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Mr. Gerrit Zalm
Chairman of the Trustees
IASCF Foundation
1st Floor, 30 Cannon Street
London EC4M 6XH
United Kingdom

**Comments from JICPA on Part 2 of the Constitution Review:
*Proposals for Enhanced Public Accountability***

Dear Mr. Zalm:

We at the Japanese Institute of Certified Public Accountants (JICPA) are pleased to comment on the International Accounting Standards Committee Foundation (IASCF) discussion document: *Part 2 of the Constitution Review : Proposals for Enhanced Public Accountability*.

In the past two years, the global economy has faced serious difficulties. Under these circumstances, the independence of IASB was challenged by various parties. We are very concerned about these events that were the result of pressures by a specific business sector or economic regions, on the process of development of standards. In this regard, we support the steps taken by the IASB and Trustees. We also believe that a lot of issues remain to be resolved to further enhance the governance of IASB and IASCF.

Japan has expressed its intention to move towards full adoption of IFRS, which effectively means that we would delegate our standard-setting process to the IASB. Therefore, as the professional accounting body in Japan, we would like to stress that further enhancement of the governance of IASB and IASCF is indispensable.

From an overall point of view, we see most of the Constitution- change- proposals as reasonable. However, as we have some concerns regarding funding of the Foundation, we would like to

refer you to the comments in the section of Other issues.

We provide our comments on each question in the order listed in the discussion document.

Confusion associated with the existing names within the IASC Foundation (section 1)

Question 1

The Trustees seek views on the proposal to change the name of the organisation to the ‘International Financial Reporting Standards Foundation’, which will be abbreviated to ‘IFRS Foundation’.

The Trustees also seek views on the proposal to mirror this change by renaming the International Accounting Standards Board (IASB) as the International Financial Reporting Standards Board, which will be abbreviated to ‘IFRS Board’.

Do you support this change in name? Is there any reason why this change of name might be inappropriate?

We support the proposal to change the name of the organizations, because we are aware of the confusion due to the inconsistency of the name of the organizations and their primary products being IFRS.

In addition to the name change of the organizations, we propose that the current effective standards under the name of IAS should be superseded by the new IFRS on an accelerated basis, because of the confusion associated with the co-existence of both IAS and IFRS within the standards.

Question 2

The Trustees seek views on the proposal to replace all references to ‘accounting standards’ with ‘financial reporting standards’ throughout the Constitution. This would accord with the name change of the Foundation, the Board and the formal standards developed by the IASB—International Financial Reporting Standards (IFRSs).

Do you support this change?

We support the proposal to replace all references to “accounting standards” with “financial reporting standards”.

However, we doubt that all constituencies share the understanding of the reasons as to why the change from IAS to IFRS is needed, as well as what is the scope covered by the term “financial reporting standards”.

Therefore, we recommend that the Foundation take the opportunity to clarify the matters, described above, to constituencies.

The need to clarify the objectives of the organisation in the light of global IFRS adoption (section 2)

Question 3

The Trustees seek views on their proposal to change section 2 as follows:

The objectives of the IASB IFRS Foundation are:

- (a) to develop, in the public interest, a single set of high quality, understandable, and enforceable, and globally accepted accounting financial reporting 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 emerging economies and, as appropriate, the special needs of small and medium-sized entities and emerging economies; and
- (d) to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards (IFRSs, being the standards and interpretations issued by the IFRS Board) to high quality solutions.

Do you support the changes aimed at clarity?

We agree to the proposal.

Reflecting the role of the Monitoring Board (section 3)

Question 4

The Trustees seek views on the proposal to amend section 3 of the Constitution as follows:

The governance of the IASB IFRS Foundation shall primarily rest with the Trustees and such other governing organs as may be appointed by the Trustees in accordance with the provisions of this Constitution. A Monitoring Board (described further in sections 18–23) will provide a formal link between the Trustees and public authorities. The Trustees shall use their best endeavours to ensure that the requirements of this Constitution are observed; however, they are ~~empowered to~~ may make minor variations in the interest of feasibility of operation if such variations are agreed by 75 per cent of all the Trustees.

Do you support this clarifying amendment?

We support the proposal that the governance of the IFRS Foundation shall “primarily” rest with the Trustees.

Recognising the participation of Trustees from Africa and South America (section 6)

Question 5

The Trustees seek views on the proposal to amend section 6 of the Constitution as follows to include one Trustee from each of Africa and South America:

All Trustees shall be required to show a firm commitment to the IFRS IASC Foundation and the IFRS Board 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 financial reporting 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 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 the Asia/Oceania region;
- (b) six Trustees appointed from Europe;
- (c) six Trustees appointed from North America; and
- (d) one Trustee appointed from Africa;
- (e) one Trustee appointed from South America; and
- (f) ~~(d) two~~ ~~four~~ Trustees appointed from any area, subject to maintaining ~~establishing~~ overall geographical balance.

Do you support the specific recognition of Africa and South America?

We agree, because the proposal is largely consistent with the recent changes to the geographical composition of the IASB membership.

A provision for up to two vice-chairman of the Trustees (section 10)

Question 6

The Trustees seek views on the proposal to amend section 10 of the Constitution as follows to allow up to two Trustees to be appointed as vice-chairmen of the Trustees.

The Chairman of the Trustees, and up to two Vice-Chairmen, shall be appointed by the Trustees from among their own number, subject to the approval of the Monitoring Board. With the agreement of the Trustees, regardless of prior service as a Trustee, the appointee may serve as the Chairman or a Vice-Chairman for a term of three years, renewable once, from the date of appointment as Chairman or Vice-Chairman.

Do you support the constitutional language providing for up to two Vice-Chairmen?

As the number of jurisdictions having adopted IFRS increases, the role and the responsibilities of Trustees have grown more considerably. In light of this fact, we believe it is reasonable to allow for flexibility for the appointments of Vice-Chairmen, and for them to share the responsibilities of the Chairman. Consequently, we support the change to provide for up to two Vice-Chairmen of the Trustees.

Continued emphasis on effective Trustee oversight (sections 13 and 15)

Question 7

The Trustees seek views on the proposal to make no specific amendments to sections 13 and 15, but to address the valid and important concerns raised by commentators by way of enhanced accountability, consultation, reporting and ongoing internal due process improvements.

As described in the proposals, the Trustees have taken steps in the past to reinforce the oversight process and public accountability. However, we note that there are many concerns at a global level about the operational effectiveness, such as ensuring the due process of the IASB, and insufficient feedback to the inputs provided by stakeholders. Although we agree to the proposal to make no specific amendments to sections 13 and 15, we believe it is critical that Trustees address these concerns appropriately, to maintain the confidence in the Trustees.

Expanding the IASB's liaison with other organizations (section 28)

Question 8

Section 28 would be amended as follows:

The IASB IFRS Board will, in consultation with the Trustees, be expected to establish and maintain liaison with national standard-setters and other official bodies ~~concerned with an interest in~~ standard-setting in order to assist in the development of IFRSs and to promote the convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards IFRSs.

Do you support the changes aimed at encouraging liaison with a broad range of official organisations with an interest in accounting standard-setting?

We recognize the need to have closer communication with market participants as well as accounting standard-setting bodies. We also agree with the basic policy of the Foundation to communicate with a broader range of organizations. Nevertheless, we believe the Foundation should take measures to ensure transparency in relationships with some organizations, so that the independence of the Board would not be impaired and it would not suffer from political pressures. In this regard, we believe the phrase "in consultation with the Trustees" is very crucial. We expect the Trustees to play their proper role.

The possibility of two Vice-Chairmen for the IFRS Board (section 30)

Question 9

The Trustees seek views on the proposal to amend section 30 of the Constitution as follows to permit the appointment of up to two Board members to act as vice chairmen of the IASB.

The Trustees shall appoint one of the full-time members as Chairman of the IASB IFRS Board, who shall also be the Chief Executive of the IASB IFRS Foundation. ~~One~~ Up to two of the full-time members of the IASB IFRS Board shall may also be designated by the Trustees as a Vice-Chairman, whose role shall be to chair meetings of the IASB IFRS Board in the absence of the Chairman or to represent the Chairman in external contacts in unusual circumstances (such as illness). The appointment of the Chairman and the designation as Vice-Chairman shall be for such term as the Trustees decide. The title of Vice-Chairman would not imply that the individual member (or members) concerned is (or are) the Chairman-elect.

We agree to the proposals for reasons similar to our response to question 6.

The length of IFRS Board members' terms (section 31)

Question 10

The Trustees seek views on the proposal to amend section 31 to allow for altered terms of appointment for IASB members appointed after 2 July 2009.

The proposed amendment is to allow for Board members to be appointed initially for a term of five years, with the option for renewal for a further three-year term. This will not apply to the Chairman and Vice-Chairman, who may be appointed for a second five-year term. The Chairman or Vice-Chairman may not serve for longer than ten consecutive years.

The proposed amendments to section 31 are as follows:

Members of the IASB IFRS Board appointed before 2 July 2009 shall be appointed for a term of up to five years, renewable once for a further term of five years. Members of the IFRS Board appointed after 2 July 2009 shall be appointed initially for a term of up to five years. Terms are renewable once for a further term of three years, with the exception of the Chairman and a Vice-Chairman. The Chairman and a Vice-Chairman may serve a second term of five years, but may not exceed ten years in total length of service as a member of the IFRS Board.

Do you support the change in proposed term lengths?

Under the current Constitution, IASB members are able to serve for two five-year terms, which means they would be possibly away for 10 years from their practice. Considering the benefits brought to the Board by members with the latest practical expertise, we agree to the change for the renewal term to be shortened to three years.

Accelerated due process (section 37(c))

Question 11

The Trustees seek views on the proposal to insert in section 37 (to become section 38) of the Constitution an additional subsection as follows to allow the Trustees, in exceptional circumstances, to authorise a shorter due process period. Authority would be given only after the IASB had made a formal request. The due process periods could be reduced but never dispensed with completely.

The IASB IFRS Board shall:

(a) ...

(b) ...

(c) in exceptional circumstances, and only after formally requesting and receiving prior approval from the Trustees, reduce, but not eliminate, the period of public comment on an exposure draft below that described as the minimum in the Due Process Handbook.

We support the proposal that there is no need to include a specific amendment or new provision to permit a shorter due process of less than 30 days. In cases of great urgency, in exceptional circumstances, we believe the Constitution should have the proposed additional subsection to eliminate potential room for parties, with specific interests, to negotiate directly with the Board, on the particular requirements of the standards because the circumstances that appropriately protect the independence of the Board have not been well established.

However, due process should be assured regardless of circumstances, including those of an exceptional nature. Also, we would like to emphasize that the Foundation should be alert to the application of the additional subsection, so that it would not be applied frequently, inconsistent with the original purpose.

Encouraging greater input into the IASB's agenda-setting process (section 37(d))

Question 12

The Trustees seek views on the proposal to amend section 37(d) (to become section 38) of the Constitution as follows to expressly provide that the IASB must consult the Trustees and the SAC when developing its technical agenda.

The IASB IFRS Board shall:

(e) (d) have full discretion in developing and pursuing the technical agenda of the IASB IFRS Board, after consulting the Trustees (consistently with section 15(c)) and the SAC (consistently with section 44(a)), and over project assignments on technical matters: in organising the conduct of its work, the IASB IFRS Board may outsource detailed research or other work to national standard-setters or other organisations;

We believe it is important that, during project assignments with respect to technical matters, the Board has full discretion in developing and pursuing its technical agenda, to ensure its independence. Accordingly, we agree not to change this matter.

However, we have noted that some of IFRIC's and the Board's agenda taken up to address urgent matters arising from financial crisis appear too specific to particular regions rather than global issues. It seems to us there is no convincing explanation as to why these agenda have been set up.

Therefore, we propose that priority should be given to strengthening the role of SAC for developing appropriate agenda because frequent public consultation seems inflexible.

Review of the Standards Advisory Council (SAC) (sections 44 and 45)

Question 13

Trustees seek views on the proposal to make no amendment to sections 44 and 45 (renumbered as 45 and 46), which are the provisions relating to the SAC, at this time.

SAC is expected to give advice to the Board on the standard-setting process. Although we are concerned whether the SAC, re-organized in 2009, would function as planned, we expect it to play the role fully. As we commented in the letter to the Discussion Paper, issued in December 2008, we would like to reiterate our recommendation that the SAC should bring in a considerable number of professional accountants and practitioners into its membership.

Further clarifying amendments and improvements (sections 48 and 49 and elsewhere)

Question 14

The Trustees seek views on the proposal to amend section 48 by removing specific staff titles and replacing it with the term ‘the senior staff management team’. Accordingly section 49 should be deleted.

The Trustees also seek comment on the proposal to update the Constitution by removing all historical references that relate to when the organization was established in 2001.

We agree to the proposal.

Other issues

IFRIC

In jurisdictions that have a mature capital market, like Japan, a number of interpretation issues have been raised in applying principle-based IFRS into practice. In this regard, the importance of interpretations issued by the IFRIC has increased more than ever before.

We believe the IFRIC, as a body to deliberate and issue interpretation of IFRS, should be enhanced considerably in terms of topics to be covered and frequency of meetings, in order to develop timely interpretations.

Funding

Since 2001, the Japanese accounting profession has provided more than a modest financial support toward the independence of IASB, to serve the public interest. We also note that our financial contribution has been significant to the Foundation, while at the same time, not all constituents in the world have always provided the necessary contribution.

We support the recent efforts made by the Trustees to re-inforce the Foundation, being consistent with our past comment, that it should establish a sustainable funding mechanism as soon as possible. We are therefore concerned about certain provider’s recent decision in this regard. We understand that strong supervision is required where funding is made from public money. However it should not equate to individual funder’s rights in governance. Audit and supervision of the Foundation should not be conducted by only one or a limited number of fund providers. Governance, audit and inspection should be transparent to all providers.

The Foundation is needed to establish an appropriate governance scheme as a global organization that involves various interests. The actual funding mechanism in International Federation of Accountants provides a concrete example of an effective system in global-wide funding in the private sector. It is funded by more than 150 member bodies from over 120 countries.

Proposal to change the provision that the Chairman of the Board shall also be the Chief Executive of the Foundation.

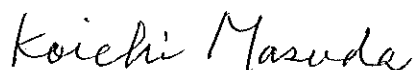
In relation to the funding issue, we also question whether the provision proposed in Section 48 remains appropriate. It states to the effect that the Chairman of the Board shall also be the Chief Executive of the Foundation. We note that no substantive change to this provision is being proposed. Therefore, this would require the Chairman of the Board to have responsibility for raising funds, in addition to other important duties, including standard setting.

Given the current environment, we believe that the Chief executive of the Trustees would have difficulties in meeting all of the assigned responsibilities, unless there is a separate full-time position. In addition, since the Foundation has the responsibility for oversight of the Board, it would be desirable, from a governance point of view, that monitoring and governance functions be segregated.

The Foundation and the Board have now evolved into a global organization and should establish an appropriate structure consistent with the current responsibilities. For the reasons given, we believe the Foundation should review this provision, during the current review of the Constitution.

We hope that you will consider our comments of assistance to develop the proposed amendments to the Constitution.

Yours truly,



Koichi Masuda
Chairman and President
The Japanese Institute of Certified Public Accountants