

AGENDA PAPER

IFRS Advisory Council Meeting

[PLACE]	23 February 2016	Agenda ref 4
TOPIC	IFRS Foundation Review of Structure and Effectiveness	
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IFRS Foundation® Review of Structure and Effectiveness: summary of main themes of feedback, decisions taken and initial thoughts on next steps

Introduction

1. The purpose of this paper is to:
 - (a) provide a summary of the main themes of feedback in response to the consultation document *Request for Views – Trustees’ Review of Structure and Effectiveness: Issues for the Review* (‘the RfV’),
 - (b) update the Advisory Council about the decisions the Trustees have already taken in response to the feedback received; and
 - (c) seek the Advisory Council’s advice on the staff’s initial thoughts in some areas where the Trustees have not yet taken a decision.
2. While the staff will provide an overall update on the project and would welcome the Council’s views in any areas of the project, in this meeting we would like to particularly focus on issues of governance, namely the issues surrounding membership of the Trustees and the International Accounting Standards Board (‘the Board’) (discussed in paragraphs 38-55 of this paper). These issues will be discussed in break-out sessions with Advisory Council members.
3. This paper should be read in conjunction with the following papers for this meeting:

- (a) Agenda Paper, AP 4A – IFRS Foundation Review of Structure and Effectiveness: comment letter summary; and
- (b) AP 4B - IFRS Foundation Review of Structure and Effectiveness: outreach summary.

Background

General background

- 4. The RfV was approved by the Trustees at their June 2015 meeting and issued on 7 July, with a comment deadline of 30 November 2015.
- 5. The RfV explained that there were three main areas on which the Trustees were seeking comments, as follows:
 - (a) the relevance of the Standards;
 - (b) the consistent application of the Standards; and
 - (c) the governance and financing of the IFRS Foundation ('the Foundation').
- 6. At the time of writing, 97 comment letters have been received on the RfV. Generally, respondents welcomed the RfV, and expressed general support for the four primary strategic goals of the Foundation described in the RfV.

Advisory Council input

- 7. In their November 2015 meeting, the Advisory Council discussed the RfV and provided the following feedback to the Trustees:
 - (a) there was little support for the IASB to extend its remit;
 - (b) Council members supported the Trustees' current approach to wider corporate reporting and the IFRS Taxonomy, although there were a number of specific suggestions;
 - (c) Council members made various recommendations about how the Foundation should deal with changing technology;
 - (d) Council members supported the current three-tier structure but recommended ensuring that there is clarity of understanding around this structure;
 - (e) Council members made various recommendations to ensure that the composition of the Trustees remains relevant; and
 - (f) Council members had split views about the size of the Board.
- 8. In addition, 30 Advisory Council members provided comment letters in response to the RfV.

January 2016 Trustees' meeting

9. In their January 2016 meeting, the Trustees discussed the feedback received on the RfV. The Trustees made decisions in a few areas where it seemed clear from the feedback what the next steps should be (bearing in mind the advice received from the Advisory Council), but directed the staff to conduct further analysis on the more complex and/or contentious areas for their May 2016 meeting.
10. In their January 2016 meeting, the Trustees decided:
 - (a) to not expand the Board's remit to encompass financial reporting standards for the public sector;
 - (b) to reaffirm the Board's active role in wider corporate reporting and to dedicate some modest staff resource to this area;
 - (c) to reaffirm the Foundation's strategy for the IFRS Taxonomy and to take up an offer by the International Organization of Securities Commissions (IOSCO) to discuss how the Foundation might best support regulators in their efforts to improve digital access to general purpose financial reports;
 - (d) to establish a network of experts to provide advice on technological developments and their potential impact on IFRS Standards ('the Standards'); and
 - (e) to direct the staff to perform further analysis on the following topics for discussion at the May 2016 Trustees meeting:
 - (i) whether the Board's remit should expand to encompass financial reporting standards for the not-for-profit sector;
 - (ii) whether the Foundation should do anything more to encourage consistent application of the Standards; and
 - (iii) the feedback received on the questions in the RfV pertaining to governance and financing, particularly regarding whether membership of the Monitoring Board, the Foundation and its bodies should be linked to adoption of the Standards and funding contributions to the Foundation.
11. The decisions the Trustees have already taken are consistent with the advice given by the Advisory Council in their November 2015 meeting (this is summarised in paragraph 7 above).
12. The themes emerging from the comments received under each of three main areas of the RfV on which the Trustees were seeking comments, along with a summary of any decisions the Trustees have made or staff analysis in areas where the Trustees have not yet made decisions, are summarised in the paragraphs below.

Relevance of the Standards

13. The RfV posed a number of questions on ensuring the relevance of the Standards is maintained in three broad areas:
- (a) the scope of the remit of the Board;
 - (b) the Foundation's strategy for the IFRS Taxonomy; and
 - (c) considering the impact of developments in technology.
14. The summaries of responses in relation to these issues are set out in paragraphs 8-28 of AP 4A and paragraphs 4-16 of AP 4B.

Scope

15. The main themes of feedback were as follows:
- (a) the majority of respondents thought that the Board should not change its standard-setting remit (that is, the Board should not set standards for the public sector or not-for-profit sector), although a substantial minority of respondents strongly supported the Board setting standards for the not-for-profit sector; and
 - (b) the majority of comment letter respondents supported the Board's strategy to play an active role in developments in wider corporate reporting, with some stating that the Board should take a more proactive role. However, views were more mixed in the responses to the investor survey referred to in AP 4B.
16. Given the support expressed by respondents in this area, in the January 2016 meeting the Trustees decided:
- (a) to reaffirm that the Board's remit not be expanded to encompass financial reporting standards for the public sector;
 - (b) to reaffirm the Board's active role in wider corporate reporting. Given that wider corporate reporting remains a 'growth' area, the Trustees also decided that some modest staff resource should be dedicated to this area, not only to monitor and analyse developments, but also – as some respondents have suggested – to consider whether the Foundation should develop a strategy in relation to the possible future direction of reporting corporate performance and the implications for the Standards in meeting the needs of key users.
17. The issues are not so clear-cut in relation to expanding the Board's scope to encompass the private, not-for-profit sector, where the staff will carry out some more detailed analysis to bring back to the Trustees at the next meeting in May 2016.

IFRS Taxonomy

18. The majority of respondents agreed with the Foundation's strategy regarding the IFRS Taxonomy, although many of them placed conditions on their agreement, such as it should not dictate the standard-setting process nor take up too much resource.
19. The majority of respondents also agreed that the Board should see how it might best support regulators in their efforts to improve digital access to general purpose financial reports. Indeed, the regulators themselves (in the form of IOSCO)¹ have suggested that the Foundation staff should discuss this with IOSCO's Committee 1 (which deals with Accounting, Audit and Disclosure).
20. In response to this feedback, in their January 2016 meeting the Trustees decided to reaffirm the Foundation's strategy for the IFRS Taxonomy and that the staff should take up the offer by IOSCO.

Wider developments in technology

21. The majority of comment letter respondents supported the idea described in the RfV to establish a network of experts to provide advice on how to monitor, assess and respond to changing technology. However – as above – the views were more mixed among the respondents to the investor survey, albeit with a small majority taking the view that developments in technology could have an impact on the relevance of the Standards.
22. In response to this feedback, in their January 2016 meeting the Trustees decided to reaffirm that the Foundation should establish a network of experts to provide advice on technological developments and their potential impact on IFRS Standards, and directed the staff to conduct further work on this network for further discussion in the May 2016 meeting.
23. A number of respondents also suggested that the work of the UK Financial Reporting Council's ('the FRC's') Financial Reporting Lab on digital reporting might be a useful input in this area. The Financial Reporting Lab has produced one report (*Digital Present*²) that describes the current use of digital media in corporate reporting and is planning to build on the findings from this report, to inform its next phase of work on the *Digital future*. The staff have held an exploratory meeting with their counterparts at the FRC about working together on this next phase. In the January 2016 meeting, the Trustees directed the staff to continue discussions with the FRC staff about this issue.

Question 1 for the Advisory Council

Do Advisory Council members have any comments or questions about the Trustees' decisions in the area of relevance of the Standards?

Consistency of application and implementation

24. In this area, the RfV asked respondents their views on what the Foundation is doing to encourage the consistent application of the Standards, and whether there is anything more the Foundation should be doing in this area.

¹ See Comment Letter, CL 60.

² Available at: <https://frc.org.uk/Our-Work/Publications/Financial-Reporting-Lab/Lab-Project-Report-Digital-Present.pdf>

25. The summaries of responses in relation to the issues raised on consistent application are set out in paragraphs 29-58 of AP 4A and paragraphs 17-18 of AP 4B.
26. The main themes of feedback were as follows:
- (a) respondents generally supported the Foundation's current efforts to encourage consistent application, but cautioned that truly uniform application would not be possible, or even desirable, with principles-based standards;
 - (b) respondents emphasised the importance of writing clear, understandable, easily translatable Standards based on strong principles in encouraging consistent application;
 - (c) many respondents commented on the process of finalising a standard and recommended improving the quality control in this area;
 - (d) there were mixed views around the usefulness of Transition Resource Groups ('TRGs'), but a majority of respondents did support them;
 - (e) respondents generally supported the Foundation's efforts to cooperate with other stakeholders to aid consistent application of the Standards;
 - (f) respondents generally supported the function of the IFRS Interpretations Committee ('IFRIC'), but offered a number of suggestions to improve IFRIC's effectiveness and efficiency; and
 - (g) respondents generally supported the role of Post-Implementation Reviews ('PIRs') in encouraging the consistent application of the Standards, and recommended that PIRs be expanded and formalised.
27. The whole area of consistent application and implementation is a particular one where the staff will need to consider the responses to the RfV in conjunction with those to the Board's separate RfV *2015 Agenda Consultation*, which sought views on whether the Board and IFRIC are providing the right mix of implementation support to meet stakeholders' needs and whether that support is sufficient.
28. In their January 2016 meeting, the Trustees directed the staff to come back in May 2016 with more detailed analysis and proposals in this area. In the meantime, one major step that has been taken at the staff level has been the consolidation of the Board's interpretations, implementation, adoption support and education activities into a single team, led by Henry Rees as Director of Implementation and Adoption Activities. The staff believe that the creation of this single team will allow the Board to better support the application and implementation of Standards on a globally consistent basis.
29. On the substance, the staff are initially exploring a number of ways to enhance the Foundation's strategy regarding consistent application, including:
- (a) to investigate expanding the use of PIRs and formalising the guidelines around them (this topic will also be discussed in a separate session of this Advisory Council meeting);
 - (b) to investigate various improvements to make to IFRIC's efficiency, for example exploring whether changes should be made to the composition or training of staff or committee

members and exploring what steps can be taken to reduce the time between the submission of agenda requests and decisions on those requests;

- (c) to analyse the steps involved in finalising a Standard, and the causes for amendments that needed to be made shortly after publishing recently released Standards, to ensure that the quality control in this area is sufficient;
- (d) to ensure that the Foundation is utilising its relationship with national standard-setters ('NSS') in the best possible way to support consistent application and to explore whether more can be done in this area; and
- (e) to consider further developing the work of the Education Initiative to assist with the consistent application of the Standards.

30. The staff are also in the process of negotiating an update to the Foundation's current *Statement of Protocols for Cooperation on International Financial Reporting Standards* with IOSCO, which is directly related to the issue of consistent application and implementation.

Question 2 for the Advisory Council

Do Advisory Council members have any comments or questions about whether the Foundation should do more to encourage consistent application of the Standards, and the staff's initial thoughts in this area?

Governance and financing

31. In this area, the RfV asked respondents questions pertaining to:
- (a) the three-tier governance structure of the Foundation;
 - (b) the Trustees;
 - (c) the focus and frequency of reviews of strategy and effectiveness;
 - (d) the Board; and
 - (e) the functioning of the Foundation's funding model.

The summaries of responses in relation to the issues raised on governance and financing are set out in paragraphs 59-109 of AP 4A and paragraphs 19-22 of AP 4B.

Comments about the three-tier structure

32. Respondents are overall supportive of the three-tier structure in providing independence of the standard-setting within a framework of public accountability³. Many take the view that no substantial changes to the structure are necessary. Nevertheless, some respondents made comments specific to the Monitoring Board and to the link between adoption, funding and representation, as well as the role of the Trustees, which are covered in separate sections below.

Comments about the Monitoring Board

33. A number of respondents did make comments related to the Monitoring Board. The staff brought those comments to the Trustees' attention, in particular to emphasise the comments made by the European Commission ('EC'), which has submitted a response to the RfV(CL74), and the EC's strength of feeling about the issue, exemplified by the comments that the three-tier structure is "undermined by a weak performance of its "top tier", the Monitoring Board, often criticised for failing to deliver sufficient added value. Our experience as a founding member of the Board confirms this assessment. First, the Board has so far only dealt with issues relating to its own organisation and composition. Secondly, the Board has never fulfilled its key duty of identifying and referring issues of public interest to the IASB for further consideration. Finally, the prospects of any improvement remain weak due to disagreements among Board members as to the exact mandate of the Board".
34. The response included a number of proposals for improving the operations of the Monitoring Board and the criteria for membership (not only for the Monitoring Board, but the Foundation and its bodies as well, together with a view that should the Monitoring Board "fail to reform rapidly, the European Commission is prepared to work with the IFRS Foundation on alternative solutions such as, for instance, the establishing a new oversight body".
35. This was the only response submitted by a member of the Monitoring Board⁴.
36. Respondents have also made a number of other suggestions in relation to the Monitoring Board, notably:
- (a) the focus of the work of the Monitoring Board;
 - (b) the scope of the work of the Monitoring Board;
 - (c) membership;
 - (d) transparency of the Monitoring Board; and
 - (e) funding of the Foundation.

Please see paragraph 62 of AP 4A for more detail of respondents' suggestions in this area.

³ As noted in the comment letter summary (AP 4A, paragraph 61) and outreach summary (AP 4B, paragraph 19).

⁴ There was also a response from IOSCO (CL61), but this came from the Committee on Accounting, Audit and Disclosure (C1), rather than the organs of IOSCO that are members of the Monitoring Board, namely the Board of IOSCO and its Growth and Emerging Markets Committee.

37. These are issues for the Monitoring Board to consider. But they are also issues that raise implications for the governance of the Foundation, depending on how the Monitoring Board addresses them. The comments made about the Monitoring Board were communicated to the chair of the Monitoring Board who attended part of the Trustees meeting in January 2016.

Comments about the link between the adoption of the Standards, funding of the Foundation and representation

38. An issue that has come out of the responses to the RfV impacts not only on the membership criteria of the Monitoring Board, but also of the Foundation and its bodies. A substantial body of opinion among the respondents to the RfV have made comments linking the adoption of the Standards, or at the very least a commitment to their adoption, funding contributions to the Foundation, and representation in the Monitoring Board, the Foundation and its bodies.
39. The EC's response (CL74) provides a clear example, urging the Foundation "to ensure that the use of IFRS and the existence of a permanent financial contribution are conditions for membership of the governing and monitoring bodies of the IFRS Foundation and of the IASB". A number of other respondents, making comments similar to the EC, spell out clearly the implications as they see it for reducing – but not excluding totally - the representation of North American/US members of at least the Trustees and the Board, including from:
- (a) standard-setters (for example, CL4 – ASCS and CL16 – Australian Accounting Standards Board);
 - (b) business representative bodies (CL13 – Insurance Europe; CL 31 - ACTEO-AFEP-MEDEF; CL68 – Swiss Holdings; CL91 – BusinessEurope);
 - (c) accounting professional bodies (CL33 – CPA Australia; CL47 – Association of Chartered Certified Accountants);
 - (d) investor representatives (CL51 – The Investment Association; CL69 – CFA Society UK); and
 - (e) professional firms (CL61 – Mazars).
40. A number of respondents from regions where the level of adoption of the Standards is high (notably Asia-Oceania and Europe) have argued that if RfV's proposals to increase the number of 'at large' Trustees (from two to five members) and to reduce the size of the Board to 13 members are followed through, the level of representation from those regions should not be reduced.
41. Although these comments have been made by a number of respondents, there is diversity in opinion in terms of what factors exactly should be used. Some respondents recommended linking representation to funding contributions to the Foundation, other respondents recommended linking representation to adoption of the Standards, and still other respondents recommended linking representation to both of these factors.
42. The RfV makes clear that the geographical distribution of Trustees is designed to be representative of the world's capital markets and to ensure a broad international base, rather than focus on whether a jurisdiction has adopted the Standards and contributes to the funding of the Foundation. This has been the Foundation's strategy since its inception (albeit at a time when few jurisdictions adopted the Standards).

Nor does the *Constitution* make any link between adoption, funding and representation. That strategy retains some support in the responses to the RfV.

43. With regard to the Board, members are not appointed as representatives of any geographical region: the distribution is designed to ensure a broad international base. The main qualifications for membership of the Board remain professional competence and practical experience as set out in the *Constitution*.
44. The staff will bring back a full analysis on this issue to the Trustees at a later stage. However, the staff highlight the possible impact of linking representation on the Monitoring Board, the Foundation and its bodies to factors that are likely to change, such as funding contributions to the Foundation, which could have an impact on the stability and long-term sustainability of our governance structure. Funding contributions have varied significantly over the life of the Foundation (for example, in the early years of the Foundation, the US was one of the biggest contributors to the Foundation - albeit through private sector sources - which is not currently the case). The staff think that solutions should be considered that would be sustainable for the long term.
45. The issue of linking representation to adoption of the Standards and funding of the Foundation presents significant challenges in considering the proposals in the RfV in relation to the geographical distribution of both the Trustees and the Board (and, as a consequence, the proposal to reduce the Board to thirteen members). Respondents had the following feedback regarding the composition of the Trustees and the Board:
 - (a) there were mixed views on the proposal to increase the number of 'at large' Trustee appointments from two to five, but the majority of respondents did agree. Views were mixed across both categories and geography of respondents:
 - (i) standard-setters expressed differing views, with support expressed from – for example – the Australian Accounting Standards Board ('AASB', CL16), the Accounting Standards Board of Canada ('AcSB', CL52) and the South African Financial Reporting Standards Council ('FRSC', CL30). Standard-setters against the proposal included the Korea Accounting Standards Board ('KASB', CL63) and most of the European standard-setters that responded, such as the FRC (CL26) and the ANC (CL85);
 - (ii) accounting firms, with - for example – Grant Thornton (CL20) and PwC (CL32) in favour, but KPMG (CL25) and EY⁵ (CL55) against;
 - (iii) business representative bodies, with support from – for example – Keidenran (CL24) and Swiss Holdings (CL68), but the German Insurance Association ('GDV', CL5) and ACTEO-AFEP-MEDEF (CL31) against;

⁵ EY's view was not supportive of the use of quotas at all, but that the overall focus should be on having a balanced composition and the best individual candidates.

- (iv) accounting professional bodies, with – for example – the International Federation of Accountants ('IFAC', CL1) in support, but the Association of Chartered Certified Accountants ('ACCA', CL47) against; and
 - (v) regulators, who were broadly supportive, for example the European Securities and Market Authority ('ESMA', CL12) and IOSCO (CL60);
- (b) there were also mixed views on the proposal to reduce the size of the Board; roughly the same number of respondents agreed and disagreed with the proposal. Again, views were mixed across both categories and geography of respondents, with those who disagreed falling into two broad camps: one arguing for the retention of a Board membership of sixteen as set out in the *Constitution*, the second for retaining the current complement of fourteen members; but
- (c) on both of the above, respondents from regions with a high level of adoption of the Standards (Asia-Oceania and Europe) commented that the number of members of both bodies from 'their' regions should not be reduced.
46. The staff, at this stage, are not making any recommendations on these issues, but we set out below what we see as some initial considerations and options for both the Trustees and the Board, on which we would welcome any views and comments from the Advisory Council. These are the topics for the break-out sessions that have been scheduled for this meeting.

Initial considerations and options: Trustees

47. The *Constitution* (Section 6) specifies that the Trustees shall comprise a required geographical distribution as follows:
- (a) six Trustees appointed from the Asia/Oceania region;
 - (b) six Trustees appointed from Europe;
 - (c) six Trustees appointed from North America;
 - (d) one Trustee appointed from Africa;
 - (e) one Trustee appointed from South America; and
 - (f) two Trustees appointed from any area, subject to maintaining overall geographical balance ('at large' appointments).
48. The RfV proposed to increase the number of 'at large' appointments from two to five, while retaining a total complement of twenty-two numbers.
49. Based on the feedback received, the staff have identified a number of potential alternatives that the Trustees could consider in terms of changing the geographical distribution of Trustees specified in the *Constitution*, which include:

- (a) **Alternative A:** Maintain the geographical distribution specified in the Constitution.

This Alternative would have the advantage of promoting stability in the makeup of the Trustees, but would have the disadvantage of not being responsive to the concerns raised by respondents to the RfV and not being fully reflective of the adoption of the Standards, and the funding of the Foundation, around the world.

- (b) **Alternative B:** Change the geographical distribution as proposed in the RfV by increasing the number of 'at large' appointments from two to five.

This Alternative would have the advantage of increasing the flexibility available in making Trustee appointments, and this flexibility could be used to ensure greater consistency between membership of the Trustees, adoption of the Standards and funding of the Foundation. However, this Alternative would also involve more complications. If the Trustees elect this Alternative, they will also need to consider:

- (i) where the three additional 'at large' appointments would come from, that is, which set Trustee appointments would decrease to produce the additional 'at large' appointments;
- (ii) whether there should be any guidelines in terms of what considerations should be used in making the 'at large' appointments. Some Trustees raised concerns that any apparent gain in flexibility under this Alternative would fail to materialise because the Nominating Committee would need detailed guidelines for making the 'at large' appointments.

- (c) **Alternative C:** Make some other, wholesale, change to the geographical distribution specified in the Constitution, for example, to link the geographical distribution to funding of the Foundation or adoption of the Standards. One such change suggested in the January 2016 Trustees meeting would be to combine the North American and South American appointments into one 'Americas' category to offer more flexibility.

This Alternative would have the advantage of being responsive to concerns raised by respondents to the RfV, and could be reflective of adoption of the Standards, and funding of the Foundation, around the world. However, the staff observe that linking representation to factors that are likely to change over time could potentially make the makeup of the Trustees unstable. Moreover, the current geographical distribution for the Trustees has worked for a number of years, and there could be unforeseen consequences in changing it.

50. When evaluating the different alternatives, there are a number of different considerations the Trustees will need to bear in mind, including:

- (a) How important increased flexibility is in making Trustee appointments. If the Trustees elect Alternative B to give them more flexibility in making appointments, but also elect to include

guidelines around the considerations used in making ‘at large’ appointments, the Trustees will need to ensure those guidelines do not unduly limit the desired flexibility;

- (b) What political implications there would be in changing the geographical distribution specified in the *Constitution*. For example, a number of respondents to the RfV have specifically requested that geographic representation from their own region not be decreased. If the Trustees elect Alternative B and decrease the number of Trustees appointed from, for example, Asia/Oceania or Europe, it would not be responsive to the feedback received on the RfV.

Question 3 for the Advisory Council

In the break-out sessions and the report back to the Council, do Advisory Council members have views on the alternatives laid out above for geographical distribution of the Trustees, or do Advisory Council members think there are any other alternatives the Trustees should consider?

Initial considerations and options: Board

51. The *Constitution* (Section 25) specifies that, with a Board of sixteen members, there shall normally be the following geographical distribution (with the numbers of members in each category of the current fourteen-member Board given in brackets):
- (a) four members from the Asia/Oceania region (four members at present);
 - (b) four members from Europe (three);
 - (c) four members from North America (three);
 - (d) one member from Africa (one);
 - (e) one member from South American (one); and
 - (f) two members appointed from any area, subject to maintaining overall geographical balance (two).
52. The RfV proposed to reduce the size of the IASB from the current complement of sixteen to thirteen members and proposed that such a reduction can be achieved by reducing the normal allocation of members from four to three for each of the Asia/Oceania region, Europe and North America.

53. Based on the feedback received, the staff have identified a number of potential alternatives that the Trustees could consider in terms of changing the size of the Board specified in the *Constitution*, which include:
- (a) **Alternative A:** Maintain the size of the Board at sixteen members as specified in the *Constitution*. If the Trustees elect this Alternative, the staff think that there should then be an immediate effort to actually increase the size of the Board to sixteen members (an increase from the current fourteen members).
 - (b) **Alternative B:** Amend the *Constitution* to decrease the size of the Board. If the Trustees elect this Alternative, they will need to consider:
 - (i) How much to decrease the size of the Board. The Board could be decreased to thirteen members as proposed in the RfV. Alternatively, the Board could be decreased to the current size of fourteen members;
 - (ii) How the change in size will impact the geographic distribution of the Board. The decrease could be done on a 'pro rata' basis considering the current geographic distribution in the *Constitution*, or could be done on another basis.
54. The staff do not think the Trustees should consider increasing the size of the Board beyond sixteen members as this was not supported in the responses to the RfV.
55. When evaluating the different alternatives, there are a number of different considerations the Trustees will need to bear in mind, including:
- (a) Whether a decrease in the size of the Board would improve the efficiency and effectiveness of the Board;
 - (b) Whether a decrease in the size of the Board would negatively impact the Board's capacity to perform necessary outreach and other Board member responsibilities;
 - (c) Whether a decrease in the size of the Board would negatively impact the diversity of the Board;
 - (d) What political implications there would be in changing the size of the Board, and therefore the geographic distribution of the Board, specified in the *Constitution*. For example, a number of respondents to the RfV have specifically requested that geographic representation from their own region not be decreased. If the Trustees elect Alternative B and decrease the number of Board members appointed from, for example, Asia/Oceania or Europe, it would not be responsive to the feedback received on the RfV.

In the break-out sessions and the report back to the Council, do Advisory Council members have views on the alternatives laid out above for the size of the Board, or do Advisory Council members think there are any other alternatives the Trustees should consider?

Role of the Trustees

56. A few respondents have called for the Trustees to extend their oversight role. As an example, Keidanren (CL 24) has suggested that the Foundation should “thoroughly examine (1) whether the way the IASB develops Standards is in line with the IFRS Foundation’s strategic goals, and (2) whether the IASB develops Standards in an efficient manner and maintains an appropriate due process”. The Accounting Standards Committee of Germany (‘ASCG’) (CL29) urged the Trustees to ‘faithfully analyse and evaluate the standard-setting activities against the original course’ ie of developing principles-based Standards, arguing that recent pronouncements ‘have become overly complex, detailed and rules-based’.
57. In a similar vein, the FRC (CL26) suggested that the Trustees should set the strategic direction of the Board’s standard-setting agenda, hold the Board to account for following this strategy and “assess the performance of the IASB as a whole by reference to adherence to the words and the spirit of the due process requirements and by reference to the quality and timeliness of its outputs”. The FRC believed that the Board’s RfV on the Agenda Consultation should have been issued only once the Trustees had agreed a strategic direction. The Institute of Chartered Accountants of England and Wales (‘ICAEW’) (CL44) believes that the Trustees should hold the Board to account when things ‘appear to go awry, but we are not aware of any evidence that this is truly happening’.
58. A number of respondents (such as ACTEO-APEF-MEDEF (CL31) and the European Financial Reporting Advisory Group (‘EFRAG’⁶) (CL93)) have called specifically for the Trustees to extend their due process oversight role to cover not only compliance with the due process requirements as set out in the *Due Process Handbook*, but also on the substance of technical decisions made by the Board, in particular when complaints are submitted by constituents. While it is the case that the remit of the Due Process Oversight Committee (‘DPOC’) is limited to due process, in practice the discussions at the DPOC also cover the rationale for why the Board has made certain technical decisions, while respecting that it is for the Board, and the Board alone, to make such decisions. This is not always clear to constituents, and one change the staff are exploring is the potential for DPOC meetings to be held in public session. The staff have discussed this with Michel Prada and Jim Quigley, who in principle favour holding DPOC meetings in public session.
59. In their January 2016 meeting, the Trustees directed the staff to carry out more detailed work on the comments and suggestions made about the Trustees’ role, within the context of the need for effective oversight to be applied in way that does not undermine the independence of the Board, which received support from respondents. As part of this, the staff plan to carry out some further work on the idea of DPOC meetings being held in public and to discuss these issues with the Trustees in the May 2016 meeting.

Other governance and funding issues

⁶ EFRAG’s view is supported by a number of other European respondents, eg DASB (CL46).

60. In their January 2016 meeting, the Trustees directed the staff to carry out further analysis on the feedback received on the other governance and funding issues discussed in the RfV. Some of the initial themes raised in feedback to the RfV include:
- (a) respondents generally supported the proposed amendments to the *Constitution* regarding the reviews of structure and effectiveness (that is, to amend the *Constitution* to specify that a review of strategy and effectiveness should commence, at the latest, five years after the previous review); and
 - (b) respondents acknowledged the importance of the Foundation establishing a stable, long-term system of funding, and felt that the current three-pillar system of funding was generally appropriate. Respondents were especially supportive of publicly-sponsored contributions. As noted in paragraph 105 of AP 4A, a small number of respondents (in particular from Brazil) proposed amendment the basis of calculating the publicly-sponsored contributions to the Foundation from a 'simple' Gross Domestic Product ('GDP') basis to a GDP per capita basis. The Trustees reaffirmed the decision to base contributions on a GDP basis at their meeting in April 2013 having considered a range of alternatives, including GDP per capita. Staff do not plan to revisit that decision.

Question 5 for the Advisory Council

Do Advisory Council members have any comments or questions about the feedback received regarding the governance and funding of the Foundation (apart from the issues regarding membership of the Trustees and Board discussed in the break-out session), and the staff's initial thoughts in this area?

Next steps

61. The staff plan to continue work on the responses received to the RfV and, at the Trustees' next meeting in May 2016, to present a more detailed analysis of the feedback and issues arising in all areas where the Trustees have not already made a decision (bearing in mind the feedback received from the Advisory Council at this meeting). The staff believe that an earlier meeting(s) of the Executive Committee (which Trustees will recall is acting as Review Committee for this exercise) will need to be scheduled. The staff plan is that the analysis for the next meeting will include:
- (a) any proposals to amend the Foundation's *Constitution* (the Trustees have the power to approve such amendments under section 15(i) of the *Constitution*, provided that a 75 per cent majority of the Trustees agree).
 - (b) whether any further due process is necessary. Any proposed amendments to the *Constitution* have to be exposed for public comment in an exposure draft and the Advisory Council needs to be consulted. A number of proposed amendments to the *Constitution* were specified in the RfV.

- (c) any implications in the light of the Board's Agenda Consultation (on which the comment period on the Board's separate RfV closed on 31 December 2015).
62. The staff will also update the Advisory Council on progress at its June 2016 meeting.

Question 6 for the Advisory Council

Do Advisory Council members have any advice or questions about the next steps for the project?