

# AGENDA PAPER

IFRS Advisory Council Meeting

LONDON      22 – 23 October 2012      **Agenda ref 1b**

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TOPIC      IASB and National Standard Setters

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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.

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## **IASB and National Standard Setters**

### **Presentation for October 2012 IFRS Advisory Council meeting**



## IASB & National Standard Setters

Formalising and streamlining the IASB's collective engagement with National Standard Setters and regional bodies in its standard setting process

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## Introduction and Background

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## Introduction

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- IASB aims to formalise its relationship with National Standard Setters (NSSs) and other regional bodies
- Current ad-hoc management of relationships fragmented and inefficient
- Growing use of IFRSs globally has led to a need for the Board to:
  - Rationalise relationships with NSS and regional bodies
  - Put these relationships on a more logically sustainable and compact basis



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## Background: Trustees' Strategy Review

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- Trustees' Strategy Review published in 2012
- *Review suggested that IASB look to NSS and regional bodies to assist the standard setting process by:*
  - *undertaking research,*
  - *providing guidance on the IASB's priorities,*
  - *encourage stakeholder input from own jurisdictions into the IASB's due process and*
  - *identify emerging issues*

*"The IFRS Foundation and the IASB should encourage the maintenance of a network of national accounting standard-setting bodies and regional bodies involved with accounting standard-setting as an integral part of the global standard-setting process."*



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## Background: Trustees' Strategy Review

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- Trustees' review emphasises important, specified and independent role played by NSS'
- Review also recommended that IASB should work with wider network including securities regulators and audit regulators
- Importance of a network of NSS and regional bodies highlighted in 2012 draft "*IFRS Foundation Due Process Handbook*"



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## Current Relationship with NSS

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- IFRS Foundation and IASB have always acknowledged importance of relationships with NSS and regional bodies;
- 2001:** Initial IASB composition included 7 members with formal liaison responsibilities
- 2002:** IASB hosts First annual World Standard Setters conference
- 2005:** Trustees Constitution Review 2005 expanded scope of IASBs liaison with NSS
- 2012:** IASB "*Due Process Handbook*" highlights importance of close co-ordination between IASB due process and that of NSS'



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## Current Relationship with NSS

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- Significant resources devoted to bilateral arrangements with:
  - Accounting Standards Board of Japan (ASBJ)
  - European Financial Reporting Advisory Group (*EFRAG*)
  - US Financial Accounting Standards Board (FASB)
- Most NSS liaison conducted by IASB through less formal, ad hoc arrangements
- These arrangements have become more complicated use of IFRS globally has spread



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International Financial Reporting Standards

## Goals & Challenges

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## NSS and IFRS Foundation: our goals

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To develop single set of high quality global accounting standards, the IASB needs the support of NSS to:

- Account for differing perspectives through extensive outreach
- Avoid incidence of non endorsement / adoption of standards
- Facilitate productive discussions on technical issues to contribute to work of IASB
- Streamline and formalise existing relationships



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## Considerations

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- NSS operate primarily under their specific national mandates
- IASB must avoid compromising its own independence i.e. giving NSS and regional bodies power of veto
- Formalised relationships could add another layer of complexity to the IASBs existing web of relationships
- Overriding principles must be established to address and alleviate these risks



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## Guiding principles for formalisation

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- Commitment, responsibility and accountability towards achieving shared goals. Conducted in a constructive manner
- A clear commitment to the independence of the IASB, NSS and the standard setting process
- Transparency and openness. Including sharing of information and better co-ordination of resources
- Maintaining open relationships with other stakeholders



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## Challenges

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- Engaging a diverse group of NSSs to play greater and more integrated role in standard setting
- Addressing the significant variances in NSS characteristics; composition, mandate, structure
- Drawing on experience and expertise of regional bodies (EFRAG, AOSSG, GLASS, PAFA), in managing networks of NSS
- No suitable existing global NSS network to assist



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# Proposal

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## Accounting Standards Forum

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A body of NSS and regional bodies, meeting quarterly,  
providing members with an opportunity to:

- Feedback to and advise the IASB on major technical issues
- Provide direct Input on salient national and regional issues
- Bring highly capable representatives with good knowledge of their jurisdictions regions to the table
- Hold intense discussion on national issues directly with the IASB

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## Forum Membership

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- Globally representative and technically effective
- Preservation of efficiency through maximum of 12 non-IASB members
- Representation from IASB's current major bilateral relationships, regional bodies
- Space for other major NSS membership
- Biannual membership review
- Organisational not individual representation



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## List of regions and number of reps

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- Proposed geographic balance:
  - Africa - 1 seat
  - Americas - 3 seats
  - Asia-Oceania - 3 seats
  - Europe (including non-EU) - 3 seats
  - World at large - 2 seats



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## Forum member “commitments”

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- Supporting the IFRS Foundation core mission
- Encouraging regional input on the technical activities of the IASB
- Supporting consistent application of IFRSs by jurisdiction
- Promoting endorsement / adoption of IFRSs in full and without modification
- Releasing the resources to play a full part in the Forum’s technical work



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## Operational Model

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- Preservation of advisory function ie. no voting
- Participants sign MoU committing to global single set of standards
- Meetings structured to focus on major technical issues and commitments



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## Advantages

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- IASB would achieve a more streamlined collective relationship:
  - Dealing with a single counterparty
  - Replacing some bilateral meetings
- Enabling wide debate on general issues amongst a valuable group of stakeholders
- Provide greater discourse and enhance the quality of the final standard
- Enhancement of global adoption prospects of IFRSs through endorsement of a wider body of NSS



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## Risks

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- Potential protraction of standard setting process
- Difficulty in achieving balance of membership and composition
- Meetings may require additional staff and Board resources on the part of the IFRS Foundation and NSS
- Potential difficulty in achieving consensus amongst forum members and the IASB



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