

AGENDA PAPER

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TOPIC External involvement in the IASB's standard setting process -

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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.

International Forum of Accounting Standard Setters (IFASS) and the IASB Due Process: Some thoughts on the Forum's possible involvement
Paper for June 2012 IFRS Advisory Council meeting

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What is IFASS? A little history

IFASS originated with the original group of seven "liaison standard setters" designated by the IFRS Foundation Trustees when the IASB Constitution was put into force in 2001. Those standard setters met quarterly with the IASB to discuss the IASB agenda and to provide their views on active projects. In the first review of the Constitution, the Trustees concluded that the IASB should not restrict its liaison activities to such a small group of its constituents. Consequently, Board members were assigned responsibility to liaise with other standard setters and groups.

As a result of this Trustee decision, the liaison standard setters group considered its future. The group concluded that it wanted to continue to meet because members found the on-going discussions and relationships valuable both to their domestic standard-setting activities and to their individual and collective relationships with the IASB. In fact, this was one of the groups for which IASB Board members were assigned liaison responsibilities.

At the same time, the member standard setters decided that there was no longer any reason to restrict the membership to the original seven (actually eight) jurisdictions. Other attendees at the IASB's World Standard Setters conference were invited to sit at the table if they had contributions to make to agenda items, or to observe if they did not. Because the meetings were generally held in London in conjunction with the annual WSS conference, the UK ASB acted as the secretariat for the group including arranging meeting space and providing a group dinner for attendees. As chairman of the UK ASB, Ian Mackintosh acted as chairman of the NSS until he was appointed as a member of the IASB.

While Ian was the chairman, the NSS decided to meet twice a year, once in Europe in conjunction with the WSS conference and once in the first quarter in advance of what was then the semi-annual meeting of the IASB and FASB. The first quarter meetings were also held in London until the IASB began to work jointly with the FASB on the MOU projects, since which time the meetings have been held outside Europe, hosted by one of the members.

Over the years, the NSS considered its organisation and operations on several occasions. Proposals have been made to have categories of membership with criteria to be developed. Criteria were generally to be based on the organisation's ability to contribute to the work of the group. These proposals did not receive much support.

IFASS as it is today

As the report of the latest meeting in March this year states, at present:

IFASS is an *informal network* of national accounting standard-setters from around the world, plus other organisations that have a close involvement in financial reporting issues. It is a *forum* at which stakeholders can discuss matters of common interest. (emphasis added)

Although in some ways, the existence of the NSS/IFASS facilitated the formation of the regional groups both existing and emerging, it is quite different from those groups. The major differences are:

- No membership criteria – any organisation that has a domestic responsibility to develop or adopt accounting standards for a jurisdiction can participate.
- No Memorandum of Understanding – other than a stated intention of discussing matters of interest to accounting standard setters and liaising with the IASB, no specific goal is articulated.
- No formal governance structure, staffing or secretariat or funding arrangements.
- No co-ordinated responses to any IASB or IFRS Foundation request for views, although those requests are certainly agenda items for discussion by the members.

At its March meeting, IFASS considered agenda items that related to these matters. One was the revision of the existing Statement of Best Practice regarding the relationship between national standard setters and the IASB. The forum concluded that the final document should emphasise the multilateral nature of members' relationships. That is, relationships could be bilateral between a national standard setter and the IASB or between two national standard setters, or multilateral between national standard setters as part of regional groups or otherwise, or between regional groups. Members emphasised that no one arrangement would suit all circumstances so flexibility was essential.

The other agenda item was the process that should be followed to select the next chairman of the Forum. In this case, members concluded that any person who met the agreed upon criteria could be nominated to serve as chairman provided that person had the support of a jurisdiction that was prepared to provide the secretariat resources necessary to permit the chairman to be effective. That jurisdiction would also be required to supply an alternative person should the original nominee not be able to complete the agreed two or three year term. Because this process calls for an election if more than one candidate is nominated, IFASS for the first time will have to consider what the relevant voting criteria should be.

As part of the discussion, members showed no appetite to develop mechanisms for sharing the costs of holding meetings or equalising attendance costs. The common view was that if members found attendance valuable they would be prepared to find the resources to participate. We already have volunteers to host both of the 2013 meetings as well as the first quarter meetings in 2014 and 2015. For the most part, the view seems to be that we will continue to work to improve IFASS's value for money, but we shouldn't be trying to fix what isn't broken.

The future for IFASS

In my view, it is worthwhile for the IFASS to continue to meet, probably twice a year. It is useful for national representatives to hear the views of and build relationships with their peers and colleagues around the world rather than having those relationships always filtered through the representatives of regional groups. However, I agree that currently the agendas of and attendance at the third quarter meetings of IFASS and the IASB's WSS conference are largely duplicative. Much efficiency could be gained by eliminating the WSS conference and holding the meetings of regional groups and/or inter-regional group meetings in conjunction with the IFASS meeting at least once a year.

I also believe that the IFASS has a role for those members who are interested in international participation but are not yet ready/able to join one of the regional groups. So in some ways IFASS is also about capacity building, though perhaps at a more preliminary stage.

IFASS agendas have developed to the point that they are useful for providing input to the beginning of the IASB's due process – the setting of the agenda. In our standing item on topical issues, members provide feedback on technical issues identified by one or more jurisdictions, indicating whether they believe that the question is a candidate for consideration by the IFRS Interpretations Committee or the IASB itself. Several items dealt with in the annual improvements process have been identified this way.

Members that are working on research projects of national or regional interest share their work to find other members willing to participate as partners or commentators in further development. Members have also been actively commenting on documents published by other members, thus enriching the quality of the proposals developed globally. I would expect this process to continue even as more work is done regionally in the first place. And the outputs of these projects are likely to be prime candidates for eventual consideration for addition to the IASB's agenda.

I would also expect that the IASB would continue to access the resources of the national standard setters in their outreach activities. Clearly, it is more effective and efficient for the IASB to liaise directly with the regional groups and only indirectly with national standard setters

on an on-going basis. But a direct network of communication will be particularly helpful to getting feedback on time sensitive issues such as interpretative questions.

I offer one final slightly heretical thought about another possible role for IFASS. One of the messages the members have been trying to emphasise in the revision of the Statement of Best Practice and other documents is the importance of national standard setters setting a goal of adopting IFRS as written. Adapting the standards or a convergence process are seen as mechanisms for achieving the longer term objective rather than objectives in themselves. In such a context, we have also emphasised that only in extremely rare or unusual circumstances would a national standard setter interpret IFRS rather than submitting the issue to the Interpretations Committee. Part of the reason for the standing agenda item on topical issues is to determine if issues are of widespread concern before they are submitted so that the Interpretations Committee staff will know that they have been vetted for importance first.

However, it is possible that even with the Interpretations Committee's expanded mandate and tools, not all issues of real concern to a few national standard setters will be accepted as agenda topics by the Committee. Some have suggested that before issuing a domestic interpretation, a national standard setter should confirm with the IASB that the proposed interpretation is consistent with the standards. I do not believe that the IASB will agree to issue such confirmations firstly because such a process is essentially the same thing as interpreting the standards and secondly, it will encourage domestic interpretations. However, if all the domestic standard setters for whom divergence on a particular common issue was a concern collaborated to issue a common interpretation two benefits would accrue:

- Diversity on the issue would be reduced at least in those jurisdictions, and perhaps globally if those were the only jurisdictions where the issue existed.
- Only one interpretation would exist rather than several.

Standard setter activity of this sort is supported especially when the IASB's processes do not appear to be able to provide timely guidance on important questions, leading to unacceptable diversity or perhaps unacceptable uniformity when standards are applied too literally to different underlying economic fact patterns. Securities regulators are among those expressing such support.