

# IFRS Foundation Trustees' meeting

Thursday 13 October 2011

Agenda paper 6A

## THE TRUSTEES OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOUNDATION

### Analysis of the Responses received following the Second Public Consultation held between April and July 2011

#### *Strategy Review – “IFRSs as the Global Standard: Setting a Strategy for the Foundation’s Second Decade”*

#### 1. Introduction

This paper analyses the feedback received in response to the Foundation’s second public consultation paper entitled “*Report of the Trustees’ Strategy Review – IFRSs as the Global Standard: Setting a Strategy for the Foundation’s Second Decade*”, which was issued in April 2011, with a closing date of 25 July 2011. The first public consultation document was issued on 5 November 2010, entitled “*Status of Trustees’ Strategy Review*”, and that consultation closed on 24 February 2011.

The analysis in this paper also incorporates the main thrust of the respondents’ comments made during the series of roundtable meetings that were held in Tokyo, Hong Kong, London and New York during June 2011.

The Foundation received 74 letters from organisations as listed in the appendix to this document. The letters are summarised below by type of respondent and geographic region.

| Respondent Type            | No. of respondents | Percentage of respondents |
|----------------------------|--------------------|---------------------------|
| National Standard Setter   | 11                 | 15%                       |
| Professional Bodies        | 18                 | 24%                       |
| Individual                 | 1                  | 1%                        |
| Accounting Firm            | 6                  | 8%                        |
| User Association           | 8                  | 11%                       |
| Regulator                  | 8                  | 11%                       |
| National Oversight Body    | 5                  | 7%                        |
| International Organisation | 1                  | 1%                        |
| Preparer                   | 16                 | 22%                       |
| <b>Total</b>               | <b>74</b>          | <b>100%</b>               |

| <b>Respondent Type</b> | <b>No. of respondents</b> | <b>Percentage of respondents</b> |
|------------------------|---------------------------|----------------------------------|
| Europe                 | 39                        | 53%                              |
| North America          | 11                        | 15%                              |
| Asia                   | 14                        | 19%                              |
| Oceania                | 6                         | 8%                               |
| Asia/Oceania           | 1                         | 1%                               |
| Unknown                | 1                         | 1%                               |
| South America          | 0                         | 0%                               |
| Africa                 | 2                         | 3%                               |
| <b>Total</b>           | <b>74</b>                 | <b>100%</b>                      |

| <b>Europe</b> | <b>No. of respondents</b> | <b>Percentage of respondents</b> |
|---------------|---------------------------|----------------------------------|
| UK            | 19                        | 48.72%                           |
| France        | 5                         | 12.82%                           |
| Germany       | 2                         | 5.13%                            |
| Sweden        | 2                         | 5.13%                            |
| Belgium       | 6                         | 15.38%                           |
| Luxembourg    | 1                         | 2.56%                            |
| Switzerland   | 2                         | 5.13%                            |
| Spain         | 1                         | 2.56%                            |
| Italy         | 1                         | 2.56%                            |
| <b>Total</b>  | <b>39</b>                 | <b>100%</b>                      |

| <b>North America</b> | <b>No. of respondents</b> | <b>Percentage of respondents</b> |
|----------------------|---------------------------|----------------------------------|
| United States        | 6                         | 54.55%                           |
| Canada               | 5                         | 45.45%                           |
| <b>Total</b>         | <b>11</b>                 | <b>100%</b>                      |

| <b>Asia</b>  | <b>No. of respondents</b> | <b>Percentage of respondents</b> |
|--------------|---------------------------|----------------------------------|
| Hong Kong    | 3                         | 21.43%                           |
| Japan        | 4                         | 28.57%                           |
| China        | 2                         | 14.23%                           |
| Singapore    | 2                         | 14.23%                           |
| South Korea  | 1                         | 7.14%                            |
| Israel       | 1                         | 7.14%                            |
| Malaysia     | 1                         | 7.14%                            |
| <b>Total</b> | <b>14</b>                 | <b>100%</b>                      |

| <b>Oceania</b> | <b>No. of respondents</b> | <b>Percentage of respondents</b> |
|----------------|---------------------------|----------------------------------|
| Australia      | 5                         | 83.33%                           |
| New Zealand    | 1                         | 16.67%                           |
| <b>Total</b>   | <b>6</b>                  | <b>100%</b>                      |

| Africa       | No. of respondents | Percentage of respondents |
|--------------|--------------------|---------------------------|
| South Africa | 1                  | 50%                       |
| Nigeria      | 1                  | 50%                       |
| <b>Total</b> | <b>2</b>           | <b>100%</b>               |

The Trustees requested comments on the principles and recommendations in the following areas:

| No | Area  | Principles and Recommendations   | Page reference |
|----|---|--|----------------|
| A1 | <b>Mission: serving the public interest through financial reporting standards</b> | <p><b>Purpose of financial reporting standards and standard-setting activities:</b></p> <ul style="list-style-type: none"> <li>• To provide a faithful presentation of an entity's financial position and performance.</li> <li>• To serve investors and other market participants in their economic and resource allocation decisions.</li> </ul>   | <b>7</b>       |
| A2 | <b>Global adoption of IFRSs</b>   | <ul style="list-style-type: none"> <li>• The Foundation must remain committed to the long-term goal of the global adoption, in their entirety and without modification, of IFRSs as developed by the IASB.</li> <li>• Convergence is not a substitute for adoption.</li> <li>• Adoption should allow relevant entities to have an audit opinion stating full compliance with IFRSs as issued by the IASB.</li> </ul>                                       | <b>7</b>       |
| A3 | <b>Adoption of IFRSs</b>  | <ul style="list-style-type: none"> <li>• With cooperation from national and international market and audit regulators, the Foundation should seek full disclosure where adoption of IFRSs is incomplete or there is divergence from the full set of IFRSs as issued by the IASB.</li> <li>• The Foundation should seek a mechanism to highlight instances where jurisdictions are asserting compliance with IFRSs without adopting IFRSs fully.</li> </ul> | <b>7</b>       |
| A4 | <b>The scope of the IASB's work</b>   | <ul style="list-style-type: none"> <li>• In the near term, the primary focus of the Foundation and the IASB should remain on developing standards for private sector entities (publicly traded entities and SMEs).</li> <li>• Taking into account resources, the Foundation and the IASB will consider developing standards for other entities at a later date.</li> </ul>   | <b>8</b>       |
| A5 | <b>Consistent of Application of IFRSs</b>   | <p>In pursuing its mission, the Foundation has a vested interest in helping to ensure the consistent application of IFRSs internationally. The Foundation should pursue that objective in the following ways:</p> <ul style="list-style-type: none"> <li>• The IASB will issue clear, understandable and enforceable standards.</li> </ul>   | <b>8</b>       |

|           |  |   |          |
|-----------|--|---|----------|
|           |  | <ul style="list-style-type: none"> <li>• The IASB to provide application guidance and examples consistent with a principle-based approach to standard-setting.</li> <li>• The IASB will work with a network of securities regulators, audit regulators, standard-setters and other stakeholders to identify divergence in practice. Where divergence could be resolved through an improvement in the standard or an interpretation, the IASB or IFRS Interpretations Committee (IC) will act accordingly.</li> <li>• The Foundation through its education and content services should undertake activities aimed at promoting consistent application.</li> <li>• The IASB, in partnership with relevant authorities, will identify jurisdictions where IFRSs are being modified and encourage transparent reporting on such divergence.</li> <li>• The Foundation will seek the assistance of relevant public authorities to achieve this objective.</li> </ul> |          |
| <b>B1</b> | <b>Governance: independence and publicly accountable</b>                                     | The independence of the IASB in its standard-setting decision-making process, within a framework of public accountability, must be maintained.  | <b>8</b> |
| <b>B2</b> | <b>Governance:</b>   | <p>The current three-tier structure is appropriate. Within that governance structure, the Monitoring Board (MB), the Foundation and the IASB should:</p> <ul style="list-style-type: none"> <li>• enhance their interaction and procedures to reinforce the principles of transparency, public accountability and independence.</li> <li>• The roles and responsibilities of each element of the organisation’s governance should be clearly defined.</li> </ul>  | <b>8</b> |
| <b>B3</b> | <b>Governance:</b>   | Consistently with point B2, the Trustees should further clarify how they discharge their oversight responsibilities.  | <b>8</b> |
| <b>B4</b> | <b>Governance:</b>   | Elements of the governance structure should provide regular public reports to demonstrate their effectiveness.  | <b>8</b> |
| <b>C1</b> | <b>Process: strengthening the process and procedures of the IFRS Foundation and the IASB</b> | <p><b>Due Process and Benchmarking:</b></p> <ul style="list-style-type: none"> <li>• A thorough and transparent due process is essential to developing high quality, globally accepted accounting standards.</li> <li>• The IASB’s due process is and should continue to be reviewed and further</li> </ul>   | <b>9</b> |

|           |                 |   |          |
|-----------|-----------------|---|----------|
|           |                 | enhanced regularly, benefiting from regular benchmarking against other organisations and from stakeholder advice.   |          |
| <b>C2</b> | <b>Process:</b> | <p><b>Trustee oversight of the IASB's due process:</b></p> <ul style="list-style-type: none"> <li>• The framework for the Trustees in their oversight of the IASB's due process should be clarified.</li> <li>• The Trustees' Due Process Oversight Committee (DPOC) should review and discuss due process compliance regularly throughout the standard-setting process and at the end of the process before a standard is finalised.</li> <li>• The Committee should report regularly on these activities to the Trustees and in its annual report.</li> </ul>   | <b>9</b> |
| <b>C3</b> | <b>Process:</b> | <p><b>Stakeholder feedback and enhancements in the agenda-setting and standard-setting process:</b></p> <p>Building on the existing due process framework and in an effort to improve the usability of financial information, the IASB should undertake the following:</p> <ul style="list-style-type: none"> <li>• <b>Agenda-setting:</b> public consultation and full IASB feedback so as to clearly demonstrate how priorities on its agenda are set.</li> <li>• <b>Field visits/tests and effect analyses:</b> the IASB should work with relevant parties to develop an agreed methodology for field visits/tests and effect analyses.</li> <li>• <b>Integration of XBRL into the standard-setting process:</b> In order to take into account the impact of technology, the development of the IFRS XBRL taxonomy should be integrated into the IASB's due process. There should also be the development of relevant XBRL taxonomy extensions.</li> </ul> | <b>9</b> |
| <b>C4</b> | <b>Process:</b> | <p><b>Actions aimed at consistency of IFRS implementation:</b></p> <p>To support the Foundation's interest in consistent application of IFRSs and within the IASB's standard-setting mandate, the Foundation and the IASB should undertake the following actions:</p> <ul style="list-style-type: none"> <li>• <b>Post-implementation reviews:</b> using an agreed methodology, undertake post-implementation reviews to help identify implementation issues.</li> </ul>  | <b>9</b> |

|           |   |  |           |
|-----------|---|--|-----------|
|           |   | <ul style="list-style-type: none"> <li>• <b>Formal cooperation to address divergence:</b> to establish formal co-operation arrangements with securities regulators, audit regulators and national standard-setters to receive feedback on how IFRSs are being implemented and to encourage actions aimed at addressing divergence.</li> <li>• <b>IFRS Interpretation Committee (IC):</b> The IC's role and remit to be reviewed to ensure consistency of interpretation, without undermining the commitment to a principle-based approach to standard-setting.</li> </ul>  |           |
| <b>C5</b> | <b>Process:</b>   | <p><b>Importance of national and other accounting standard-setters:</b></p> <ul style="list-style-type: none"> <li>• The Foundation and the IASB should encourage the maintenance of a network of national and other accounting standard-setting bodies as an integral part of the global standard-setting process.</li> <li>• In addition to performing functions within their mandates, national and other accounting standard-setting bodies should continue to undertake research, provide guidance on the IASB's priorities, encourage stakeholder input from their own jurisdiction into the IASB's due process and identify emerging issues.</li> </ul> | <b>9</b>  |
| <b>C6</b> | <b>Process:</b>   | <p><b>Dedicated research capacity:</b></p> <p>To provide thought leadership in the field of financial reporting, the IASB should establish, or facilitate the establishment of, a dedicated research capacity.</p>   | <b>10</b> |
| <b>D1</b> | <b>Financing: ensuring the Foundation has a broad and sustainable source of funding</b> | The funding system must maintain the independence of the standard-setting process, while providing organisational accountability.  | <b>10</b> |
| <b>D2</b> | <b>Financing:</b>   | <ul style="list-style-type: none"> <li>• The existing base of financing should be expanded to enable the IFRS Foundation to serve the global community better and to fulfil the strategy described above.</li> <li>• Specifically, funding should be proposed by the Trustees to be on a long-term basis (at least three to five years), be publicly sponsored, be flexible to permit the use of differing mechanisms and to adjust to</li> </ul>  | <b>10</b> |

|  |  |  |  |
|--|--|--|--|
|  |  | <p>budgetary needs, be shared among jurisdictions on the basis of an agreed formula (consistent with the principle of proportionality) and provide sufficient organisational accountability.</p> |  |
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## 2. Overview

The following summarises the main points that were made by the vast majority of respondents, both in the written consultation and during the roundtable meetings.

On the whole respondents were supportive of the main thrust of the Trustee’s strategy review. Many noted that the review was timely and welcomed the extent of outreach and engagement with stakeholders. A number of stakeholders noted that the Trustees’ second consultation had taken their comments into account and expressed their appreciation.

The majority of respondents expressed concern that the results of the Trustees’ strategy review and the Monitoring Board’s governance review should be co-ordinated such that the conclusions drawn from each of these separate reviews should result in an integrated and consistent set of proposals on the Foundation’s governance and long-term strategy for the next decade.

The summary comments listed below are set out beneath each of the main topic headings:

### *A1 Mission: serving the public interest through financial reporting standards:*

- **Purpose of financial reporting standards:** The majority of respondents generally supported the proposal that standards must be reliable, understandable and meet the needs of investors and other stakeholders. However, a number of respondents urged the Trustees to take account of stewardship and include this reference in the Mission and the Foundation’s Constitution.
- **Auditability of standards:** Some participants emphasised the need for standards to be written so that they are auditable, and recommended closer co-operation with the International Auditing and Assurance Standards Board (IAASB) and accounting firms.

### *A2 Global adoption of IFRSs: Convergence is not a substitute for adoption:*

- **Convergence versus adoption:** Many participants strongly supported the goal of adoption. A number of respondents however recognised that convergence plays a significant role in facilitating adoption, albeit on a short-term basis. As such the Strategy should take convergence into account.

### *A3 Global adoption of IFRSs –With co-operation from regulators, the Foundation should seek full disclosure where adoption of IFRSs is incomplete or there is divergence from the full set of IFRSs as issued by the IASB:*

- **Need for national standard-setters:** Most respondents firmly supported the proposal that the Foundation and the IASB must engage with national standard-setters in achieving implementation and adoption of IFRSs.

**A4** *The scope of standards and IFRS activities: In the near term the primary focus should remain on standards for private sector entities:*

- **Private sector entities:** The majority of respondents supported the view that the primary focus of IFRS standards should remain on standards for private sector entities. A number of Non-Governmental Organisations (NGOs) however disagreed with this sentiment and urged the Foundation to expand the remit of its activities to include the not-for-profit sector and the public sector.

**A5** *Consistency of application and implementation:*

- **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. More time should be taken on fewer projects to give stakeholders a chance to adapt to the changes and give feedback.

**B1** *Governance: independent and publicly accountable: The independence of the IASB in its standard-setting decision-making process, within a framework of public accountability, must be maintained:*

- **Independence of the IASB:** The overwhelming majority of respondents supported the view that the independence of the IASB must be maintained, within a framework of public accountability.

**B2** *Governance: The current three-tier structure is appropriate for the organisation's mission:*

- **Governance Structure:** There was very strong support for the continuation of the existing three-tier structure.

**B3 – B4** *Governance: The Trustees should further clarify how they discharge their oversight responsibilities and provide regular public reports:*

- **Emphasis on due process:** There was clear emphasis on the need for due process. The proposals to introduce due process as early as possible and ensure that it runs throughout the standard-setting process, together with other enhancements were welcomed. Some European respondents sought to emphasise that the Trustees should play a greater role in holding the IASB publicly accountable, play a more active oversight function in the IASB's agenda-setting and called for more concrete evidence of due process having been followed. These views were not however broadly shared by the majority of respondents.



**C1** *Process: A thorough and transparent due process is essential to developing high quality, globally accepted accounting standards:*

- **Transparency of standard-setting process:** Many participants noted that the transparency of the standard-setting process would ensure integrity of the standards.
- **Benefits of greater communication:** The IASB should undertake intensive communications with its stakeholders.
- **The Role of the IFRS Advisory Council:** Respondents suggested that the IFRS Advisory Council should have an enhanced role in supporting the Trustees and the IASB in their due process and oversight.

**C2** *Process: The framework for the Trustees in their oversight of the IASB's due process should be clarified:*

- **Clarification of the roles and functions of the Foundation's governance bodies:** Stakeholders were unanimous in recommending that the roles and functions of the governance bodies of the Foundation - the Monitoring Board, the Trustees and the IASB should be clarified and clearly articulated for all stakeholders to better understand.

**C3** *Process: The IASB should clearly demonstrate how priorities on the agenda are set, agree a methodology for field visits and effect analyses, and integrate XBRL into the standard-setting process and the development of XBRL taxonomy extensions:*

- **Agenda priorities:** The majority of respondents agreed that the IASB should be obliged to justify the agenda it sets and that it should be based on the needs of stakeholders.
- **Field visits and effect analyses:** The majority of respondents welcomed the proposed enhancements to due process by carrying out field visits and effect analyses.
- **XBRL:** Participants urged caution regarding the incorporation of XBRL into the formal standard setting process and largely rejected the call for formal integration.

**C4** *Process: To support consistent application of IFRSs, the IASB and the Foundation should undertake post-implementation reviews, establish formal co-operation with securities regulators and standard-setters and refine the scope of the IFRS Interpretations Committee.*

- **The Role of the IFRS Interpretations Committee (IC):** It was noted that the Trustees need to address the role and function of the IC so as to meet the needs and expectations of stakeholders

**C5** *Process: The Foundation and the IASB should encourage the maintenance of a network of national and other accounting standard-setting bodies:*

- **Network of national and other standard-setting bodies:** The majority of respondents agreed with the proposal that the IASB and the Foundation should maintain close-cooperation with national and other accounting standard-setters to aid consistency of application, feedback and stakeholder participation from local jurisdictions and relevant research.

**C6** *Process: To facilitate thought leadership, the IASB should establish a dedicated research capacity:*

- **Greater focus on research:** There was a general sense that the IASB would benefit from undertaking greater research at the earliest stages of the standard-setting process. This would ensure that a coherent and more broadly accepted set of standards were developed.
- **No dedicated research capacity:** The majority of respondents were of the view that the Foundation should not create a dedicated research capacity since this would be resource intense. Instead, the organisation was recommended to co-ordinate with existing research facilities, standard-setters, regulators, academics and other professional bodies in order to utilise and maximise existing research and know-how.

**D1-D2** *Financing: The funding system must maintain the independence of the standard-setting process, whilst providing organisational accountability. The existing base of financing should be expanded, should be on a long-term basis, be publicly sponsored, flexible, shared between jurisdictions on the basis of an agreed formula and provide organisational accountability:*

- **Concern on financing:** Many emphasised the need to have an independent source of funding and said that the recommendations in the consultation document were appropriate.

### 3. Analysis

A more detailed analysis of the comments and submissions received are set out in the report that follows, under the headings set out in the table in the Introduction above.

|  |
|--|
| <b>A1 Mission: serving the public interest through financial reporting standards</b> |
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| <b>Purpose of financial reporting standards and standard-setting activities:</b> |
|--|

- |  |
|--|
| <ul style="list-style-type: none"> <li>• To provide a faithful presentation of an entity’s financial position and performance.</li> <li>• To serve investors and other market participants in their economic and resource allocation decisions.</li> </ul> |
|--|

### *3.1. The needs of investors, types of investors, stewardship and consistency with the Conceptual Framework*

The majority of respondents broadly agreed with the recommendation that the purpose of financial reporting standards and standard-setting was to provide a faithful presentation of an entity's financial position and performance so as to serve the needs of investors - the primary users. These respondents emphasised the need to focus on the transparency of financial reporting and the disclosure of information useful to investors. This requires standards that are relevant and enforceable.

During the roundtable meetings, and in some of the written responses, some respondents from Europe sought to distinguish between different types of investors. They called for the IASB to focus upon and emphasise the needs of long-term investors as opposed to short-term, particularly in the context of sound economic growth. In defining long-term investors, these commentators included equity investors, lenders and other creditors in that category. At the round table session in London, participating Trustees questioned those advocating such a distinction on how standard-setting would differ under such a distinction. No clear consensus emerged.

Related to this matter, a number of respondents, especially those from Europe, said that the Constitution, and the mission of the Trustees, should be amended to include reference to the stewardship objective, which makes management accountable for the conduct of the business' affairs and their ability to generate long-term economic value. It was noted that stewardship information is not a unique requirement of long-term investors; this information is of value to all investors' in aiding their decision-making.

These respondents were of the view that a more explicit reference in the Constitution to the stewardship concept would address most of these concerns, because stewardship also implies management's responsibility for the longer term health and sustainability of the company.

A number of respondents welcomed the fact that the proposed purpose of financial reporting, as part of the IFRS Foundation's mission, is aligned and consistent with that of the IASB's current Conceptual Framework. This has relevance to the suggestions relating to the inclusion of stewardship in the Foundation's mission and Constitution.

One respondent was of the view that non-primary users of financial statements should not be included so prevalently in the mission of the IFRS Foundation. Although the views of other groups should be considered during the standard-setting process, it was recommended that the involvement of these non-primary users' of financial statements would best be achieved through existing due process requirements.

### *3.2. Faithful presentation versus financial stability*

A clear majority of respondents supported the Trustees' articulation of the purpose of financial reporting and believed that promoting financial stability is not the role of accounting standards. The majority of respondents were of the view that the promotion of financial stability remained the preserve of prudential regulators and other governmental bodies, who have considerable resources and authority to achieve their objectives. However, most agreed that transparency supports the goal of financial stability.

A small minority of respondents took the view that the role of the Foundation should include promoting and supporting financial stability, because this would contribute to the achievement of public interest objectives, which remains the overall function of international accounting standards. These respondents largely reflected the views of prudential regulators and EU public authorities.

A number of the respondents noted that the achievement of the stated primary purpose, with a focus on disclosure, would not preclude the achievement of other varying public policy interests, including financial stability. The two sets of interests could be equally reconciled transparently within a single set of accounting standards and could be taken into account during the standard-setting process. However, where there was a conflict between the two sets of interests, the needs and interests of investors should remain paramount.

### *3.3. Co-operation with regulators*

Some of the respondents recommended that the IASB should co-operate with regulators and other authorities with responsibility for enforcement and financial stability building upon the existing enhanced technical dialogue.

### *3.4. Outreach and engagement*

One respondent however disagreed with the view that the IASB should co-operate with regulators and other authorities with responsibility for enforcement and financial stability in order to enable the display of financial information in a way that meets other public policy objectives. . Involvement with other non-primary users and authorities responsible for financial stability could be achieved through the existing public comment process, outreach activities, IFRS Advisory Council and roundtable discussions. The IASB currently engages extensively with all stakeholders and this should be adequate.

### *3.5. Expansion of the Foundation's mission*

A minority of respondents, especially those from non-governmental organisations, were concerned that the current terminology of the mission objective was too narrow and should be expanded to provide greater focus on the needs of not-for-profit and public sector organisations. However, the majority of respondents acknowledged that widening the Foundation's remit should remain a long term goal rather than becoming an immediate priority. In this regard, please also see the comments noted at point A4 below.

### *3.6. Auditability*

A number of respondents, including those attending the roundtable meetings, noted that transparent financial reporting can only be achieved if financial statements are understandable and auditable. The Foundation was urged to discuss this further with the IAASB and consider incorporating a reference to this effect in the Constitution.

On the other hand, one respondent was of the view that reference to "auditability" was inappropriate. It was noted that in some jurisdictions, not all financial statements prepared in accordance with IFRS have to be audited.

### 3.7. IFRS for SMEs

One respondent noted that the discussion on capital allocation in paragraph A1 focuses on the objective of general purpose financial reporting as stated in the Conceptual Framework. This statement might be particularly relevant to entities using IFRS, where there might be more focus on the ability to access the stewardship or accountability of management. However, the statement is not particularly helpful to those entities using IFRS for SMEs. Accordingly, the Trustees should give more acknowledgment to the objective of financial statements for entities using IFRS for SMEs.

On the other hand, during the roundtable meeting in Hong Kong one respondent suggested that the mission should not include any reference to SMEs or publicly listed companies. In this respondent's opinion, these bodies should be secondary to the needs and interests of investors.

One respondent recommended extending investors to include lenders and other creditors.

### 3.8. Preparer-users

Some stakeholders, representing the preparer-user community, emphasised the fact that the preparer-users group should also be seen as an important group of stakeholders with a legitimate interest in the standard-setting process.

### 3.9. Public interest

Some respondents, both during the written consultation and at the roundtable meetings, suggested that the Constitution should be amended to do more to define the "public interest". One respondent suggested that 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.

One respondent noted that in order to meet its mission of working in the "public interest" and to encourage adoption of IFRS, the Trustees should make its final standards (and not only its discussion papers and exposure drafts) freely available for download from its website.

However, one respondent expressed concern about the reference to "public interest" in the Strategy Review since it could invite government interference in standard-setting, particularly in times of crisis. The view was that "quality financial reporting standards serve the public interest exclusively through transparent reporting to investors and creditors."

## **A2 – Global Adoption of IFRSs**

- The Foundation must remain committed to the long-term goal of the global adoption, in their entirety and without modification, of IFRSs as developed by the IASB.
- Convergence is not a substitute for adoption.
- Adoption should allow relevant entities to have an audit opinion stating full compliance with IFRSs as issued by the IASB.

**A3 – Adoption of IFRSs**

- With cooperation from national and international market and audit regulators, the Foundation should seek full disclosure where adoption of IFRSs is incomplete or there is divergence from the full set of IFRSs as issued by the IASB.
- The Foundation should seek a mechanism to highlight instances where jurisdictions are asserting compliance with IFRSs without adopting IFRSs fully.

*3.10. Convergence and flexibility to accommodate jurisdictional needs*

Whilst almost all respondents agreed with the long-term goal of global adoption, in their entirety without modification, many acknowledged that different jurisdictions have differing needs and therefore convergence plays a significant role in achieving adoption. Convergence should therefore not be overlooked. However, a number of respondents noted that convergence could not be successfully maintained as a long-term strategy and it should be recognised that convergence alone will not lead to full adoption.

A significant number of the participants at the Tokyo roundtable meetings urged the Trustees to be more flexible and to cater for various jurisdictional needs in order to facilitate their progress, over a transitional period, towards adoption. This may have arisen because of language differences, since the Strategy Review recognises the role that convergence plays.

Related to this point, one respondent called for the meanings of “adoption” and “divergence” to be more explicitly articulated (e.g. whether they should be considered for individual financial statements or for each jurisdiction).

*3.11. Translation and use of plain English*

There were a fair number of respondents, especially non-English speaking stakeholders, urging the Trustees to ensure accurate and timely translations of new standards, so as to ensure consistency of application. If there is a delay in the issue of an official IASB translation, there will be considerable scope for misinterpretation of a standard.

One respondent noted that comments raised during the translation process can improve the quality of a final standard and therefore encourages the Foundation to increase its focus on the development of official IFRS translations.

One respondent also noted that the Trustees should encourage and seek to ensure the use of plain and clear English in IFRSs, which in turn will facilitate and improve the quality of the translation of IFRSs into other languages.

*3.12. Limitations on the role and remit of the IASB*

Most respondents agreed with the principle that the Foundation must remain committed to the long-term goal of the global adoption of IFRSs, in their entirety and without modification, as developed by the IASB. A number of respondents were of the view that it was neither the IASB’s, nor the Foundation’s, role to highlight instances of divergence and lack of full

compliance. The organisation had neither the the resources, nor the international remit to achieve this aim. Rather it was the role and function of national standard-setters and other regulatory and government bodies. As such the Foundation and the IASB should strive to co-ordinate and work closely with these bodies to help achieve this aim.

However, it was acknowledged that the Foundation, utilising information provided by appropriate national bodies, could publicise on its website the jurisdictions where IFRSs are being modified; and thereby encourage transparent reporting of such divergence. This will protect the IFRS brand and dispel misinformation. To achieve this, the Foundation should foster close co-operation with national standard-setters and regulators around the world.

### *3.13. Clarification of Disclosures*

A number of respondents, including those attending the roundtable meetings in Tokyo and Hong Kong, requested clarification as to which entity is obliged to make disclosures of inconsistent application of IFRSs. It was noted that the current draft of the Strategy Review was unclear as to whether the obligation rested at company level or at jurisdictional level. The majority of respondents said that disclosure of inconsistencies should be made at the regional/jurisdictional level, because it would be onerous to require individual entities to disclose quantitative or extensive qualitative details or differences. The Trustees were urged to articulate this point more clearly. Furthermore it is uncertain which regulatory body the Foundation would expect to be responsible for these disclosures (e.g. securities regulators, accounting standards board etc).

One respondent noted that some form of reference to IFRS differences should be made at the issuer level. The purpose of disclosure at the issuer level should not be an in-depth discussion of all differences, but instead should be to provide a high level background of these differences and reference to where a more comprehensive analysis of all differences can be found.

### *3.14. “Audit Opinion” in paragraph A2*

A number of respondents, both in their written responses and at the various roundtable meetings questioned the wording in paragraph A2, which refers to entities being able to have an “audit opinion” stating full compliance with IFRS. Many respondents were of the view that given that it is the responsibility of entities to prepare financial statements, the wording in the penultimate line of paragraph A2 should be amended. Some suggested the complete removal of the words “audit opinion”, whilst others suggested the inclusion of a reference to both auditability and the preparation of financial statements in full compliance with IFRSs as issued by the IASB.

### *3.15. Delay in issue of standards*

One respondent noted that the goal of global adoption of IFRS, whilst laudable, may result in standards taking longer to be issued and could also result in difficulties in reaching consensus on issues, which might make it more challenging to produce high quality global accounting standards.

**A4 – The scope of the IASB’s work**

- In the near term, the primary focus of the Foundation and the IASB should remain on developing standards for private sector entities (publicly traded entities and SMEs).
- Taking into account resources, the Foundation and the IASB will consider developing standards for other entities at a later date.

*3.16. Overall agreement with the proposal*

The great majority of respondents agreed with the proposal that the primary focus of the Foundation and the IASB should remain on developing standards for private sector entities. Concern was expressed that should the Foundation seek to extend its remit at this stage, this would place considerable pressure on the Foundation’s resources, which would severely impact on the urgent work currently being carried out by the IASB.

However, a small minority of respondents, especially non-governmental organisations, called for an immediate widening of the IASB’s remit. One respondent said that, in the interim, the IASB should forge closer links, or merge, with the IPSASB, which would result in the development of a “truly uniform set of IFRSs that are less specifically focused on the for-profit sector”.

*3.17. Articulation of future goals, and potential time table*

Some respondents recognised that it was not appropriate for the Foundation to widen the IASB’s immediate remit, but called upon the Trustees to articulate their strategic goals for the future, and to indicate whether, in the longer-term, the Foundation and the IASB may be considering broadening its remit to include the not-for-profit sector and public sector, and the possibility of integrated reporting, as initiated by the IIRC. Those that made this recommendation expressed concern that unless the Foundation immediately articulated its intention, others may step into the breach and the result would be inconsistency of applicable standards.

*3.18. Consultation*

One respondent said that if the Foundation was considering widening the remit of the IASB, this should not be done without stakeholder consultation prior to active involvement and allocation of resources. This could be done during the agenda-setting consultation.

**A5 – Consistent application of IFRSs**

In pursuing its mission, the Foundation has a vested interest in helping to ensure the consistent application of IFRSs internationally. The Foundation should pursue that objective in the following ways:

- The IASB will issue clear, understandable and enforceable standards.
- The IASB to provide application guidance and examples consistent with a principle-based approach to standard-setting.
- The IASB will work with a network of securities regulators, audit regulators, standard-setters and other stakeholders to identify divergence in practice. Where divergence could



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| <p>be resolved through an improvement in the standard or an interpretation, the IASB or IFRS Interpretations Committee (IC) will act accordingly.</p> <ul style="list-style-type: none"> <li>• The Foundation through its education and content services should undertake activities aimed at promoting consistent application.</li> <li>• The IASB, in partnership with relevant authorities, will identify jurisdictions where IFRSs are being modified and encourage transparent reporting on such divergence.</li> <li>• The Foundation will seek the assistance of relevant public authorities to achieve this objective.</li> </ul> |
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### *3.19. Overall agreement with the principle*

The majority of respondents strongly agreed with the recommendations on the basis that consistent application and implementation of IFRSs was of utmost importance to users' confidence in financial statements and the success of IFRSs. A number of respondents noted that inconsistent application of IFRSs is the biggest challenge facing the IFRS Foundation post -2011, due to the increasing number of new standards and the number of new countries adopting IFRSs. However, a number of respondents noted that whilst the overall goals were laudable, the enforcement of IFRSs, and ensuring consistent application, was neither the role, nor within the remit of the Foundation.

### *3.20. Regulators and national enforcement panels*

Many respondents supported the proposal to foster co-operation with international bodies, for example IOSCO and the IAASB, regulators and national standard-setters. This would aid the consistent application of IFRSs and identify divergent practices around the world. In this regard, the Monitoring Board (MB) also has a significant role to play.

However, one respondent noted that it was unclear as to which regulators the Foundation was referring.

One respondent noted that the Foundation could obtain further information on the nature and on the background of instances of non-compliance by liaising with national enforcement panels.

For co-operation to be effective, the Foundation would need to increase its interaction with these bodies during its outreach or roundtable activities.

### *3.21. Role and Resources*

Whilst strongly endorsing the need to work closely with international bodies to identify inconsistent application of IFRSs, a number of respondents queried whether the IASB and the Foundation have the resources to identify inconsistencies.

As noted above, a number of respondents also observed that it was not within the remit of the Foundation to be able to prevent "regulatory arbitrage" and the Foundation could not prevent countries opting out of the IFRS regime by changing their category. The Foundation has neither the mandate, nor the possibility of restricting opting out of IFRSs if the jurisdictional legal environments allow for such a change.

These respondents noted that the aim of increased transparency and consistency is understood and supported, but this will only be achieved by the IASB developing high quality, globally accepted accounting standards that national jurisdictions support and implement.

### 3.22. *Role of international audit firms*

One respondent was of the view that securities regulators, audit regulators and national standard-setters are not always best positioned to identify inconsistencies in the application of IFRS, since these bodies often cover entities based in a single country whilst inconsistencies may be more evident between entities based in different countries. It is more likely that inconsistencies might be identified by entities that are exposed to how IFRSs are interpreted in a number of countries. Accordingly, the audit firms, whilst drafting guidance to ensure consistent application of IFRSs, may be better placed to assist in this regard.

However, one respondent noted that international auditing firms, in issuing their own interpretations of IFRSs, contribute to the misinterpretation and inconsistent application of IFRSs.

### 3.23. *The role of the MB*

One respondent said that the role of the Foundation in ensuring consistent application should be more robust and expanded from what has been proposed. This respondent said that the MB should be actively involved in discouraging local interpretations. As respected members of the international financial community and often representatives on regulatory bodies, the members of the MB are aptly suited to this role.

Furthermore, it was suggested that the MB should be involved through a publically visible process in enforcing consistent application of IFRSs, through their role and influence with regulators.

### 3.24. *Post-implementation reviews, impact assessments and field testing*

A number of respondents indicated that post -2011 the IASB should strive for a period of calm in changes to accounting standards for users and preparers. Instead, the IASB should focus on post-implementation issues, which would promote consistent application.

Furthermore, impact assessments and field testing may provide greater clarity to those implementing IFRSs, which may contribute to the consistent application of the standards.

### 3.25. *IFRS Interpretations Committee (IC)*

Many respondents were of the opinion that the Foundation needs to strengthen the IC and amend its current remit so as to ensure that more interpretations are issued, without undermining principle-based standards. Interpretations would aid consistency of application and therefore protect the IFRS brand.

A number of respondents noted that the output from the IC has been such that it is not meeting the needs of stakeholders. This sometimes results in local authorities and standard-setters issuing

their own interpretations, which may be at odds with the application of IFRS in different jurisdictions. As such the Trustees need to review the intended role and remit of this committee to ensure that it is providing the relevant support required by stakeholders and therefore contributing to the consistent application of IFRSs globally. The proposed review of the IC, launched towards the end of 2010, was welcomed, but a number of respondents noted that the review should have been tied in with the overall strategy of the Foundation.

One respondent noted the IC should co-operate with national standard-setters since this would provide further benefit in achieving the goal of ensuring greater consistency of interpretation. This respondent suggested that the Trustees should include a specific reference in the Foundation's Strategy.

Please also refer to the section below which discusses the IC, in the context of paragraph C4.

### *3.26. Local interpretations*

A number of respondents noted that inconsistent application of IFRS also arise when various local authorities and industry associations issue their own IFRS interpretations. These authorities and associations do not believe that they are modifying IFRS, but appear to take on a role belonging to the IC. This can cause problems, particularly where local interpretations may differ from that issued by other authorities, or where an entity applying IFRSs operates in a number of different countries.

### *3.27. Clear accounting standards and the scope of understanding and application*

One respondent noted that consistent application of IFRS would be achieved if the standards are clear and understood not only by those who might specialise in the application of standards, but also by those who have the primary responsibility for the preparation and approval of financial statements. Therefore the Trustees should ensure that the IASB produces standards that are clear and understandable to a person with a reasonable understanding of accounting issues.

Related to this point, a number of respondents noted that IFRSs would be consistently applied if they were clear and understandable on their own, without the need for additional interpretations, explanations or examples.

### *3.28. Education*

A number of respondents, especially those from non-English speaking and developing countries, noted that the Foundation should increase its educational efforts in order to significantly contribute to the consistent application of IFRSs.

### *3.29. Consultation between enforcement authorities*

One respondent noted that it is important for enforcement authorities to consult with each other and reach common ground on the application and implementation of IFRSs. Some enforcement agencies are already doing this with the aim of achieving consistent application of IFRS within given economic areas. In this regard, the IASB and the IC remain valuable partners.

Another respondent took this proposal further when it suggested that the Foundation should create an international forum whereby regulators, the IASB and other stakeholders can compare and discuss matters of application and implementation.

### *3.30. Principle based accounting standards*

One respondent noted that high quality standards need to be based on clear principles that are able to be implemented, understood and applied. Having clear principles underpinning the accounting standard will allow for preparers to more easily interpret the standards. Further, this will also assist in the standard-setting process as it will allow the IASB to focus on the core tenets of the standard and help avoid over-complication of the standards resulting from disagreements on more specific and technical issues.

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| <b>B1 - Governance: independence and publicly accountable</b> |
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| The independence of the IASB in its standard-setting decision-making process, within a framework of public accountability, must be maintained. |
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### *3.31. General agreement with the principle*

Almost all respondents strongly supported the principle that the independence of the IASB is paramount. Many noted that without independence, IFRSs would lose their legitimacy and credibility internationally. Almost all of the respondents noted that the IASB's independence had to be coupled with a high degree of accountability and transparency, demonstrated by extensive outreach, appropriate due process, and full and frank feedback.

The majority of respondents viewed independence and accountability as complementary concepts and that the existence of one could only naturally exist alongside the other. Accountability is considered to be essential to the preservation of independence, and it is the only mechanism that provides stakeholders with confidence in the standard-setting process.

Almost all respondents agreed that the IASB should be accountable to the Trustees, and should operate on the basis of transparency and full accountability to all interested stakeholders. The IASB should consult widely, give sufficient time for considered comments, and provide stakeholders with detailed feedback. The Trustees should likewise act as a buffer to political pressure on the IASB.

### *3.32. The IASB and the MB*

The MB, in their governance review of the Foundation, requested comments on the proposal that it should have the capacity to recommend or place items on the IASB's work programme. The overwhelming majority of respondents strongly objected to this proposed extension of the MB's remit. Because of the strength of feeling, many stakeholders felt the need to emphasise this point to the Trustees as well. Respondents expressed concern that any extension of the MB's remit beyond its existing Trustee oversight role would not only interfere with the responsibilities of the Trustees, but would also undermine the independence of the IASB. This would raise serious

doubts as to the proper governance of the IASB and would be potentially detrimental to public confidence in IFRSs.

*3.33. Public accountability and funding*

A number of respondents expressed concern that in setting a funding mechanism for the future, the Trustees should ensure complete independence of the IASB. Trustees should be mindful of the risk that any significant contributor might be in a position to exercise undue influence or pressure on the IASB, thus risking the possibility of the IASB setting standards that might accommodate the contributor's desired aims or purposes. These respondents were of the view that under no circumstances should the funding of the IASB's activities ever be linked to the standards that it sets. There should be no IASB accountability to any single financial contributor as this could negatively impact on the IASB's independence. The IASB should be transparent and accountable to all stakeholders, with the aim of setting high quality international accounting standards, irrespective of the funding provided to the Foundation.

**B2 - Governance: independence and publicly accountable**

The current three-tier structure is appropriate. Within that governance structure, the Monitoring Board (MB), the Foundation and the IASB should:

- enhance their interaction and procedures to reinforce the principles of transparency, public accountability and independence.
- The roles and responsibilities of each element of the organisation's governance should be clearly defined.

**B3 - Governance: independence and publicly accountable**

Consistently with point B2, the Trustees should further clarify how they discharge their oversight responsibilities.

**B4 - Governance: independence and publicly accountable**

Elements of the governance structure should provide regular public reports to demonstrate their effectiveness.

*3.34. The three-tier structure and greater clarification*

An overwhelming majority of respondents supported the proposal to maintain the current three-tier governance structure. Respondents noted that it served the organisation well and balanced the needs of public accountability and the independence of the IASB's standard-setting process.

One respondent noted that the MB, the Trustees and the IASB all have a role to play in ensuring high quality international accounting standards, and this would be achieved through the three-tier structure.

The vast majority of respondents also acknowledged the need for greater clarification and definition of the respective roles of the Foundation, the MB and the IASB, so as to remove any confusion and to ensure greater transparency. This clarification would also need to include clear procedures and criteria for the appointment of Trustees, Chairs and other similar governance matters. This clarification would need to be communicated clearly and understood by all stakeholders.

One respondent noted that a clarification of the division of responsibilities between the MB and the Trustees would result in increasing stakeholder support for the Trustees, and strengthen Trustee interaction with the stakeholder community. This would result in greater support and strengthen the legitimacy and credibility of the Foundation.

### *3.35. Overall governance functions*

A large majority of respondents favoured the Trustees maintaining and extending their existing functions. Largely, respondents emphasised that the role of the MB should be kept to its existing parameters of oversight, since there was no need or reason for it to be extended.

The MB's concurrent governance review seems to have created the impression that the MB's remit and duties may be extended, and a large majority of respondents were set against this development.

There were however a few European respondents, particularly the leading French preparer groups, that favoured a narrowing of the Trustees functions in favour of the MB taking on greater responsibility for the management and oversight of the IASB and approval of the Foundation's budget. These respondents particularly supported the MB's oversight of the IASB's work programme and agenda. A very small minority of respondents also suggested that the MB should have a direct role to play in the appointment of the IASB Chair.

A number of respondents expressed the view that a more transparent selection process for the Trustees as well as the IASB should be introduced.

### *3.36. Investor involvement in governance*

A number of respondents at the roundtable meeting in New York urged greater investor involvement in the governance structures of the Foundation and the MB.

### *3.37. MB and Trustee co-ordination*

A number of respondents encouraged the Trustees and the MB to align and co-ordinate their efforts to further improve the Foundation's governance and processes to the best possible effect for all stakeholders.

3.38. *Trustees*

The following enhancements were recommended in respect of the Trustees' functions:

- In order to improve their credibility, the Trustees must assume a stronger and more visible external (ambassadorial) role, enhance their pro-active outreach activities and further improve the transparency of their activities.
- There was overwhelming support for the proposed increased role and public visibility of the Trustees' Due Process Oversight Committee and the efforts that have been made to benchmark this Committee's activities against other similar organisations.
- A number of respondents, particularly from Europe, expressed the view that there is still room for considerable improvement in the Trustees' exercise of their due process oversight. The Trustees should therefore be more pro-active and have a more visible role in their governance and oversight of the IASB and the Foundation, in making managerial decisions which determine the resources and activities of the IASB and promote greater transparency.
- The Trustees should communicate better with stakeholders and ensure greater accountability of the IASB.
- The Trustees should issue more regular public reports so that stakeholders can understand how the governance bodies are interacting and how they are executing their due process and oversight obligations. One respondent recommended including a specific interval for the Trustees' regular reports.
- Trustees should be responsible for deepening the pool of IASB candidates and ensuring that there is a proper balance in the composition of the IASB.
- If it is decided that there should be a separation in the roles of the IASB Chair and the CEO of the Foundation, the Trustees should be responsible for clarifying and separating the roles and responsibilities of the two positions.
- If it is decided that there should be a clearer division of responsibilities between staff dedicated to the IASB's operations, and the Foundation's administrative and oversight functions, this should be formalised by the Trustees who should be responsible for distinguishing between roles, responsibilities and reporting structures.
- The Trustees, together with the MB, should be responsible for the nomination of Trustee candidates.
- The Trustees should be responsible for the selection of the IASB Chair. The MB's role should be limited to commenting on the criteria for appointment.

- There was a call for a Trustees' Handbook, similar to the Due Process Handbook. This would set out the role and function of the Board of Trustees and its role as an oversight body of the IASB. It would be used by the MB to assess how the Trustees were executing their oversight function. XBRL should be included in this handbook.
- The Trustees should review the role and function of the IC and the IFRS Advisory Council and publicly consult with these bodies.
- The Trustees should exercise a more active and robust oversight role and hold the IASB to account on its agenda, work programme, re-exposure decisions, outreach and other due process procedures. This oversight is not to allow the Trustees to interfere with the IASB's independence, but serve to ensure that the IASB focuses on meeting stakeholder needs and expectations.

Please note that respondents provided extensive suggestions of how the Trustees should increase their remit in respect of oversight of the standard-setting process, without compromising the independence of the IASB. This is discussed in more detail below, under the Process sections of this Review.

### 3.39. *The Monitoring Board (MB)*

The MB's functions were not directly part of this review, but a large number of respondents raised issues regarding the role and function of the MB.

A number of respondents expressed concern that the MB's remit should not be extended beyond its current duties, and the Foundation should guard against the possibility of the MB extending its remit over the functions properly reserved to that of the Trustees, and therefore negatively impacting on the independence of the IASB.

A minority of mainly European respondents however expressed the view that the MB's role and remit should be extended to include not only the existing oversight over the Trustees but the approval of the appointment of the IASB chair. One or two European respondents were also of the view that the MB should be capable of referring issues to the IASB, for their consideration, via the Trustees.

The following was noted by the great majority of respondents in respect of the recommended role and remit of the MB:

- The MB should not, in any way, interfere with, monitor, control or direct the operation, accountability and independence of the IASB. The MB should have no responsibility in respect of the resolution of any technical issue reserved to the IASB.
- The MB should only have a closely defined role to monitor/oversee the Trustees' execution of their functions and it should not extend its remit beyond its current parameters. In this regard, one respondent noted that the MB's governance consultation review is misguided in suggesting an increase in the allocation of responsibilities, currently reserved to the Trustee body.



- The MB should be able to remove Trustees or require that the Trustees investigate and take appropriate action with respect to those Trustees who are not performing their duties.
- The MB should not have the ability to place an item on the IASB's agenda or be involved in setting the IASB agenda.
- The meetings of the MB should be open to observers, thus ensuring complete transparency. The MB should also improve its communication about its activities, by providing updates and summaries of its deliberations on the Foundation's website.
- There was no support for the MB's proposed appointment of an Advisory Board so that it can increase involvement with public authorities and other international organisations. Many were of the view that this would simply add a further layer of governance which would be undesirable.
- The MB should monitor and oversee the Trustees in the execution of their oversight of the composition and balance of the IASB.
- There was no support for the MB creating its own separate secretariat. Some respondents said that if the MB did establish a separate secretariat then this should be funded by the MB members.
- The MB should carry out regular reviews of the oversight function and the governance of the Foundation, but these reviews should be aligned with the Foundation's mandated Constitutional reviews. Given that the MB is a newly appointed body, there will be need for further review.

#### 3.40. *Composition and representation on the MB and the Board of Trustees*

Per above, the composition of the MB was not subject to the Trustee Review.

The following suggestions were made concerning the composition and representation on the MB:

- The membership of the MB should be expanded to be representative of the world's capital markets. Preference should be given to jurisdictions applying IFRSs. Representation should generally be on the basis of GDP, but this alone should not be a major factor, particularly if an emerging economy is to be invited to join the MB.
- Membership of the MB should rotate so as to provide a greater public interest representation.
- Membership should be for a limited period, thus allowing changes in markets and the economy to be considered in the composition of the MB. Re-appointment should not be precluded, but should not be automatic.

- There was a call for smaller countries to be represented on the MB and the Board of Trustees, as well as the larger, developed countries presently represented.
- Some respondents expressed concern about increasing the size of the MB and the possible impact in terms of its effectiveness. As such rotation of membership, as noted above, was considered to be a possible alternative.

#### *3.41. The MB's role and position*

One respondent noted that the MB should not be considered as a superior body to the Trustees, but rather that it is complementary to the two-tier structure comprising the Trustees and the IASB. As such the MB operates alongside the Trustees, performing complementary, but different functions in the public sphere.

#### *3.42. The IASB*

The majority of respondents supported the independence of the IASB, whilst limiting the oversight role of the MB to the Trustees. Those points have been noted above. Beyond this the following was noted by the majority of respondents:

- The operation of the IASB should be completely separate from, and unrelated to, the funding of the Foundation. As such the IASB should be free to draft standards independently and without any fear of stakeholder pressures or interests.
- The IASB should be composed of full time professionals. Due to the immense responsibility of each of the IASB members, part-time members should remain the exception.
- On the other hand, some respondents continued to support the appointment of part-time members to the IASB, thereby ensuring members with recent relevant experience. One respondent called for a return to a more part-time board structure.
- Technical expertise and merit should remain the key criteria in the selection of members.
- Achieving balance in terms of geographic diversity and representation of stakeholders was also emphasised, but not at the expense of technical expertise and merit.
- A few respondents urged the appointment of an academic IASB member, to be consistent with the Constitution's intent.

The IASB should be accountable to the Trustees for the quality of the standards it issues, and indirectly to the MB.

#### *3.43. Discharge of oversight and due process*

The majority of respondents supported the view that the Trustees should be more visible in their discharge of their oversight functions. Almost all respondents agreed that a full and transparent

due process, giving due consideration to market participants' comments, is the best guarantee for a smooth adoption of IFRSs.

One respondent said that the Trustees should clarify what the substance of this recommendation would be in practice. The suggestion was that the Committee should re-assess from time to time how the IASB analyses comment letters to Exposure Drafts (EDs) to ensure independence and assess whether issue papers have raised all stakeholder concerns. This exercise should not amount to second guessing the IASB, but merely oversight of key due process procedures.

#### *3.44. Failure of Due Process*

One or two respondents also noted that the recommendation failed to clarify how the Trustees would proceed where there was evidence of failure to act in accordance with due process. Clarification was sought.

#### *3.45. Increased Trustee time*

One respondent noted that in order for the Foundation Trustees to be able to perform the proposed enhanced functions, they should be able to dedicate sufficient time to fulfilling their obligations as Trustees and to meeting stakeholders' expectations. Related to this, the Trustee recruitment process should be broadened and vacancies should be more publically advertised.

#### *3.46. Agenda-setting and work programme*

A number of European respondents said that the Trustees should have a more active and closer involvement in overseeing the IASB's agenda-setting process and in determining the IASB's long-term work programme, whilst still preserving the IASB's full technical independence. Trustees could, for example, oversee the public consultation and the process of deliberating on stakeholders' feedback so that they fully understand the process by which the IASB has determined its agenda and set the relative priorities. Many said that the Trustees should robustly challenge the priorities of the IASB's agenda and this should be included in the Foundation's Strategy for the future.

A large number of respondents welcomed the suggestion that the IASB's agenda would be set in consultation with stakeholders, including the IFRS Advisory Council.

#### *3.47. Frequency of public consultation on work programme*

A number of respondents noted that the proposed three-yearly public consultation process on the IASB's future work programme is not sufficient. The IASB's work programme and its priorities should be reassessed more frequently to allow the Board to react to unforeseeable and/or short term changes in global economic circumstances.

The majority of respondents however did not comment on this, or suggested that the frequency was reasonable.

3.48. *Exposure drafts and re-exposure*

One respondent noted that the exposure draft (ED) is an important part of the outreach process as it allows a wide variety of users to participate in a transparent public comment process. However, to achieve the full potential of the public comment process, all aspects of a proposed standard should be exposed. This would include exposing consequential amendments to other standards at the same time the proposed standard is exposed.

Many also took the view that the Trustees should exercise greater oversight over re-exposure decisions so as to ensure that no standard will be issued without proper consultation and stakeholder feedback. This is especially so in instances where there have been considerable stakeholder objection or comment on a particular standard. Trustees should therefore also review with the IASB its policy towards re-exposure of proposed new IFRSs.

Respondents also urged increased transparency of an IASB decision on whether or not to re-expose.

One respondent suggested that the Foundation's due process oversight should not only focus on the formal steps of the due process, but also on the content of the different elements of the due process. As such, it was suggested that the DPOC could review the discussion papers, projects or EDs that had been subject to major criticism or rejection by a majority or a significant minority of constituents.

3.49. *Splitting the role of IASB Chair and CEO*

A number of respondents noted that the role of the IASB Chairman and Chief Operating Officer should be separated since combining the roles leads to a perception that the Foundation's oversight of the IASB is not independent of the IASB.

3.50. *Enhanced publication and transparency of the governance structure*

There was overwhelming support for the enhanced publication and transparency of the governance structure such that stakeholders could better understand and be satisfied that each body within the governance structure was performing its functions effectively.

**C1 – Process: strengthening the process and procedures of the IFRS Foundation and the IASB**

**Due Process and Benchmarking:**

- A thorough and transparent due process is essential to developing high quality, globally accepted accounting standards.
- The IASB's due process is and should continue to be reviewed and further enhanced regularly, benefiting from regular benchmarking against other organisations and from stakeholder advice.

**C2 – Process: strengthening the process and procedures of the IFRS Foundation and the IASB**

**Trustee oversight of the IASB's due process:**

- The framework for the Trustees in their oversight of the IASB's due process should be clarified.
- The Trustees' Due Process Oversight Committee (DPOC) should review and discuss due process compliance regularly throughout the standard-setting process and at the end of the process before a standard is finalised.
- The Committee should report regularly on these activities to the Trustees and in its annual report.

*3.51. General agreement for due process enhancements*

On the whole there was overwhelming support for, and emphasis on, the need for the Trustees' DPOC to monitor due process throughout the entire standard-setting process, rather than simply reviewing the process only at the end. Respondents supported the idea that due process should be reviewed and further enhanced regularly. The process should be benchmarked against other similar organisations to ensure the IASB's due process is in accordance with best practice.

The majority of respondents were of the view that robust due process is a key element to ensuring the global acceptability of the IFRS standards. There was strong support for the suggestion that the Foundation's DPOC should perform its functions in an active, investigative and critical manner and Trustees should be alert to stakeholder concerns.

*3.52. Transparency and clarity*

The DPOC should be transparent about its work and its processes. There should be clarity of its roles and duties and there should be enhanced communication with stakeholders in order to reinforce their confidence in the standard-setting process. Communication should be by way of providing regular reports and updates and addressing stakeholder concerns in the public domain.

*3.53. Clarification of oversight and procedures manual*

One respondent suggested that the accountability of the IASB would be improved with the creation of a due process oversight policy and procedures manual, along with a specific link on the Foundation's website to a form that includes a description of the information that the DPOC requires to evaluate, recommend and report on a complaint.

Additionally, a number of respondents also called for further clarification of how the Trustees carry out their due process oversight, so that stakeholders can better understand this.

*3.54. Extension of oversight responsibilities*

A number of European respondents noted that there has been criticism that the IASB does not account adequately for the views expressed by stakeholders, and does not sufficiently explain how it reconciles different viewpoints in agenda setting, strategy and the resolution of technical issues. Respondents therefore recommended that Trustees should interpret their oversight role in a

more extensive manner, given the importance of IFRSs as the main set of financial reporting standards throughout the world. The following was suggested:

- Oversight of due process should include the review of the IASB's technical reasons and justifications, including any concessions, which may have been made when finalising a standard.
- Ensure that the IASB considers all stakeholder comments, even if the comments have already been analysed before the publication of an Exposure Draft.
- Make sure that lack of re-exposure is duly justified.
- Ensure that impact and post-implementation studies are carried out and the consequences of these studies duly published.
- The DPOC should regularly consult to ensure that the due process procedures are adequate and meet the needs and expectations of stakeholders.

#### *3.55. Strict application of mandatory steps*

A number of respondents went further and urged the Trustees to change the Constitution to explicitly prohibit any override of mandatory due process steps, such as that which occurred in respect of IAS 39.

#### *3.56. Enhanced communication of oversight activities*

Some of the respondents attending the roundtable meetings noted that the Trustees have always carried out their oversight responsibilities appropriately, but that they should focus on publicising their work more transparently. Greater efforts were therefore necessary to ensure that the DPOC's work was highlighted on the Foundation's website and in its annual report.

#### *3.57. Staff resource*

Respondents also broadly supported and welcomed the proposal to provide a dedicated staff resource to support the work of the DPOC.

#### *3.58. Re-exposure decisions*

A number of respondents noted that when the same comments continue to be raised by a majority, or a significant minority, of respondents during every stage of the standard-setting process, this should oblige the Board to address the concerns again, and to reconsider the impact assessment and needs analysis in order to assess whether all practical implications have been appropriately considered.

The majority of these respondents were of the view that the Trustees should have an oversight role to review, with the IASB, its policy towards re-exposure of proposed new IFRSs.

3.59. *Outreach and feedback*

A number of respondents acknowledged and welcomed the IASB's much increased use of outreach activities in connection with its work programme, and the greater provision of information and feedback on progress and outcome of projects through Summaries, podcasts, website and other communication mechanisms.

3.60. *Financial statements prepares and users*

A number of respondents noted that further actions should be taken during due process activities to ensure there is adequate involvement of financial statements prepares and users in the standard-setting process. Outreach activities need to be undertaken with an appropriate number of varied interest groups to ensure a balanced view is presented to the IASB. To achieve the full potential of the public comment process, all aspects of any proposed standard, including consequential amendments to other standards, need to be exposed.

3.61. *Conceptual Framework*

A number of respondents noted the importance of the role of the Conceptual Framework in relation to the Trustees' role. As part of the due process oversight, the Trustees should play an increasingly important role in monitoring compliance with the Framework and ensuring that it is amended as and when necessary.

3.62. *Time to respond*

A number of respondents noted that the IASB's due process has always been impressive, but in order for that to bear out in practice, it is essential for stakeholders to be given an appropriate period of time to examine and respond to IASB consultations, and to feel that their views are considered carefully by the IASB.

3.63. *Targeted nature of due process*

One respondent from Australia, expressed concern about the targeted nature of some of the IASB's due process. These respondents were of the view that whilst targeted due process may serve the needs of the IASB, it made the transition and application of those standards in the wider national context more difficult. This resulted in national standard-setters having to re-test the standard at national level, which took time and removed the possibility or benefits of early adoption. Therefore these respondents urged the IASB to carry out wide-spread consultation during its due process.

3.64. *A need for balance*

A number of respondents, including those attending the roundtable meetings, noted that whilst due process is extremely important, it should be kept to a reasonable level and cautioned against an over emphasis on due process that would detract from the resourcing of the standard-setting function and the overall goals of the Foundation. A balance is therefore necessary.

**C3 – Process: strengthening the process and procedures of the IFRS Foundation and the IASB**

**Stakeholder feedback and enhancements in the agenda-setting and standard-setting process:**

Building on the existing due process framework and in an effort to improve the usability of financial information, the IASB should undertake the following:

- **Agenda-setting:** public consultation and full IASB feedback so as to clearly demonstrate how priorities on its agenda are set.
- **Field visits/tests and effect analyses:** the IASB should work with relevant parties to develop an agreed methodology for field visits/tests and effect analyses.
- **Integration of XBRL into the standard-setting process:** In order to take into account the impact of technology, the development of the IFRS XBRL taxonomy should be integrated into the IASB’s due process. There should also be the development of relevant XBRL taxonomy extensions.

*3.65. Support for enhanced due process*

There was overwhelming support for the proposed enhancements to due process in the form of consultation on setting the agenda, field testing and effect analysis. More specifically the following was noted:

*3.66. Agenda setting*

The majority of respondents welcomed the proposed enhancements to the IASB’s public consultation on agenda setting. These respondents noted that the IASB should carry out thorough and widespread consultation, provide full feedback and justification for the chosen agenda items and their prioritisation. Agenda decisions need to be backed by evidence that changes or developments are needed and that the benefits of changes outweigh the costs. Such analysis must therefore be performed at the agenda-setting stage and then throughout the lifetime of the project. This will ensure that the IASB is working on material that is both relevant and necessary to stakeholders. The IASB must ensure that standards are credible, useable and able to reflect business activities as they are conducted by the company’s management.

One respondent noted that the public agenda consultation would ensure that the wider strategic implications and the public interest dimension would also be properly considered. The agenda decision should start with the examination and description of what improvement is expected to be made to the resulting financial reporting.

*3.67. The role of the Trustees in overseeing the agenda and work programme*

A minority of mainly European respondents however noted that the Strategy Review did not define the role of the Trustees in overseeing the setting of the IASB’s agenda. These respondents were of the view that the Trustees should have an enhanced role of oversight over the IASB’s agenda setting and the resulting work programme so as to ensure that they remains relevant to



stakeholders and the benefits outweigh the costs. This minority view was not supported by the majority of respondents.

A large number of respondents suggested that the Trustees should ensure that the Board concentrates on projects that are relevant and necessary to stakeholders and has sufficient resources to conduct the chosen projects on its agenda. In so doing, the Trustees would also ensure that the programme timetable is manageable and appropriate for both the Board and stakeholders, who need to comment on outreach and await feedback.

Most respondents were of the view that this proposed extension of the Trustees' oversight role would not amount to an interference with the technical agenda and would not impact negatively on the independence of the IASB.

### *3.68. No interference from the Monitoring Board*

The majority of respondents however, were anxious to point out that any oversight of the IASB should not be extended to the MB, who should be prohibited from being able to influence the IASB or its technical agenda. Were the remit of the MB extended to include oversight of the IASB, then the independence of the IASB and the global value of IFRSs would be undermined.

### *3.69. The role of the Advisory Council in agenda setting*

To enhance the Advisory Council's (AC) legitimacy and effectiveness, this body should be consulted before and after the proposed agenda consultation, and before the IASB issues its conclusions following that consultation. Only in this way will the AC be able to fulfil its remit of providing advice and input on the IASB's agenda and activities. The AC provides the IASB with a good perspective as to users' views at any given time.

### *3.70. Field testing and effect analysis*

The majority of respondents welcomed the proposed enhancements in due process through the regular use of field testing and effect analysis since they provide credibility to the standard-setting process. Many recommended the use of effect analysis as early as possible in the life cycle of a standard, preferably at the agenda setting stage. Sufficient time should also be provided to allow for adequate field testing and effect analysis. These enhancements would helpfully show up unintended interpretations and consequences.

Many urged field testing to be conducted in all areas, and not limit it to only rare circumstances. A number of stakeholders suggested that proposals on all major projects need to be field-tested to test their practicability. The results need to be made available, so that constituents can assess them.

A number of stakeholders recommended the benchmarking of field-testing and effect analysis methodology with other organisations similar to the IASB, so as to ensure best practice.

3.71. *Integration of XBRL into the standard-setting process*

Whilst many supported XBRL as a powerful tool to transfer information, the vast majority of respondents did not support its integration into the standard-setting process. Many were of the view that if the Trustees integrated XBRL into the standard-setting process, this would risk providing the wrong incentive with regard to the volume of disclosures in an era where reduction of overall disclosure volume is being called for. Furthermore, respondents did not believe that the Board were adequately equipped to formally decide on technical IT issues concerning XBRL tagging as part of the formal standard-setting due process.

**C4 – Process: strengthening the process and procedures of the IFRS Foundation and the IASB**

**Actions aimed at consistency of IFRS implementation:**

To support the Foundation’s interest in consistent application of IFRSs and within the IASB’s standard-setting mandate, the Foundation and the IASB should undertake the following actions:

- **Post-implementation reviews:** using an agreed methodology, undertake post-implementation reviews to help identify implementation issues.
- **Formal cooperation to address divergence:** to establish formal co-operation arrangements with securities regulators, audit regulators and national standard-setters to receive feedback on how IFRSs are being implemented and to encourage actions aimed at addressing divergence.
- **IFRS Interpretations Committee (IC):** The IC’s role and remit to be reviewed to ensure consistency of interpretation, without undermining the commitment to a principle-based approach to standard-setting.

**C5 – Process: strengthening the process and procedures of the IFRS Foundation and the IASB**

**Importance of national and other accounting standard-setters:**

- The Foundation and the IASB should encourage the maintenance of a network of national and other accounting standard-setting bodies as an integral part of the global standard-setting process.
- In addition to performing functions within their mandates, national and other accounting standard-setting bodies should continue to undertake research, provide guidance on the IASB’s priorities, encourage stakeholder input from their own jurisdiction into the IASB’s due process and identify emerging issues.

3.72. *Post –implementation reviews*

The vast majority of respondents welcomed the introduction of post-implementation reviews and said that they would be an important component of the IASB’s post-2011 agenda.

A number of respondents did not agree with the Strategy Review that such review should be limited to important issues identified as contentious during the development of the pronouncement, and reviewing any unexpected costs or implementation problems encountered. These respondents were of the view that post-implementation reviews should have a wider scope, including consideration of whether the information produced as a result of any pronouncement, is useful and used by the users of financial reporting. Post-implementation reviews should include any unexpected impacts and implementation concerns.

One respondent suggested that the post-implementation review process should be carried out by the IASB staff, but managed by the Foundation as part of its oversight responsibilities. This would give the Foundation insight into:

- the IASB's process of issuing a standard;
- how well the IASB responded to issues raised by stakeholders; and
- whether concerns on guidance that subsequently resulted in application guidance were adequately addressed.

Another respondent was of the view that the post-implementation review process should be carried out by a body independent of the IASB so as to remove any possible conflict of interest, or even a suspicion of conflict of interest. This respondent recommended that the post-implementation review could be carried out by national standard-setters or other accounting bodies, which would improve the IASB and the Foundation's public accountability.

### *3.73. Formal cooperation to address divergence*

The majority of respondents agreed with the proposals to encourage and maintain a network of national and other accounting standard-setting bodies as an integral part of consultation and outreach necessary for the global standard-setting process.

The majority of respondents agreed that a pivotal role for these bodies would be to identify inconsistencies in the application of IFRSs. However some respondents were of the view that their role could be broader. The following were some of the suggestions of broadened reliance on these bodies:

- One stakeholder suggested that these bodies should be more involved in due process. The IASB should leverage on their resources and their strong practical experience to improve its own standard-setting process.
- These bodies could propose standard interpretations or amendments to resolve identified issues, which would result in a reduction of resources need by the IASB and the IC, or leverage on their resources.
- They could augment the IASB's research.
- They could provide guidance on the IASB's priorities.

- They could encourage stakeholder input from their own jurisdiction into the IASB's due process and to identify emerging issues in the application of IFRSs.

### 3.74. *Quality and Substance of Disclosures*

Some of the respondents at the roundtable meetings noted that auditors feel as though IFRSs have focused on enhancement of disclosure, but the quality and substance of disclosures have changed. These respondents were of the view that the Foundation's strategy should therefore emphasise auditing and stability of the audit as well. Close contact should be maintained with the International Valuation Standards Council (IVSC).

### 3.75. *IFRS Interpretations Committee (IC)*

The vast majority of respondents supported the proposed review of the IC and called for the Trustees to clarify the role and function of the IC.

One respondent said that many view the role of the IC as one that is aimed at, not just providing interpretations, but identifying areas of divergence between different jurisdictions as part of the IC agenda setting process. This respondent noted that the Foundation should address the expectation gap between what the public expects the role of the IC to be and how this role is perceived by the Trustees. This needs to be addressed. Many noted that principle-based standards require application guidance and examples to aid better understanding of the standards and it is critical to the Foundation's goal of promoting consistent application of IFRSs.

The majority of respondents noted that a more active IC was very closely related to, and a part of, the IASB working closely with securities regulators, audit regulators and national standard-setters.

At the roundtable meetings, there was a suggestion that the productivity of IC could be enhanced by putting full time board members on that committee. It was noted that IC members need up-to-date experience and practical knowledge which would be inconsistent with full time membership.

### 3.76. *Conceptual Framework*

A number of respondents were of the view that in order to achieve the objectives of financial reporting, the body of standards taken as a whole should be based on the Conceptual Framework that is sound and consistent.

These respondents urged the IASB to complete its work on the Conceptual Framework as a whole since this will provide structure and direction to the development, interpretation and consistency of IFRS implementation. These respondents call for the Framework to have the formal status of principles upon which all standards are based and to therefore be a relevant source of reference when an individual standard does not cover a particular issue. Accordingly, the Conceptual Framework will play a significant role in ensuring the consistent application of standards.

**C6 – Process: strengthening the process and procedures of the IFRS Foundation and the IASB**

**Dedicated research capacity:**

To provide thought leadership in the field of financial reporting, the IASB should establish, or facilitate the establishment of, a dedicated research capacity.

*3.77. Co-operation with organisations and standard-setters*

The majority of respondents, who commented on this principle, welcomed the proposal of the IASB to carry out research and strive for thought leadership in the field. The majority of respondents were of the view that whilst academic research is extremely important in the standard-setting process, it requires a significant resource, which might be beyond the means of the Foundation. Almost all respondents suggested that the Foundation should not create a dedicated research capacity within the organisation, which would be resource intense and detract from the available resources required for the standard-setting process.

Accordingly respondents were of the view that the IASB should conserve its resources by maximising reliance on existing research and various alternative academic facilities and organisations globally. The suggestions to augment the IASB’s research capacity included the following:

- Commission research and guidance, provided by the network of national and international organisations, national standard-setters and other accounting standard-setting bodies, all of whom were best placed to assist the IASB in carrying out and contributing to existing research.
- Working in partnership with relevant organisations, such as the IAAER and the ICAEW, to name only two. Both of these bodies expressed interest in contributing and working closely with the IASB in achieving this goal.
- Relying more heavily on working groups.
- Taking advantage of the ready pool of existing academic accounting researchers.
- Holding regular roundtable meetings with academics, where arising accounting issues could be discussed before agenda decisions are made.
- Creating an academic panel, with whom the IASB could meet on a regular basis.

*3.78. Early stage research*

During the roundtable meetings some respondents noted that the IASB would benefit from undertaking greater research at the earliest stages of the standard-setting process. This would ensure that a coherent and more broadly accepted set of standards were developed.

*3.79. Discussion Papers*

One respondent noted that the IASB does not make sufficient use of the Discussion Paper phase, where conceptual issues need to be addressed and be solved during the standard setting process.

3.80. *Emphasis on practical and necessary standards*

A number of respondents, when commenting on the matter of academic research, sought to emphasise that whilst they supported necessary research, the IASB and the Trustees should be alert to the fact that theoretical standards need to be avoided and IFRSs should be consistent with general business practice, business models and investor needs.

3.81. *Academic IASB member*

One or two respondents, mainly from the academic community, recommended the appointment of an academic on to the IASB.

3.82. *The Advisory Council*

One respondent noted that the Trustees' Strategy should make greater reference to the role of the Advisory Council (AC) in assisting in contributing to through leadership. The Trustees should be aware of, and address, frustrations among its membership.

**D1 – Financing: ensuring the Foundation has a broad and sustainable source of funding**

The funding system must maintain the independence of the standard-setting process, while providing organisational accountability.

**D2 – Financing: ensuring the Foundation has a broad and sustainable source of funding**

- The existing base of financing should be expanded to enable the IFRS Foundation to serve the global community better and to fulfil the strategy described above.
- Specifically, funding should be proposed by the Trustees to be on a long-term basis (at least three to five years), be publicly sponsored, be flexible to permit the use of differing mechanisms and to adjust to budgetary needs, be shared among jurisdictions on the basis of an agreed formula (consistent with the principle of proportionality) and provide sufficient organisational accountability.

3.83. *General agreement*

The majority of respondents strongly supported the proposed long term, broad-based and sustainable funding model for the Foundation, to safeguard its position as the world's independent accounting standard-setter. There was overwhelming emphasis on the need to ensure the independence and good governance of the IASB, by means of funding that would not place any one stakeholder in a position of conflict of interest, or even create the perception of a possibility of undue influence or conflict of interest.

The majority of respondents agreed that funding should be borne by the counties and stakeholders adopting and benefiting from IFRSs. Most respondents agreed that a proportionate (based on GDG or some other similar mechanism), compulsory allocation, or levy, according to appropriate

criteria, would be reasonable and fair. Principles should be devised to guide the design of the funding regime. For example, the system should be:

- transparent;
- build in inflationary rises;
- be independent of the political process; and
- be free from perceived conflicts of interest.

#### 3.84. *Funding suggestions*

Various funding suggestions included:

- The Foundation's governance structure should be expanded to include representation from industry groups and major sectors of the economy, which would broaden the pool of funding.
- Drawing funding from preparers of financial statements by way of levy on large companies and from the accountancy profession.
- The MB could play a valuable role in helping to facilitate a stable funding strategy and mechanism, for example by encouraging national public authorities to assist in the setting up of levy-based systems that meet the guiding principles.
- A small IFRS levy could be added to listing fees for all listed companies.

#### 3.85. *Collection of Funding*

One respondent noted that the collection of the Foundation's funding should be delegated to each jurisdiction in a sufficiently flexible way to ensure independence. Funding should be collected annually or at least on a short-term basis.

#### 3.86. *Foundation budget*

A number of respondents said that the Foundation should improve the transparency of its budget setting process and disclose in reasonable detail its annual budget and justify how funds will be used. The Foundation's budget should provide an obvious link to the evolution of the IASB's agenda. This would support the Foundation's funding efforts and at the same time assist in increasing public appreciation and confidence in the Foundation's work.

#### 3.87. *Funding and transparent governance*

A minority of respondents noted that any Foundation funding should be conditioned on a strong and globally accepted governance structure. However, a majority of respondents strongly disagreed with any link between the governance and oversight of the IASB and its funding, since this was perceived to be a possible mechanism by which the IASB's independence could be eroded. It was however widely recognised that the independence of the IASB was predicated on it being fully accountable and transparent.

#### 4. Other Observations

- **Co-ordination with the MB's review**

Since the IFRS Foundation's Monitoring Board is also undertaking its own separate review of the Foundation's governance arrangements, many respondents have indicated the expectation that there will be a single, co-ordinated document that incorporates an integrated package of measures and an action plan to implement necessary improvements from both the Trustees and the Monitoring Board, and that there should be no conflicting recommendations.

Some respondents expressed disappointment that this co-ordination was not carried out before the Trustees and the MB issued their respective review documents. The view of some respondents was that a single consultation document or at least a co-ordination in the two consultations should have been carried out. A single document would have resulted in clear and certain proposals and would have ensured a consistent message.

One respondent noted that the MB consultation suggested that it should take on more of the Trustees' responsibilities without knowing the Trustees' views on this.

- **Regional balance in standard setting**

A number of respondents from Asia noted that over the past 10 years, the IASB's activities have focused heavily on the needs of the EU and the US; the latter in encouraging their adoption of IFRSs. Whilst these goals are important, there is a growing level of fatigue amongst other countries that have adopted IFRSs. These stakeholders are of the view that the IASB's rapid work programme has been driven solely by these particular strategic objectives, and the Foundation's focus has not been balanced on addressing the technical needs of the global community.

Accordingly, it was recommended that the critical objective of the IASB over the next decade should be to develop a set of high quality accounting standards which strikes the appropriate balance between conceptual grounding and pragmatism, and this is only achievable through consideration of all significant technical aspects within a relatively stable standard setting environment.

- **Representation on the governance structures of the Foundation**

Related to the above point, a number of respondents noted that jurisdictions currently applying IFRSs are not given sufficient representation and voting rights on the key governance structures of the Foundation. In some instances, other jurisdictions who may not have adopted IFRS are given increased representation and voting rights. Whilst it is noted that IASB and Trustee members are appointed to be independent, it is still considered necessary to address the perceived imbalance.



- **Membership of the Trustees and the IASB**

One respondent observed that the Strategy Review suggests that should certain major jurisdictions fail to indicate their intentions to adopt IFRSs, or move towards adoption, the Trustees will revisit the suggested geographical distribution of the membership of the Foundation Trustees and the IASB. It was noted that this statement creates the impression that the Trustees and the IASB members are selected on unwarranted geographical factors rather than on the basis of their expertise. The respondent was of the view that this was not the Trustees' true intention, but it was an inadvertent effect of that statement. Accordingly, the Trustees were urged to confirm that the IASB and Trustees were appointed on merit, their capacity to contribute and taking into account their extensive knowledge and experience.

- **Conceptual Framework**

Many respondents urged the IASB to complete the Conceptual Framework in the period of calm which should follow the conclusion of the convergence work programme. Many believe that the Conceptual Framework is essential for the IASB in order to address cross-cutting issues coherently in the future development of IFRSs.

- **IFRS Foundation Reviews**

It was noted that the Trustees have recently launched a series of reviews that have a bearing on the Foundation's future strategy, including:

- The current review;
- The review of the effectiveness of the IFRS Interpretations Committee; and
- The review of the IFRS Advisory Council (as part of the conclusions of the Constitutional review on 15 February 2010).

There are various inter-linkages between these different reviews, which precludes treating them in isolation. It would therefore have been helpful for the Trustees' strategy review report to reflect the different reviews and their outcomes.

- **IFRS Constitution and the IASB's Due Process Handbook**

One respondent noted that it remains unclear whether there will be need to amend the Foundation's Constitution and the IASB's Due Process Handbook, as a result of the changes recommended by the current strategy review; or whether the changes will be treated as a gentleman's agreement between the Trustees, the MB, the IASB, until such time as the Constitution is due, once again, for a review. There was a suggestion that this needs to be clarified.

- **Time for consultation and pace of change**

A number of respondents noted that the amount and pace of work currently being undertaken by the IASB is placing an undue burden on constituents and stakeholders and making it very difficult to give considered feedback. These respondents urge the IASB to give stakeholders sufficient time for properly considered constituent feedback.

Related to this, many stakeholders noted that for consistent application, it is essential that the pace of change should be reasonable to let issuer, users and other stakeholders manage, and adjust to, the change, and that periods of stability in the accounting requirements should be granted, so as to support maximum consistency of financial information over time.

These stakeholders suggest that the IASB should focus on post-implementation reviews and promoting consistent application, which would mean a more prominent role for the IC.

- **Acknowledgment of thanks**

The Trustees should also acknowledge and thank the many respondents who commended the timing of this review and the efforts that were made to ensure wide stakeholder consultation and feedback.