

***SHAPING IASC  
FOR THE FUTURE***

ACCA's Response  
to the IASC  
Strategy Review





# ***EXECUTIVE SUMMARY***

1. The Association of Chartered Certified Accountants (ACCA) supports most of the Discussion Paper, and broadly agrees with its proposals for:
  - the establishment of a new Standards Development Committee (SDC), which is intended to improve the effectiveness of the setting of new standards and to promote a partnership with national standard setters
  - approval of standards by the Board in order to give them the necessary authority
  - the role of the Trustees in making appointments to the Board and the SDC
  - approval of "Interpretations" by the new SDC, and
  - improvements in due process at IASC to be along the suggested lines of greater openness of operation and greater disclosure.
  
2. ACCA's principal reservations with the proposals are that:
  - the revised objectives for IASC are too narrowly focussed on the needs of transnational listed companies, thus ignoring the important current role of IASs as a model set of standards to be used as the basis of national standards, especially in developing countries, and therefore applying to listed and non-listed companies alike
  - a more broadly-based, more inclusive, and thus a larger IASC Board is needed to balance the relatively small Standards Development Committee proposed in the discussion paper; ACCA also believes that the IASC Board needs to be more representative (both geographically and in terms of interest groups having Board level status)
  - IASC should not involve itself in either implementation, enforcement or training as these are all, to a greater or lesser degree, in conflict with its primary standard setting role.

3. The proposals for the future funding of IASC are not finalised in the Discussion Paper. ACCA believes that funding responsibilities should spread beyond the professional accountancy bodies and encompass those user groups who have a legitimate interest in accounting standards. There needs to be a core of regular funding which is not dependent on the *ad hoc* efforts of Trustees.

# GENERAL REMARKS

1. ACCA is pleased to have this opportunity to respond to the Discussion Paper (DP) *Shaping the IASC for the Future* issued for comment by the International Accounting Standards Committee (IASC).
2. ACCA is very supportive of the work of IASC in developing a high quality set of accounting standards and advancing the harmonisation of standards across the world. ACCA has endorsed this with its examination stream based on International Accounting Standards (IASs), which has currently been chosen by over 15,000 of our students.
3. We consider that the conclusion of the IOSCO core standards programme marks an appropriate point for IASC to carry out a fundamental review of its objectives, structure and process. It is possible to perceive a growing importance to IASC's work, as both the adoption of its own standards is likely to expand considerably, and because global harmonisation appears to be gathering pace. There is therefore a need to review IASC's constitution to ensure it can address this growing importance and the increasing expectations being placed on it. ACCA therefore welcomes the publication of the DP at this time.
4. ACCA is supportive of the majority of the proposals made in the Discussion Paper, and in particular we are in broad agreement with authors over the following issues:
  - the establishment of a new Standards Development Committee (SDC), which is intended to improve the effectiveness of the setting of new standards and to promote a partnership with national standard setters
  - the approval of new standards by the Board itself in order to give them the necessary authority
  - the proposed role of the Trustees in making appointments to the Board and the SDC
  - the approval of "Interpretations" by the new SDC
  - the proposed improvements in due process at IASC to be along the suggested lines of greater openness of operation and greater disclosure.

5. Our principal reservations about the proposals concern the re-stated objectives of IASC and the size and composition of the Board.
6. In our view, the proposed new objectives for IASC are too narrowly focussed on the needs of large corporations with multiple listings. The new objectives would, we believe, exclude a key current use of IASs as models for national accounting standards, especially in developing and emerging countries. This could either leave these many standard setters with increasingly inappropriate standards, or oblige them to carry out more national modifications. This would both be wasteful of scarce resources for these countries and be detrimental to harmonisation. This matter is dealt with further in our answer to question 1 below.
7. The Discussion Paper proposes that a relatively small professional group of people (mostly professional standard setters in their own right) should form a new Standards Development Committee that would essentially set new IASs, with the Board's role being limited to a (gradually less effective) right of veto. To counter-balance this potential transfer of authority away from the Board, ACCA considers that the Board needs to be more representative of the various constituencies with a legitimate interest in financial reporting and accounting standards. The involvement of investors, preparers, regulators, governments and others in the oversight of accounting standards is a representational model which has been found to work in the UK, the USA and elsewhere. Because the creation of an SDC would free the Board from the practical constraints of involving large numbers of people in the drafting and preparation of standards, the Board would also need to be larger so that it can be inclusive of more countries. This matter is dealt with further in our response to question 3 below.

# RESPONSES TO THE IASC'S SPECIFIC QUESTIONS

- Q1. *Do you agree that it is important to focus IASC's objectives more precisely as follows:*
- (a) *to develop International Accounting Standards (IASs) that require high-quality, transparent and comparable information which will help participants in capital markets and others to make economic decisions; and*
  - (b) *to promote the use of IASs by working with national standard setters to: (i) bring about convergence, for listed companies (i.e. enterprises with publicly traded equity or debt securities) and other economically significant enterprises, between national accounting standards and IASs; and (ii) encourage national, regional and international authorities to permit or require unlisted enterprises that, individually, are not economically significant to use those IASs if those standards meet the needs of the users of the financial statements of such enterprises.*

ACCA does not agree with the proposed objectives. They are too narrowly focussed on the needs of listed transnational companies, and need to reflect better the needs of developing economies and small and medium-sized enterprises (SMEs).

An important role for IASs should be as a model for national standards especially where there is little existing standard setting infrastructure. Such a role minimises unnecessary duplication of expense and effort in national standard setting around the world. This role is an important *existing* use for IASs and it would not be easy for the countries concerned if, in effect, this use was no longer supported by IASC. It might leave these countries with either increasingly inappropriate standards or with the need to modify IASs to suit their purposes, which would probably include reporting by SMEs. Increased national modifications would be costly, especially in terms of scarce expertise and time, and would also be a step back in terms of harmonisation.

We think that IASC's objectives should not specifically exclude SMEs from its standards, as proposed in the DP, because:

- measurement and recognition differences are not justified in the accounting for smaller as opposed to larger entities, as is implicit for instance in paragraph 15 of the Executive Summary
- in any case there is a tendency for there to be a 'trickle down' effect from larger entity requirements to smaller, for instance via loan or grant conditions especially those ultimately derived from international bodies.

We also take issue with a number of the more detailed proposals, set out for example in paragraphs 14, 15 and 17 of the Executive Summary, in that:

- while we agree with harmonisation and convergence in accounting around the world, we are not convinced that a single set of accounting standards for the world is either feasible or desirable as a longer term goal. Global uniformity overlooks and undervalues different cultural, political and economic backgrounds
- excluding the needs of the not-for-profit sector and the public sector does not seem helpful. Potentially this will lead to a lack of guidance for an economically important and internationally based segment in the one case. It could lead to inefficiencies *vis-à-vis* IFAC's Public Sector Committee in the other.

*Q2. The Working Party has identified the following key issues that must be addressed to give the IASC a structure that will enable it to continue meeting its objectives:*

- (a) partnership with national standard setters so that IASC can work with them to accelerate convergence between national standards and International Accounting Standards;*
- (b) wider participation in the IASC Board – a wider group of countries and organisations should take part in the IASC Board, without diluting the quality of the Board's work; and*
- (c) appointment – the process of appointments to the IASC Board and key committees should be the responsibility of a variety of constituencies, while ensuring that those appointed are competent, independent and objective.*

*Do you agree that these are the key issues to be addressed in developing an effective structure for IASC?*

ACCA agrees that these are the key issues.

Harmonisation between existing national standards and IASs will not be achieved immediately. Convergence has to be based on co-operation with national standard setters, and IASC needs to work with them to access resources including their experience and expertise. We think that G4+1 has been a useful model of co-operation among standard setters, comparing experiences, developing the solutions to the main treatments and then co-ordinating the implementation into standards. In many ways SDC would mirror this model. G4+1 needs, however, to be opened up to give it a broader global basis and IASC is the obvious vehicle to do this.

In the longer term, and as harmonisation proceeds, there may be less need for

national standard setters, and IASC could become a fully independent standard setter and the primary source of innovation in global standards. One of the benefits of international harmonisation of accounting standards could therefore be an eventual reduction of the duplication of cost inherent in the existence of separate national standard setters. For the medium term, however, a partnership of IASC and the national standard setters will be needed.

The current structure of the IASC Board cannot accommodate all of the groups with a legitimate interest in accounting standards, nor include a wide enough geographical spread of representation suitable for a global body. We deal with the implications of this in our response to question 3 below.

**Q3. *The Working Party's proposals address the key issues by the following changes:***

- (a) partnership with national standard setters: (i) Steering Committees would be replaced by a Standards Development Committee (SDC) on which national standard setters would play a major role in developing IASs; and (ii) SDC would be supported by a Standards Development Advisory Committee, which would act as a channel for communication with those national standard setters who are unable to participate directly in SDC because of its limited size;***
- (b) wider participation in the IASC Board – the Board would have a wider membership than at present.***
- (c) Appointment- the Advisory Council would be replaced by Trustees. Among other things the Trustees would appoint members of the SDC, the Board and the Standing Interpretations Committee (SIC).***

***Do you support the Working Party's proposals?***

ACCA considers that the proposals in this area could be improved, and do not yet fully meet the issue of wider participation in the IASC Board.

The proposals to enlarge the IASC Board, while improving on the current position, will not, we believe, give IASC a sufficiently broad base for a body with global ambitions. The proposals do not seem to us to go far enough in redressing the current perception of exclusion, particularly in developing and transitional economies. If the membership of the Board is not widened, IASC will continue to mirror the imbalances of power in the financial world. The problems of implementation and compliance with IASs are likely to be most acute among these countries, and a more inclusive composition of the Board could make an important contribution to dealing with these problems.

The proposed Board should be expanded considerably – 50 members might not be out of place. This would give IASs a more credible international basis and would be likely to improve their acceptance and implementation around the world.

Consideration should be given to bringing in more representatives from bodies other than national accountancy ones. Such constituencies might include the corporate sector, investors, regulators and government.

On the role of SDC we agree that the proposals are needed in order to make IASC a more professional, effective and independent standard setting body, and to develop its partnership with national standard setters. The precise number of members of SDC may have to be adjusted to balance the need for an adequate partnership between IASC and the broad constituency of national standard setters, with the need to retain SDC's operational effectiveness.

In any event, to compensate for what is likely to be a relatively small standard developing body, there is a need to make the Board itself, which would approve IASs and give them sufficient authority as global standards, more representative of those with an interest in accounting standards, as we have noted above.

While we are broadly content with the appointment role of the Trustees, we think that the procedures for their own appointment might be revisited. For half of their number to be appointed by the other half does not seem to fit in with most concepts of accountability and representation, and might impair the legitimacy of the proposed structure.

*Q4. The Working Party proposes that the publication of a Standard or Exposure Draft (ED) should require approval by 60% of the Board. If, after a rejection by the Board, nine or more members of the SDC have voted to resubmit the same proposal Board approval should require a simple majority. The Working Party believes that the Board should not have the power to amend proposed EDs and Standards.*

*Do you support this proposal?*

ACCA supports the principle that Board approval should be required for exposure drafts and standards, but that it should not have the power to amend them nor should it have control over the work programme of SDC. We accept the importance that the Working Party places, above all, on a constructive relationship between Board and SDC. Board approval, however, will be the only real source of authority for the work of the SDC, and this might not be achieved by the approval of only a bare majority of the Board members (a situation which could arise in some circumstances under the current proposals). We therefore consider that the 60% majority should be required for approval of a standard or ED, in all cases.

*Q5. Do you agree that:*

- (a) a SIC final interpretation should require approval by SDC and that approval by the Board should no longer be required; and*
- (b) the approval of a final Interpretation would require the same majority in SDC as a decision to submit an ED or Standard to the Board for approval (seven votes out of eleven)?*

Yes. SIC Interpretations could be of great significance to financial reporting, and logically it could be argued that they should require approval in the same way as standards. On the other hand, though important, SIC interpretations would remain clarifications of the application of standards for particular circumstances. Therefore SDC as the developer of those standards, would be best placed to authorise interpretations of them.

- Q6. *Should any changes be made to IASC's due process? In particular should IASC:*
- (a) *open all discussions of the proposed SDC, SIC and Board on technical issues to the public;*
  - (b) *open portions of Trustees' meetings to the public, at the discretion of the Trustees;*
  - (c) *make more use of new technology such as the Internet, the website and electronic observation of open meetings;*
  - (d) *publish in advance the agendas for each meeting of SDC, SIC, Board and Trustees and publish promptly the decisions made at those meetings;*
  - (e) *publish a Basis for Conclusions with its standards;*
  - (f) *publish with its standards any dissentient opinions;*
  - (g) *hold public hearings for some or all projects;*
  - (h) *carry out field tests of some or all of its proposals;*
  - (i) *publish translations of IASs (as well as other documents, such as EDs);*
  - (j) *ask members of IASC to control the quality of those translations that IASC does not publish itself;*
  - (k) *lengthen the comment period for EDs and other documents;*
  - (l) *distribute EDs (and other documents issued for comment) without charge, if it is financial feasible to do so; or*
  - (m) *make other changes to its due process?*

ACCA generally supports these improvements to due process.

We recognise that many of the due process improvements (especially open meetings and translations) are essential in a global body, especially where the main standard setting process is carried out by a relatively small group. It is important for a global body such as IASC to be able to demonstrate high standards as regards transparency.

Some of the proposals might involve extra costs (for example new technology and free distribution of consultative documents) and therefore their merits would have to be judged against those of competing uses for funds.

Our more specific comments on the individual proposals are that

- We agree with the proposals (a) and (b) above subject to the conditions noted i.e. that the public element of SDC, SIC and Board meetings would be on technical matters, and the Trustees' meetings would be in public at their discretion. We note that the current IASC Board has opened up its meetings to the public.
- Published dissenting opinions should be restricted to those of SDC members, while the further details of Board member votes should be restricted to how individual members voted.
- Comment periods should be lengthened to four months as standard
- Response letters should also be published, together with the IASC analysis of them. This could include a version in CD ROM form, in line with the general progress IASC has made in the use of electronic communication.

Q7. *Should IASC:*

- (a) *be more pro-active in reviewing national standards for compliance with IASs*
- (b) *give advice to national regulators and other enforcement agencies in their efforts to enforce national standards that comply with IASs;*
- (c) *be more pro-active in identifying departures from IASs and reporting those departures to national enforcement agencies, supranational bodies such as IOSCO or the Basle Committee, IFAC or IASC's own member bodies;*
- (d) *publish training material, illustrative examples and other implementation guidance, such as staff bulletins;*
- (e) *introduce a technical enquiry service;*
- (f) *hold training courses; or*
- (g) *do anything else to improve the implementation, enforcement, and training of IASs?*

ACCA consider that most of the activities set out in the question would raise conflicts with IASC's main role of setting standards and promoting harmonisation.

Compliance and enforcement of IASs will be a major topic of concern now that the core standards have been agreed, with the potential for greater recognition for IASs via the IOSCO agreement. Enforcement and compliance is an area little addressed in the discussion paper. ACCA considers that while compliance and enforcement should not be part of the role of IASC, the question of how it will be done needs to be taken forward in some way, and in some forum.

IASC should not be involved at all with monitoring or enforcing compliance by

individual preparers. Nevertheless it is important that some formal monitoring mechanism does exist, probably at national level. IFAC perhaps, however, could have some responsibility of oversight in this area, for example by monitoring the systems in place in the different countries of member bodies.

Ensuring compliance of national standards with IAS's should, in the first case, be the responsibility of national authorities. They should conduct, and publish the results of, detailed national studies to demonstrate the extent of local compliance. National requirements for listed companies, for instance, to be required to produce IAS reconciliations would also help in this regard.

Advice and assistance to national regulatory agencies should represent the maximum contribution of IASC to the enforcement process. Some, however, even see a potential for conflict of interest if this role is carried out in combination with standard setting. Certainly the cost and liability issues would need to be considered further.

ACCA considers that IASC should not involve itself at all in training or a technical enquiry service, because the content of these might amount to unauthorised amplification of standards or SIC interpretations.

**Q8.** *Should IASC make any changes to the way in which it is funded? Do you support a funding model that relies more or less equally on funding from a number of reasonably well-defined groups?*

IASC needs to commence a dialogue with other interested parties to reconsider the way in which it is funded. It will not, in our view, be satisfactory for IASC to be funded in future only by the professional accountancy bodies and by *ad hoc* contributions from corporations and others. This would be so even if fund raising is made the responsibility of Trustees who are separate from the standard setting elements of IASC. IASC should ideally receive regular core funding from the profession, governments and other groups with a legitimate interest in accounting standards. The international capital markets will be important beneficiaries of IASs and as such they should also be asked to make an appropriate contribution.

On the basis of the information included in the Discussion Paper, however, it is not clear why such a large increase in funding would be needed by IASC. Our understanding was that SDC members would be paid for by their sponsoring standard setter, and that the staffing for projects would largely come from the national standard setters. One of the benefits of a convergence of standards onto a global basis should be the reduction of the current duplication of effort and resources involved in independent national standard setting.

ACCA reserves its judgement on the funding for a restructured IASC until more developed proposals are submitted.

