

AGENDA PAPER

IFRS Foundation Trustees meeting with the Monitoring Board

Washington DC 12 July 2012

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To: The Monitoring Board

From: Michel Prada

Date: 4 July 2012

Chairman of Trustees Report: Trustees' Strategy Review and Monitoring Board Governance Review—Status Update

This is my first report to the Monitoring Board as the Chairman of Trustees since being appointed in January 2012. The IFRS Foundation *Annual Report 2011*, published on 12 June, includes a report from the Chairman of the Trustees describing the IFRS Foundation objectives for 2011 and how they were achieved. That section of the Annual Report is included as an appendix to this paper.

This focus of this paper is to provide a progress report on the work of the Trustees to implement the recommendations of the Strategy Review as well as those actions resulting from the Monitoring Board's Governance Review that are relevant for the Trustees.

Recommendations of the Monitoring board Governance Review relevant to the Trustees

1. Trustee selection process—the Trustees, through the Trustees' Nominating Committee, are in the process of further enhancing the documentation of the criteria and process for Trustee nominations and appointments, including consideration of the publication of such materials on the IFRS Foundation website. Such enhancements will be discussed further during the July 2012 meeting of the Trustees' Nominations Committee meeting.

2. Greater separation between the governance and standard-setting functions— the Monitoring Board Governance Review encouraged the Trustees to ensure a clear division of responsibilities and reporting lines between staff supporting the IASB’s standard-setting functions and those assisting the Trustees in oversight functions.

Accordingly, the Trustees have appointed David Loweth as Director for Trustee Activities to provide senior technical and managerial support, separate to that of the IASB. His appointment will assist the Trustees as they discharge their responsibilities to oversee the activities and standard-setting process of the IASB. Mr Loweth is a former Technical Director of the United Kingdom Accounting Standards Board (ASB).

Furthermore, the Monitoring Board recommended a separation of the combined role of Chairman of the IASB and Chief Executive Officer (CEO) of the IFRS Foundation. To comply with this recommendation, the Chairman of the IASB no longer serves as the CEO of the IFRS Foundation. These responsibilities have been transferred to Yael Almog, who has recently been appointed as Executive Director of the IFRS Foundation. The Trustees will shortly publish for public comment the required changes to the IFRS Foundation Constitution (a draft of which is included as an observer note for the meeting).

Recommendations from the Trustees’ Strategy Review

3. Mission: defining the public interest to which the IFRS Foundation is committed.

Adoption of IFRSs

The Strategy Review recommended that the IFRS Foundation should remain committed to the long-term goal of the global adoption of IFRSs as developed by the IASB. In pursuit of this goal, the Strategy Review recommended that in co-operation with others, the IFRS Foundation should develop mechanisms to provide greater information on the use of IFRSs, where adoption of IFRSs is incomplete and where there is divergence from the full set of IFRSs as issued by the IASB.

We are responding to these recommendations in two ways.

First, we are considering to conduct a survey of national standard-setter and regional bodies in order to form a more accurate assessment of the adoption of IFRSs around the world. The survey seek feedback on the progress individual jurisdictions have made on the path towards IFRSs and the various endorsement mechanisms used to incorporate IFRSs in to the local financial reporting regime. It is intended that this data will be kept up to date through repeated survey activities.

Second, we have begun discussions with external bodies such as IOSCO to jointly consider conducting thematic assessments of IFRS adoption. Securities regulators are well placed to conduct such assessments. Deepening ties with IOSCO, as well as at a regional and national level has the potential to improve consistency in the application of the standards and to use this feedback to assist in the development of new standards and surveys that will be conducted by the Foundation itself. These mechanisms are still work in progress.

Consistency of application and implementation

The Strategy Review included a number of recommendations to support the IFRS Foundation's interest in consistent application, including;

- a. undertaking post-implementation reviews to help identify implementation issues. The first post-implementation review, on IFRS 8 *Segment Reporting*, is under way already;
- b. reviewing and possibly enhancing the scope of the activities of the IFRS Interpretations Committee. As noted in David Sidwell's report Paper MB4, in May the Trustees published the conclusions of their two-year review of the efficiency and effectiveness of the Interpretations Committee.

These recommendations are reflected in the draft *Due Process Handbook*, published for public comment in May 2012.

Furthermore, the Review recommended that the IASB should work with a network of securities regulators and others to identify where divergence in practice occurs across borders. In May 2012 I attended the annual IOSCO conference in Beijing and gave a speech that proposed a more proactive relationship with IOSCO. The combination of

the Trustees' Strategy Review and the restructuring of the IOSCO Board and senior committees presents an opportunity to deepen and formalise this co-operation. Discussions with IOSCO at the leadership level and at the Committees level have begun. We are also considering internal organisational changes to specifically address implementation challenges with adequate resources.

4. Governance

Both the Monitoring Board Governance Review and the Trustees' strategy Review endorse the existing three-tier governance arrangements. However, both reviews also recommend that the procedures and interaction between each tier should be enhanced.

The DPOC is developing a protocol that describes how the Trustees discharge their oversight responsibilities. Furthermore, the IASB is intending to establish several Board-level committees tasked with developing frameworks and reporting mechanisms to implement the recommendations of the Strategy Review.

5. Standard-setting process

Enhancements to due process

The Strategy Review identified further enhancements to the IASB's due process, including:

- a. more active oversight through the Trustees' Due Process Oversight Committee (DPOC);
- b. a clearer demonstration of how IASB priorities are set;
- c. the development of a methodology for field testing and post-implementation reviews; and
- d. greater consideration of translation and electronic filing requirements during the development of new IFRSs.

The DPOC is overseeing the introduction of these enhancements. This work is described in paper MB4.

Closer co-operation with national accounting standard-setters and regional bodies with an interest in standard-setting

The Strategy Review foresees new ways of working with national and regional bodies with an interest in accounting standard-setting. It calls on the IASB to establish more structured and formal relationships with the standard-setting community around the world and to engage these bodies early in the process of standard-setting. The benefit will be better integration of the global perspective into the standard-setting process and perhaps a reduction in the risk of non-endorsement of a new standard.

The Review also describes possible ways to more fully integrate the activities of these organisations into the IASB's formal standard-setting process. This work, led by Yael Almog is now in progress. At their July 2012 meeting, the Trustees will consider a variety of approaches to addressing this important topic.

6. Financing

The Strategy Review recommended that the existing base of financing should be expanded to enable the IFRS Foundation to fulfil its mission. To achieve this objective, funding should 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 (that would be consistent with the principle of proportionality) and to provide sufficient organisational accountability.

When the IFRS Foundation was established in 2001, almost all of the financing for the organisation was on the basis of voluntary contributions. As a result of efforts over several years to put the funding of the organisation on a more sustainable footing, the 2011 Annual Report shows that the majority of funding is now on the basis of the principles outlined above.

However, this transition is not yet complete. Not all jurisdictions applying IFRSs are contributing to the financing of the organisation. Some jurisdictions still rely on private-sector, voluntary contributions to meet their financing obligations, while other jurisdictions have in place fixed financing arrangements that lack flexibility to meet the increased expectations resulting from the conclusions of the Governance and

Strategy Reviews. The organisation still relies on financial contributions from the large accounting firms as well as licensing arrangements from publications and comprehensive access to the standards in order to meet its obligations.

In recent months, the Trustees and staff have stepped-up efforts to address many of these areas. However, there is also recognition of the important role that the Monitoring Board has to play in identifying, and helping to implement, a permanent resolution to the funding of the organisation. The Trustees look forward to a fruitful discussion with the Monitoring Board on this important topic.

Report of the Chairman of the IFRS Foundation Trustees

This is my first report as Chairman of the Trustees, having been appointed in January 2012. I am grateful to Aki Fujinuma and Robert Glauber for stepping in to serve as acting Co-Chairmen following the tragic and sudden death in 2010 of Tommaso Padoa-Schioppa, my friend and former Chairman of the IFRS Foundation Trustees.



MICHEL PRADA
CHAIRMAN
IFRS FOUNDATION TRUSTEES

The achievements of the last 12 months owe a great deal to the vision of Tommaso and the tenacity and determination of Aki and Bob to finalise a strategy review that sets out the steps to put this vision into effect.

My appointment brings me back to familiar ground. In 2000, as well as serving as Chairman of the Autorité des Marchés Financiers (the French securities regulator), I also served as Chairman of the Technical Committee of the International Organization of Securities Commissions (IOSCO) when it endorsed for cross-border listings the 'core standards' of the International Accounting Standards Committee (IASC) predecessor of the International Accounting Standards Board (IASB). That decision helped to foster the process of restructuring the part-time IASC into the IFRS Foundation and the full-time IASB that you see today. Paul Volcker became the first Chairman of the IFRS Foundation Trustees, and I am delighted to serve as the current Chairman.

The path towards global standards

Returning a decade later, the progress made toward this goal is truly remarkable—both in terms of organisation and achievement.

As an organisation, the IFRS Foundation, and with it, the IASB, has matured into a truly international organisation with world-class levels of transparency and public consultation. For example, at the last count the 59 technical staff and 15 members of the IASB came from almost 30 different countries. This is truly remarkable diversity of the kind required when developing standards that must be applied on a consistent basis around the globe.

In terms of achievement, companies in more than 100 countries are now required or permitted to use International Financial Reporting Standards (IFRSs). In the last two years alone we have seen Brazil, Canada, Korea, Mexico and Russia all adopt IFRSs. From this year, more than two thirds of the G20 members will require the use of IFRSs, with almost half of Fortune Global 500 companies now complying with IFRSs. Against any measure, these are impressive achievements in little more than 10 years.

While international competitiveness and cost effectiveness have been significant drivers of IFRS adoption, the ongoing financial crisis provides an ever present reminder of the need to achieve global acceptance of a single set of high quality accounting standards.

Each phase of the crisis has offered a further, graphic illustration of the globally interconnected nature of financial markets. That is why repeated communiqués from the G20 have supported the work of the IASB and called for a rapid move towards global accounting standards.

Completion of 2011 priorities

Against the backdrop of a decade of success, I am pleased to report that a great deal has been achieved in the last 12 months. The Trustees had identified three objectives for 2011:

1. To ensure a smooth transition in the leadership of the organisation.
2. To complete the comprehensive review of the strategy of the organisation.
3. For the Trustees' Due Process Oversight Committee (DPOC) to play a more visible and active role in the oversight of the IASB's due process.

Each of these objectives has now been met:

1. At the beginning of the year we had the vacancy of the Trustee Chairman and the impending retirement of Sir David Tweedie. In December 2011 the Trustees announced that the Monitoring Board had approved my own appointment to serve as Chairman of the Trustees from January 2012, supported by Aki

and Bob who will continue to serve as our two Vice-Chairmen. Meanwhile, in July 2011

Hans Hoogervorst succeeded Sir David Tweedie as Chairman of the IASB, with Ian Mackintosh serving as his Vice-Chairman. I believe that the transition in leadership has been handled very effectively. My thanks go to Sir Bryan Nicholson as Chairman of the Trustees' Nominating Committee for his work in this area.

2. During 2011, the Trustees undertook a substantial review of their future strategy, working in close co-operation with the Monitoring Board as it completed its own review of governance arrangements. Both the Monitoring Board and the Trustees consulted widely throughout 2011, publishing proposals and preliminary conclusions for public comment while conducting public round-table discussions around the world. The conclusions of both reviews were published jointly in February 2012. Much of the credit for the successful and co-ordinated effort should go to the Acting Co-Chairmen of the Trustees and to Masa Kono, Acting Chairman of the Monitoring Board.

The Trustees support the conclusions of the Monitoring Board governance review and are taking steps to ensure

that those recommendations that are relevant to the Trustees are implemented in a timely manner.

3. Under the Chairmanship of David Sidwell, the Trustees' Due Process Oversight Committee (DPOC) has continued to deepen its oversight and interaction with the IASB throughout the life cycle of the standard-setting process. The report of the Chairman of the DPOC is included as a separate section of this Annual Report. David has been a tireless leader of this important Committee and I am delighted that Scott Evans has agreed to act as his Vice-Chairman.

Priorities for 2012

Attention now turns to our priorities for the coming year. These priorities fall naturally out of the recommendations from the governance and strategy reviews and follow three broad themes.

1. Further enhancements to transparency and clearer separation of standard-setting and governance activities

The Trustees, through the DPOC, will complete a further and substantial package of enhancements to the transparency and oversight of the IASB's standard-setting process. These enhancements build on a due process that was independently assessed¹ as best

¹ One World Trust 2007 Global Accountability Report—see www.oneworldtrust.org

practice among comparable international organisations and will further develop confidence and trust in the quality of the IASB's activities. The enhancements will include the completion of a protocol for due process oversight by Trustees as well as a substantial update to the *Due Process Handbook* to incorporate operating requirements for post-implementation reviews and other due process enhancements that were identified by the governance and strategy reviews.

The Trustees will also take steps to ensure a greater separation between the governance and standard-setting functions. Consistent with the conclusions of the Monitoring Board Governance Review, the IASB Chairman will also no longer serve as Chief Executive Officer of the IFRS Foundation. Instead, these responsibilities will be transferred to the newly created position of Executive Director of the IFRS Foundation. We were delighted to welcome Yael Almog to this position. Furthermore, the Trustees will invest further in independent resources to support Trustee activities, including the appointment of David Loweth as Director for Trustee Activities, which took place in early 2012, to provide specific resources and support to the Trustees in their oversight activities.

2. Greater emphasis on global adoption through the consistent application of the standards

The Trustees' strategy review recognised the achievements of international convergence towards a single set of standards. However, we will only achieve this goal if the standards are applied and enforced on a consistent basis.

The Trustees have already taken steps to further integrate the IASB's interpretations and implementation support activities by appointing Wayne Upton to lead both functions. The Trustees completed their review of the efficiency and effectiveness of the IFRS Interpretations Committee, and the resulting changes will be implemented during 2012. Furthermore, the education and content services activities of the IFRS Foundation will undertake initiatives to promote consistent application of the standards.

3. More formalised interaction with international, regional and national authorities with an interest in accounting standards

The development of IFRSs has benefited from the IASB's collaboration with the worldwide financial reporting

community across both developed and emerging economies. In recent years, the IASB has deepened its co-operation with audit, securities and prudential regulators through a process known as the 'enhanced technical dialogue'. The strategy review recognises a need to more fully integrate this co-operation into the IASB's standard-setting processes. During the year, the IFRS Foundation will establish mechanisms to achieve this goal. This will include the introduction of more formal co-operation arrangements with others involved in the development, endorsement, enforcement and application of IFRSs. In addition to these initiatives, the IASB will introduce a new 'research phase' to its work programme that provides close coupling between the resources of national and regional bodies with an interest in financial reporting and the IASB.

The Trustees have begun the process of updating the Constitution and the Memorandum of Understanding between the Monitoring Board and the Trustees to reflect the changes that were agreed as the result of the two complementary reviews.

Financing

The year 2011 contained many financial and operational challenges. The Trustees were determined to return the Foundation to a balanced budget while meeting the increasing demands to fulfil its mission. A small operating surplus was achieved in 2011, primarily from achieving funding goals through the continued support of many contributors. I wish to thank all of our financial supporters, who are listed later in this report.

In 2012 the Trustees plan to maintain a balanced budget. The Trustees continue to make good progress against the objective to establish a stable funding mechanism based on public contributions. The Foundation is proactively enlisting support and new funding from countries that have recently adopted or that are in process of adopting IFRSs.

Conclusion

In closing, I would like to thank Marvin Cheung, Samuel A. DiPiazza, Zhongli Liu, Sir Bryan Nicholson and TV Mohandas Pai, who all completed their terms as Trustees at the end of the year. Each has invested considerable time in helping to further the mission of the IFRS Foundation. On behalf of the Trustees, I also wish to thank Sir David Tweedie for his remarkable leadership of the IASB during the last ten years. He, along with Warren McGregor and Tatsumi Yamada, who also



Staff in focus

Wladyslaw Krawiec, XBRL IT Developer (Poland)

What do you like most about your work?

Working on an innovative technology like XBRL that has the potential to really make a difference to global financial reporting.

What has 2011 meant to you?

I helped to expand the IFRS taxonomy to include commonly used extensions that make life easier for preparers and improve consistency.

Your objective for 2012?

Contribute to further reducing the production time of the Taxonomy.

retired during the year, were founding members of the IASB and should be proud of their contribution to the successes of the organisation.

I also want to express my thanks to Tom Seidenstein, the organisation's Chief Operating Officer who left at the end of 2011. His work made an important contribution to the success of the IFRS Foundation.

Lastly, my thanks go to the many thousands of organisations and individuals who comment on the work of the IASB as well as the practical support offered by national and regional accounting standard-setting bodies around the world. Particular thanks should go to the Chinese, Italian, Japanese and Korean national standard-setting authorities for providing seconded technical staff to the IASB.

Progress towards global accounting standards reflects the desire to have a commonly accepted reporting framework in a world of integrated global capital markets. The financial crisis has increased the urgency of this work. The Trustees' strategy review and the Monitoring Board's governance review describe the steps to allow IFRSs to become global standards and for the IASB to become the global accounting standard-setter. I and my fellow Trustees are fully committed to implementing these conclusions in full and on a timely basis.

A handwritten signature in black ink, appearing to read 'Michel Prada'.

Michel Prada
Chairman of the IFRS Foundation
Trustees