

OBSERVER NOTE

IFRS FOUNDATION TRUSTEES
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AGENDA PAPER 6A

Trustees Roundtable on the Strategy Review

Hong Kong 8 June 2010

This note highlights the key themes raised at the Hong Kong round table session on the Trustees' strategy review.

Round table participants were supportive of the thrust of the Trustees review. Many noted that the review was timely and welcomed the extent of outreach and engagement with stakeholders.

In this context, participants highlighted the following issues:

- **Purpose of financial reporting standards:** Standards must be reliable, understandable and meet the needs of investors and other stakeholders.
- **Emphasis on due process:** The proposals on due process were welcomed. Many strongly supported the operation of due process throughout the standard-setting process, not simply at the time of issuing a standard.
- **Outreach and pace of change:** Some noted that the pace of change, towards convergence, is putting increasing pressure on stakeholders and does not give sufficient time for stakeholder comment, which is impacting on quality. It is essential to allow more time for comment and implementation to ensure consistency of application.
- **Transparency of standard-setting process:** Many participants noted that the transparency of the standard-setting process would ensure integrity of the standards.
- **The Role of the IFRS Interpretations Committee (IFRIC):** It was noted that the Trustees need to address the perceived ineffectiveness of IFRIC.

Mission:

Purpose and Scope of Financial Reporting Standards

There was strong support for the mission of the Foundation, as currently drafted. Almost all participants emphasised that it is correct that the primary purpose of accounting standards is to provide information to investors to assist them in their resource allocation decisions. Efforts should be made to listen to the informed investors' voice when setting standards.

Specific comments on the detail included:

- **Alignment of the mission and the conceptual framework:** Similar to the Tokyo roundtable, some participants expressed the view that the conceptual framework needs to be included in the Mission of the Foundation as a core principle.
- **SMEs and publicly listed companies:** One participant said that the mission should not include any reference to SMEs or publicly listed companies. These bodies should be secondary to the needs and interests of investors.

- **Definition of “public interest”:** There should be a positive dialogue to better understand stakeholders’ expectations of what is meant by “public interest” and once completed there should be a clear definition of the term.
- **Stewardship:** Similar to the views expressed during the constitutional review, a number of participants noted that stewardship should be included in the constitution as a mission of the Foundation.

Adoption of IFRSs

- **Adoption v Convergence:** A number of participants said that adoption is supported, but convergence is sometimes the route chosen to eventually achieve adoption. This needs to be better understood. Research should be carried out to determine jurisdiction specific issues.

Consistency of application and implementation

- **Co-operation with other bodies:** A number of participants noted that co-operation and current networking should be fostered with IOSCO, the Financial Stability Board, Basel Committee, regulators, national standard-setters etc. This would highlight individual jurisdictional concerns and would aid the consistent application of IFRSs around the world. Furthermore, such co-operation would ensure that there would be greater consistency in the materials and papers issued by the various bodies. Co-operation and links with investor bodies and stakeholders should be included in the mission of the Foundation.
- **Translation and Education:** Some participants said that translations and educational materials are essential so that stakeholders who do not speak English as their first language can apply IFRSs consistently the world over.

Governance:

Independent and publically accountable

There was strong support for the three-tier structure of the organisation. Within this, almost all participants said that the IASB must remain independent. However, almost all participants supported the need for improved stakeholder engagement, due process compliance and feedback.

One presenter noted that the Monitoring Board (MB) should have more oversight functions, but the participants were clear that the MB should not be responsible for overseeing the IASB. Commentators stated that the oversight of the IASB should be limited solely to the Trustees, who, in turn, should be accountable to the MB.

Specific comments on the detail included:

- **Clarification of respective roles of Trustees and Monitoring Board:** A number of participants noted that there is need for the respective roles of the Trustees and the MB to be clearly defined so as to remove any scope for confusion. A joint communication document should be issued which would specify the respective roles

and responsibilities of each of the two bodies. It would be helpful if this clarification could be made available on the Foundation's website as well.

One participant noted that the confusion arises from the MB's consultation document, which refers to the MB's role on funding and agenda setting, which is not, and should not be, a MB function.

- **Voting and Representation:** One participant noted that the voting threshold to pass a new standard should be higher than 60 per cent in favour, as it is at present.

There was general support for the principle of proportionate representation of IFRS adoption on the governance of the Foundation.

Processes:

There was unanimous support for the proposed improvements to the Foundation's due process. A number of participants recommended greater soft consultation early on and prior to the issue of an Exposure Draft (ED). This would ensure that the ED was reflective of stakeholders' views and there was a greater degree of support for proposals.

Specific comments on the detail included:

- **Additional staff resource:** A number of participants said that a separate staff resource should be put in place to support the due process work of the Trustees. This would reduce potential conflicts of interest in the future.
- **Stakeholder outreach and feedback:** Outreach on agenda setting, field-tests and other improvements to due process were welcomed. The need for transparency was emphasised. Stakeholders need to receive feedback so that the proposed changes are understood and accepted.
- **Agenda setting consultation:** Many participants noted that the agenda consultation process is important.
- **Cost-benefit and pace of change:** A number of participants noted that the current pace of change is too fast and there is growing fatigue amongst stakeholders. Stakeholders need to see the benefits of the changes to support them. There should be more time for consultation and to get used to the standards on a practical day-to-day level. The IASB needs to be aware of the difficulties stakeholders face in adaptation. Consequently post-implementation reviews must not introduce change for the sake of change. Changes should be limited significant matters, or to remove unintended consequences. It would be far better for standards to be carefully researched and field-tested so that they are robust enough to withstand the test of time.
- **Post-implementation reviews:** One participant said that the time gap of two years to carry out post-implementation reviews is too long and the focus should not be solely limited to new standards.
- **Substantive oversight:** The oversight function of the Foundation should be substantive. The Trustees should not just follow the processes and form without due consideration to the substance of what they are doing.
- **XBRL:** The role of XBRL should not be in a prominent position of the constitution. The structure of the XBRL taxonomy should not drive how standards are set or how stakeholders' structure financial reporting. Accordingly there should not be any link to XBRL in the due process considerations.

- **Research:** Many participants supported the Foundation's move to carrying out further research. However, one or two participants expressed concern that the research element should not get out of hand and should be limited and properly controlled. Co-operation with supporting bodies should be used to augment the research facilities of the Foundation.

Financing:

Ensuring financing that permits effective, efficient and independent operation

Most participants stressed that long term funding of the Foundation is essential to the viability of the organisation and the global adoption of IFRSs. Voluntary contributions should be minimised as much as possible in favour of long-term, compulsory, country-based contributions.

However, one participant noted that the proposed 3-5 year funding frame is too long. A year would be preferable because of the need to accommodate change.

- **Safeguards:** One participant said that necessary safeguards should be put in place to cover the eventuality that the Foundation does not obtain long-term, compulsory, country-based contributions.

Hong Kong round table session participants

Session 1 10h00 - 11h45

Present:

Robert Glauber	- Session Chairman and Joint Acting Chairman of the Board of Trustees
Marvin Cheung	- Trustee
Aki Fujinuma	- Joint Acting Chairman of the Board of Trustees
Jeffrey Lucy	- Trustee
Ian Mackintosh	- Vice Chairman Designate of the IASB
Tom Seidenstein	- Chief Operating Officer
Tamara Feldman	- Assistant Corporate Secretary

Participants:

Clement Chan	– HKICPA Chair
Winnie Cheung	– HKICPA
Colin Chau	– HK Exchanges and Clearing Ltd
Gianni Fiacco	– Manulife Financial
Charles Grieve	– Securities and Futures Commission
Paul Hebditch	– E & Y
Chris Joy	– HKCIPA
PM Kam	– Financial Reporting Council
Maurice Loo	– FSTB
John Leung	– Financial Services and Treasury Bureau
Katherine Leung	– HKICPA
Catherine Morley	– KPMG
Steve Ong	– HKICPA Director of Standing Setting and AOSSG
Neetasha Rauf	– Monitoring Board
Ambrose Wong	– HKICPA
Kelvin Wong	– HK Institute of Directors