



# ICGN

International Corporate Governance Network

By email: [strategyreview-comm@ifrs.org](mailto:strategyreview-comm@ifrs.org)

Trustees  
IFRS Foundation  
30 Cannon Street  
London EC4M 6XH  
UK

21 February 2011

**Re: Consultation input on the strategy of the IFRS Foundation**

Dear Chairman of the Trustees Executive Committee,

We are writing on behalf of the International Corporate Governance Network (ICGN). The ICGN is a global membership organisation of institutional and private investors, corporations and advisors from 50 countries. Our investor members are responsible for global assets of U.S.\$12 trillion.

The ICGN's mission is to raise standards of corporate governance worldwide. In doing so, the ICGN encourages cross-border dialogue at conferences and influences corporate governance public policy through ICGN Committees. We promote best practice guidance, encourage leadership development and keep our members informed on emerging issues in corporate governance through publications and the ICGN website. Information about the ICGN, its members, and its activities is available on our website: [www.icgn.org](http://www.icgn.org).

The purpose of the Accounting and Auditing Practices Committee (A&A Practices Committee) is to address and comment on accounting and auditing practices from an international investor and shareowner perspective. The Committee through collective comment and engagement strives to ensure the quality and integrity of financial reporting around the world.  
[http://www.icgn.org/policy\\_committees/accounting-and-auditing-practices-committee/](http://www.icgn.org/policy_committees/accounting-and-auditing-practices-committee/)

Thank you for the opportunity to comment on the Trustees' Strategy Review.

The ICGN wishes to express our support for the Trustees' comprehensive review of the organisation's strategy and we are pleased to provide comments on the specific issues you have raised. In particular we endorse the fact that the Trustees are consulting stakeholders at an early stage of their deliberations. Before commenting on the issues raised, and more generally, we would like to express our continuing commitment to the concept of a single set of independently developed, high quality international accounting standards, which serve the needs of investors and other users of financial information.

Further the ICGN recognizes and agrees with the challenges and sources of tension facing the organisation as outlined in the consultation document. They are important and demand extensive stakeholder consideration and debate. We would consider the time frame for the strategy review is appropriate. However, in the interim and beyond the March 2011 deadline, the ICGN recommends constant vigilance and

consideration of emerging consequences of the recent global financial crisis and issues that may arise during the convergence project with the US Financial Accounting Standards Board (FASB). These are likely to affect the IFRS Foundation's strategy.

The ICGN notes that in parallel with this review of strategy, the Monitoring Board *"is engaging in a review of its own governance arrangements"*, which *"may need to evolve further"*. We would respectfully suggest that both reviews are related and likely to affect one another. They should be undertaken in parallel to ensure a coherent outcome.

Further and in particular, the ICGN requests that any review of the Monitoring Board's governance take into account the current lack of investor representation within the Monitoring Board. Any steps to amend the Monitoring Board's current role need to address the issue of true representation of the ultimate stakeholders, i.e. investors. True accountability goes beyond the interests of regulators only. The interests of regulators do not necessarily coincide with those of investors. A balanced approach requires a balanced constitution.

### **Areas of specific comment**

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

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."* The ICGN supports the continuance of this mission and the commitment to provide relevant information for efficient and effective decision-making, especially by investors and users but would appreciate more of a focus on current shareholders. In addition, to further support this mission, perhaps the Conceptual Framework could be amended to give greater specificity about information that may be useful to investors, such as forward looking information, non-financial information and information on risks, in addition to the core set of financial information.

The ICGN is aware of the public policy issues that have arisen during the financial crisis, particularly in relation to financial stability and prudential requirements where discussions have ensued with regard to accounting standards and claims of pro-cyclicality and contributions to market volatility.

We appreciate the difficulty in ensuring that public policies are aligned and there are likely to be conflicts in the future. Nevertheless, the ICGN believes that a clear distinction needs to be made between the financial reporting requirements of listed companies in the markets and the prudential requirements of financial institutions, especially those relating to capital adequacy and solvency.

Therefore, the ICGN would affirm that accounting standard setters should continue to adhere to the current focus for their standards, that being meeting the needs of investors and users of financial information. Such information will inform an investor's decision to buy, sell or hold shares and help them to fulfil their responsibilities as owners. Accounting standards and regulations should ensure that the performance of the business is fully reported to the market.

‘Financial stability’, an elusive concept that still lacks definition, would be a poor guide for accounting standards-setting. Financial stability issues may be taken into account in the standard setting process but should not be an objective of the standards or the standard setting process.

If circumstances so arise, prudential regulators might have an interest in delaying the disclosure of (unwelcome) information. This is a potential conflict of interest. ICGN suggests that standard setters and regulators attempt to minimize these areas of conflict through consultation with stakeholders, which should include investors and regulators. However, the ICGN firmly believes that the respective responsibilities of accounting standard-setters on the one hand and prudential supervisors (and prudential capital rule makers) on the other hand should remain distinct. Where regulatory (capital, solvency) requirements are material, the effects must of course be disclosed in financial reports.

In summary, we believe that the public interest is properly served through providing high quality financial reporting to investors as per the formulation already contained in the Constitution.

## **2. Governance – How should the organisation best balance independence with accountability?**

The ICGN considers the current three-tier governance structure of the IFRS Foundation (the Monitoring Board, the IFRS Foundation Trustees and the IASB) is appropriate as it separates the oversight and funding issues from the technical role of the standard setter. The ICGN is concerned about the prospect of Monitoring Board intervention in the day-to-day operations of the IASB.

The ICGN seeks an independent and accountable accounting standard setter that produces internationally accepted high quality standards. Further, the ICGN understands the need for public oversight and monitoring of both the IFRS Foundation and of the IASB. However the ICGN believes it is important that the IASB’s technical independence is retained and that such independent operations of the standard setter remain free from political and/or business lobbying outside the normal consultative processes.

To support this independence, the ICGN considers the IASB should be able to access sustainable funding adequate for its work plans (see also section 4 of this paper related to ‘Financing’).

Further the ICGN considers it important that IASB members should be chosen on merit, based on appropriate skills and competences, and not be representative of any government or group (including professional firms and groups).

The ICGN also emphasizes that the IASB must follow a transparent due process in setting standards and that the process should remain inclusive and consultative. This process is currently well documented in the IASB’s policies and procedures. Further the ICGN endorses recent efforts by the IASB to work with the IFRS Advisory Council in this respect and to reflect carefully on the views expressed in the Council.

In considering the role of the Monitoring Board, the ICGN recognizes the need for public accountability of the entire IFRS Foundation governance structure, led by the Monitoring Board. The questions are whom should the Monitoring Board be representing and for what?

The ICGN suggests the Monitoring Board should represent the constituents in whose interests the standards are developed, investors and users of financial information, together with the jurisdictions that have a stake in high quality IFRSs, including those which adopted them for domestic issuers. Furthermore, the Monitoring Board should make itself accountable to a wide range of investor groups and representatives of the public at large. Such accountability may take the form of an annual public consultation on the IFRS Foundation's strategy and its performance. In any event, all major stakeholders should be consulted on changes to governance and governance structures.

The ICGN believes the Monitoring Board should have clear and separate responsibilities from the IFRS Foundation Trustees and from the IASB.

**3. 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?**

Many improvements have been made to the consultative process recently. The ICGN is encouraged to see that the IFRS Foundation and the Trustees take seriously the need to consult stakeholders and to respond to user concerns.

Therefore, the ICGN welcomes the suggestion of a public consultation on the IFRS Foundation Strategy and its work plans, to be held at least once in every three years or more frequently as the work load may require.

The IASB needs to allow adequate time for consultation and should include consideration of the time required for stakeholder's internal consultation on responses. Further, the IASB's time frames should be cognisant of the magnitude of the task: the bigger the topic or greater the impact of proposed changes to a standard, the longer would be required in consultation times. For example, the current projects on leases and revenue would be expected to lead to longer consultation periods in the normal course of events.

In a similar and related vein, the ICGN would encourage the IASB to be realistic in its agenda and work program, as the program may become too burdensome to the IASB and to those interested in participating in the consultative process. This may result in ill-considered standards.

Investors seek a single set of internationally accepted accounting standards, leading to quality, relevant, reliable, timely and comparable financial information and reports. The ICGN believes this goal is diminished if there is inconsistent application across jurisdictions.

Therefore, the ICGN encourages the IFRS Foundation and its Trustees to develop and leverage regional mechanisms to ensure consistent adoption and application of IFRS standards. In our view, sustainable commitment by jurisdictions around the world is served by introducing satellite offices in key jurisdictions (having already adopted or in the process of adopting IFRS) allowing for more efficient and faster harmonisation and adoption of IFRS in line with the international character of IASB and free from any geographic domination.

**4. Financing – How should the organisation best ensure forms of financing that permit it to operate effectively and efficiently?**

We are of the view that independence of the standard setter, free from political and business interference in its processes, is important and does contribute

to high quality standards. Sufficient sustainable and secure funding plays an important role in the independence of the IASB.

In our view, funding should be sourced broadly from jurisdictions applying, endorsing, substantially converging or planning to adopt IFRS. We believe the basis of funding for IFRS Foundation activities could be weighted by the size of the GDP of user and potential user countries. However, the ICGN wishes to emphasize that it is important that sources of funds are not seen to be an avenue for influence and do not lead to a capacity to influence.

If you would like to discuss any of these points, please do not hesitate to contact Carl Rosén, our Executive Director, at +44 (0)207 612 7098 or [carl.rosen@icgn.org](mailto:carl.rosen@icgn.org). Thank you for your attention and we look forward to your response on the points above.

Yours sincerely,



Lou Moret  
Co-Chair, ICGN Accounting and  
Auditing Practices Committee



Elizabeth Murrall  
Co-Chair, ICGN Accounting and  
Auditing Practices Committee

Cc: ICGN Board Members  
ICGN A&A Practices Committee