

**Strategy Review Comment Letter Summary****Overview**

1. This paper summarizes the feedback received in response to the Foundation's public consultation paper *Status of Trustees' Strategy Review*, which was issued on 5 November 2010. This summary is based on a preliminary analysis of respondents' comment letters. A more detailed analysis of feedback will be presented at the Trustees' meeting at the end of March.
2. The comment period for the paper was initially proposed as 31 December 2010 but was extended to 24 February to ensure stakeholders were given an opportunity to contribute to the review. The Foundation received 92 letters from organizations as listed in the appendix to this document.
3. The Trustees requested comment on the questions on the following areas:

<b>Area</b>	<b>Question</b>	<b>See page</b>
Mission	How should the organisation best define the public interest to which it is committed?	2
Governance	How should the organisation best balance independence with accountability?	4
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?	7
Financing	How should the organisation best ensure forms of financing that permit it to operate effectively and efficiently?	10
Other	Any other issues	12

## **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?***

4. Respondents broadly supported the Foundation's current mission statement, which focuses on decision-relevant information for investors and other users of financial information.
5. Although it was felt that significant revision was not required, several respondents suggested that the Trustees should consider aligning the Foundation's mission with the objective of general purpose financing reporting that is expressed in the IASB's Conceptual Framework. This is a matter that at the Tokyo meeting, the Trustees themselves agreed would be wise.
6. Some respondents suggested that the Constitution should clearly explain the meaning of the 'public interest'. The widely held view among respondents was that the public interest is to have well-functioning and orderly capital markets. There was the perception that accounting standards which serve other objectives are contrary to public interest as they could undermine the focus of supporting the effective functioning of capital markets.
7. However some respondents, especially those from non-governmental organizations (NGOs), were concerned that the meaning of 'public interest' was being interpreted too narrowly. They suggested that for the organization to act in the public interest, the Trustees and the IASB should also consider the needs of NGOs, the public sector and other significant capital market participants as other legitimate users of financial information.
8. Some suggested that the Constitution should also emphasize the role of stewardship in financial reporting.

**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?**

9. The predominant view of respondents was that, although high quality accounting standards contribute to financial stability, the main objective of developing accounting standards is not to promote financial stability.
10. On the other hand, a small minority of respondents felt that the role of the Foundation should include developing standards that contribute to the achievement of public policy objectives. Those objectives include financial stability and facilitating greater transparency in the reporting of information that is particularly relevant to other users of financial reports (eg NGOs interested in payments that companies make to governments).
11. Where financial stability was not seen to be the primary role of IASB, there was some acknowledgement that the IASB should cooperate with regulators and government agencies to the extent that it is reasonable to do so within its mission. Those respondents suggested that the extent to which accounting standards may have financial stability implications could be taken into account during the standard setting process. However, where prudential regulator and investor needs were incompatible, investor needs should take precedence. It was generally held that regulators and bodies having overall responsibility for financial stability have distinct objectives and also have the authority and other means available to them for pursuing their objectives.
12. Recommended mechanisms included: (i) Closer engagement with IASB and regulators should be carried out on a more structured basis (ii) As part of due process, where proposals have financial stability implications that regulators are included in consultation process.

## **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?***

13. In commenting on the broader question of governance, respondents generally supported a structure that promotes the independence of the accounting standard setting function. In addition, many viewed independence and accountability as complementary concepts and felt that there was no need to balance or offset them. [Accountability is seen as being essential to the preservation of independence, and is the mechanism which gives stakeholders confidence that the roles are being fulfilled.]
14. There was broad support among respondents for retaining current structure but within that structure more clarity of roles and responsibilities is required, particularly with regard to the Trustees and Monitoring Board.
15. Among the recommendations for improvement:
  - (i) The Trustees to have a more visible role in governance and oversight of the IFRS Foundation, and ambassadorial role with existing and potential IFRS jurisdictions as to the adoption of IFRS. Some respondents noted that, although they were not advocating a detailed involvement by Trustees in the IASB's agenda-setting process, the Trustees needed to be more involved in oversight of the process.
  - (ii) The Monitoring Board to represent a more diverse population of stakeholders including capital market supervisors, other bodies that are responsible for the enforcement of standards and other international institutions. Some respondents called for the inclusion of more members from smaller and emerging markets applying IFRS. One respondent commented that although the Chairman of the IOSCO Emerging Markets Committee is a member of the Monitoring Board, that person does not have the authority to represent the public interest of the major emerging economies.
  - (iii) The Monitoring Board to have a closely defined role of monitoring the oversight activities of the Trustees in addition to participating in appointment of Trustees.

Some respondents felt that a more transparent selection process for the Trustees as well as Board members should be enacted

16. Several respondents chose not to comment in detail on this question but noted that substantive comments would be provided to the Monitoring Board's governance review.

**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?)**

17. There were two main views were expressed in response to this question:

- (i) There is no need to consider additional measures such as asking for formal political endorsement. This is because the legitimacy of the Foundation and its activities is determined by whether its governance arrangements reflect the principles of transparency, accountability and democratic processes.
- (ii) The governance arrangements replicates to some degree the national arrangements, whereby the accounting setter is overseen by the securities regulator or equivalent and the latter is in turn subject to oversight by executive government and/or the legislature. However, on an international basis the Monitoring Board is largely self-governing and as a collective it is not accountable to any organization or body. Some respondents held the view that there should therefore be formal political endorsement of the Board. One means of achieving this would be to enter dialogue with the Financial Stability Board with a view to securing an explicit mandate for the Monitoring Board.

**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?***

18. Many respondents noted that IFRSs are developed through a comprehensive due process but that further improvements are required. They welcomed a number of recent initiatives such as periodic consultation on the work program, and enhanced outreach efforts.
19. Areas where it was felt that further improvements could be made to the standard-setting process included:
  - (i) Consultation – stakeholders need to be given sufficient time to respond to invitations to comment in order to give considered responses. The timeframes available for preparing comments can be effectively curtailed because some jurisdictions conduct their own consultation processes on the proposals and because of delays in translating those proposals. Timeframes for comment should also be cognizant of the magnitude of the project.
  - (ii) IASB effect analysis – respondents called for the systematic use of impact assessments at earlier stage in the process. Several respondents suggested that consideration should be given to standardising Regulatory Impact Assessments (RIAs) when developing new or revised standards to remove the duplication of effort required to produce national RIAs. The OECD could assist as an authority in this field.
  - (iii) Enhanced, robust field-testing of proposals with constituents to ensure that those proposals are understandable and operable.
  - (iv) Several responses noted the IASB’s commitment to publicly consult on its work program on a periodic basis beginning this year. Some suggested that the Board should be consulting on its work program every year or every two years. There was agreement that structured regular processes for work program / agenda development were important and that there was a need for more transparency on final agenda eg. feedback statements.

- (v) Planned program of post implementation reviews of recently issued IFRS to assess whether objectives met (including implementation) and whether revision is necessary.
20. There was also brief discussion of a rapid response system to provide the mandate to override normal due process protocol in favour of modified/truncated processes when such action is necessitated and subject to approval and review at later date. Some respondents were supportive, while others were not supportive due to possibility of abuse.



**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?**

21. Many respondents held the opinion that although consistent implementation and application of IFRSs were increasingly crucial issues, the IASB could not unilaterally enforce how IFRSs are used because it has neither the mandate nor the resources to do so.
22. However it was recognized that there were several actions that could be taken in support of adoption and implementation on a global basis.
23. Several responses recognized the value of information exchange with the appropriate authorities and mechanisms such as a forum of regulators and IASB to discuss matters of application and implementation or via the IFRS Interpretation Committee.
24. Respondents also identified maintaining high quality standards that are clearly communicated principles and provide sufficient guidance while minimizing exceptions and alternative treatments as an important step. Standards should also be auditable.
25. Another common proposal was ensuring that interpretative infrastructure is maintained and enhanced including examining the role of the IFRS Interpretation Committee in this regard.
26. It was also felt that establishment of a post-implementation process could address consistency and implementation issues
27. Other mechanisms through which adoption and implementation could be promoted included:
  - (i) Enhancing coordination with the International Auditing Assurance Standards Board
  - (ii) Consider training and implementation guidance available and coordinate with other providers as required.
  - (iii) One response noted the IFRS Education initiative reinforces the goal of promoting adoption and consistent application and the usefulness of the annual 'Guide through IFRS' for preparers, auditors and other users.

## **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?***

28. Most respondents agreed that a stable, diversified and automatic funding model was required to provide sufficient funding for the organisation to carry out its objectives while preserving independence. It was noted that voluntary forms of financing and donations were not ideal sources of funding particularly as potential conflicts of interest and opportunities for outside/political influence on agenda could arise.
29. Many respondents stated that jurisdictions using or in the process of moving to IFRS had a responsibility for developing/providing stable funding for the IFRS.
30. There were two common methods of financing proposed:
  - (i) Several responses put forward the view that funding should be obtained from jurisdictions with reference to some appropriate criteria. For example, proportional to their GDP, share of market capitalisation, or by G20 membership. However, it was recognised that this approach could prove problematic in the short-term. A few of the responses were also of the view that local capital market supervisors should be responsible for determining how best to raise the funding requirement allocated to them.
  - (ii) Many respondents supported a direct levy on investors (as the primary beneficiaries of IFRS) either as a fee on market transactions or as annual fee collected by the capital market exchange or regulators and passed to the Foundation. One way of doing this was to work through IOSCO. In jurisdictions where a levy was not practical, the Foundation should work to establish a suitable arrangement with the individual jurisdiction.
31. Another alternative was to consider a combination of both methods.
32. Several respondents mentioned that the standards themselves are freely available, although revenues from sales of publications and related products and services (eg. education) might be considered as another source.
33. One respondent also noted the Foundation should recognise non-cash contributions such as staff secondments and translation services and seek to increase these.

34. There was the suggestion that the current cost structure should be also be reviewed to identify possible cost savings and whether certain activities (such as post implementation reviews, effect studies and outreach) could be outsourced to national bodies and other organisations.

## **Other issues**

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

35. Many respondents noted that the Trustee review was concurrent with independent review of IFRS governance undertaken by Monitoring Board and sought clarity on how the reviews would be coordinated and steps that would be taken to ensure consistency in conclusions.
36. The timing of the review was also questioned by several respondents given that the SEC decision on IFRS adoption is due in 2011 and it was suggested that conclusions should either be deferred or revisited once the outcome is known.
37. Many respondents acknowledged the full agenda of the IASB and the dominance of convergence until 2011. However, there was an appeal for a period of stability in the agenda after this point and shift in focus to providing high quality standards meeting the needs of jurisdictions that apply IFRS and the long term improvement of financial reporting.
38. There was also recognition that development and consultation on the post 2011 agenda was of crucial importance to the organisation.

## Appendix

**The following is a list of the organisations that have responded.**

ACCA (Association of Chartered Certified Accountants)

AFEP

AFME (the Association for Financial Markets in Europe)

AICPA

AICPA

Asian Oceanian Standard-setters Group (AOSSG)

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Association of British Insurers

Australian Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)

Australian Institute of Company Directors

Australian Joint Accounting Bodies

Australian Joint Accounting Bodies

Australian Joint Accounting Bodies

Autorite Des Normes Comptables (ANC)

Basel Committee on Banking Supervision

BDO IFR Advisory Ltd

British Industry (CBI)

CAFOD

Canadian Accounting Standards Board

Canadian Accounting Standards Oversight Council (AcSOC) and Accounting Standards Board (AcSB)

Canadian Accounting Standards Oversight Council (AcSOC) and Accounting Standards Board (AcSB)

CESR

CFA Society

CFA Society

Christian Aid

Corporate Reporting Users' Forum (CRUF)

Council of Institutional Investors

Deloitte Touche Tohmatsu Limited

Dutch Accounting Standards Board (DASB)

EFRAG

Ernst & Young

European Banking Authority

European Commission

Financial Accounting Foundation (FAF)

Financial Accounting Foundation (FAF)

Financial Accounting Standards Foundation (FASF) of Japan

Financial Executives International (FEI)

Financial Reporting Council

Financial Reporting Council (FRC)

Financial Reporting Standards Committee of the European Accounting Association

Foreningen af Statsautoriserede Revisorer

Foreningen af Statsautoriserede Revisorer

French Banking Federation (FBF)

Grant Thornton International Ltd  
Hermes Equity Ownership Services  
Hong Kong Institute of Certified Public Accountants  
IAAER  
IAAER  
IAAER  
ICAEW  
III Working Group on IFRS impact and Central Balance Sheet Data Offices Databases  
Institut der Wirtschaftsprufer (IDW)  
Institut der Wirtschaftsprufer (IDW)  
International Corporate Governance Network (ICGN)  
International Corporate Governance Network (ICGN).  
International Organization of Securities Commissions  
Investment Management Association (IMA)  
Japanese Institute of Certified Public Accountants (JICPA)  
Korea Accounting Standards Board  
KPMG  
Life Insurance Association of Japan  
Malaysian Accounting Standards Board (MASB)  
Mazars  
MEDEF/ACTEO  
MEDEF/ACTEO  
Ministry of Finance (MOF), People's Republic of China, and China Accounting Standards Committee (CASC)  
Ministry of Finance, Singapore  
New Zealand Accounting Standards Review Board  
Nippon Keidanren  
Norwegian Accounting Standards Board (Norsk RegnskapsStiftelse)  
PricewaterhouseCoopers  
Province of British Columbia  
Publish What You Pay  
Rakesh Choudhary & Associates  
Revenue Watch Institute  
Roche Group  
Securities Analysts Association of Japan (SAAJ)  
South African Institute of Chartered Accountants (SAICA)  
Swedish Enterprise Accounting Group (SEAG)  
Syngenta  
Tax Justice Network  
Tax Research LLP  
The Belgian Accounting Standards Board (BASB)  
The Institute of Chartered Accountants of Scotland  
The International Federation of Accountants (IFAC)  
The Singapore Accounting Standards Council (ASC)  
The Stock Exchange of Hong Kong Limited  
The World Bank  
Waseda University