

AGENDA PAPER

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

PRESENTER

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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.

Relationships between Regional Groupings of Standard-setters and the IASB **Paper prepared for June 2012 IFRS Advisory Council meeting**

Relationships between Regional Groupings of Standard-setters¹ and the IASB

Introductory comments

This short paper is provided in the context of the IFRS Advisory Council assessing involvements by various interested parties and constituents in the IASB standard-setting process. The aim of the paper is to tease out the issues that need to be borne in mind in any move towards adding, to existing connections, a regionally based model for relationships between the IASB and standard-setters. However, the paper does not discuss the current and future relationship between the IASB and individual standard setters. The paper is written from the perspective of the author's participation in one regional standard-setting body, the Asian-Oceanian Standard-setters group (AOSSG), and represents the author's personal views.

This paper does not set out to justify the importance of the role of national standard-setters to the development of global standards, but is written with the conviction that they are fundamentally important.²

There are nearly 200 countries in the world, some of whom have no standard-setters and some of which have more than one. However many standard-setters there are, or will be, there are too many for the IASB to liaise with effectively and equitably. Each of those standard-setters has many constituents that are also constituents of the IASB, but from whom the IASB is more remote.

To some, including the author, it has seemed inevitable that regional groupings of standard-setters would be needed by the IASB.

The AOSSG Experience

The author is firmly of the view that the AOSSG, formed only in 2009, has worked very well, that every member has benefitted and that the IASB is better off for the work of AOSSG. An under-represented region in terms of submissions to the IASB has come to life.

Does AOSSG's experience, and that of our sibling (GLASS in Latin America), mean that the Trustees and IASB should move to promote a more globally complete regional model? They have deliberately raised the question of how they might have more formal linkages with domestic and regional groupings of standard-setters. Are relationships with regional groupings of standard-setters part of the answer?

¹ The term "standard-setters" is used broadly in this paper to include all bodies with significant formal responsibilities in relation to the development of standards and their adoption/endorsement in jurisdictions. For the purposes of this paper the term should be read as an inclusive rather than an exclusive notion, bringing together those with a formal functional role (actually or potentially) in requiring application of IFRS in their jurisdictions, either directly, or as a result of their advice, to say a Parliament or a professional accounting body.

² The premise that national standard-setting is a vital cog in the IFRS wheel may be disputed by some. I have heard some people criticising endorsement models, but the reality is that the legal requirements in many countries would not allow legislation to be delegated to the IASB. In any case, the national standard-setter is the IASB's best potential ally, an ally that will keep faith with the IASB if it is convinced that it has been adequately catered for in the due process. Thus the call by the Trustees and the Board for more formal links with national and regional standard-setters is, in my view, correct and timely.

The author's view is that the Trustees and IASB should consider the merits of such a model and that it is part of the answer as to how the IASB should shape its relationships with constituents in the future.

The paper poses a number of questions that might be used by the Council to frame its discussions. The fundamental question of whether to encourage formalised IASB/regional standard-setter relationships is raised at the end of the paper.

Issues to Discuss

(i) What Should Characterize a Regional Standard-setting Body?

There is no natural reason why one regional body of standard-setters will act like another such body, except for their basic reason for existence. As for any organisation, structure is but one part of the equation.

In the author's opinion, AOSSG functions in the way it does because of:

- (a) A shared commitment to support the development and application of IFRS;
- (b) A belief in the need for national standard-setting, and a desire to build the standard-setting capacity of our region, to support IFRS;
- (c) A recognition that the IASB cannot work efficiently with each jurisdiction in the world, or even our region, on a bi-lateral basis on every issue of concern;
- (d) A commitment to fellow AOSSG members to respect their views and to reflect to the IASB any diversity in such views;
- (e) An explicit assurance to individual members that there is no limitation on them in terms of bi-lateral relationships with the IASB;
- (f) Choosing to follow a standard-setting/technically oriented mentality, deliberately deciding to avoid political stances; and finally,
- (g) A desire to surface accounting issues having particular effects in our region, whilst trying not to over-balance IASB's attention to them.

It must also be acknowledged that AOSSG functions well partly because of the particular people who came together to form it (including those from China, Korea and Japan who had been meeting together for some time) and partly because the IASB has taken the group very seriously from the beginning. AOSSG's access to the IASB members and senior staff could not be faulted. We have also been somewhat fortunate in choosing to use a mechanism (working groups involving 8 to 10 jurisdictions) that has enabled us to build topical expertise and involvement of the whole membership. We probably did not foresee the capacity building aspects of those groups. We are now planning more capacity building initiatives to complement those effects.

Some or all of the above characteristics may well also be true of bodies such as EFRAG and GLASS. The author does not come from those backgrounds. There may be cultural, philosophical or historical differences that cause different groupings to deal differently with issues such as diversity of view. Various models could be used within regions to facilitate the forming of regional views. Whichever model is used, diversity of view must be well respected and considered if the IASB is to be well served.

Another factor that does differ between regions is the way in which standards become required. In Asia-Oceania standards are established in each of the jurisdictions, whilst in Europe standards are established across the member states. In some jurisdictions the standards are required by a standard-setting body recognised at law, in others they are established by a ministry of government. In some jurisdictions they are established by professional accounting bodies. To date the regions have either established their own criteria for membership or, in the case of EFRAG, a body has been formed by the Parliament for the European Union, which body exists alongside national standard-setters that are heavily involved with it. There is both a European jurisdiction and national jurisdictions, each with their particular mandate. And the European jurisdiction is a function of the union of certain member states for purposes well beyond what might today be driving the formation of groupings such as AOSSG and GLASS.

In the case of Africa, PAFA has been formed and may well lead to a regional grouping of standard-setters. Should the IASB seek to have relationships with PAFA or members of PAFA in a regional context, recognising that in time a grouping will most likely emerge, especially if encouraged by the IASB?³

In short the regions that exist or might exist have both similarities and differences, with history and other factors having shaped today's regional settings quite significantly.

Issue: What should be the nature of a regional body for it to be connected to the IASB in a formal relationship?
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(ii) How many regions?

Assuming it was desirable to have regional standard-setting bodies, should the IASB facilitate their formation or leave it to the market place, and how many regions would be a workable number with which to deal?

In the case of AOSSG we simply defaulted to the UN listing of jurisdictions within our region. This has meant we have had 25 members who have elected to sign our memorandum of understanding and that we may grow to 30 to 35 members. Any extension of the membership is unlikely to change the nature of the organisation much now, as possible members tend to be quite small and not unlike some current members. We are geographically spread from the middle-east, through the subcontinent, to northern Asia, and down through South East Asia to Oceania. Our members cover the spectrum of development. Our capital markets are large and growing, as is our share of world population and GDP. People talk freely of the coming Asian century. By 2016 we would expect IFRS to have been adopted by almost all members. A significant number have already adopted IFRS or are committed to convergence or adoption.

Due to the geographical remoteness from other part of the region, some may hold the view that the Middle East could be grouped separately, but we already have a number of members from that region and they have strongly supported AOSSG as being their best option.

³ PAFA is the Pan African Federation of Accountants.

Latin America and Europe can be considered to be in a similar position to Asia Oceania. Latin America has a regional grouping of standard-setters (GLASS) from 12 Latin American jurisdictions and Europe has EFRAG established by the EU, albeit well before regional groupings of standard-setters were thought of and because of the way in which the EU is organised and addresses IFRS. Even with the similarities between these three, there are differences in geography, economic development, numbers of members and histories of involvement in international standards.

Contrast this with North America (maximum of 2 members and both developed jurisdictions, with commitment to IFRS still a question for one), Africa (where there are 34 members in PAFA, a confederation of professional accounting bodies and which recently announced a policy in favour of IFRS adoption. Africa has few developed countries, only a few well developed standard-setting bodies and variable experience in applying IFRS), and Russia and other countries formerly part of the USSR that are outside of the Asia-Oceania region or European Union (but in which IFRS is nevertheless in focus).

Arguably it looks as if the world could be divided into five or six regions, but what would the IASB do if a variety of sub-groups formed and wanted to have a regional relationship with them?

Issues:

1. Should the IASB determine the regions?
2. How many regions can the IASB deal with efficiently?
3. Does it matter that the regions will not be of equal dimensions, composition, development and experience with IFRS?
4. Does the whole world need to be regionalised to proceed?

(iii) The Question of America

The resolution of the question of the USA adopting IFRS is connected to the formation of regional groups of standard-setters. We have seen the approaches suggested for FASB's role beyond the adoption of IFRS. It seems that an end to the current joint IASB/FASB standard-setting model is likely to come either with that adoption or at some other time. How then would the IASB deal with the FASB as a national standard-setter, say with FASB having an endorsement role; that is a role with some similarities to those of other national standard-setters or EFRAG?

I have heard IASB Trustees and Board members talking in public meetings about possible models, including having certain standard-setters as observers at the IASB table, or forming a

standard-setters' technical advisory council alongside the current council. My personal view is that neither of these possibilities is immediately appealing (the former could involve too many interests at the decision-making table and the latter could be too remote for the standard-setters' and IASB's operational purposes). But what the raising of the models highlights is that there needs to be a workable relationship model.

If the world were to be divided into regions, maybe the IASB could then make the regional bodies a key (but not exclusive) focus of their relationship with national standard-setters. One would expect the USA to have a prominent role, together with Canada, in a North American region.

Issue: Does regionalisation also offer a means for involving FASB post IFRS adoption/separation from the IASB table?
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(iv) How Would the IASB Relate to the Regions Operationally?

Even if the world were nicely divided into regions, and in a manner that gave the USA a new and acceptable level of involvement, how would the IASB operate with the regions? And how would the regions relate to each other? This last question is already being considered by an embryonic grouping of the existing regions, so it is not just a matter of conjecture⁴.

From an AOSSG viewpoint, we already meet with the IASB at our annual conference and twice during the year at what we term "informal conferences" (conferences held when we expect a sizeable number of our members to be in the vicinity of say an IFASS/WSS meeting). As indicated above, we have been well satisfied with the level of contact to this point. If other parties were at the table, our effective contact time would be somewhat diluted. So raising regional involvement with the IASB to say four times per annum, with the other regions being present, would seem to provide ample scope for us to consider IASB views and queries, express our views and ask questions.

So maybe a quarterly forum of regional standard-setter group representatives with the IASB would be a good mechanism to think about. This paper does not address how "representation" might be determined. That may be more a matter for the regions themselves to decide.

If such a forum were to be formed, I do think we need to also consider how to reduce the burden of reach out on the IASB, and on the national standard-setters budgets, in compensating ways. For example, maybe the regional groupings could have a joint annual conference that had two parts, one replacing the WSS and the other being for each of the regions to meet concurrently on their own business. If this took place, IFASS may need to be revised in concept, effectively being replaced by the annual "all region" part of the conference and by the quarterly representatives meetings.

Of course, there would also need to be some streamlining of how the IASB reaches out to

⁴ Very preliminary meetings have been held between entities that are, or might be, regionally involved, in Vienna in 2011 and Kuala Lumpur in 2012.

standard-setters through the regional groups. At present we receive some things on a regional basis and some things on a jurisdictional basis, and sometimes we debate how best to respond. This is understandable now, but should be improved in the future so that the IASB is quite purposeful when considering whether it is intending to work within a bi-lateral relationship with an individual standard-setter or with a regional grouping and that is clear to all which mode is in operation. It will cause difficulties or confusion if material activities are initiated in a region (as opposed to globally) without proper protocols being respected and relevant parties being informed. In terms of the meetings between the regions, the author's view is that where this is about information sharing and assisting the IASB, they would be welcome. I would not wish to see it become a way of unduly influencing the IASB. But this relationship is primarily a matter for the regional bodies to sort out between themselves.

Issue: What is the best operational model for the IASB to work with the Regional Standard-setting Groups?

(v) What Benefits Can Accrue from Strong Relationships with Regional Groupings?

I think that strong relationships between the IASB and regional groupings of standard-setters offer a number of benefits to the IASB, including:

- (a) improved coordination and rationalisation of outreach activities;
- (b) better understanding about the pace of change to be pursued;
- (c) access to reliable and experienced conduits to the constituents that are, or will be, applying IFRS;
- (d) potential future board members and staff;
- (e) technical expertise;
- (f) linkages with local regulators and legal systems;
- (g) a mechanism for drawing out for individual regions when their views are outlying, together with a means of checking the IASB's presumptions against the experiences of regions that have more extreme experiences than the norm;
- (h) a means of achieving more consistency in IFRS application both within regions and between regions with much less effort than if the IASB and the IFRS Interpretations Committee were to act alone;
- (i) research capacity; and,
- (j) better mutual understanding, which understanding can reduce the time needed to complete projects and to have individual standards, or IFRS itself, adopted.

From a regional grouping viewpoint, strong relationships can provide:

- (a) a better understanding of the thinking of the IASB;
- (b) a means of developing views with a better appreciation of issues than can come just from single jurisdiction experiences;
- (c) opportunities to interact more dynamically with the IASB rather than just at formal due process stages;
- (d) increased credibility with local constituents and regulators;
- (e) support in times of difficult challenges; and
- (f) better maintenance of the knowledge of standard-setting for those jurisdictions in which the primary function turns more from setting standards to reviewing them and providing input.

Global standard-setting is about winning hearts and minds globally, not just about requirements in books, so as to have financial reporting develop steadily in its usefulness. Viewed as a change management model, standard-setting demands a maximum amount of cooperation in the public interest. The regional groupings of standard-setters provide one mechanism that can materially assist in that model⁵.

The fundamental issue: Do regional standard-setting groups represent an additional opportunity for the IASB to improve the effectiveness and efficiency of its processes and for national standard-setters to better serve their roles?

(vi) The Professionalisation of the Regional Groupings – an Observation

It does need to be kept in mind that the regional groups are voluntarily funding their activities now and that the demand on their funds will inevitably increase over time. Relationships with the IASB that lead to better standards, more efficiently constructed, serve the purposes of the national standard-setters, but can come at a cost. It is also likely that members of regional bodies will not share costs equally, especially where there are developing country considerations. The Trustees and IASB need to keep this in mind if they develop a regional model. The regions themselves will need to work their way through the issue in any case, just because it seems inevitable that regions will form and develop.

(vii) The Elephant in the Room – An Observation

A regional model for involving national standard-setters more efficiently in IASB processes will only work if the regions trust the Trustees and IASB to treat each region equitably. There has been a good deal of concern around the world that the IASB has been too heavily influenced by Europe and the USA. AOSSG believes that its work can help the IASB balance out undue and political pressures through strong technical input. Will everyone share that view and act accordingly?

Concluding Comments

I do think the Trustees and IASB, in conjunction with the existing and embryonic regional groupings, should explore formalising relationships with standard-setters on a regional basis. By being proactive about their vision for the global arrangements with standard-setters, about the characteristics a regional body should have to be effective in a strong relationship and how the relationship might be operationalized, they will help shape the bodies that are formed or that are being developed.

Kevin Stevenson

Chair, AASB & Chair, AOSSG
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⁵ There is no suggestion implied in this paper that the relationship between the IASB and the groupings of regional standard-setters limits or replaces inputs from the IASB's constituents or other stakeholders.