

Tamara Oyre
Assistant Corporate Secretary
IASB Foundation
30 Cannon Street
London
EC4M 6XH

Grant Thornton International
Regent's Place
7th Floor
338 Euston Road
London NW1 3BG

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Submitted by e-mail to constitutionreview@iasb.org

Review of the Constitution: Public Accountability and the Composition of the IASB - Proposals for Change

Grant Thornton International is pleased to comment on the IASC Foundation's Consultation Document *Review of the Constitution: Public Accountability and the Composition of the IASB - Proposals for Change* (the proposals).

We support this review and congratulate the Trustees for taking this step. The International Accounting Standards Board (IASB) and the IASC Foundation (the Foundation) have made remarkable progress in securing greater acceptance of IFRS since the current structure was established in 2000. This success bears testament to the quality of the IASB's work and the effectiveness of the Foundation's oversight. Naturally, however, success brings with it an ever greater responsibility to strive for continuous improvement in quality, transparency and governance arrangements. We believe that establishing a mechanism for greater public accountability, while maintaining independence at the standard-setting level, is an important step in this context.

The proposals for enhancing the Foundation's public accountability are also likely to focus increased attention on the Trustees' broader responsibility to ensure that the work of the IASB serves and balances the interests of all its stakeholders. In this context we suggest that particular attention should be paid to the effectiveness of the Trustees' and IASB's engagement with investor bodies, as investors are the primary users of financial statements in the context of the capital markets. We recognize that the existing arrangements for standard-setting and governance already include many ways in which the views of investors are sought and consider that a fully effective IASB consultation process is the most important means of ensuring that careful account is taken of their views. However, we believe that there may room for investor involvement in governance to be enhanced. This might be accomplished by, for example, establishing an investor advisory group to provide input to the Trustees on discharging their governance responsibilities. Establishing a greater role for public bodies in the Monitoring Group might usefully be complemented and to some extent balanced by such an arrangement. We recommend that the Trustees should give careful consideration to this as part of the second phase of the Constitution Review.

We also suggest that the Trustees should actively engage with investor groups during the current consultation phase to explain the public accountability purpose of the Monitoring Group. We believe such engagement would provide a good opportunity for the Trustees to continue to broaden the acceptance of IFRS among key investors. It would be unfortunate if investor groups were to feel that a Monitoring Group comprising public bodies was being imposed without them being consulted, which could in turn lead to resistance from elements of this key stakeholder group.

Our responses to the questions raised by the Trustees are set out below.

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?

Yes, we support this initiative. We believe that a Monitoring Group with an appropriate link to the Foundation is capable of significantly enhancing the public accountability of the Foundation and, in turn, the IASB.

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.

The proposals state that the seven organizations identified as the inaugural members are intended to: (i) 'reflect the balance of the world's capital markets'; and (ii) represent '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' (paragraph 19).

We agree that the seven organizations identified are appropriate on the basis of the criteria in paragraph 19. We believe that these criteria are consistent with enhancing the Foundation's political and demographic legitimacy. We also strongly concur that the membership of the Group should reflect the balance of the world's capital markets.

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?

We believe the Trustees have accurately identified the key issue. We would express this as balancing a need for a substantive enhancement to accountability with maintaining the operational independence of the IASC Foundation and the IASB.

Although the proposals describe the role of the Monitoring Group as a 'monitoring and review function' (paragraph 16), the proposed mandate includes the approval of Trustee appointments (paragraph 18). We read this as a power of veto over Trustee appointments. If that reading is correct the proposed role goes some way beyond a monitoring and review function. This led us to question whether the proposal is inconsistent with the Foundation's operational independence. On balance, however, we agree with the proposed mandate. This is on the grounds that:

- it seems difficult to argue that the link to the Monitoring Group will create substantive public accountability if the Group's role amounts only to review and comment; and
- we believe that the appointment of the Trustees can be separated from their operational independence once appointed.

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?

We consider that a Monitoring Group will largely make redundant the governance and accountability role of the Trustee Appointments Advisory Group. The IASC Foundation might nonetheless consider that the existing Group serves a useful practical purpose in identifying suitable Trustee candidates. We view this as an administrative matter on which the Trustees themselves are best placed to decide.

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?

We believe that the current IASB membership of 14 should be sufficient to achieve the proper level of technical expertise, diversity of background and experience and quality of debate necessary to ensure the quality of the IASB's output. We have a slight concern that expanding the membership to 16 will make Board meetings unwieldy and thereby impair the operational effectiveness of the IASB. We note however that the Trustees have already satisfied themselves on this possible concern (based on paragraph 29 of the proposals).

Subject to maintaining the IASB's operational effectiveness, we agree that expanding the membership to 16 should help to enhance the IASB's outreach and engagement with interested parties throughout the world.

With reference to the proposed changes to the IASB's voting majority (paragraph 36), we agree that publication of a new IFRS or other pronouncement should require approval by ten Board members if there are 16 members. However, we suggest that ten approvals should also be required if there are 15 members. We find the potential for a standard to be issued with 40% of the Board dissenting unattractive.

Q6 Do you agree with the geographical formulation suggested by the Trustees?

We strongly believe that the primary criterion for membership of the IASB should be an individual's ability to contribute to the development of the highest quality accounting standards. We are therefore pleased to note that 'professional competence and practical experience' are regarded as paramount by the Trustees (paragraph 23 of the proposals).

Subject to that comment we agree with the Trustees on the importance of maintaining a geographic balance. The proposals make the case for this in terms of liaison, diversity and legitimacy (paragraph 25). We concur with those arguments. We would add that the 'counter-factual' - an 'imbalanced' IASB membership - is unlikely to serve the objective of global acceptance of IFRS. Although Board members are not appointed to represent any particular country or constituency, we believe that acceptance of IFRS is nonetheless likely to be enhanced if individuals with experience in that jurisdiction or region are involved at Board level.

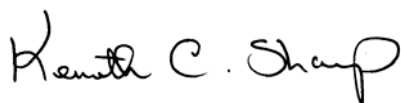
The more difficult question relates to exactly what the geographical formulation should be. The proposals do not explain the basis for the formulation proposed at paragraph 26. Setting out the reasons for the selection should increase its acceptance by constituents. The Trustees might also consider whether these criteria should be revised as changes take place in the relative scale of the world's economies and capital markets. Nonetheless, we believe the proposals represent a reasonable allocation on the basis of the current relative size of the capital markets in those regions. It also provides some flexibility to adapt as the major developing economies become an ever more significant part of the IASB's and the Foundation's constituency.

Q7 The Trustees are suggesting that the Constitution should provide flexibility on the matter of part-time membership. Do you support that proposal?

We agree that there should be some flexibility on this matter. We believe that part-time members can serve a very useful function in bringing more current real world knowledge to the IASB's deliberations. We believe that the IASB has benefited significantly from the contribution of its part-time members. Longer term, however, it may be challenging for part-time members to participate fully and effectively if the membership is dominated by individuals that are full-time standard-setters. Accordingly, we suggest that maintaining only a very small minority of part-time members may not be the best approach. Our preference would be to appoint a more significant number of part-time members, subject of course to all members having sufficient time and expertise to make an effective contribution.

If you have any questions on our response, or wish us to amplify our comments, please contact our Executive Director of International Financial Reporting, Andrew Watchman (andrew.watchman@gtuk.com or telephone + 44 207 391 9510).

Yours sincerely,



Kenneth C Sharp
Global Leader - Assurance Services
Grant Thornton International