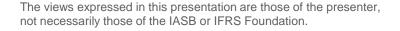
#### International Financial Reporting Standards



# IFRS Foundation: Review of Structure and Effectiveness

David Loweth
Director for Trustee Activities





## Purposes of this session

- To update Advisory Council members on the progress of preparatory work for the Foundation's next review of its structure and effectiveness.
- To seek initial views and suggestions from Advisory Council members.



## **Background**

- IFRS Foundation *Constitution* requires the Trustees to undertake a review of the entire structure of the Foundation and its effectiveness every 5 years.
- First (Constitution) review carried out 2003-05.
- Strategy Review 2007 followed by second (Constitution) review 2008-10.
- Followed by another Strategy Review 2010-12 (with a parallel review of governance by the Monitoring Board).



## **Outcomes of previous reviews**

- Conclusions and recommendations have led to significant enhancements and improvements in:
  - Mission: defining the public interest to which the IFRS Foundation is committed;
  - Governance: independent and publicly accountable;
  - Process: ensuring high-quality Standards to meet capital market requirements that are implemented consistently; and
  - Funding: ensuring the organisation is financed in a manner that allows for effective, efficient and independent operation.



## **Outcomes: Mission**

- Purpose of financial reporting standards clarified, with specific designation of investors and other market participants as a target audience.
- Adoption of IFRS as developed by the IASB remains the long-term goal. Convergence may be an appropriate short-term strategy, but is not a substitute for adoption. But Trustees recognise that different jurisdictions have different pathways towards adoption.
- Scope: remains on developing Standards for for-profit corporate entities (including SMEs).
- Consistency of application and implementation.



#### **Outcomes: Governance**

- Public accountability link introduced with establishment of the Monitoring Board.
- Three-tier governance structure (Monitoring Board, Trustees, IASB) reaffirmed as appropriate for the Foundation's mission.
- Trustees' oversight role clarified.
- Regular public reporting.



#### **Outcomes: Process**

- Due process has been regularly reviewed and enhanced.
- Establishment and enhancement of the role and activities of Due Process
  Oversight Committee (DPOC).
- IASB enhancements:
  - Agenda consultations introduced;
  - Agreed methodology for field testing/effects analysis;
  - Enhanced liaison and outreach.
  - Greater integration of IFRS Taxonomy;
  - Introduction of Post-Implementation Reviews;
  - Established formal co-operation arrangements with securities regulators and others;
  - Established the Accounting Standards Advisory Forum (ASAF);
  - Scope of Interpretations Committee activities enhanced;
  - Established a dedicated research capacity.



## **Outcomes: Funding**

- Clarification that funding system must maintain independence of the standard-setting process, while providing organisational accountability.
- Seeking to establish a firmer basis of funding:
  - long-term (at least 3-5 years);
  - publicly sponsored;
  - flexible to permit use of different mechanisms;
  - adjustable to budgetary needs;
  - agreed formula for jurisdictions (consistent with proportionality).



### Forthcoming review: preliminary themes

- Trustees discussed preliminary themes July 2014 and discussing further themes and conduct of the review October 2014.
- Trustees conducting self-evaluation exercise July-October 2014: may identify further themes for review.
- Many issues covered in the last Strategy Review: Trustees do not propose to re-run whole of that review.
- Constitution requires the review to consider the geographical distribution of Trustees.
- Trustees announced February 2014 that review will consider appropriate size of the IASB (currently 14 members rather than full complement of 16).

## **Preliminary themes: structure**

- Existing three-tier structure supported by constituents in the last Strategy Review: do not propose to revisit.
- But review will examine the operation of the current structure and any potential improvements to help:
  - enhance the governance and accountability of the Foundation; and
  - protect the IASB's independence.
- Will include a review of the effectiveness of the Interpretation Committee's more prominent role since 2012.
- Advisory Council: review will consider the output of the 2013 selfassessment and any follow-up actions.



## **Preliminary themes: remit**

- As noted, focus to date has been on developing Standards for for-profit corporate entities.
- Covering public sector examined by Trustees April 2014 in the context of governance review of International Public Sector Accounting Standards Board (IPSASB).
- Deemed not feasible, at least in short to medium-term.
- Issue of not-for-profit sector internationally.
- Relationship with wider reporting: integrated reporting, sustainability reporting.
- Relationship between purpose of financial reporting standards and other public policy objectives.



## **Preliminary themes: other**

- Funding: covered in Strategy Review but remains an outstanding issue.
- Governance procedures: Foundation reviews corporate governance developments seeking to ensure that arrangements remain in line with up-to-date best practice.
- Benchmarking: reviewing the Foundation to assess how it matches up against other standard-setting and regulatory organisations.
- Any further themes identified by Trustees at their October meeting will be reported to the Council.



## Review: next steps

- Conduct and timing to be agreed by Trustees.
- Previous reviews all had two rounds of public consultation. There will be a public consultation, as required by the *Constitution* – likely in first half of 2015.
- Advisory Council consultation and input will be sought.
- In the meantime, do Advisory Council members have any views or suggestions of what the review should cover?



expressions of individual vie individual comments expressions of individual views feedback pressions of individual views questions dividual comments feedback uestions or questions or comments ndividua expressions of individual views xpressions of dividual views

