

## **IFRS FOUNDATION TRUSTEES**

### **STRATEGY REVIEW CONSULTATION**

#### **CBI RESPONSE**

**FEBRUARY 2011**

#### **I INTRODUCTION**

1. The Confederation of British Industry (CBI) is pleased to respond to the Trustees' consultation on its Strategy Review.
2. The review is timely and appropriate as 2011 will mark a major transition in the development of financial reporting for European capital markets. This year will see a new Chairman and a new position Deputy Chairman of the IASB, whose appointments we welcome. This year will also mark the end of the IASB's accelerated programme to make IFRS ready for possible adoption by the US, and the end of the present Memorandum of Understanding between the IASB and the FASB. These events will provide a rare opportunity for re-setting the strategy for developing IFRS for several years to come.
3. The last 10 years have seen a complete change of landscape in the relevance and application of IFRS since their adoption by the European Union and subsequently by many other countries and regions around the world. However, as far as the IFRS Standards themselves are concerned, the benefits in terms of more decision-useful information for investors and the benefits for European capital markets participants has been somewhat disappointing, partly due to concentration on the convergence process with the US.
4. The pressures imposed by the financial crisis and the convergence programme and the 2011 deadline have caused concerns that the proposed Standards are being rushed through without adequate time for consultation and field testing. Great pressure has also been placed on companies and other stakeholders in finding time and resources to digest, understand and respond to the many consultations, and make or plan for implementation arrangements.
5. Whilst we still support convergence as the ultimate aim, we do not see closer convergence as a priority, if it will result in negative consequences for the quality of standards and their appropriateness for European capital market needs. However, we have very much welcomed the SEC relief for foreign companies listed in the US from the need to reconcile IFRS accounts to US GAAP.



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6. Going forward with the very wide adoption of IFRS around the world, the work of the IASB should reflect that fact, and the focus of the IASB should be on developing high-quality standards to help capital market participants make economic decisions.

7. Support for the IASB and IFRS must be set firmly in the context of the fundamental aims of standard setting : the development of accounting standards that are high quality and neutral, and that provide for transparent and comparable financial statements that improve shareholder and investor confidence in the reliability of published information. They should only be issued by an independent standard setter with an appropriate mandate and level of technical expertise, following transparent due process and making decisions solely in the public interest, and more specifically to protect the interests of shareholders and investors. In contrast, whilst prudential regulators may use general purpose financial reports and their integrity is important to financial stability and economic growth, such reports are not primarily prepared in order to address the needs of regulators, who have other tools at their disposal.

8. The importance of achieving and enhancing an appropriate and widely-respected governance structure for the IFRS Foundation and the IASB is fundamental to meeting these objectives, and as the IASB increasingly assumes a global role of profound economic significance.

9. We therefore welcome the Trustees' consultation, and that more recently launched by the Monitoring Board. It would have been helpful if the two consultations had been better coordinated. Whilst we support the tripartite structure in principle, there may be a need for the respective roles of the Trustees and the Monitoring Board to be clarified, and more time needed to assess the overall effectiveness of the structure, and its operation in practice. To date, everyone has been too consumed in addressing the impact and consequences of the financial crisis.

10. The Trustees' role should be a proactive one, acting on the Foundation's behalf to ensure support for the standard setting process amongst countries using or considering the adoption of IFRS, and as a conduit between the IASB board and the Monitoring Board and in relations with policy makers in IFRS jurisdictions and countries considering or planning to use IFRS.

11. In discharge of the public interest stewardship functions of the IFRS Foundation as a body it is therefore very important that there are regular reviews of strategy, governance and due process by the Trustees and the Monitoring Board, which is key to maintaining and enhancing the standing of the IASB as a global standard setter, and the effectiveness of the IFRS Foundation structure as a whole.

12. We comment further overleaf in response to the specific consultation questions.

## **II FURTHER COMMENTS IN RESPONSE TO CONSULTATION QUESTIONS**

### **MISSION**

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

**Q.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 ?**

We are broadly content with this wording. Consideration may need to be given to providing further emphasis in the Constitution in distinguishing between the needs of shareholders and investors to whom general purpose financial statements are addressed, and other users of accounts, such as regulatory bodies, which we discuss further below in response to Q.2.

Some also consider that preparers should also be regarded as a user. Currently preparers are not considered to be users of financial statements. And yet, reporting entities and management are in fact the main users of accounting information. Consequently, they are extremely well positioned to judge the quality of standards and assess whether they measure performance in a way that is useful for both management and analysts.

We support an IASB strategy that focuses on a capital-market-oriented, evidence-based, approach to standard setting.

**Q.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 ?**

As indicated, we support an IASB strategy that focuses on a capital market-oriented, evidence-based, approach to standard setting.

Regulators are an important stakeholder in the financial reporting process, but they often have a distinct focus, not necessarily aligned with the interests of shareholders and investors - the primary users of financial statements, along with preparers.

Regulators should have no particular influence over the determination of the detailed requirements of accounting standards for general purpose financial reporting.

Whilst the audited financial statements may be their initial point of reference, they generally have the power to obtain any extra information they need. Even where not, that does not mean that financial reporting should be regarded as a proxy for their requirements.

Financial stability, solvency requirements and prudential supervision should be delivered principally through regulatory regimes. If certain behaviour is to be discouraged or prohibited, then direct action by legislators or other regulatory bodies would generally be the most appropriate method in achieving this. Disclosure through the financial statements is unlikely to be effective, and could in fact obscure other important information.

In reference to the financial crisis, major problems arose over the application of fair value accounting and the requirements of IAS 39, causing the IASB ultimately to make an emergency change without full due process. Does some consideration need to be given for addressing how such an emergency situation should be handled in future, or is it accepted that the IASB must be able to act urgently to modify IFRS to address emergency situations, if necessary, and in expectation that such circumstances will be rare ?

## **GOVERNANCE**

**How should the organisation best balance independence with accountability?**

**Q.3. The current governance of the IFRS Foundation is organised into three major tiers: the Monitoring Board, the IFRS Foundation Trustees, and the IASB (and IFRS Foundation Secretariat). Does this three-tier structure remain appropriate?**

**Q.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) ?**

The IFRS Foundation's current governance structure, with the relatively recent addition of the Monitoring Board, should be maintained, at any rate for the time being, and provided that the current structure has the overarching support of its internal participants and member bodies.

Whilst there would appear to be the potential for ambiguity and over-lap between the roles of the Foundation and that of the Monitoring Board, nevertheless we regard the Monitoring Board as having a valuable role in improving the public accountability credentials of the IASB.

If necessary, there might be greater definition of the role of each element.

The membership of the Monitoring Board may also need to be expanded in order to broaden its representation.

The Monitoring Board should have a closely defined role of monitoring the operational and oversight activities of the Trustees, in addition to participating in the appointment of the IASB Chair and Deputy Chair as well as the Trustees.

We will comment further on these matters in response to the Monitoring Board's own consultation.

With regard to the IASB, if suitable candidates can be persuaded to offer their time and expertise, there should be improved representation by persons with preparer and investor experience on the IASB and Trustee bodies. Consideration should also be given to the appointment of part time board members to fill gaps in experience and expertise.

It is also important that there is public consultation on the IASB Agenda, now being introduced, and broad agreement on the Agenda by the major stakeholders and their representative bodies.

We would also like to see progress with the planned development of an updated Conceptual Framework, and which has also received the clear support of the major stakeholders before adoption. The Trustees could be more involved in the process of approving and finalizing the Framework.

## **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 ?**

**Q.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?**

As indicated above, we consider that convergence with US GAAP and IASB collaboration with the FASB have not generally led to better quality IFRS. The pressures imposed by the financial crisis and the convergence programme and the 2011 deadline have raised concerns that the proposed Standards are being rushed through without adequate time for consultation and field testing. Great pressure has also been placed on companies and other stakeholders in finding time and resources to digest, understand and respond to the many consultations, and make or plan for implementation arrangements.

Going forward, we believe that the IFRS Foundation should put the interests of its own constituents first, and to the overriding objective of setting robust, understandable and high quality standards.

We welcome the recent, significant improvements in due process arrangements and procedures, including developments in field testing, impact assessments, and outreach activities, and the plans for regular consultations on the IASB agenda and priorities, and more formal arrangements for post implementation reviews.

We also welcome the greater willingness of the IASB Board to re-deliberate proposals which attracted significant adverse comment. Where there is a widespread lack of support for proposals, this should be seen to result in a process of reflection, further field testing and engagement with concerned stakeholders.

The Board should be willing to re-expose new requirements wherever significant changes are made to the original proposals, and to expose IASB agenda priorities, and the scope and key elements of the Board's work programme, to periodic public consultation.

**Q.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?**

We agree that consistent global application of accounting standards is an issue of some concern and that the preferred outcome is to achieve consistent global reporting through the international adoption of IFRS. However, the responsibility for mandating the accounting standards and for enforcing compliance rests with the relevant jurisdictional authority.

Whilst the IFRS Foundation should certainly seek to engage with adopting jurisdictions, and should encourage the reporting of interpretation concerns, it would be both undesirable and impractical for the IFRS Foundation to undertake any kind of international enforcement activity.

In many respects, the desire for consistent application reinforces and evidences the importance of developing quality, principles-based, Standards. We also strongly support the plans for more formal post-implementation reviews, which will be particularly beneficial in assessing and reviewing the many important new Standards scheduled to be finalised and adopted during this year.

## **FINANCING**

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

**Q.7. Is there a way, possibly as part of a governance reform, to ensure more automaticity of financing ?**

A stable, fair and proportionate financing mechanism is crucial to the effective functioning of the IFRS Foundation bodies, and we support efforts to establish more formalized funding mechanisms. If such proposals are developed, they should be subject either to public consultation or support at any rate from the major stakeholders providing the funding.

In principle, all users should contribute as well as national standard setters and regulatory authorities. This will both demonstrate support for the IFRS Foundation from its wide range of stakeholders, as well as seeking to demonstrate and underpin its independence.

## **OTHER ISSUES**

**Q. 8. Are there any other issues that the Trustees should consider?**

1. Jurisdictions which have announced their intention to adopt IFRS should be involved within the IASB process to foster consistent application and implementation on a global basis.
2. On IASB board membership, although there must be a suitable geographic spread, membership should be determined by quality, skills, and balance, including significant experience of preparers and investors, rather than a strict quota system linked to geographic origin. Recruitment of part-time board members should also be considered to fill gaps in experience and background.
3. A comparative review of the structures and processes used for developing international accounting standards and international auditing standards, and the scope for coordinating or consolidating their arrangements and processes on public accountability.