



**The Quoted
Companies Alliance**

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Tamara Feldman
Assistant Corporate Secretary
International Accounting Standards Committee Foundation
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30 Cannon Street
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Email: constitutionreview@iasb.org

30 November 2009

Dear Ms Feldman,

IASC Foundation – Part 2 of the Constitution Review: Proposals for Enhanced Public Accountability

INTRODUCTION

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation working for small and mid-cap quoted companies. Their individual market capitalisations tend to be below £500m.

The QCA is a founder member of European**Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

The QCA Financial Reporting Committee has examined your proposals and advised on this response. A list of Committee members is at Appendix A.

RESPONSE

We welcome the opportunity to respond to IASCF's Proposals for Enhanced Public Accountability (September 2009). Overall, we support the aim of the Constitution Review and believe that will help in improving the IASB's governance.

In summary, our main observations are:

1. The IASB and IASCF need to develop over-riding principles and take a principles-based approach to developing standards. We emphasise the need for the IASB to complete the conceptual framework project before developing any new standards.
2. Geography is not the sole and most important factor in the composition of the IASB Board and IASCF's Trustees. The IASB Board and IASCF's Trustees should include someone from the smaller company sector in order to gain a better understanding of the complexity of current standards and specific needs of smaller companies. It is imperative that Board Members and Trustees be close to the marketplace and have practical experience with IFRS.

3. We welcome the changes to encourage the IASB to liaise with a broader range of organisations. We believe that the IASB would improve the development of standards by carrying out consultation in the initial stages of a standard's development and more road-testing with more users - in particular smaller companies, who face too much complexity in their accounts and need simplification. However, there is still an emphasis in the Constitution on collaborating to promote the convergence of national accounting standards. We believe that the convergence programme with United States has not resulted quality reporting standards.
4. In terms of the IASCF promoting due process, we believe the IASCF needs to put pressure on the IASB to engage in cost/benefit analysis of a standard before implementation and post-implementation analysis of a standard once it is in use.

We have responded in detail to the questions in the paper below:

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 'IFRS Foundation', and the proposal to mirror this change by renaming the IASB to the 'IFRS Board'. Do you support this change in name? Is there any reason why this change of name might be inappropriate?*

Yes, we support the change in name, but note that we don't have strong views on this subject.

Question 2: *The Trustees seek views on the proposal to replace all references to 'accounting standards' with 'financial reporting standards' throughout the Constitution. Do you support this change?*

Yes. If the name of the organisation is changing, then these amendments would be logical.

Question 3: *The Trustees seek views on their proposal to change section 2.*

We welcome the continued focus on small and medium-sized enterprises in the objectives; however, we note that not much has materialised out of this objective so far.

We are disappointed that the Trustees have decided not to include in the Constitution a specific reference to principles-based standards. We believe that one of the main and most urgent issues for the IASB and IASCF is the need to develop over-riding principles and complete the conceptual framework project before developing any new standards.

Question 4: *The Trustees seek views on the proposal to amend section 3 of the Constitution. Do you support this clarifying amendment?*

Yes, we support this amendment.

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

As we noted in our response to the last part of the Constitution review, geography should be only one component. At present, the make-up appears to more about the politics than getting the right people. It is more important that the IASB Board and IASCF's Trustees have proper

representation from a variety of preparers, and in particular, the representation of smaller companies. In order for there to be representation from smaller company finance directors, for example, the IASB Board would need to be accommodating to the fact that these preparers have limited time available and a full-time Board role may not be appropriate.

It is also vital that all representatives associated with standard-setting be closer to the marketplace and have recent practical experience with IFRS. They must understand the reality that many companies, especially smaller companies, are facing and their challenges in relation to financial reporting.

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

Yes, we support this proposal.

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 we noted in our previous response to the Constitution Review, the principles in these sections are fine, but it is the manner in which they are delivered that is critical.

Question 8: *Do you support the changes aimed at encouraging liaison with a broad range of official organisations with an interest in accounting standard-setting?*

Yes, we do support and welcome these changes to have the IASB Board liaise with a broader range of organisations, as this will enable more feedback. We believe it is imperative for the IASB to get a wide range of views on the introduction of accounting standards. This is the reason why we have argued for the need for smaller company representation on the IASB Board.

We also believe that the IASB would improve the development of standards by carrying out consultation in the initial stages of a standard's development and more road-testing with more users and in particular smaller companies, who face too much complexity in their accounts and need simplification.

However, we note that in the drafting of section 28, there is an emphasis on collaborating to promote the convergence of national accounting standards. We believe that the IASB's strong focus on the convergence programme with United States has not resulted in the development of quality reporting standards. As such, we would urge the IASB to reconsider its focus on convergence. The quality of a standard should be at the forefront, rather than convergence.

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.*

Yes, we support this proposal.

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. Do you support the change in proposed term lengths?*

Yes, we support this proposal.

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. The due process periods could be reduced but never dispensed with completely.*

In principle, we see that there may be a need in exceptional circumstances to have a shorter due process. However, the reduction in due process should not be the result of political pressure alone, as the last 'fast track' procedure was. Allowing time for proper consultation with a wide range of parties is imperative in the process of producing quality standards.

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.*

We support this proposal to amend section 37(d) to have the IASB Board consult with the Trustees and SAC over its agenda. However, we again emphasise that the IASB's agenda would be better set, not necessarily as a result of more oversight from the IASCF, but instead through the IASB completing the conceptual framework project and developing a principles-based approach to accounting standards. This would allow the IASB to develop a more methodological approach to what issues they address.

More generally, in terms of the IASCF promoting due process, we note the need for the IASCF to put more pressure on the IASB to:

1. Engage in proper and extensive cost/benefit analysis of standards before their introduction; and
2. Engage in post-implementation analysis of standards (e.g. testing and cost/benefit).

Question 13: *Trustees seek views on the proposal to make no amendment to section 44 and 45 (renumbered 45 and 46), which are the provisions relating to the SAC, at this time.*

We agree with the Trustees' view.

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 the when the organisation was established in 2001.*

We agree in principle with these proposals.

If you wish to discuss these issues with us, we will be pleased to attend a meeting.

Yours sincerely,



Tim Ward
Chief Executive

THE QUOTED COMPANIES ALLIANCE FINANCIAL REPORTING COMMITTEE

Anthony Carey (Chairman)	-	Mazars LLP
Peter Chidgey	-	BDO Stoy Hayward LLP
Sarah Cox	-	Ernst & Young LLP
David Gray	-	DHG Management
Shane Horsell	-	Ultimate Finance plc
Chris Ogle	-	SQC Consultant
Paul Watts/Bill Farren	-	Baker Tilly LLP
Nick Winters/James Lole	-	Vantis plc
Tim Ward	-	The Quoted Companies Alliance
Kate Jalbert*	-	The Quoted Companies Alliance

*Main Author

THE QUOTED COMPANIES ALLIANCE (QCA)

A not-for-profit organisation funded by its membership, the QCA represents the interests of small and mid-cap quoted companies, their advisors and investors. It was founded in 1992, originally known as CISCO.

The QCA is governed by an elected Executive Committee, and undertakes its work through a number of highly focussed, multi-disciplinary committees and working groups of members who concentrate on specific areas of concern, in particular:

- taxation
- legislation affecting small and mid-cap quoted companies
- corporate governance
- employee share schemes
- trading, settlement and custody of shares
- structure and regulation of stock markets for small and mid-cap quoted companies; Financial Services Authority (FSA) consultations
- political liaison – briefing and influencing Westminster and Whitehall, the City and Brussels
- accounting standards proposals from various standard-setters

The QCA is a founder member of **EuropeanIssuers**, which represents quoted companies in fourteen European countries.

QCA's Aims and Objectives

The QCA works for small and mid-cap quoted companies in the United Kingdom and Europe to promote and maintain vibrant, healthy and liquid capital markets. Its principal objectives are:

Lobbying the Government, Brussels and other regulators to reduce the costing and time consuming burden of regulation, which falls disproportionately on smaller quoted companies

Promoting the smaller quoted company sector and taking steps to increase investor interest and improve shareholder liquidity for companies in it.

Educating companies in the sector about best practice in areas such as corporate governance and investor relations.

Providing a forum for small and mid-cap quoted company directors to network and discuss solutions to topical issues with their peer group, sector professionals and influential City figures.

Small and mid-cap quoted companies' contribute considerably to the UK economy:

- There are approximately 2,000 small and mid-cap quoted companies
- They represent around 85% of all quoted companies in the UK
- They employ approximately 1 million people, representing around 4% of total private sector employment
- Every 5% growth in the small and mid-cap quoted company sector could reduce UK unemployment by a further 50,000
- They generate:
 - corporation tax payable of £560 million per annum
 - income tax paid of £3 billion per annum
 - social security paid (employers' NIC) of £3 billion per annum
 - employees' national insurance contribution paid of £2 billion per annum

The tax figures exclude business rates, VAT and other indirect taxes.

For more information contact:

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