



Response from  
The Institute of Chartered Accountants of Scotland  
to the IFRS Foundation  
  
Status of Trustees' Strategy Review

24 February 2011

## INTRODUCTION

The Institute's Accounting Standards Committee has considered the above consultation and I am pleased to forward its comments to the IFRS Foundation.

The Institute is the first incorporated professional accountancy body in the world. The Institute's Charter requires the Accounting Standards Committee to act primarily in the public interest, and our responses to consultations are therefore intended to place the general public interest first. Our Charter also requires us to represent our members' views and protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Our responses to the questions in the consultation are set out below.

### Questions

**Mission: How should the organisation best define the public interest to which it is committed?**

#### Question 1:

The current Constitution states, "These standards [IFRSs] should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions." Should this objective be subject to revision?

#### Response:

We agree with the objective as stated above. The focus on transparency is crucial, but this is not currently mirrored in the IASB's conceptual framework, which does not include a reference to transparency in the main text (it is only referred to in the basis for conclusions). We believe that the conceptual framework should be amended in order to highlight the importance of transparency, and to ensure consistency with the Constitution. Additionally, as we have previously stated in response to earlier consultations on the Constitution, we believe that the objective should include a reference to a principles-based approach to standard-setting. This could be incorporated into the first part of the objective which precedes the sentence reproduced above, i.e. '...a single set of high quality, *principles-based*, understandable, enforceable and globally accepted financial reporting standards.'

#### Question 2:

The financial crisis has raised questions among policymakers and other stakeholders regarding the interaction between financial reporting standards and other public policy concerns, particularly financial stability requirements. To what extent can and should the two perspectives be reconciled?

#### Response:

We agree with the primary objective of financial reporting as stated in the Constitution i.e. to provide transparent and comparable information. Transparent financial information serves all users and is a key element in the achievement of financial stability. Transparency and financial stability are however separate objectives and we strongly believe that financial reporting should not be distorted in order to achieve a financial stability objective. Financial stability is the responsibility of prudential regulators who rely on transparent financial information to help ensure the safety of financial institutions. It is imperative that financial reporting's primary objective is transparency and that this is not altered to reflect concerns about financial stability.

**Governance: how should the organisation best balance independence with accountability?**

**Question 3:**

The current governance of the IFRS Foundation is organised into three major tiers: the Monitoring Board, IFRS Foundation Trustees, and the IASB (and IFRS Foundation Secretariat). Does this three-tier structure remain appropriate?

**Response:**

We believe the three-tier structure remains appropriate.

**Question 4:**

Some stakeholders have raised concerns about the lack of formal political endorsement of the Monitoring Board arrangement and about continued insufficient public accountability associated with a private-sector Trustee body being the primary governance body. Are further steps required to bolster the legitimacy of the governance arrangements (including in the areas of representation of and linkages to public authorities)?

**Response:**

We do not share the concerns about the lack of formal political endorsement of the Monitoring Board arrangement. In order to achieve the objective of high quality financial reporting standards capable of global application, the standard-setting process must be truly independent and free of any undue influence from one particular source, political or otherwise.

**Process: how should the organisation best ensure that its standards are high quality, meet the requirements of a well functioning capital market and are implemented consistently across the world?**

**Question 5:**

Is the standard-setting process currently in place structured in such a way to ensure the quality of the standards and appropriate priorities for the IASB work programme?

**Response:**

We believe that significant improvements have been made over the years to the standard-setting process. However there are still some elements of due process that give us cause for concern. These are:

- **Agenda-setting:** as we have stated in previous responses, we would prefer to see greater public consultation on which items are included on the IASB's agenda. We believe that deciding which topics to address and the timing of this are key elements of the standard-setting process. The agenda-setting process should also include background and explanation of the scope and extent of agenda items to avoid confusion over what is covered by a specific topic.

- Discussion papers: we have previously expressed the view that many discussion papers are more like an early exposure draft in that they have a narrow focus on one proposed approach with alternative approaches given only a cursory examination. We would prefer shorter discussion papers which seek views on a range of different options. Connected to this issue is the IASB's lack of responsiveness to negative comments received in relation to exposure drafts and discussion papers. Such responses are often dismissed on the basis that no new arguments have been raised, however we believe that where there is significant opposition to a proposed approach, this should prompt a re-evaluation of the issue by the Board from first principles.

**Question 6:**

Will the IASB need to pay greater attention to issues related to the consistent application and implementation issues as the standards are adopted and implemented on a global basis?

**Response:**

The IASB is not responsible for the implementation of its standards, but it will need to liaise with the national regulators who are responsible for enforcement, and be able to respond to significant implementation issues identified by them.

**Financing: how should the organisation best ensure forms of financing that permit it to operate effectively and efficiently?**

**Question 7:**

Is there a way, possibly as part of a governance reform, to ensure more automaticity of financing?

**Response:**

We have no comments on this issue.

**Other issues**

**Question 8:**

Are there any other issues that the Trustees should consider?

**Response:**

We believe that the June 2011 deadline for the completion of the major projects on financial instruments, leases, revenue recognition and insurance contracts is no longer relevant. The focus should be on ensuring that these projects are completed to a high standard rather than on completing them within this specified deadline. We also support calls for a period of calm to allow time for the implementation of standards. During this period, we would urge the IASB to ensure that the conceptual framework project is completed to the highest possible standard. The conceptual framework sets out the principles that guide the development and implementation of the other standards, therefore it is fundamental to the quality of IFRS.