

International Financial Reporting Standards



AP2 IFRS Foundation: Review of Structure and Effectiveness

Capital Markets Advisory Committee
6 November 2015
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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

- To outline the context for the Trustees' review of the structure and effectiveness of the Foundation and present the issues covered in the consultation document.
- To seek the CMAC's views and comments and encourage members' organisations to respond to the Request for Views (RfV) – available at: http://go.ifrs.org/Trustees_RFV.
- To encourage responses to the IASB's accompanying Investor Survey – available at: https://www.surveymonkey.com/r/Investor_Survey_2015_Agenda_Consultation.

- IFRS Foundation *Constitution* requires the Trustees to undertake a review of the entire structure of the Foundation and its effectiveness every 5 years.
- To date, there have been four reviews: two labelled as Constitution reviews (carried out 2003-05 and 2008-10) and two Strategy Reviews (2007 and 2010-12), plus an external review of governance by the Monitoring Board (MB).
- Conclusions and recommendations from previous reviews 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

Context for the Review

- The starting point: the Strategic Overview 2015-17 which contains four primary strategic goals for the organisation as follows:
 - (1) to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles;
 - (2) to pursue the global adoption of IFRS;
 - (3) to support the consistent application and implementation of IFRS globally; and
 - (4) to ensure that the IFRS Foundation, as an organisation, is independent, stable and accountable.
- The RfV takes each of the four goals in turn, outlining what the review covers and what it does not, given achievements to date. Emphasis of the review is on (1), (3) and (4).

Areas for review: summary

- Strategic Goal 1: Focus is on relevance of IFRS (see slides 6-7)
- Strategic Goal 3: Consistent application of IFRS – seeking views on what Foundation does now in this area and whether it could or should do more (see slides 8-9).
- Strategic Goal 4: Governance and funding – seeking views on:
 - functioning of the three-tier governance structure (IASB, Trustees, MB);
 - geographical distribution of Trustees;
 - focus and frequency of future reviews;
 - size of the IASB, terms of appointment and balance of professional backgrounds; and
 - functioning of the Foundation’s funding model (see slides 10-12).

Strategic goal 1: areas for review— relevance (scope and remit)

Remit of the IASB: RfV seeks comments on the IASB's place with regard to wider corporate reporting:

- Our current activity consists of a regular dialogue with a number of the world's leading organisations in the broader corporate reporting debate, which includes a [Memorandum of Understanding](#) with the [International Integrated Reporting Council \(IIRC\)](#) and participation in the [Corporate Reporting Dialogue](#). Some believe we should broaden the scope of our work to cover areas outside of financial reporting.
- RfV proposal is that the IASB should continue to play an active role but not be at the forefront of leading developments in areas outside the traditional boundaries of financial reporting.

Q2: Does the CMAC have any views or comments on the role that the IASB should play in this area?

Strategic goal 1: areas for review— relevance (the role of technology)

Technology: Our Advisory Council and others have stressed importance of maintaining the relevance of IFRS in the face of developments in technology.

- For example, the use of items such as big data analytics could change the way investors access and use information in general purpose financial reports. Because of this, there have been discussions about if, and how, we should ensure that the relevance of IFRS is maintained in the face of technological developments.
- This is not our area of expertise, so Trustees are seeking help in thinking about whether and, if so, how, the organisation should respond to, and exploit opportunities of, changes in technology.

Q3: Does the CMAC have any views or suggestions as to what we could or should be doing in this area?

Strategic goal 3: areas for review— consistent application

Trustees' view is that this is a main theme in the RfV.

- Even if prime responsibility rests with others, inconsistent application of IFRS poses a risk for the Foundation and is an issue for investors.
- RfV outlines the Foundation's efforts in this area and progress made:
 - clear, understandable and enforceable Standards;
 - guidance consistent with a principle-based approach to standard-setting;
 - co-operation with securities regulators (IOSCO protocol as an important development), audit regulators, national accounting bodies and national standard-setters;
 - work of the Interpretations Committee;
 - education activities in support of consistent application; and
 - Post-Implementation Reviews.

Strategic goal 3: areas for review— consistent application continued

- **Focus in the consultation** is to:
 - seek views on the Foundation’s efforts in the areas set out on the previous slide; and
 - given resource and other limitations, ask whether we could and should be doing in operational terms to support consistent application, including:
 - scope for enhancing co-operation with others;
 - enhancing work of Education Initiative in this area.
- Enhancing co-operation with regulators is a previous theme raised by investors (for example in CRUF’s response to the Trustees’ 2011 Strategy Review).

Q4: Does the CMAC have any views or comments on these issues, in particular on whether there is scope to further enhance our current level and scope of co-operation?

Strategic goal 4: areas for review— governance: three-tier structure

Trustees' view is that the three-tier structure of Monitoring Board, Trustees and IASB remains appropriate.

- Strong support for the structure expressed by stakeholders (including CRUF) in Strategy Review and Monitoring Board Governance Review reports issued in 2012. No case to change the structure.
- But Trustees are seeking views from stakeholders as to how the functioning of that structure might be improved.

Q5: Does the CMAC have any views on this point?

Strategic goal 4: areas for review— other governance aspects

- Seeking views on overall geographical distribution of Trustees, including increasing number of ‘at large’ appointments within the total number of 22.
- Changing the focus and frequency of reviews of the Foundation, so as to cover:
 - a review of **strategy** and effectiveness;
 - with each review commencing, at the latest, five years after the previous review has been completed.
- Reducing the size of the IASB from 16 to 13 members.
- Flexibility on other aspects of membership of the IASB:
 - balance of backgrounds – emphasis on members as a group representing “the best available combination of technical expertise and diversity of international business and market experience”;
 - terms of appointment should be to five years initial plus up to five years’ re-appointment.

Q6: Do the CMAC members have views on other governance aspects, including:

- the geographical distribution of Trustees;
- frequency of reviews of the Foundation; and
- aspects of the IASB size and membership?

Strategic goal 4: areas for review— financing

- **Trustees' view** : the Foundation's current funding model* remains appropriate, but seeking views as to how its functioning can be improved, given the on-going challenge in securing funding from some jurisdictions;
- **Request for views** emphasises:
 - continuing on a transitional basis to raise contributions from the accounting firms, pending the achievement of fully securing publicly sponsored contributions (while emphasising that this does not compromise the organisation's independence); and
 - the proposal that the Foundation should look to explore the potential to increase the proportion of income from self-generated sources to strengthen independence (while maintaining an appropriate balance with the organisation's public interest mission).

Q7: Do the CMAC members have any comments on this issue?

*See further information in paragraphs 96-102 of the RfV at http://go.ifrs.org/Trustees_RFV

Responding and next steps

- Does the CMAC have any other comments or questions?
- Deadline for responses 30 November 2015.
- Respond via: <http://www.ifrs.org/About-us/IFRS-Foundation/Oversight/Trustees/Pages/Review-of-Structure-and-Effectiveness-Request-for-Views-and-Comment-Letters.aspx>.
- Comment letter summary scheduled to be presented to the Trustees at their January 2016 meeting.
- Feedback analysis and issues, including proposals for Constitutional changes and any further due process, scheduled for the Trustees' May 2016 meeting.

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