

## International Financial Reporting Standards

# IFRS Foundation: Review of Structure and Effectiveness

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The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

# Purposes of this session

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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 self-assessment and any follow-up actions.

# Preliminary themes: remit

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- 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

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- 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

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- 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?

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