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# **WORKING PAPERS**

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**New Structure Proposed for International  
Accounting Standards Development:  
A Status Review**

by

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**NEW STRUCTURE PROPOSED FOR INTERNATIONAL  
ACCOUNTING STANDARDS DEVELOPMENT:  
A STATUS REVIEW**

**by**

**Mary Ellen Oliverio, Ph.D.**

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## ABSTRACT

On May 24, 2000, the members of the International Accounting Standards Committee (IASC) approved a new structure that provides for the establishment of an independent international accounting standard setter. The story of the recent efforts of the IASC to develop a new structure reveals a wise realization that globalization has imposed heightened demand for worldwide accounting standards.

"Overwhelmingly, U.S. market participants believe that there should be an immediate and concerted movement toward the development of international accounting standards."

This was the conclusion from a Broadgate Associates' survey in July and August 1999. Furthermore, 87 percent of the fund managers who responded believed that the International Accounting Standards Committee is the body to develop a global accounting system. (IASC Notable Quotations, Survey)

"The current debate on the future structure of IASC cannot be separated from the financial reporting strategy discussions . . . IASC should develop in a way that can be supported by different organizations and fora in Europe, otherwise it is difficult to see why and how Europe can give more prominence to IASs if it cannot exercise proper influence over the standard setting process. The IASC needs to become a truly global standard setter, meeting quality and independence requirements."

Thus concluded the Federation des Experts Comptables Europeens (FEE) in their discussion paper on a financial reporting strategy within Europe. In their comprehensive discussion, this group stated again and again that developments in Europe could not be seen separately from global developments. (Federation des Experts, 62)

The foregoing quotations merely illustrate the extent of awareness of the critical need for global accounting standards. The need was recognized by the IASC in 1995, when the task of completing a core set of accounting standards underscored the insufficiency of the group's current structure. Therefore, in 1997, the IASC named a Strategy Working Party (SWP), which was given the charge to review the structure of IASC and to propose changes. The Discussion Paper of this group, "Shaping IASC for the Future," was released in December 1998. Comment letters were due by April 30, 1999. The SWP considered the comments, held several meetings with the IASC, and issued a follow-up report in November 1999, entitled: "Recommendations on Shaping IASC for the Future."

The discussion that follows relates only to restructuring proposals of the IASC. The discussion includes: the rationale for a new structure; the current structure of the

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IASB; the general nature of the proposed restructuring; other initiatives in envisioning a global standard setter; an overview of responses in comment letters; the revised proposal of the SWP; implementation underway; and comments.

## **THE RATIONALE FOR A NEW STRUCTURE**

The SWP, formed in 1997, had experienced members in international accounting, in public accounting, and in business. In "Shaping IASC for the Future" (hereafter referred to as the "Discussion Paper"), a number of observations are identified that supported the need for their deliberations. Among their observations were the following:

*Growth in international capital markets:* Rapid growth in international capital markets has led to renewed efforts of global organizations to dismantle barriers to global trading to accommodate such trading. For example, in the United States, where non-U.S. registrants must provide reconciliation with U.S. GAAP, the amount of capital raised in U.S. Public Securities Markets by non-U.S. registrants was \$8 billion in 1990; by 1998, the amount was \$170 billion. The number of new non-U.S. issuers registered with the SEC was 45 in 1990 and 160 in 1998. (IASC, Statistics about. . . , 4)

*Internationalization of business regulation:* Cooperation among government regulatory agencies has increased attention to developing coordinated international approaches to supervision through groups interested in such areas of commerce as banking, securities, and insurance.

*Response of National Accounting Standards Groups to IASs:* The SWP noted that more national standard setters had begun to bring their own requirements into line with International Accounting Standards (IASs). In some instances, domestic standard setters have chosen to adopt IASs. The United States, Canada, and Japan do not allow IASs for cross-border listing.

*Increasing complexity of transactions:* The need for an international accounting body to provide accounting guidance to respond to complex business and finance transactions has been noted. Two such matters are the growth in the trading in derivatives, and increasing use of securitization transactions.

The SWP concluded that "The trends . . . show a clear and growing demand from the market for high-quality global accounting standards to provide transparency and comparability." (Discussion Paper, para. 35) (hereafter "Discussion Paper" will be omitted in reference notes).

The Discussion Paper included the assessment that IASC's international structure and record of success have put it in a unique position to satisfy the demand for high-quality global accounting standards.

Since the beginning of 1997, IASC has achieved impressive results...it would be difficult for volunteers to maintain this level of activity indefinitely...the IASC must now consider structural changes so that it can continue to meet the need for high quality global

accounting standards. (paras. 36-40)

The Discussion Paper aimed to stimulate and to focus the discussion. The Strategy Working Party welcomed answers to its specific questions as well as other comments. All such reactions were to be submitted in writing.

## **THE GOALS AND STRUCTURE OF THE IASC**

Initially, the plans of the IASC, as viewed from the perspective of January 2001, were indeed modest. The inaugural meeting of the IASC was held on June 29, 1973. The IASC, an independent private sector body, had participants from professional accountancy bodies of Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States. Later, other accounting bodies were admitted to the group.

### **The Goals**

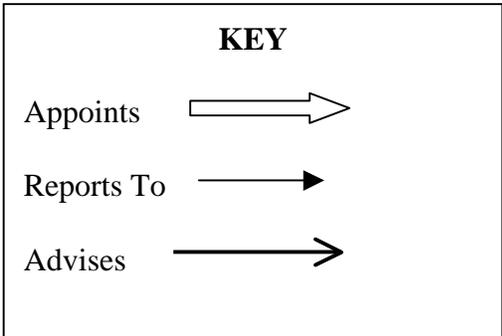
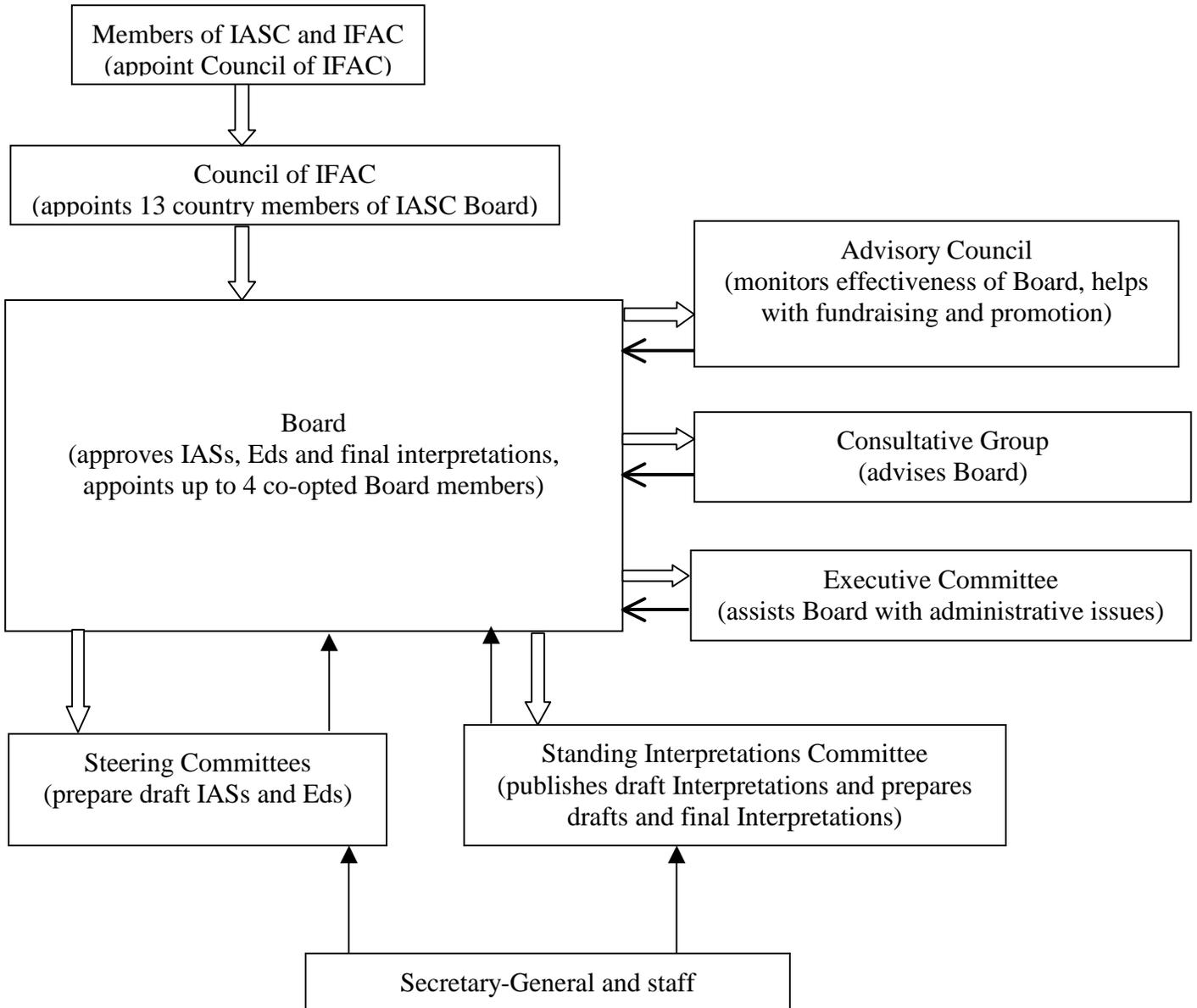
From the beginning, the IASC was charged to move forward with public interest as a guiding concern. The IASC was to formulate and to publish international accounting standards to be used in the presentation of financial statements and to promote the use of such statements throughout the world.

Generally, when creating accounting standards, the IASC adopted one or more accounting treatments that already existed at the national level in some countries; in these instances, such standards were modified. However, in more recent years, this group has assumed the role of innovator. The agreement with the International Organizations of Securities Commissions (IOSCO) in 1995 to complete a set of core standards by 1999 introduced a particularly demanding challenge to the IASC.

### **The Structure**

The current structure was instituted in 1982 (see Figure 1). The members of the International Accounting Standards Committee are all the professional accountancy bodies that are members of the International Federation of Accountants (IFAC). (The IFAC was formed in 1977; IASC established a close relationship with the association, but remained autonomous. As of December 1999, IASC had 143 member accountancy bodies from 104 countries.)

**Figure 1\***  
**Current Structure of the IASC**



\* From Executive Summary,  
“Shaping IASC for the Future”

## *New Structure Proposed for International Accounting Standards Development*

The IASC Board of 13 country members is appointed by the Council of the IFAC and is responsible for approving standards, exposure drafts, and final interpretations. Steering Committees are assigned the task of preparing drafts for proposed standards. Steering Committee members are appointed by the Board, which seeks both a geographical balance and a mix of accountants in public practice, preparers, and users. In 1997, the IASC Board formed a Standing Interpretations Committee (SIC) to consider accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance. The Consultative Group was formed in 1981 to encourage harmonization of accounting standards. An Advisory Council was formed in 1995 to monitor the effectiveness of the Board and to help with fund-raising and promotion.

### **The Staff**

The IASC Board consists of a Secretary-General, a Technical Director, four to six other full-time technical staff, and one part-time project manager. Additionally, there is a commercial director and nine other support staff.

### **Recognition**

The IASC is recognized by the IFAC as the sole body having responsibility and authority to issue pronouncements on international accounting standards.

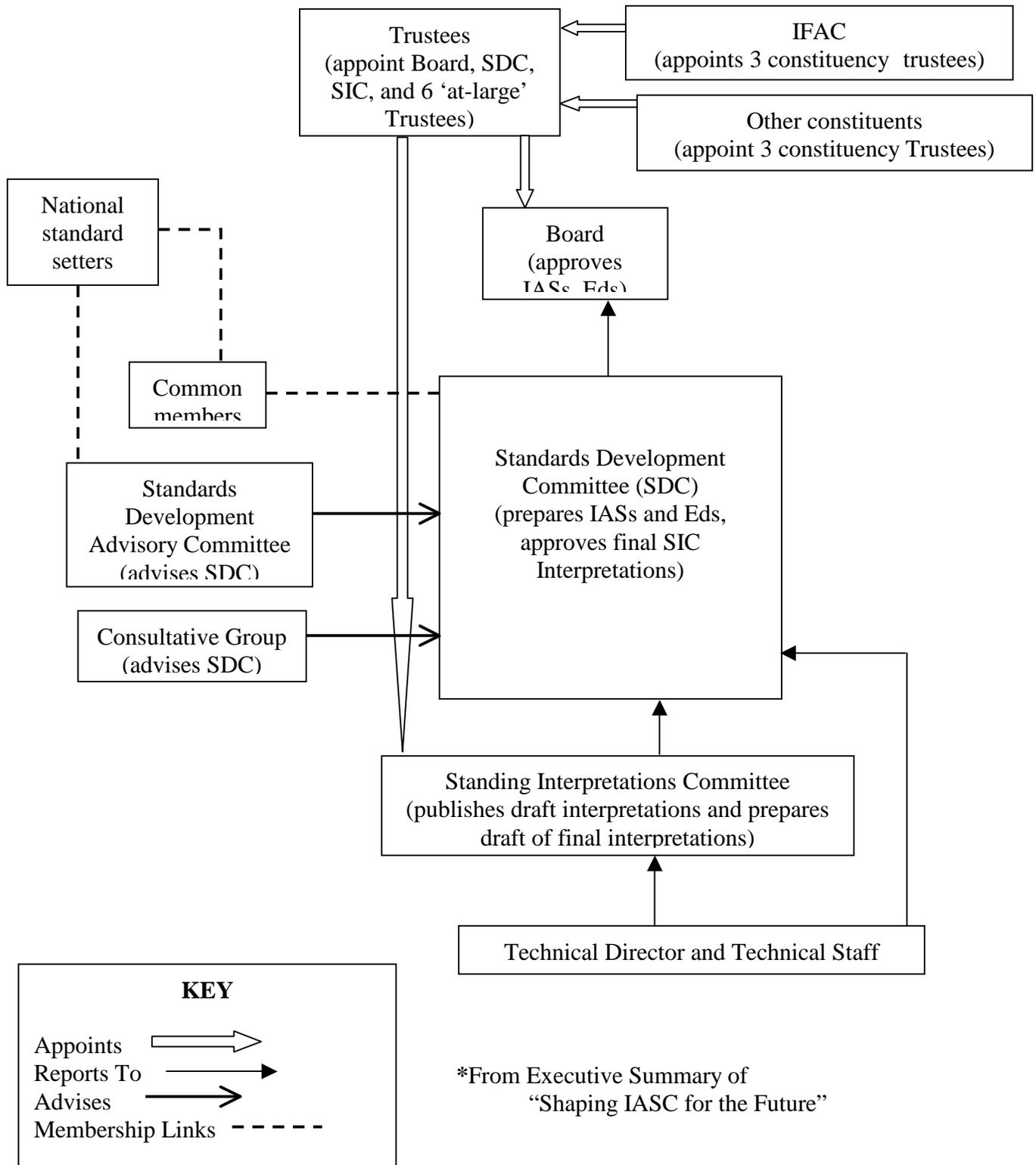
### **The Challenge**

The SWP noted that the IASC has functioned with remarkably low direct cost and has achieved a great deal with the current structure. Overall, the SWP believed that the IASC should enter into a partnership with national standard setters; institute wider participation in the IASC Board, and that the process of appointments would be the responsibility of a variety of constituencies, thus ensuring that those appointed are competent, independent, and objective (see Figure 2). (para. 112-114)

In assessing the current structure, the SWP noted that the G-22 Working Party on Transparency and Accountability, the G7 Finance Ministers and Central Bank Governors, and the Basle Committee on Banking Supervision reported in 1998 the need for high quality internationally acceptable accounting standards. (para. 22)

The SWP noted that “IASC’s international structure and record of success have put it in a unique position to satisfy the demands for high-quality global accounting standards...the role in the future is unlikely to be the same as in the past. In its early years, IASC acted mainly as a consolidator of existing national standards. In more recent times, it has begun to combine that role with the role of a catalyst...in the future, IASC’s role as a catalyst and initiator should become more prominent.” (para. 36)

**Figure 2\***  
**Proposed Structure**



A review of the proposed structure in comparison to the current structure reveals that the SWP accepted certain aspects of the current structure as sufficient. The recommended changes modified the current structure; the changes did not transform the IASC. Members of the IASC would continue to be the professional accountancy bodies that are members of IFAC. The members would receive the report of the trustees and would approve changes to the constitution of IASC by a simple majority. The key groups in the proposed structure included:

*The Trustees:* As the directing group, there would be 12 trustees. The trustees would have the authority to appoint members of the Standards Development Committee and the Standing Interpretations Committee, board members and the chairmen and vice-chairmen of the Standards Development Committee, Board and Standing Interpretations Committee. (paras. 149, 179)

*The Board:* The IASC Board would have a wider membership than its current numbers, and would also have a higher level of participation in the standard setting process. There would be 20 country seats for professional accountancy bodies, and five seats for other organizations with an interest in financial reporting. It was noted that any structure that involves two bodies (the Board and the Standards Development Committee) with genuine decision-making power "can work only if the two bodies demonstrate a clear willingness to work together closely and effectively for the public interest." (para. 169)

*Standards Development Committee:* The current Steering Committee would be replaced with the Standards Development Committee (SDC). The SDC would have responsibility for preparing Exposure Drafts and International Accounting Standards for submission to the Board. (para. 128) The close relationship assumed between national standard setters and the IASC would ensure that many projects would be carried out as joint projects with national standard setters. (para. 157)

*A Standards Development Advisory Committee:* To take account of the limited size of the Standards Development Committee, yet strive for broad representation, a Standards Development Advisory Committee was recommended. (paras. 161-163)

*Standing Interpretations Committee:* In the judgment of the SWP, the current Standing Interpretations Committee (SIC) should continue as a separate body. (para. 185)

*Staff:* The current secretary-general would be replaced by a chairman of the Standards Development Committee, who would be the chief executive officer. This chairman would assume the functions currently performed by the secretary-general.

The technical functions would be assumed by the Standards Development Committee and the Board, while commercial functions would be assumed by the trustees. There would be a technical director and a commercial director as staff members. (para. 194)

To "play an equal role in partnership with national standard setters," as perceived by the SWP, the staff should include a core of high-quality technical staff (at least eight), at a central location. (paras. 195-196)

*The Need for Legal Structure:* The SWP recommended that the Board should consider ways of establishing IASC as a legal entity.

*Due Process:* The SWP underscored the significance of due process. The Discussion Paper identifies the advantages of open meetings, use of new technology for electronic observation of meetings, for example, and published agendas in advance. (paras. 201-205)

*Funding:* The SWP noted that the current method of funding is open to a number of criticisms. To date the resources of the IASC have been "remarkably modest." There are conflicts between the promotion of the international standards and the ability to raise funds. The SWP believes there is a need for more secure funding. Their recommendations are not given in detail. The SWP "supports the general principle that those who benefit from IASC's work should pay for its work." (para. 231)

*Timetable:* The SWP set up a timetable for change that would result in the revised structure being effective as of July 1, 2000. Such a goal was perceived to be ambitious by many observers.

## **OTHER INITIATIVES IN ENVISIONING A GLOBAL STANDARD SETTER**

There have been some interesting developments since the issuance of the SWP Discussion Paper in December 1998. Key developments were:

*The Financial Accounting Standards Board (USA) Report:* In early 1999, the Financial Standards Board made available a report entitled, "International Accounting Standard Setting: A Vision for the Future." The report has a copyright date of 1998. The FASB acknowledged that it has a leadership role to play in the evolution of the international accounting system...the ultimate outcome would be the worldwide use of a single set of high-quality accounting standards for both domestic and cross-border

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financial reporting. (FASB Report, 2). The report stated that the FASB believes that the objectives and vision in this report and the objectives for structure reform of the IASC... are consistent. There was acknowledgement of possible alternatives, including the chance that the FASB might reorganize itself to become an international standard setter or that an alternative international structure and process could be established that meets the FASB's fundamental objectives. (FASB Report, 3) Detailed appendices provide a vision for an international accounting system, quality of accounting standards, and functions and characteristics of a quality international accounting setter.

*IFAC Launched International Forum on Accountancy Development:* The failure to give sufficient attention to the accounting needs of developing countries and transitional economies in the Strategy Working Party Paper of the IASC was partially overcome, possibly, by the Forum created in June 1999.

The accountancy profession in partnership with international financial institutions and major development agencies established the International Forum on Accountancy Development. The Forum's membership includes international financial institutions, other key international organizations, and the accountancy and auditing profession. The accounting profession was represented at the meeting in mid-June 1999 in New York by the International Federation of Accountants (IFAC), the International Accounting Standards Committee (IASC), IFAC's regional organizations, and representatives of the five largest international accounting firms.

The key initial proposals related to supporting the use of IASs; the raising of auditing standards and practices; the use of the IFAC Code of Ethics; and the enhancement of the education and training of professional accountants. (IASC News Bulletin, IFAC)

*The Case for International Accounting Standards in Canada:* Richardson and Hutchinson developed an analysis of the consequences for Canada of adopting Financial Accounting Standards of the IASC.

After an analysis, these two reviewers concluded that "Canadian standard setters might be better served by further consolidating their role in the IASC and International Federation of Accountants by immediately committing to IASC standards and avoiding any endorsement of FASB standards." (Richardson, 5)

The president and chief operating officer of the Certified General Accountants Association of Canada approved in July 1999 a policy statement supporting the adoption of IASs for financial reporting by profit entities in Canada. This Canadian leader stated: "The IASC's influence is steadily growing, and IASC standards are now used by countries as diverse as Australia, France, and Zimbabwe. It is expected that these standards will eventually become the single dominant measure of financial results...."

(Richardson, Introduction)

*FEE Discussion Paper on a Financial Reporting Strategy within Europe:* In its presentation of a strategy within Europe, the Federation Des Experts Comptables Europeens (FEE) concluded that it prefers recommending companies to use IASs without requiring compliance with the European Union's Accounting Directives. The paper included the observation that..." in some countries there is a tendency by companies to move to U.S. GAAP rather than to IASs since they see U.S. GAAP as having greater long-term acceptability. However, this is not the general trend and IASs will play a larger role in the growing European financial and capital markets...." Further in the report is the comment: "It is doubtful whether Europe should or could support a set of standards over which it cannot exercise influence (U.S. GAAP), even though FASB may wish to see it taking the lead as the worldwide standard setter. (FEE, 9)

The initiatives illustrated here underscore the realization that a global standard setter is critical for worldwide commerce.

### **KEY POINTS OF COMMENT LETTERS**

In the Invitation to Comment, the SWP presented eight questions and welcomed comments. The SWP received 84 letters of comment, representing 88 groups and/or individuals from a variety of constituencies. Member bodies and other accounting bodies represented the largest group of respondents (23) the second group was standard setting bodies (12) there were 11 responses from the United States. The comments in this Section are based on a review of 45 of the 84 letters. (The eight questions are listed in Appendix A)

Many respondents made general comments about aspects of the proposed structure that they found troublesome. While it is not possible to capture the richness and extensiveness of the responses, the range of concern is identifiable. Opinions of inadequacies vary. The nature of the variability is illustrated from comments beyond the eight specific questions:

**Radical approach...** "We believe that a more radical approach is needed than that proposed by the SWP and that the IASC should enter into a constructive partnership with all its constituent interests, and not just national standard setters. . . preferred approach... would be one in which the IASC aims to develop an open and equal partnership with all interested parties within its constituency. . . It is recognized that sectoral interests are capable of providing leadership and that drawing on sectoral expertise is not necessarily in conflict with working towards the public good."  
(Banking and Financial Institutions representative)

**Public sector; autonomy, complexity...** "We have three major concerns...they are: consideration of the public sector; autonomy of the Standards Development Committee; and complexity of structure...." (Member Bodies and other Accounting Bodies)

**To close to FASB model...** "The one proposed structure is also quite close to the current structure of the US FASB (apart from the proposed IASC Board, the power of which would be greatly reduced). There are considerations applying to a potential global standard setter that do not apply to a national standard setter.... " (A regional governing unit)

**Real power in small group...** "concerned that the nature of the changes...may have the result of leaving the real power and influence in global accounting standard setting under the control or strong influence of a small group of countries. . . it is fundamental to the success of IASs that they gain widespread acceptability and usage and that the process for approving them involves a wide and balanced group of countries to give them legitimacy.... " (Member Bodies and other Accounting Bodies)

**Independent decision-making group...** "We believe that significant changes to both the current structure and the SWP proposals are needed to create a structure that appropriately integrates national standard-setters into a global standard setter that is best positioned to create high-quality accounting standards. We strongly believe that the IASC should reject any proposal that does not grant the ultimate standard-setting authority to an independent decision making body consisting of expert standard setters. The current SWP proposal to provide the IASC Board with the ability to veto the output of the group of technical experts serving on the SDC represents a mismatch between the IASC's objectives and pursuit of an efficient and effective structure..." (Securities Commission)

**Balance influence...** "Our concerns...revolve around the need to balance the influence of national standard setters in the IASC's processes with that of users, preparers, and other constituencies. IASs will not achieve the credibility they need unless they are supported by those for whose benefit they exist and are regarded as realistic by those who have to comply with them. . . we believe that this principle must be embedded at all levels throughout the IASC's future structure and that change . . . to the proposals must be made in order to do so...." (Banking and Financial Institutions representative)

**Large bureaucracy...** "...any changes made to the structure of the IASC must avoid the creation of a large bureaucracy that generates issues to

work on to sustain itself...." (Banking and Financial Institutions representative)

**In the hands of standard setters...**"...we agree with the general view in the Paper that increased involvement of national standard setters would be beneficial in many respects. Where we depart from the paper is in the degree to which this 'aim' is pursued and an end result which effectively places international standard setting in the hands of national standard setters, and a limited number at that...." (Industry representative group)

**Quality improvement...** "The IASC must improve the quality of its structure and process...the eight essential functions of a quality international standard setter are: leadership; innovation; relevance; responsiveness; objectivity; acceptability and credibility; understandability; and accountability...the five essential characteristics of a quality international standard setter are: an independent decision-making body; adequate due process; adequate, technically qualified staff; and independent fundraising...." (Standard setting body)

**One globally accepted format...** "...we believe the IASC should promulgate accounting standards that promote full disclosure, consistent evaluation methods, minimal reporting options, infrequent year-to-year changes, and one globally accepted format for presentation...." (User of financial statements)

The foregoing excerpts are merely illustrative, as noted earlier; they reflect respondents who chose to make comments within the total context of what was being envisioned. Overall, the overriding questions implied from the comments are:

- (1) What is the structure that will assure a truly global organization meeting the public interest in relation to all sectors?
- (2) How do you assure the independence of the group responsible for standard setting?
- (3) To what extent should the authority and responsibility be given to technical experts in accounting?
- (4) How extensive must be direct participation among all groups interested in global accounting standards?
- (5) What structure will assure quality performance and continuing realization of emerging needs throughout the globe?

## **FOLLOW-UP CONSIDERATION BASED ON COMMENT LETTERS**

The response to criticism of the proposed structure began formally when the SWP met with the IASC Board on June 30, 1999. The problem of overlapping authority of two groups, which was a common question raised in comment letters, was immediately faced. The IASC reported..."the discussion indicated that a single Board (a unicameral structure) may be a better vehicle for achieving IASC's objectives than the bicameral structure (Board and Standards Development Committee) proposed in the Discussion Paper. The single Board would include some full-time members (including some members of the boards of national standard setters) and some part-time members...appointments to the Board would be made by trustees..." (IASC, Restructuring...2)

Following this initial meeting where the proposed structure was discussed, *The Financial Times* noted:

"Peace, apparently, has broken out in Warsaw. After months of bitter crossfire, the International Accounting Standards Committee met and considered a blueprint for its future constitution designed to bridge the gulf between US and European aspirations. The various parties managed to disperse without ripping the concordat into shards...

...the Group of Seven, World Bank and International Monetary Fund are among those looking on to see if the IASC can put in place a constitution that establishes it as a global accounting standard-setter for the 21<sup>st</sup> century... There is a clear gap between two distinct sides. The European Union wants the board, with its several European seats, protected, while the standard-setters like the idea of power moving to the SDC, where they would be in independent control... The EU wants a body with political legitimacy -- not one dominated by the U.S. or with seats for former standard-setters with little economic clout. The FASB wanted independence as exemplified by its own system. It does not want a round of horse-trading with complex arguments decided by vested interests. The UK's position is equivocal. ...The EU made a lot of progress with its argument that power in the new body should reflect economic importance rather than the historical accident that the world's top standard-setters operate in places such as Australia, Canada and New Zealand..." (Anonymous, *The Financial Times*, July 28, 1999)

In November 1999, the SWP completed its review, and issued its report, "Recommendations on Shaping IASC for the Future." The recommendations were discussed at the November meetings of the IASC Board in Venice, Italy, at which time the Board approved, in a 16-0 vote, a resolution supporting the revised proposals. (IASC,

Press Release, 19 November)

The 98-paragraph report included recommendations related to the topics of the original proposal. These recommendations reflect acceptance of the critical points raised in comment letters. The new proposal reflects a break with the original IASC structure. As noted in the introductory section of the SWP's revised proposal:

“The primary attributes identified were the representativeness of the decision making body, the independence of its members, and technical expertise. As applied to the IASC structure, the legitimacy of IASC's Standards is considered by some to be established through direct participation of key constituents in the decision making process. The other view is that legitimacy is established if the development of standards is undertaken by an autonomous body of relatively few, full-time and highly skilled experts...” (Recommendations, para. 60)

### **Objectives and Strategy**

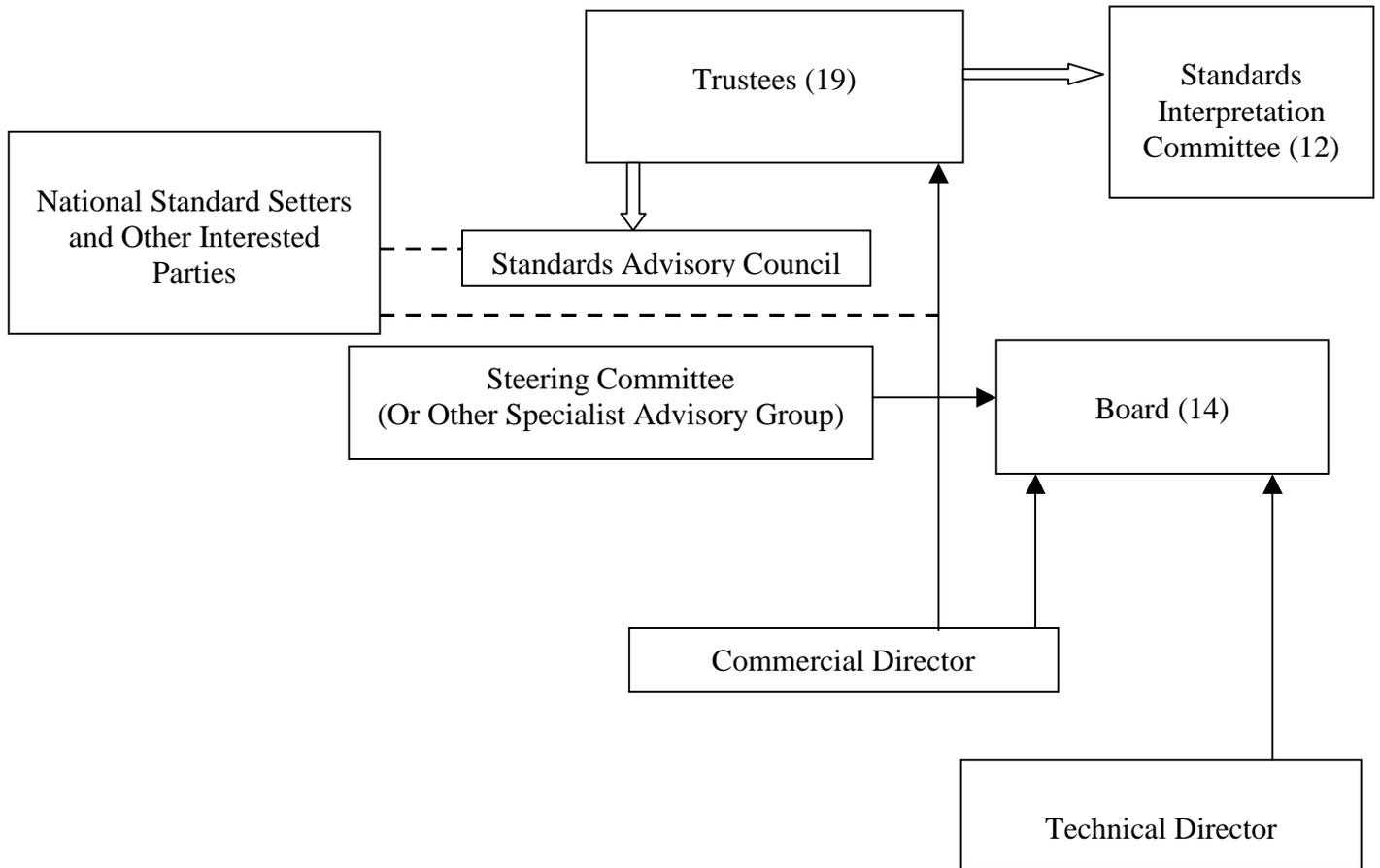
The objectives of IASC are:

- (a) to develop in the public interest, a single set of high quality, understandable and enforceable global accounting standards;
- (b) to promote the use and rigorous application of those standards; and
- (c) to bring about convergence of national accounting standards and IASs to high quality solutions. (Recommendations, para. 10)

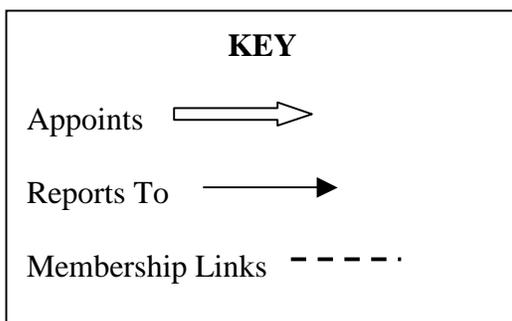
The strategy is stated as:

“To provide an international organization that will enable the achievement of the IASC's stated objectives by acting as a leader in finding the best accounting solutions and facilitating convergence of accounting standards internationally through working together with national standard setters” (Recommendations, para. 11)

**Figure 3\***  
**Revised New Structure**



\* Based on Appendix B of RECOMMENDATIONS FOR SHAPING IASC FOR THE FUTURE. Questions asked by the Strategy Working Party when their discussion paper, SHAPING IASC FOR THE FUTURE, was issued.



## **Overview of Revised Proposal**

*IASC:* There will no longer be 143 members. The Committee would be established as an independent organization, such as a foundation (see Figure 3).

*Two main bodies:* The trustees and the Board would be the two main bodies, with clearly different responsibilities. The trustees would comprise a group of 19 individuals with diverse geographic and functional backgrounds. The trustees' responsibilities would include appointing members of the Board, the Standing Interpretations Committee, and the Standards Advisory Council. Additionally, they would monitor the IASC, raise funds, approve the budget, and be responsible for constitutional changes. The original group of trustees would be appointed by a nominating committee; trustees would be representative of the international community with six from North America; six from Europe; four from Asia Pacific, and three from any area, as long as geographic balance is maintained. Once the new structure is established, the trustees would be responsible for selecting all subsequent trustees. (Recommendations, paras. 24 - 35)

The Board would have 14 members. The foremost qualification for the members would be technical expertise. Those on the Board would have "the best available combination of technical skills and background experience of relevant international business and market conditions in order to contribute to the development of high quality, international accounting standards. The selection of Board Members would not be based on geographic representation." All Board members would sever all employment relationships with current employers. The diversity desired in the Board is reflected in the specifications that five would have a background as practicing auditors; at least three would have a background in the preparation of financial statements, at least three would have a background as users of financial statements, and at least one would have an academic background. Seven of the group of full time Board Members would be expected to have formal liaison responsibility for one or more designated national standard setters. (Recommendations, paras. 36 - 55)

*Standards Advisory Council:* This Council would provide a forum in which to debate technical and other issues with the Board as well as advise the trustees. The Council would comprise about 30 people to represent a wide spectrum of experience. (Recommendations, paras. 59-60)

*Standards Interpretations Committee:* The SIC would continue in its present form and with 12 members. The SWP believes that the SIC provides a vehicle for more timely guidance within the IASC's due process strategy. (Recommendations, para. 56)

*Nominating Committee:* To get the new structure underway, a Nominating Committee would be named by the current IASC Board. The membership of the Nominating Committee would have from five to eight outstanding individuals from

diverse geographic and functional backgrounds. Early appointment was recommended by the SWP. This committee would appoint the initial group of trustees and would designate the trustee who would serve as chairman. The Nominating Committee's responsibilities would cease once the trustees have been selected. (paras. 21-23)

### **Significantly Different Structure**

The members of the SWP have accepted the position of those respondents who wanted an international standards setting body to be independent and involve individuals with technical expertise. The revision is a far more significant break with the current structure than was presented in the original report of the SWP.

## **IMPLEMENTATION UNDERWAY AND PROPOSED**

The IASC Board at its December 1999 meeting in Amsterdam appointed the Nominating Committee. The members appointed by unanimous vote were:

Karl H. Baumann, Chairman of the Supervisory Board, Siemens, AG, Deputy Chairman  
DRSC (The German national accounting standard setter)  
James E. Copeland, Jr. Chief Executive Officer, Deloitte Touche Tohmatsu  
Howard Davies, Chairman, UK Financial Services Authority  
Arthur Levitt, Jr, Chairman, U.S. Securities and Exchange Commission  
Michel Prada, Chairman, French Commission des Operations de Bourse  
Andrew Sheng, Chairman, Hong Kong Securities Futures Commission  
James D. Wolfensohn, President, The World Bank  
(IASC Press Release, 17 December)

At the first meeting of the Nominating Committee on January 13, 2000, Arthur Levitt, chairman of the United States Securities and Exchange Commission, was selected to serve as chairman. In the Nominating Committee's Press Release there was a request for nominations. A Trustee Candidate Information Sheet was available for downloading. Nominations were sought from international, regional, and national organizations as well as from individuals and groups not contacted directly by the Nominating Committee. Although the deadline date for nominations was initially stated to be January 31, 1999, the date was later changed to February 15, 2000.

The timetable proposed by the SWP included submission of recommendations for trustees from the Nominating Committee to the IASC Board by April 2000.

The IASC Board approved the new structure at its meetings in Sao Paulo in March 2000. The new structure was submitted to the Member Bodies of IASC at their assembly in Edinburgh, Scotland, where it was approved unanimously on May 24, 2000. Just prior to the Edinburgh meeting, the IASC Nominating Committee completed its work when it announced the initial trustees of the restructured IASC. The individuals chosen to serve were:

Mr. Paul A. Volcker (Chairman) Former Chairman, U.S. Federal Reserve Board  
Mr. Roy Andersen, Deputy Chairman and CEO, The Liberty Life Group  
Mr. John H. Biggs, Chairman, TIAA-CREF  
Mr. Andrew Crockett, General Manager, Bank for International Settlements  
Mr. Roberto Teixeira Da Costa, Former Chairman, Brazilian Comissao de aiores  
Mobiliarios  
Mr. Guido A. Ferrarini, Professor of Law, University of Genoa  
Mr. L. Yves Fortier, Chairman, Ogilvy Renault, Barristers and Solicitors, and  
Former Ambassador of Canada to the United Nations  
Mr. Toshikatsu Fukuma, Chief Financial Officer, Mitsui & Col, Ltd.  
Mr. Cornelius Herkstroter, Former President, Royal Dutch Petroleum  
Mr. Hilmar Kopper, Chairman of the Supervisory Board, Deutsche Bank  
Mr. Philip A. Laskawy, Chairman, Ernst & Young International  
Mr. Charles Yeh Kwong Lee, Chairman, Hong Kong Exchange and Clearing Ltd.  
Sir Sydney Lipworth, Chairman, UK Financial Reporting Council  
Mr. Didier Pineau-Valencienne, Chairman, Association Francaise des Enterprises Privees  
Mr. Jens Roder, Senior Partner, PricewaterhouseCoopers  
Mr. David S. Ruder, Former Chairman, U.S. Securities and Exchange Commission  
Mr. Kenneth H. Spencer, Former Chairman, Australian Accounting Standards Board  
Mr. William C. Steere, Jr. Chairman and CEO Pfizer, Inc.  
Mr. Koji Tajika, Co-Chairman, Deloitte Touche Tohmatsu

The trustees met for the first time in late June 2000 to begin the search for the 14 Board members, and to consider securing funding for the restructured IASC. The trustees have the task of determining the most appropriate legal structure for IASC. Likely key financial supporters of the new structure are the international accounting firms, stock exchanges, international banks, and financial institutions and commercial enterprises.

Trustees would begin to appoint new Board members after the May meeting. The new Board would commence activities on January 1, 2001. (Recommendations, Appendix D)

## COMMENTS

The speed with which the SWP responded to the opinions expressed in the 84 letters of comment attests to the critical need for a viable international accounting standards body. Waitzer, the Chairman of the SWP, commented:

“The significant contributions that a properly structured IASC should be able to make to our global economy were sufficiently compelling that a wide range of constituents were prepared to struggle hard to ‘get it right’.” (News Release, 6 December 1999)

### Reactions to Recommendations

In mid-November, the SEC Chief Accountant, Lynn E. Turner, announced his approval:

“...I believe the structure represents the best opportunity to realize that goal [selection of high quality trustees and Board members]. I am enthusiastic about this approach and look forward to working to support adoption and implementation of this revised structure.” (Notable Quotations, 17 November 1999)

*Accountancy*, in a brief anonymous article, noted, "IASC sold out to the U.S., says EC." The response to the announcement of the IASC's decision in Amsterdam in December on the part of European Commission observers was reported to be one of anger that the IASC had 'given in to pressure from the U.S. and could no longer call itself an international organization. (Anonymous, January 2000)

### Future Strategy in Implementation

Implementation is underway. While *Accountancy* reported that "the IASC is facing an almost impossible task in trying to reconcile increasingly polarized views on its future restructuring...." (Anonymous, June 1999), as of mid-February 2000, this conclusion appears unduly pessimistic.

There is considerable momentum to move ahead to establish a structure that is appropriate for a global society. The documents provided by groups such as the U.S. and the FEE, which to a considerable extent support criticism in comment letters, undoubtedly were influential, as the SWP went back to the task of reconsidering the initial proposal.

The structure begins the total task of establishing standards for the world. Concerns for regulation and related enforcement must be addressed. The future success depends on the vision of those who provide leadership and direction for policies and practices. The level of accounting developments varies across the international environment; there are cultural differences; there are deeply held views.

Possibly, the realization of the intense need for global unity will be sufficient to capture the wisdom and commitment of a talented initial group of trustees and Board members. Their generosity of spirit in achieving optimum global standards will be critical in the first decade of this new century.

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## **APPENDIX**



## QUESTIONS TO GUIDE COMMENTS

In the Invitation to Comment, the Strategy Working Party presented eight questions and then suggested that other comments would be welcome.

**Question 1. Objectives:** Do you agree that it is important (a) to develop International Accounting Standards 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 International Accounting Standards through working with national standard setters to bring about convergence and to encourage national, regional and international authorities to permit or require unlisted enterprises to use IASs. . . ?

**Question 2. Key Issues Related to Structure of IASC:** Do you agree at these are the key issues to be addressed? a. partnership with national standard setters? b. wider participation in the IASC Board? c. appointment should be responsibility of a variety of constituencies?

**Question 3. Key Issues -- How to be Addressed:** Do you support the Working Party's proposals that: a1. a partnership with national standard setters would be achieved through a Standards Development Committee (SDC) where national standard setters would play a major role? a2. the Standards Development Committee would be supported by a Standards Development Advisory Committee? b. there would be wider participation in the IASC Board which would have responsibility for the final approval of International Accounting Standards and Exposure Drafts? c. that appointments to the Standards Development Committee, the Board, and the Standing Interpretations Committee would be made by the Trustees?

**Question 4. Approval of International Accounting Standards:** Do you agree with the proposal that positive approval by the Board would be required for all International Accounting Standards and Exposure Drafts?

**Question 5. Approval of a Final Interpretation:** Do you agree that a SIC final Interpretation should require approval by the Standards Development Committee, and that approval by the Board should no longer be required? Further, that the approval requires seven votes out of 11?

**Question 6. *Due Process:*** 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? d. publish agendas for each meeting? e. publish basis of conclusions with its Standards? f. publish with Standards any dissentient opinions? g. hold public hearings? h. carry out field tests of some proposals? i. provide translations of IASs and exposure drafts? j. ask Members of IASC, and others, to control quality of translations that IASC doesn't publish itself? k. lengthen comment period? l. distribute Exposure Drafts -- and other documents where comment is requested -- without charge? m. make other changes?

**Question 7. *Implementation, Enforcement, and Training:*** Should the IASC: a. be more proactive in reviewing national standards? b. give advice to national regulators and other enforcement agencies? c. be more pro-active in identifying departures from IASs? d. publish training materials and other implementation guidance? e. introduce a technical enquiry service? f. hold training courses?

**Question 8. *Funding:*** Do you support a funding model that relies more or less equally on funding from a number of reasonably well-defined groups?

