

BY E-MAIL AND BY POST

Our Ref.: C/FASC

26 March 2004

Mr. Tom Seidenstein
Director of Operations and Secretary
IASC Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr. Seidenstein,

**IASCF Trustees' Invitation to Comment on the
IASC Foundation Constitution Review**

We respond to the IASCF Trustees' Invitation to Comment on the Constitution review. The IASCF Trustees' Constitution Committee questions on particular issues, together with the HKSA's comments thereon are attached for your consideration.

We note that the Trustees' invitation to comment makes reference to the *process* of the constitution review but we found it difficult to determine exactly what process is applied by the Trustees in this regard. For example, whether the IASCF proactively seeks comments from those elements of the constituency that have historically been active in terms of sending comment letters to the IASB – this active element of the Constituency would include preparers as well as auditors, regulators and others – or whether the invitation to comment is simply posted on the IASB website in the hope that responses are received from a representative or broad cross-section of the constituency. Without an appreciation of how the Trustees have sought comments, if only the latter approach is applied, we would express our concern that the feedback on the constitution review may not necessarily be representative of certain elements of the IASB's constituency, particularly for private sector entities and other preparers who have been active in terms of responding to IASB exposure drafts, and who are likely to adopt more of a preparer's point of view.

If you have any questions on our comments, please do not hesitate to contact Mr. Simon Riley, Technical Director (Financial Reporting) at the Society, in the first instance.

Yours sincerely,



WINNIE C.W. CHEUNG
CHIEF EXECUTIVE & REGISTRAR

WCC/SR/al
Encl.

IASCF Trustees' Invitation to Comment on the IASC Foundation Constitution Review

IASB Objectives

Should there be a specific objective to address the special challenges facing small and medium-sized entities (SMEs)?

We would concur with this proposition and would further recommend that the IASB should have a greater duty to evaluate the balance between benefit and cost when setting standards (consistent with paragraph 44 of the IASB Framework). If, for instance, the IASB is faced with two options, one of which gives slightly inferior reported information but at much less cost, then it should be able to adopt the inferior but cheaper option if this is in the public interest and within the criteria laid down in paragraph 44 of the IASB Framework.

Provisions relating to the Trustees

Does the potential benefit of expanding the number of Trustees, possibly to accommodate a broader range of views, outweigh the risk that meetings would become more cumbersome and less effective if larger, potentially reducing a strong sense of commitment and participation by individual members?

The Trustees have a largely fixed geographical distribution. Is such a fixed distribution appropriate, or does the current distribution need review?

Although a broad distribution of professional backgrounds for the Trustees is clearly necessary, is the distribution enshrined in the Constitution appropriate?

We are not aware of any significant current or foreseeable need to change the Constitution's provisions in respect of the Trustees.

Issues relating to the IASB and Standard-setting process

The intention of these provisions is to protect the independence of the standard-setting process while ensuring sufficient due process and consultation. Does there need to be a specific requirement for the Trustees to review the strategy and the procedures of the IASB at intervals?

We consider that the Standards Advisory Council well-placed to conduct periodic reviews of the IASB's due process but we would support the Trustees retaining the current requirement to annually review the Board's standard setting procedures and strategy. Being tasked with this role is consistent with the Trustees acting as guardians of the IASCF's standard setting objective.

Should the language of the Constitution be changed to require a review of the Constitution at least every ten years rather than every five years?

Our preference would be to retain a five-yearly review.

Should the number of IASB members be reduced to make the Board more workable?

We believe that the “workability” of the Board is not so directly correlated with the number of Board members. Certainly, fewer Board members would decrease the degree of debate and alternative views typically expressed around the table on any given agenda item. But we believe that fewer Board members would not serve the objectives of the Foundation in terms of developing high quality standards considered to have general acceptance globally.

We believe that consideration should be given to expand the Board to include not only the current geographical and standard-setting expertise but also to have, either as full members of the Board or as Associate Members who have speaking rights at Board meetings, other elements representing the IASB’s constituency such as financial statement preparers, regulators, and auditors currently in practice.

Should the part-time positions be eliminated in recognition that the workload of IASB members is heavy and requires substantial time for consultation with interested parties?

We consider that offering additional part-time positions, possibly as Associate Members of the Board, might be more worthwhile in order for the Board to broaden its representation of those key elements of the IASB’s constituency who currently do not have speaking rights at IASB meetings.

Should the requirement for this distribution of particular professional backgrounds be relaxed in light of the desirability of attracting the best-qualified individuals?

Currently the Constitution requires that the IASB members shall include:

- ✓ A minimum of five with a background as practising auditors
- ✓ A minimum of three with a background as preparers
- ✓ A minimum of three with a background as users of financial statements
- ✓ At least one with an academic background.

We support the current requirements to appoint Board members in the above manner. The current wording of the requirement is however, in our view, too loose and that some current Board members could fit into all four categories simply because, at various stages in their career, they have had a background in all respective areas. We believe the original spirit of the above requirements was to have Board members with *relevant* and *recent* backgrounds in the above areas and we would support a re-examination of the wording so that the original intent and spirit of the requirement is met in the future.

The IASC Foundation (like other standard-setting organisations) has experienced difficulty in securing the involvement of the analyst and investment community (users). Is there any way to encourage that group to increase its involvement?

The potential for the IASB to appoint Associate Members of the Board representative of certain elements of the constituency, and who would have speaking rights (if not voting rights) at IASB meetings might be a way of overcoming this issue and making the Board's composition more relevant to stakeholders in the standard setting process

Does this kind of formal liaison relationship seem important for ensuring convergence of accounting standards? Should special consideration be given to liaison with emerging economies, not currently represented by the existing liaison relationships?

We would support this proposition.

The Constitution describes the principles and elements of required due process for the IASB. The IASB's procedures are listed in more detail in the Preface to International Financial Reporting Standards. If respondents do not believe the procedures laid out in the Constitution are sufficient, what should be added?

In our comment letter on the IASB's then Draft Preface we raised substantive issues in respect of web casting IASB meetings, comment period availability for exposure drafts, education and monitoring and enforcement of IASB Standards. We applaud the recent developments at the IASB in respect of web casting and education. Monitoring and enforcement will continue to be difficult areas for the IASB given its lack of jurisdictional regulatory power. We would, however, request that a minimum four-month comment period be provided for in the Constitution in respect of exposure draft IFRS. Please find attached a copy of our earlier comment letter on the IASB Preface, which can also be accessed at the HKSA website at:

<http://www.hksa.org.hk/professionaltechnical/accounting/submissions/commentletterontheiasbpreface.pdf>.

Standards Advisory Council (SAC)

Are the current procedures and composition, in terms of numbers and professional backgrounds, of the SAC satisfactory? Is the SAC able to accomplish its objectives as defined in Section 38? Is the manner of selection of the SAC chairman appropriate?

We have no comment on the above questions.