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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 *Review of the Constitution:*  
*Identifying Issues for Part 2 of the Review***

Dear Mr. Zalm:

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

As the global financial crisis has spread since last autumn, the role of accounting standards, especially fair value accounting, has received considerable attention, and expeditious actions to improve accounting standards have been taken at a global level. The declaration which was issued by the G20 at their summit on 15 November 2008 also recommends that a global response should be taken to improve accounting standards and that the governance of the international accounting standard-setting body should be further enhanced. We hope that this review of the Constitution at this time would lead to more meaningful discussions.

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

## **Objectives of the organisation**

**1:**

**The Constitution defines the organisation's primary objective in the following manner:**

**to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting 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**

**In fulfilling that objective, the organisation is**

**to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies**

**Does the emphasis on helping 'participants in the world's capital markets and other users make economic decisions', with consideration of 'the special needs of small and medium-sized entities and emerging economies', remain appropriate?**

We believe that the objective defined in the current Constitution is appropriate. Considering that large capital markets such as the U.S. and Japan will move to IFRSs, it will be much more critical to develop "high quality" global accounting standards.

However, the current description of Section 2 (c) is not appropriate since it is ambiguous with regard to what the expression "take account of...the special needs" specifically refers. Therefore, we propose that Section 2 (c) should be described more concretely.

**2:**

**In the opinion of the Trustees, the commitment to drafting standards based upon clear principles remains vitally important and should be enshrined in the Constitution. Should the Constitution make specific reference to the emphasis on a principle-based approach?**

Our concern is that the description emphasizing the principle-based approach is too technical to be included in the Constitution. If the description is to be included, we suggest that it is included in the other documents such as the Preface to IFRSs rather than the Constitution.

**3:**

**The Constitution and the IASB's *Framework* place priority on developing financial reporting standards for listed companies. During the previous review of the Constitution some commentators recommended that the IASB should develop financial reporting standards for not-for-profit entities and the public sector. The Trustees and the IASB have limited their focus primarily to financial reporting by private sector companies, partly**

**because of the need to set clear priorities in the early years of the organisation. The Trustees would appreciate views on this point and indeed whether the IASB should extend its remit beyond the current focus of the organisation.**

We believe that it is not necessary to change the current Constitution.

As described in Section 9 of the Preface of IFRSs, the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) has developed financial reporting standards for the public sector based on IFRSs. Those standards, namely, International Public Sector Accounting Standards (IPSASs) have already been widely used by various organizations including the United Nations and other international organizations.

On the other hand, it might be worthwhile to consider adding the development of accounting standards for not-for-profit entities to the remit of the IASB described in the Constitution.

It is obvious that the IASB should focus on developing financial reporting standards for private sector companies. We believe that the IASB would not need to extend its remit described in the Constitution.

**4:**

**There are other organisations that establish standards that are either based upon or have a close relationship with IFRSs. The IASC Foundation already recognises the need to have close collaboration with accounting standard-setting bodies. Should the Constitution be amended to allow for the possibility of closer collaboration with a wider range of organisations, whose objectives are compatible with the IASC Foundation's objectives? If so, should there be any defined limitations?**

The meanings of the terms "closer collaboration" and "a wider range of organizations" are not clear. 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 IASC Foundation to communicate with various organizations and to take the initiative in such communication instead of the IASB. However, we believe that relationships should be limited to some extent with organizations exercising political influence so that the independence of the IASC Foundation and the IASB is not impaired.

#### **Governance of the organisation**

**5:**

**The first part of the review of the Constitution proposed the establishment a formal link to a Monitoring Group. Under this arrangement, the governance of the organisation would still primarily rest with the Trustees. Although the first part of the review has not yet**

**been completed, the Trustees would welcome views on whether the language of Section 3 should be modified to reflect more accurately the creation of the Monitoring Group and its proposed role.**

What we have been concerned about has now happened in the midst of the global financial crisis. In order to avoid this happening again in the future, it is important that the respective roles of the Trustees and the Monitoring Board would be clarified and the language of Section 3 should be modified accordingly.

#### **Trustees**

**6:**

**The Trustees are appointed according to a largely fixed geographical distribution. Is such a fixed distribution appropriate, or does the current distribution need review?**

We believe that it is not necessary to change the current distribution. The current distribution is well balanced in light of various aspects such as the current global economic conditions, and is by and large consistent with the geographical distribution of IASB members, which has been established recently.

**7:**

**Sections 13 and 15 set out the responsibilities of the Trustees. The intention of these provisions is to protect the independence of the standard-setting process while ensuring sufficient due process and consultation—the fundamental operating principle of the organisation. In addition to these constitutional provisions, the Trustees have taken steps to enhance their oversight function over the IASB and other IASC Foundation activities. The Trustees would welcome comments on Sections 13 and 15, and more generally on the effectiveness of their oversight activities.**

Although the current descriptions of Section 13 and 15 cover necessary matters, we propose that they should be described more specifically. They should include each measure that has been taken so far by the Trustees to enhance their oversight function over the IASB and IASC Foundation activities. Those measures include the establishment of the Due Process Oversight Committee, IASB performance reviews, and regular dialogues with the IASB.

The Trustees have crucial roles to support the IASB in order to avoid political pressures on the IASB in the course of the emergency we face in this financial crisis. It is required to clarify concrete roles of the Trustees, including support to secure the due process of the IASB and post-implementation reviews of the standard-setting process.

Although we believe that it is premature to evaluate the effectiveness of concrete actions to strengthen the oversight function, such as the publication of feedback statements by the IASB,

we appreciate the efforts made by the IASC Foundation to enhance the transparency of its activities, including the holding of open meetings, and publication of the minutes of the meetings and of progress reports of the Trustees' oversight effectiveness.

**8:**

**The Trustees are responsible for ensuring the financing of the IASC Foundation and the IASB. Since the completion of the previous review of the Constitution, the Trustees have made progress towards the establishment of a broad-based funding system that helps to ensure the independence and sustainability of the standard-setting process. (For an update on the funding status, see**

***<http://www.iasb.org/About+Us/About+the+IASC+Foundation/Funding.htm>***)

**However, the Trustees have no authority to impose a funding system on users of IFRSs. The Trustees would welcome comments on the progress and the future of the organisation's financing.**

We respect the efforts by the IASC Foundation to establish a broad-based funding system that helps to ensure the independence and sustainability of the standard-setting process. However, we cannot agree with a system in which the IASC Foundation would give each country specific instructions for funding. As with the principle of "country-specific," which is one of the four principles of the funding system of the IASC Foundation, each country should retain discretion to develop its funding system depending on its own circumstances.

On the other hand, although IFRSs are required or permitted for use in over a hundred jurisdictions, most of the jurisdictions have not contributed funding to the IASC Foundation. It is not reasonable as a global standard-setter that only a few jurisdictions bear a large part of the funding. A new structure which requires all users of IFRSs around the world to contribute to funding should be considered in collaboration with various market participants.

#### **International Accounting Standards Board**

**9:**

**Commentators have raised issues related to the IASB's agenda-setting process. The Constitution gives the IASB 'full discretion in developing and pursuing its technical agenda'. The Trustees have regularly reaffirmed that position as an essential element of preserving the independence of the standard-setting process. However, they would welcome views on the IASB's agenda-setting process and would appreciate it if, in setting out views, respondents would discuss any potential impact on the IASB's independence.**

We support the current Constitution that gives the IASB "full discretion in developing and pursuing its technical agenda." Importance of the independence of the standard-setting process has been reaffirmed through the turmoil in the financial markets and the revision of standards

arising from the turmoil. The Trustees should play a role as a last defense to protect the independence of the IASB.

**10:**

**The Constitution describes the principles and elements of required due process for the IASB. The IASB's procedures are set out in more detail in the *IASB Due Process Handbook*. If respondents do not believe the procedures laid out in the Constitution are sufficient, what should be added? If respondents believe that the procedures require too much time, what part of the existing procedures should be shortened or eliminated? The Trustees would also welcome comments on recent enhancements in the IASB's due process (such as post-implementation reviews, feedback statements, and effect analyses) and on the *IASB Due Process Handbook*.**

We believe that the current due process of the IASB is adequate as it has been developed through experience over time. The importance of this due process has also been highlighted through the recent financial crisis.

Processes such as post-implementation reviews, feedback statements, and effect analyses have been just introduced and should be reviewed depending on their future implementations.

**11:**

**Should a separate 'fast track' procedure be created for changes in IFRSs in cases of great urgency? What elements should be part of a 'fast track' procedure?**

Due process in cases of great urgency has been recognized as an issue as an effect of the financial crisis. A case that warrants shortened due process might arise again in the future. However, we find it exceedingly difficult to establish what elements are necessary for a "fast-track" procedure in advance of actual emergencies, and they have to be considered on a case-by-case basis. Therefore, it is not appropriate to create a "fast-track" procedure in the standard-setting process. Rather, we propose that a new structure should be created under the initiative of the Trustees to determine whether a situation is "urgent" and to deliberate appropriate responses so that the IASB would not be directly subject to political pressures. In addition, we have learned from the revision of the standards last October that it is not adequate to omit due process as a result of any political pressure.

#### **Standards Advisory Council**

**12:**

**Are the current procedures and composition, in terms of numbers and professional backgrounds, of the Standards Advisory Council (SAC) satisfactory? Is the SAC able to accomplish its objectives as defined in Section 38?**

In light of the objective set out in the Constitution, we have to say that the SAC has not functioned as intended. It is necessary to reorganize the SAC into a more functional organization by bringing in a considerable number of professional accountants and practitioners into the Council as members.

**13:**

**Attached to this discussion document are the terms of reference for the SAC, which describe the procedures in greater detail. Are there elements of the terms of reference that should be changed?**

We believe that there is nothing that needs to be changed.

#### **Other issues**

**14:**

**Should the Trustees consider any other issues as part of this stage of their review of the Constitution?**

#### **The IFRIC**

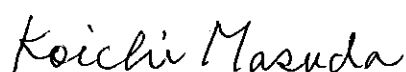
We propose strengthening the functions of the IFRIC considerably. Practical actions for expected increasing workloads should be taken, such as the expansion of the number of staff members and members paid by the IASB.

#### **Funding**

As mentioned in our comment to Question 8, introduction of a new structure which requires all users of IFRSs regardless of jurisdiction to contribute to funding should be considered in collaboration with various market participants, in order to revise the current situation in which only a few jurisdictions bear a large part of the funding.

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

Yours truly,



Koichi Masuda

Chairman and President

The Japanese Institute of Certified Public Accountants