for the governance and oversight of the IASB. However, we are concerned with the wording as proposed in section 19(c) which states the responsibilities of the Monitoring Group shall be "*to meet the Trustees or the 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*". From this proposed wording it is unclear what the responsibilities or powers of the Monitoring Group will be and how far these will extend. In addition the proposed new sections of 18 and 20 refer to a Memorandum of Understanding between the Monitoring Group and the Trustees and the Charter of the Monitoring Group respectively. Without the detail of what the operating and decision-making powers of the Monitoring Group will be, it could be that the Monitoring Group has unlimited access to the IASB and IASCF and thus could attempt to be involved in technical matters relating to accounting standards, which the trustees themselves are

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precluded from being involved in. We believe that the powers of the Monitoring Group should be explicitly stated in the Constitution and should in fact limit the responsibility of the Monitoring Group to certain responsibilities to avoid any area of misinterpretation between the role of the Trustees and that of the Monitoring Group. These are clearly spelt out in paragraph 18 of the discussion paper and should be included in the Constitution itself. It is imperative that the IASB should therefore remain operationally independent from the IASCF and the Monitoring Group and this should be clearly worded in the Constitution to avoid members of the Monitoring Group exceeding their powers.

In addition it should be stated in the Constitution that no individual member of the Monitoring Group will have the power to veto a specific person from being a Trustee.

### **Question 4**

*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.*

We support the continued operational existence of the current Trustees Appointments Advisory Group; however this should be formalised as part of the IASCF structures in the Constitution. Further the demarcation of responsibilities of this group and the Monitoring Group need to be clearly spelt out.

## **SPECIFIC COMMENTS ON THE IASB COMPOSITION**

### **Question 5**

*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?*

While we accept the principle behind expanding the membership base from 14 to 16 members for the reasons noted in paragraph 25 of the discussion paper, we question whether all relevant issues have been considered. For example, while this increase might not be perceived as significant, the efficiency of such a large group at the IASB meetings might be affected. In addition although a larger group could assist in improving liaison and communication across the world, this could be done in other ways by utilising the Board members liaison responsibilities differently and also using the senior IASB staff for such responsibilities too.

### **Question 6**

*Do you agree with the geographical formulation suggested by the Trustees?*

We agree with the geographical formulation as suggested by the Trustees, particularly the inclusion of at least one member each from Africa and South America. This ensures a

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much wider geographical representation within the structure and as such would help to ensure that matters or issues specific to most geographical regions would be addressed.

In our view it is unclear as to whether the specific mention of a geographic region means you have to be a current resident of that region, or merely representing that region, and suggest this point be clarified.

### Question 7

*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.*

In order to attract the highest quality suitable candidates to the IASB, we support the proposal that the Constitution should provide flexibility on the matter of part-time membership.

## OTHER COMMENTS

### Demographic spread of the Trustees

In light of the amendments to the Constitution for the demographic spread of the IASB members, it is our view that the Constitution should also be revised to change the demographic spread of the Trustees to reflect that of the IASB members. That would ensure that at least one member each from Africa and South America are appointed as Trustees.

### Name of the IASCF and the IASB

The names of the IASCF and the IASB do not reflect the standards issued by them currently being IFRS. The current names are linked to IASs issued by the predecessor body to the IASB. Consideration should be given to aligning the names to the standards produced by the organisation.

### IASB member to commit to act in the public interest

Proposed paragraph 25 of the proposed amended constitution states that *"The members of the IASB shall be required to commit themselves formally to acting in the public interest in all matters"*. The current Constitution in paragraph 23 states that *"Each full-time and Part-time member of the IASB shall agree contractually to act in the public interest..."* We question why both requirements would be included in the proposed constitution, particularly as *"commit formally"*, appears to be a lesser requirement than *"contractually"*.

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