

AGENDA PAPER

IFRS Advisory Council Meeting

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TOPIC Consultation and outreach—developing networks

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This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council. The views expressed in this paper are those of the authors. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS.

Introduction

1. Every IASB project has a programme of outreach and consultative activities, designed to provide input to the IASB throughout the standard-setting process from a broad range of stakeholders.
2. Some of the involvement of these stakeholders is formal, such as responding to requests for comment on proposals, or participation in round-table meetings. Some of the involvement is informal and ad hoc. This mix of formal and informal interaction with stakeholders has served the stakeholders involved and the IASB well over the last 10 years.
3. The informal interactions have helped the Board and its staff develop informal networks with various stakeholders and stakeholder groups. However, as the number of countries adopting IFRSs grows, there is a risk that we might not be engaging as efficiently and effectively, or as completely, as we could with some stakeholders.
4. The Trustees and the Board recognise the importance of reviewing our consultative processes and, where appropriate, giving more formality to our interactions. In the recently completed Strategic Review, the Trustee's paid particular attention to the importance of the network of bodies associated with accounting standard-setting (including national standard-setters and related regional bodies).¹ We have also engaged extensively with security regulators as well as prudential regulators. As extensive and

¹ *Report of the Trustees' Strategy Review 2011 – IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade:* <http://www.ifrs.org/NR/rdonlyres/37493F6D-3E73-4ED8-A993-23D57BC76B68/0/TrusteesStrategyReviewFeb2012.pdf>

positive as those interactions have been, the Trustees have asked the Board to add more structure and formality to our relationships with these important members of the IFRS community.

5. The Strategic Review and changes proposed to the Due Process Handbook also emphasise the importance of ensuring that investors and preparers are consulted adequately and that more use is made of the research community in the development of financial reporting standards.
6. We are therefore turning our attention to how we should engage with different stakeholders in different regions. In thinking about what changes we should make to our engagement with stakeholders, the goal is ensuring that new, and amended, IFRSs will be accepted and endorsed in each jurisdiction without delay or modification. Non-endorsement of a Standard after full due process and stakeholder engagement is not a tenable situation.

Purpose and structure of this session

7. The purpose of this session is to receive input from Council members on how they think we could engage more effectively and efficiently with different stakeholders and stakeholder groups. A number of Council members, drawn from a range of professional backgrounds, have been asked to give their views on how they see interaction with the IASB. After these short presentations, Council members are asked to join break-out groups and discuss this subject, and consider the questions set out in this paper.
8. One of the stakeholder groups identified is the national accounting standard setters. Although this session will touch on our interaction with this group, there is already progress being made between the IASB and this stakeholder group on developing and formalising our engagement with each other, so we are likely to spend less time in this session discussing this stakeholder group.
9. Similarly, we are also working on formalising our engagement with securities regulators; however welcome Council members' views on our engagement with this stakeholder as well as our engagement with national accounting standard setters.

Matters for consideration

10. We would like to receive views on our stakeholder interaction from a broad perspective. This includes:
- (a) which different stakeholder groups/networks should we be engaging with and what form should that engagement take?
 - (b) at what stage in the standard-setting process should we engage with the different groups, and are there changes needed to our due process to engage with stakeholders more effectively and efficiently?
 - (c) are there other changes needed to our stakeholder engagement, for example to help reduce the risk of non-endorsement of Standards or to safeguard the IASB's independence?
11. The specific questions that would like Council members to discuss are included in paragraph 24.

Background

12. Before considering the questions to be addressed in this session, it is worth considering the environment in which we and our stakeholders currently operate, including our need for input and our limitations, the main stakeholder groups, the different phases of the standard-setting process and the obligations on some of our stakeholders in order for IFRSs to become effective in their jurisdiction.

Our needs and limitations

13. We seek a range of input from stakeholders, such as the identification of financial reporting needs; experience of particular industries, practices and transactions; ideas and suggestions for solutions; and views and comments on proposals. Through this engagement with stakeholders we need to build acceptance of the standards we develop so that they will be endorsed and implemented without modification.
14. However, like our stakeholders, our time and resources are limited. It is important that our engagement with stakeholders is as efficient as possible, particularly because the

standard setting process cannot be limitless and our stakeholders expect us to produce the standards after reasonable periods of time.

Main stakeholder groups

15. Being a global standard-setter, it is important that we receive global input from our different stakeholder groups. We think that by engaging with stakeholders through global or regional networks we will be provided with the input we need on a basis that is efficient as well as effective. We are therefore looking to further develop and formalise our interactions with our different stakeholder groups in ways that will provide us with the global input we need.
16. To help us develop those networks, we want to hear from Council members about how they think networks can, and should, be developed, and in what format, and how regularly we should meet with each group.
17. We have identified the following as the main stakeholder groups with whom we regularly engage:
 - (a) investors (and other users of financial information);
 - (b) accounting standard-setters;
 - (c) academics;
 - (d) preparers;
 - (e) auditors;
 - (f) securities regulators; and
 - (g) prudential regulators.
18. Each stakeholder group has different interests, experience and reasons for wanting to engage in the standard-setting process. There are also different networks established within each of these groups for their own purposes, for example, the Asian-Oceanian Standard-Setters Group (AOSSG) and the Group of Latin-American Standard-Setters (GLASS) regional networks of accounting standard-setters. Engaging with these stakeholders through those networks rather than on a one-to-one basis will lead to obvious efficiencies, so a natural question would be: ‘have we identified the relevant networks?’.

19. Our existing interaction with these different stakeholder groups, other than through the formal mechanisms such as submission of comment letters, attendance at roundtable meetings or participation in the Advisory Council, include the following activities (the list is indicative rather than exhaustive):

(a) Investors (and other users of financial information);

- (i) Three of our Board members are drawn from the user community.
- (ii) We have a dedicated investor engagement programme led by one of our staff who is a CFA charter holder. The programme includes developing investor-focused webcasts, articles and investor-focused meetings at the Advisory Council.
- (iii) Our outreach programmes for our Board projects include dedicated outreach to users, including surveys, questionnaires, one-to-one and group meetings.
- (iv) Individual Board members and staff meet publicly three times per year with the Capital Markets Advisory Committee (CMAC), which comprises users from the buy-side, sell-side and user organisations involved in a variety of industries and geographies.

(b) Accounting standard setters

- (i) At a global level we meet twice per year with the International Forum of Accounting Standard Setters (IFASS). We also have formal memoranda of understanding with the US FASB and the Japanese ASBJ in pursuit of convergence of IFRS and their respective national GAAPs; we meet monthly with the FASB and twice per year with the ASBJ. Individual Board members and staff also meet with the AOSSG and GLASS regional groups several items per year and with other individual standard setters from time to time.
- (ii) Several standard setters second staff to the IASB—The Ministry of Finance of China, The Accounting Standards Board of Japan (two

based in London and two based in Tokyo), The Korean Accounting Standards Board and the Italian Standards Setter.

- (iii) An Asia-Oceania regional office will open in Tokyo in October, funded principally by the ASBJ.
- (iv) Individual Board members and staff meet with the European Financial Reporting Advisory Group (EFRAG) Technical Expert Group (TEG) at least monthly. Additionally TEG leadership and senior staff meet with IASB leadership and senior staff several times per year.
- (v) Two of our Board members are former national accounting standard setters.
- (vi) We engage with national standard setters at several points during the standard-setting process, including:
 - (a) seeking assistance with co-ordinating field testing
 - (b) requesting their participation in the fatal flaw review of all pre-ballot drafts of IFRSs
 - (c) consultation on issues to focus on in post-implementation reviews
 - (d) requesting experience of diversity in practice on issues submitted to the Interpretations Committee
- (c) Academics:
 - (i) Our Education Initiative engages with universities and accounting institutes to support Framework-based teaching. We also have visiting academics undertake a fellowship with us for periods of 6 months to 1 year.
 - (ii) We co-host, with the FASB, an academic forum each year. Additionally, one of our Board members is a member of the Executive Committee of the International Association for Accounting Education and Research (IAAER). The IAAER co-

sponsors with KPMG a number of research projects relevant to the development of financial reporting.

- (iii) An important part of our post-implementation review approach is a review of academic literature relating to the Standard being reviewed. The first such review is underway and is being performed by one of our academic fellows.

(d) Preparers:

- (i) Preparers play an important role in field-testing and engaging in in-depth one-to-one discussion on the consequences of our proposals.
- (ii) Our staff meet regularly with various preparer industry groups, including telecoms, mining, oil & gas for discussion of general developments in IFRS
- (iii) Individual Board members and staff meet publicly three times per year with the Global Preparers' Forum (GPF), which comprises preparers drawn from a variety of industries and geographies.
- (iv) Three of our Board members are former preparers.

(e) Auditors:

- (i) We meet quarterly with the IFRS leaders of the large audit firms to discuss financial reporting developments generally. We also meet with partners and staff of the large firms either individually or collectively to discuss views and concerns about individual issues or projects.
- (ii) Several of our Board members and many of our staff are former auditors. We regularly have staff from the large firms seconded to us on fellowship programmes, usually for two years.
- (iii) We engage with auditors at several points during the standard-setting process, including:
 - (a) requesting their participation in the fatal flaw review of all pre-ballot drafts of IFRSs

(b) consultation on issues to focus on in post-implementation reviews

(f) Securities regulators:

- (i) Four of our Board members have experience working with securities regulators
- (ii) Two representatives from the International Organisation of Securities Commissions (IOSCO) have official observer status at the IFRS Interpretations Committee
- (iii) Senior staff meet at least twice per year with the staff from the European Securities and Markets Authority (ESMA), a co-ordinating body for securities regulators in the European Union. Individual Board members and other staff meet with ESMA representatives from time to time.
- (iv) Individual Board members and some senior staff have meetings with individual regulators from time to time. Some of our senior staff.
- (v) We engage with securities regulators at several points during the standard-setting process, including:
 - (a) requesting their participation in the fatal flaw review of all pre-ballot drafts of IFRSs.
 - (b) consultation on issues to focus on in post-implementation reviews.

(g) Prudential regulators:

- (i) One of our Board members is a former prudential regulator.
- (ii) Our staff and Board members meet regularly with the Accounting Task Force of the Bank of International Settlements (the Basel Committee).
- (iii) The IASB has enhanced dialogue with senior prudential regulators and maintains regular contact, and participates in meetings of, the Financial Stability Board.

Timely engagement and nature of the input

20. Each stakeholder group brings different skills and experience to the debate. Some stakeholders have greater resources than others and will be able to provide significantly increased levels of input for extended periods of time. For example, some stakeholders might undertake research that could inform the IASB on how to define the scope of a project to be added to the standard-setting agenda. Identifying the right time during the standard-setting process to engage with a particular stakeholder group can help maximise the effectiveness of their interaction with us. Our standard-setting process follows several phases:
- (a) agenda setting;
 - (b) research;
 - (c) development of standards, including public consultation;
 - (d) field testing;
 - (e) endorsement;
 - (f) education;
 - (g) implementation;
 - (h) interpretation; and
 - (i) post-implementation review.
21. We are likely to engage with most stakeholder groups several times during the standard-setting process, and with some consistently throughout the entire process, but we cannot engage with everybody all of the time. We are therefore interested to hear views from different stakeholders about when they think we should be engaging with them.

Completing the promulgation of IFRSs

22. As more countries adopt IFRSs, several are choosing to apply an endorsement model, similar to the process applied in the European Union, in order to incorporate IFRSs into law. It is clearly important that, in the pursuit of a single set of globally-accepted accounting standards, the goal should be that all jurisdictions endorse IFRSs without modification. With an increased number of endorsement regimes, how we co-ordinate our work with the various endorsement bodies to ensure that their concerns are addressed

early and efficiently in the standard-setting process will be important. Failure by a jurisdiction to endorse an IFRS as issued, after full due process and engagement with relevant stakeholders, is not an outcome that is consistent with the development of global standards. Later this year the IASB will be assembling a consultative group to consider effect analysis and how the IASB can help jurisdictions meet their regulatory impact assessment requirements.

Safeguarding independence

23. The IASB is an independent standard-setting body, whose primary goal is the development of a single set of high quality globally-accepted accounting standards. Quality and independence are paramount. Participation by a broad range of stakeholders can enhance the quality of the Standards produced, but it is important to preserve the independence of the IASB.

Questions for discussion

24. During the break-out sessions, we would like Council members to discuss the following questions.

- 1 What are the global or regional networks that we should be engaging with for each stakeholder group to ensure that we are receiving the global input we need in an efficient manner? Do those networks already exist? If not, how should they be established?
- 2 What sort of formats, and frequency of engagement, is likely to be most effective for the different stakeholder groups and networks, taking consideration of time and other resources limitations?
- 3 What changes are needed, if any, to our due process and stakeholder engagement to ensure that the Standards we develop are accepted and endorsed without modification?
- 4 How can we make effective use of stakeholder engagement to reduce the risk of non-endorsement?
- 5 Are there other matters that you think we need to consider as we develop our stakeholder engagement, including any safeguards to protect the IASB's independence?