

## **FORUM OF FIRMS**

### **CONSTITUTION**

#### **DEFINITIONS**

In this Constitution, unless the context otherwise dictates:

"Assurance-related committees" mean the following boards supported by IFAC: International Auditing and Assurance Standards Board and International Ethics Standards Board for Accountants;

"Code of Ethics" means the Code of Ethics which is set by the International Ethics Standards Board for Accountants;

"International Accounting Education Standards Board" (IAESB) means the board supported by IFAC which develops and promulgates International Education Standards and related guidance for the international accountancy profession;

"International Ethics Standards Board for Accountants" (IESBA) means the board supported by IFAC which develops and promulgates the IESBA Code of Ethics for Professional Accountants and related guidance on ethical issues for the international accountancy profession;

"Firm" means an entity, in any organizational form, performing or participating in the conduct of Transnational Audits;

"Forum" means the Forum of Firms;

"Founder Members" means the following networks: BDO, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Ltd, KPMG International Cooperative and PricewaterhouseCoopers International;

"Globally coordinated internal quality assurance reviews" means internal quality assurance reviews meeting the minimum requirements of policies established by the TAC;

"IFAC" means the International Federation of Accountants which is the worldwide organization for the accountancy profession whose membership comprises professional accountancy bodies;

"IFAC Board" means the body of IFAC as defined in the IFAC Constitution;

"IFAC Council" means the supreme governing body of IFAC as defined in the IFAC Constitution;

"International Financial Reporting Standards" means the International Accounting Standards and International Financial Reporting Standards set by the International Accounting Standards Board and its predecessor body the International Accounting Standards Committee;

"International Auditing and Assurance Standards Board" (IAASB) means the committee supported by IFAC which develops and promulgates International Standards on Auditing and Assurance and other guidance;

"International Standards on Quality Control" means the International Standards on Quality Control set by the International Auditing and Assurance Standards Board;

"International Standards on Auditing" (ISA) means the International Standards on Auditing set by the International Auditing and Assurance Standards Board;

"Member" means a Network or a Firm that has met the membership obligations of the Forum; a Firm which is part of a Network that is a Member may not individually be a Member; where a Network is not a Member, individual Firms within that Network may be Members in their own right;

"Network" means a structure comprising network firms as defined in the International Ethics Standards Board for Accountant's Code of Ethics.

"Nominating Committee" means the committee of IFAC which makes recommendations to the IFAC Board and Council on appointments to the Board and committees of IFAC and such other appointments as are mentioned in this Constitution and the IFAC Constitution;

"TAC" means the Transnational Auditors Committee, the committee of IFAC which is the executive arm of the Forum;

"Transnational audit" means an audit of financial statements which are or may be relied upon outside the audited entity's home jurisdiction for purposes of significant lending, investment or regulatory decisions; this will include audits of all financial statements of companies with listed equity or debt and other public interest entities which attract particular public attention because of their size, products or services provided.

## **PART 1            Name and Objective**

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| 1) The name of the organization shall be the Forum of Firms.   | <b>NAME</b>      |
| 2) The objective of the Forum is to promote consistent and high quality standards of financial reporting and auditing practices world-wide. The Forum will bring together firms which perform transnational audits and involve them more closely with IFAC's activities in audit and other assurance-related areas thereby supporting IFAC's mission which states:<br><br>"To serve the public interest by: <ul style="list-style-type: none"><li>• Contributing to the development, adoption and implementation of high-quality international standards and guidance</li><li>• Contributing to the development of strong professional accountancy organizations and accounting firms, and to high-quality practices by professional accountants</li><li>• Promoting the value of professional accountants worldwide</li><li>• Speaking out on public interest issues where the accountancy profession's expertise is most relevant. "</li></ul> | <b>OBJECTIVE</b> |

## **PART 2            Membership and Obligations**

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| 3) Membership of the Forum shall consist of only those Networks or Firms that have met the membership obligations of the Forum.  | <b>MEMBERSHIP</b>   |
| 4) Membership shall be open to Networks and to Firms upon giving notification to the Secretary of the Forum that they meet the following criteria for eligibility, namely that they (or their constituent entities, as applicable): <ul style="list-style-type: none"><li>a) Have transnational audit appointments or are interested in accepting such appointments</li><li>b) Promote the consistent application of high quality audit practices worldwide, including the use of ISAs</li><li>c) Support convergence of national audit standards with ISAs</li><li>d) Agree to meet the Forum's membership obligations, with respect to transnational audits, which require Members to:</li></ul> | <b>MEMBERSHIP<br/>ELIGIBILITY<br/>AND<br/>OBLIGATIONS</b> |

- i) Maintain appropriate quality control standards in accordance with International Standards on Quality Control issued by the IAASB in addition to relevant national quality control standards and conduct, to the extent not prohibited by national regulation, regular globally coordinated internal quality assurance reviews
- ii) have policies and methodologies for the conduct of such audits that are based, to the extent practicable, on ISAs
- iii) Have policies and methodologies which conform to the International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants and national codes of ethics.
- e) agree to submit to the Secretary of the Forum an annual report, in a form approved by the TAC, indicating that it meets the membership obligations set forth above.

5) Members shall:

- a) subscribe to the objective set out in Section 2 hereof
- b) make such financial contribution as may be determined in accordance with Section 38(g)(ii) hereof
- c) promote the use by others of International Financial Reporting Standards and International Standards on Auditing and other such internationally accepted standards as may be agreed from time to time by the Forum
- d) agree to meet other specific obligations appropriate to transnational audits as may from time to time be agreed by the Forum upon the recommendation of the TAC
- e) agree to abide by the provisions of this Constitution and the Operating Procedures approved thereunder
- f) submit to the Secretary of the Forum a report as required under Section 4(e)
- g) be bound by the terms of the agreement entered into with IFAC regarding the cost of claims which is attached as an annex to this Constitution.

- 6) A Member may withdraw from membership at the end of any financial year provided that it gives notice in writing at least twelve months in

**RESIGNATION**

advance to the Secretary of the Forum.

- 7) A Member shall be excluded if it does not submit the annual report indicating that it meets the membership obligations required by Section 5(f). **SUSPENSION/  
EXCLUSION**
- 8) If a Member enters into a network arrangement with another firm, it shall be entitled to continue in membership provided that the Member incorporating the newly associated firm meets the criteria for membership within a period of two years. If the Member incorporating the newly associated firm fails to meet the criteria for membership within the two-year period, the Member shall be excluded.
- 9) Where a firm which is part of a network which is a Member leaves that network and does not join another network which is a Member, that firm may continue as if it were a member of the Forum for up to a maximum of two years. If either it or the network of which it is now a member has not established compliance with the criteria for membership by the end of this period, the firm shall be excluded.
- 10) Any Member which fails to pay in due time the financial contribution determined in accordance with Section 38(g)(ii) shall be liable to suspension or exclusion under Section 38(i) hereof.
- 11) Any Member may appeal decisions to suspend or exclude it from membership to a panel established by the IFAC Board which shall consider and determine appeals by applicants for membership whose applications are not approved and by Members and for decisions for or against suspensions or exclusions from membership. Any such appeal must be made within six months of the initial decision of the TAC or the Forum. Any such panel shall have access to the Member's annual report submitted under Section 4(e). **APPEAL  
PROCEDURES**
- 12) A Member excluded from membership may apply to the Secretary of the Forum for readmission to membership upon submission of evidence approved by the TAC of removal of the grounds for exclusion. **READMISSION**

### **PART 3           Governance of the Forum**

- 13) The governance of the Forum shall rest with the Members with executive authority vested in the TAC, subject to such other approvals as may be required under the provisions of this Constitution. **GOVERNANCE**

**PART 4            Annual and Special Meetings**

14) The Forum shall meet at least annually at times and locations to be determined by the Chair.

**ANNUAL  
MEETINGS**

15) The date of the annual meeting shall be determined with due regard to the notice period required for the submission of items requiring the attention of the IFAC Council or Board.

16) The Secretary of the Forum shall notify each Member of the date and location of the annual meeting at least two months in advance of the meeting and shall give not less than two week's notice of the business to be transacted at the meeting.

17) A Member may have a matter included on the agenda for an annual meeting provided that such a request is received in writing not less than one month in advance of the meeting.

18) The annual meeting shall

**RESPONS-  
IBILITIES AND  
POWERS**

a) receive from the TAC:

i) reports on progress and achievement against plans approved the previous year, including notification of the admission, resignation and exclusion of Members

ii) notification of the suspension of Members under Section 38(i) hereof

b) consider resolutions:

i) to elect a Chair who shall serve for a term of three years with the right of reelection for one further term

ii) to approve upon the recommendation of the TAC the matters set out under Section 38(g) hereof

iii) to approve upon the recommendation of the TAC for approval by the IFAC Board the matters set out under Section 38(h) hereof

iv) under Section 38(j) hereof and upon the recommendation of the TAC, to exclude Members.

19) A special meeting of the Forum shall be held upon:

**SPECIAL  
MEETINGS**

- a) a determination by the Chair of the Forum, or
  - b) a resolution of the TAC, or
  - c) a written demand by not less than one-fifth of all Members, with a statement in writing of the purposes of the meeting.
- 20) The Chair of the Forum shall determine the place and time of special meetings which shall be held within four months of a resolution of the TAC or the receipt by the Secretary of the Forum of a written demand by the requisite number of Members.
- 21) The Secretary of the Forum shall notify each Member of the date and location of the special meeting at least two months in advance of the meeting and shall give not less than one month's notice of the business to be transacted at the meeting.
- 22) A special meeting of the Forum shall be held to consider the nomination of the Chair of the TAC under Section 51 and to recommend the nomination of the Chair to the Nominating Committee of IFAC for approval.
- 23) Annual and special meetings may be attended by two representatives designated as such by each Member; the Chair shall not be deemed to be a representative of his/her Member. A Member may be represented by proxy by another Member or by the Chair subject to the Secretary of the Forum receiving written notice prior to the meeting from the member granting the proxy; proxies shall have the right to vote on behalf of the Members which they represent.
- 24) Any representative may participate in a meeting of the Forum by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation in a meeting by such means shall constitute presence in person at such meeting.
- 25) The Forum shall not take action on any matters coming before it at annual or special meetings unless there is a quorum; there shall be a quorum at both annual and special meetings if at least two-thirds of the total voting rights in the Forum are represented in person or by proxy. If there is no quorum, the Chair shall adjourn the meeting to a time and place determined by him/her; at any such adjourned meeting there shall be a quorum if at least half the total voting rights in the Forum are represented in person or by proxy.
- 26) Meetings of the Forum which are adjourned due to the lack of a

#### **ATTENDANCE AT MEETINGS**

#### **QUORUM**

quorum shall reconvene at a time and place to be determined by the Chair but with a minimum notice period of two weeks; the agenda for the adjourned meeting shall be the same as that which was originally arranged and shall not be amendable under the waiver of notice provisions of Section 27 of the Constitution.

- 27) No business other than that included in the agenda for an annual or special meeting shall be transacted except that, in the case of annual meetings, this restriction may be waived if a vote by those in attendance or represented by proxy produces a simple majority of total voting rights in the Forum; provided however that no waiver under this Section may be exercised in respect of matters relating to the exclusion of Members, the budget and financial contributions, the allocation of voting rights, amendments to the Constitution, changes to the basis for the allocation of representatives on the TAC and termination of the Forum.
- 28) The method of voting shall be determined by the meeting and shall be either by a show of hands or by secret ballot on the basis set out in Section 29.
- 29) The allocation of voting rights at annual and special meetings shall be in proportion to annual turnover but the initial allocation shall be limited as follows:
- a) each of the four largest Founder Members based on annual turnover shall have the higher of 6 votes or 11% of the total votes
  - b) each of the next two largest Founder Members based on annual turnover shall have the higher of 2 votes or 3% of the total votes.

**WAIVER OF  
NOTICE**

All other Members shall have 1 vote each except that where more than one member of a network, organization or association which is not a Member is an individual Member, the Members that are members of that network, organization or association shall be treated as if they were one Member for voting purposes.

- 30) The allocation of voting rights shall be reviewed by the TAC for recommendation to and approval by the Forum and the IFAC Board in accordance with Section 38(h)(ii) every three years or in the light of significant mergers or demergers or whenever a Member with 3% or more of the total voting rights ceases to be a member of the Forum.
- 31) At annual or special meetings decisions shall require a simple majority of votes cast, except that decisions as to the exclusion of Members, the budget and financial contributions, the allocation of voting rights,,

amendments to the Constitution, changes to the basis for the allocation of representatives on the TAC and termination of the Forum shall require a majority of two-thirds of votes cast.

- 32) The vote at annual and special meetings shall be taken by an electronic or mail ballot of all Members if so demanded during the meeting by at least one-fifth in number of the Forum's total membership. Votes received after the deadline determined by the Chair shall not be counted; such deadline shall not be less than two weeks after announcing the electronic ballot or mailing the ballots.
- 33) Any action required or permitted to be taken by the Forum may be taken without a meeting if two-thirds in number of the Members consents to the adoption of a resolution authorizing such action.

## **PART 5 Transnational Auditors Committee (TAC)**

34) The TAC is a standing committee of IFAC. TAC representatives (one of whom shall be the Chair) shall be appointed in accordance with Sections 35 and 38(e) hereof and the provisions of Section 6.4(a) of the IFAC By-laws.

## **COMPOSITION, REPRESENT- ATION AND VOTING**

35) The composition of the TAC shall reflect the membership of the Forum as follows:

- a) the Founder Members shall each be entitled to nominate two representatives one of whom shall be the designated voting representative; in the absence of the designated voting representative, the voting right may be exercised by the other representative;
- b) the remaining Members shall nominate from amongst themselves five pairs of representatives; one representative in each pair shall be a designated voting representative; the second representative, who shall not be from the same Member as the designated voting representative, shall be entitled to vote in the absence of the designated voting representative.

36) The allocation of representation on the TAC shall be reviewed by the TAC for recommendation to and approval by the Forum and the IFAC Board in accordance with Section 38(h)(iii) in the light of significant mergers or demergers and whenever a Member with 3% or more of the total voting rights in the Forum ceases to be a member of the Forum and in any event not less than every three years.

37) The term of appointment for all TAC Members shall begin on January 1 of the year following the meeting of the IFAC Board meeting at which their appointments are approved and shall end on December 31 two years thereafter. However, if a membership becomes vacant, a replacement may be appointed in accordance with Sections 35 and 38(e); such an appointment shall be effective for the remainder of the calendar year from the date of the IFAC Board meeting at which it is approved and for two years thereafter ending on December 31. All appointments shall be renewable indefinitely.

38) The TAC shall:

- a) take all practicable steps to achieve the objective of the Forum as set out in Section 2 hereof including the establishment of such sub-committees and task forces as may be appropriate for the effective discharge of its responsibilities
- b) keep the Forum's membership obligations under review and recommend to the Forum and the IFAC Board under Section 38(h)(i) the inclusion of such additional obligations relating to the performance of transnational audits as may from time to time be appropriate
- c) agree the form of the Annual Report required under Section 5(f)
- d) keep issues relevant to auditors with transnational clients under review and provide guidance to the Members of the Forum
- e) recommend individuals to the IFAC Nominating Committee for appointment as members of the International Auditing and Assurance Standards Board, the International Ethics Standards Board for Accountants and the International Accounting Education Standards Board and recommend individuals to the IFAC Nominating Committee for appointment to the Transnational Auditors Committee
- f) report to the annual meeting of the Forum on progress and achievement against plans approved the previous year, including notification of the admission of new Members
- g) recommend to the Annual Meeting of the Forum for its approval:
  - i) proposals for policy and strategic initiatives, including proposed work plans and estimates for total costs for the following year
  - ii) the annual allocation of the financial contributions to be paid by

**RESPONS-  
IBILITIES AND  
POWERS**

- Members including any contributions required regarding the cost of claims
- iii) the annual report and accounts of the Forum
  - iv) the Forum's operating procedures and any amendments thereto
  - v) any other matters reserved under the terms of this Constitution for decision or approval by the Members
  - h) recommend to the Annual Meeting of the Forum for its approval and subsequent recommendation for its approval to the IFAC Board:
    - i) amendments to this Constitution including the Forum's membership obligations
    - ii) changes to the basis for the allocation of voting rights at annual and special meetings of the Forum under Section 29 hereof
    - iii) changes to the basis for the allocation of representatives on the TAC under Section 36 hereof
  - i) have the power to suspend from membership any Member and to recommend to the Forum the exclusion of any Member for non compliance with the criteria for membership or which fails to pay in due time the financial contributions determined in accordance with Section 38(g)(ii)
  - j) take any action which is consistent with the objectives of the Forum and which is not expressly denied to it by this Constitution
  - k) report at least annually to meetings of the IFAC Board and shall provide the Board with information regarding the work program for the coming year, including the estimated total costs and the annual allocation of financial contributions as approved by the Forum under Section 38(g)(i) and (ii) such that the Board can satisfy itself that the Forum and TAC will be financially self-supporting and that the costs to be borne under Section 62 will be fully funded by members of the Forum
  - l) advise potential members of the Forum on the advantages, duties, obligations and costs of membership and advise on how any interested firm might become a Member.

39) The TAC shall meet at such times and places as it may decide.

**MEETINGS**

Meetings of the TAC may be held by videoconference or telephone when necessary.

- 40) Any representative may participate in a meeting of the TAC by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation in a meeting by such means shall constitute presence in person at such meeting.
- 41) The TAC staff shall notify each TAC representative of the date, location and agenda for meetings of the TAC; not less than two weeks notice shall be given. The requirement for this notice period may be waived by the agreement of the members of the TAC as documented in the minutes of the relevant meeting.
- 42) Alternates may attend meetings of the TAC in the absence of any nominated representative subject to prior notification to and approval by the Chair of the TAC, but the alternate may not exercise a vote on behalf of an absent representative.
- 43) Representatives on the TAC may be accompanied by not more than one specialist from the same Member for any particular item on the agenda. Specialists shall be entitled to the privilege of the floor but shall not have the right to vote.
- 44) Any action required or permitted to be taken by the TAC may be taken without the holding of a meeting if a majority of the TAC representatives consents to the adoption of a resolution authorising such action.
- 45) The TAC shall not take action on any matters coming before it unless there is a quorum. There shall be a quorum if at least eight voting representatives are present. If there is no quorum, the Chair shall adjourn the meeting to a time and place determined by him/her so that a quorum may be obtained. Not less than one week's notice shall be given for the time and place of an adjourned meeting and the agenda for the adjourned meeting shall be the same as that which was originally arranged.
- 46) Decisions on any matters shall be taken on a simple majority of the voting rights of the TAC representatives present except that any suspension from membership or any recommendation to the Forum to exclude from membership shall require the vote in favor of at least 8 members of TAC.
- 47) The allocation of voting rights at meetings of the TAC shall be as

## **QUORUM**

## **VOTING**

follows:

- a) each of the four largest Founder Members based on annual turnover shall have 11% of the total votes
- b) each of the seven remaining members of the TAC shall have 8% of the total votes.

## **PART 6      Chairs of the Forum and TAC**

48) The Chair of the Forum shall be entitled to vote at meetings of the Forum only in the event of a tied vote.

**CHAIR OF  
FORUM**

49) In the absence of the Chair at annual or special meetings of the Forum, the meeting shall select a chair from among those present.

50) In the case of the incapacity, resignation, removal or death of the Chair of the Forum, or in the case of suspension or exclusion of the Member organization of the Chair of the Forum, the TAC shall appoint a replacement on a temporary basis until such time as an annual or special meeting can make a recommendation for a formal appointment in accordance with Section 18(b)(i) hereof; the replacement Chair shall serve out the balance of the term of the former Chair and shall be eligible for reappointment for two full terms.

51) The Chair of the TAC shall be appointed in accordance with Section 22 hereof and the provisions of Section 6.4(a) of the IFAC By-laws. The Chair of the TAC shall not also be the Chair of the Forum or be from the same Member as the Chair of the Forum. The Chair's term of appointment shall begin on January 1 of the year following the IFAC Board meeting at which his/her appointment is approved and shall end on December 31, two years thereafter; the Chair shall have the right of reelection for one further term.

**CHAIR OF TAC**

52) The Chair of the TAC shall be entitled to vote at meetings of the TAC as the voting representative of his/her Member organization.

53) In the absence of the Chair at meetings of the TAC, the meeting shall select a chair from among those present.

54) In the case of the incapacity, resignation, removal or death of the Chair of the TAC, or in the case of suspension or exclusion of the Member organization of the Chair of the TAC, the TAC shall in consultation with the IFAC Officers appoint a replacement on a temporary basis until such time as an annual or special meeting can make a

recommendation for a formal appointment in accordance with Section 19 hereof; the replacement Chair shall serve out the balance of the term of the former Chair and shall be eligible for reappointment in accordance with Section 51 hereof.

**PART 7 Relationship with other IFAC structures**

55) The Chair of the Forum, where appropriate accompanied by the Chair of the TAC, shall be entitled or may be required by the President of IFAC to attend meetings of the IFAC Council to report on progress and achievement against plans approved the previous year and plans for the following year; such reports shall include the activities of the TAC. **IFAC COUNCIL**

56) The Board of IFAC shall have the right **IFAC BOARD**

a) to be represented at meetings of the Forum, the TAC and their sub-committees and task forces by up to two representatives who shall be entitled to receive papers relevant to the meetings that they attend; such representatives shall have the privilege of the floor but shall not be entitled to vote

b) to propose matters for consideration by meetings of the Forum, the TAC and their sub-committees and task forces; such matters may include recommendations for changes to this Constitution. The Forum, the TAC and their sub-committees and task forces as appropriate shall consider such matters and shall report the results of such consideration to the IFAC Board.

57) IFAC's Officers shall have right of access to all agenda papers, minutes and other official documentation relating to the activities of the Forum, the TAC and their sub-committees and task forces including documentation relating to the suspension or exclusion of Members. **IFAC OFFICERS**

**PART 8 Secretariat and Finance**

58) The Secretary of the Forum shall be responsible to the Chair of the Forum for the day to day management of the Forum. The Secretary shall be appointed by the Chair of the Forum; he/she shall not be either a TAC representative or a member of the TAC secretariat. **SECRETARY OF THE FORUM**

59) The IFAC Chief Executive in consultation with the Chair of the TAC shall have responsibility for ensuring appropriate staffing of the activities of the TAC. **TAC STAFF**

60) The Forum and TAC shall be financially self-supporting through the financial contributions of Members; such contributions shall be determined in accordance with criteria based upon annual turnover.

## **FINANCING**

61) The financial contributions shall be received by the Forum.

62) In addition to covering the costs of the Forum and TAC, Members' financial contributions shall contribute towards the costs of IFAC as agreed from time to time between the TAC and the IFAC Board.

## **Part 9 Administration and Governance**

63) The Forum shall be an association governed by this Constitution and Articles 60-79 of the Swiss Code and any amendment thereof. Its registered offices shall be in Geneva.

## **GOVERNING LAW AND REGISTERED OFFICE**

64) The administrative office of the Forum shall be in such location as the Forum may determine.

65) The financial year of the Forum shall end on 31 December.

## **PART 10 Validity of Constitution**

66) This Constitution shall come into force upon approval by the IFAC Board.

## **VALIDITY**

67) The existence of the Forum shall continue unless terminated after consultation between the Forum and the IFAC Board by a two-thirds majority vote by Members. In the event of a termination of the Forum, any surplus assets shall be transferred to IFAC.

Original Approval Date: July 11, 2002

Amended: July 7, 2004

New Constitution Approved: November 18, 2005

Amended: February 23, 2006

Amended: February 22, 2007

Amended: September 5, 2011

Duly signed on behalf of Forum of Firms:

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Robert Dohrer – Chairman – Forum of Firms

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Sylvia Tsen – Director – Transnational Auditors Committee

Duly signed on behalf of IFAC:

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Göran Tidström – President – IFAC

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Ian Ball – Chief Executive Officer – IFAC