



International Federation of Accountants

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Agenda Item

6

Committee: IAASB
Meeting Location: Hong Kong
Meeting Date: March 6–10, 2006

IAASB Terms of Reference

Objective of Agenda Item

1. To update the IAASB on developments with respect to the IAASB Interim Terms of Reference.

Background

2. At its December 2005 meeting, the PIOB considered, on a preliminary basis, the IAASB Interim Terms of Reference and the draft terms of references for IFAC's other standard-setting Public Interest Activity Committees (PIACs). It was agreed that the terms of references for the IFAC's PIACs should be:
 - (i) Updated to reflect the preliminary views expressed thereon by the PIOB;
 - (ii) Reviewed against the agreed due process of the PIACs and, where necessary, amended to conform therewith; and
 - (ii) Compared to those of the IASB and major national standards-setters, to identify any additional elements as desirable for inclusion in the PIACs' terms of references.

The PIOB also requested that the terms of reference of each PIAC be reviewed for consistency of presentation and style.

Recommended Changes

3. With respect to the consistency with the PIOB-approved due process, it is recommended that the IAASB terms of reference be changed to:
 - *Replace the current wording in the section dealing with due process with a statement that the IAASB is required to adhere to due process as approved by the PIOB.* The basis for this recommendation is that the current description in the interim terms of reference highlights only specific elements of the due process to be followed by the IAASB. This may imply that those specified elements are more important than others. It also facilitates amendment to the due process, if necessary, without amendment to the terms of reference.
 - *Provide for both approval and withdrawal of Standards and Practice Statements,* in order to be consistent with the wording of the approved due process.

4. An analysis completed by staff demonstrates that the IAASB interim terms of reference contain many of the elements also included in the governing documents of other standard setters that are essential in establishing an appropriate basis for the conduct of standard-setting activities.
5. Based on the comparison with those of other standard setters, it is recommended, however, that the IAASB terms of references be changed to:
 - *Include reference to the oversight of the IAASB by the PIOB.* The basis for this recommendation is that many of the comparative terms of reference (or equivalent) include reference to the body that provides oversight of the standard setter. It should be noted that many also contain a description of the rights and obligations of the oversight body with respect to the standard setter. These are, however, specified in the IFAC Constitution with respect to the PIOB, and it is therefore not considered necessary to repeat these in the IAASB terms of reference.
 - *Clarify that the appointment of the IAASB membership includes the appointment of a chairperson and deputy chairperson, which are also approved as part of the PIOB's approval of member appointments.* The basis for this recommendation is that the appointment process for the chairmanship of the IAASB is particularly important given the importance of these roles to the leadership and activities of the IAASB. The terms of reference of several of the standard setters also make reference to this matter.
 - *Specify the chairmanship of IAASB meetings.* The basis for this recommendation is that the provision for the chairing of the meeting of the IAASB is an important matter that should be clarified, particularly where the appointed chairperson or deputy chairperson is absent from a meeting. The terms of reference of several of the standard setters also make reference to this matter.
6. In addition to the above, it is noted that the draft IAESB (Education) terms of reference refer to the fact that the IAESB may also include observers, without specifying the limit of the number of such observers. However, the IAASB and IESBA (Ethics) terms of references limit the number of observers to three. For these PIACs, it is necessary to update the number of observers from three to four, to recognize the provision in the CAG terms of reference to appoint a representative as an observer. Because there may be a future need to expand the number of observers¹, it is recommended, instead, that the IAASB and IESBA terms of references be amended to exclude reference to the number of observers that may be appointed. This would further aligned the PIACs' terms of references, and avoid the potential need to subsequently revise them as circumstances change. This change has not been processed, pending the views of the IFAC Board and PIOB.
7. The terms of references of all of IFAC's standard-setting PIACs have been made consistent with the above recommendations, as well as in style of presentation. Changes to the IAASB terms of reference in regard to the latter are strictly formatting in nature and have not been shown in mark-up in the agenda papers.

¹ At the discretion of the IFAC Board in consultation with the PIOB.

Current Status

8. The enclosed terms of reference have been submitted to the IFAC Board for their review and approval for submission to the PIOB. A report on the IFAC Board's decision will be provided at the March IAASB meeting.

Material Presented

Agenda Item 6-A IAASB Terms of Reference (Changes from IAASB Interim Terms of
(Pages 471 to 474) Reference show in mark-up)

Action Requested

9. The IAASB is asked to consider the changes shown in Agenda Item 6-A, and to indicate any fundamental concern that should be raised with the PIOB.
10. Minor matters of wording should be passed to staff and they will be noted for the next version of the terms of reference.

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