

AGENDA PAPER

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TOPIC IFRS Foundation Review of Structure and Effectiveness

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IFRS Foundation® Review of Structure and Effectiveness: outreach summary

Introduction

1. The purpose of this paper is to provide a summary of the feedback received in the outreach undertaken for the consultation document *Request for Views – Trustees’ Review of Structure and Effectiveness: Issues for the Review* (‘the RfV’).
2. This paper is primarily for information, but any questions and/or comments from the Advisory Council would be welcome.

Overview of outreach

3. A list of the outreach events undertaken is at Appendix A, together where applicable with summary reports of the discussions at those events (which basically report on events where the constituents consulted did not subsequently submit a comment letter). In addition, a survey for investors containing questions about the International Accounting Standards Board’s (‘the Board’s’) Agenda Consultation, but also various issues included in the RfV, was placed on the Foundation website during the comment period of the RfV. A summary of the main messages from the outreach is set out in the following paragraphs.

Relevance of IFRS® Standards

The IFRS Advisory Council is the formal advisory body to the International Accounting Standards Board and the Trustees of the IFRS Foundation. For more information about the Council, visit www.ifrs.org/goAdvisoryCouncil.

Scope: extending the remit of the International Accounting Standards Board - private, not-for-profit sector

4. Other than a minority of World Standard-Setters (WSS), the outreach revealed little support for extending the scope of the Board's remit to encompass the not-for-profit (NFP) sector.

Scope: wider corporate reporting

5. The outreach revealed a degree of support for the Foundation's current approach as outlined by the Trustees in the RfV, although the Capital Markets Advisory Committee (CMAC) in particular emphasised the importance of the Board focusing on developing standards for financial reporting, where it still has much work to do.
6. One of the questions in the survey referred to in paragraph 3 above described the Foundation's current approach to wider corporate reporting and asked whether respondents thought the Board should broaden the scope of its work in relation to such reporting.
7. Of those expressing an opinion, the majority of survey respondents thought that the Board should not broaden the scope of its work in this area, while a significant minority thought that the Board should broaden the scope of its work. Those that thought that the Board should not broaden the scope of its work did so because they thought that the Board already had more than enough to do in focussing on financial reporting. They cautioned that broadening the scope would not be an efficient use of resources, would require expertise that the organisation does not currently have and would be outside of the organisation's mandate.
8. Those that supported broadening the scope of the Board's work in this area thought that financial information is useful on its own, but incomplete—non-financial information is also needed. These respondents specifically mentioned ESG (environmental, social and governance) information, management commentary, stewardship information, audit issues and valuation issues (especially of intangible assets) as areas where the Board should broaden the scope of its work.

Structured digital reporting: IFRS Taxonomy and supporting regulators

9. Support for the Foundation's strategy with regard to the IFRS Taxonomy was, not surprisingly, expressed by the IFRS Taxonomy Consultative Group (ITCG). The ITCG also offered a number of suggestions (see the summary at Appendix A on page 11) with regard to the Foundation playing a co-ordinating role in Taxonomy extensions and ways in which the IFRS Taxonomy content could be illustrated in a non-technical context, in order to fully engage the Board and other (non-technical) stakeholders. The main pushback was received at the CMAC discussion, which revealed mixed views about the IFRS Taxonomy, with some noted that there has been little take-up of the Taxonomy.
10. The ITCG also addressed the question in the RfV of how the Board might best support regulators in their efforts to improve digital access to general purpose financial reports, including suggestions to conduct outreach with regulators and perhaps setting up forums, as well as considering what additional help on how to implement and work with the IFRS Taxonomy might be useful to regulators.

11. One of the questions in the survey referred to in paragraph 3 pertained to whether current or future developments in technology could impact the relevance of the IFRS Standards ('the Standards'), and, if so, what steps the Board could take to ensure it maintains the relevance of the Standards.
12. In their responses to this question, a few survey respondents commented on the IFRS Taxonomy and XBRL. Some respondents supported the Foundation's involvement with the Taxonomy and XBRL, explaining that it was important for the Foundation to foster the consistent tagging of information to ensure comparability and encouraging the Foundation to actively participate in developing XBRL. One respondent, however, said the Foundation should not participate in developing XBRL.

Wider developments in technology

13. The broad general message from the outreach agreed that technology was of increasing importance and while the Foundation and the Board should not themselves look to develop technological solutions, they should be aware of developments, including through a network of experts.
14. In response to the survey question referred to in paragraph 11, survey respondents had mixed views regarding whether current or future developments in technology could impact the relevance of the Standards. Of those expressing an opinion, a small majority thought that developments in technology could impact the relevance of the Standards.
15. Those respondents who did not think that developments in technology impact the relevance of the Standards commented that the Board and Foundation should focus on standard-setting. As such, they could not support the idea described in the RfV of establishing a network of experts to provide advice on changing technology.
16. Those respondents who think that developments in technology impact the relevance of the Standards, however, suggested that the Board and Foundation perform outreach and work with partners such as software developers, data collectors, and organisations involved with 'big data' to monitor developments in technology and whether they would impact the relevance of the Standards. While not specifically addressing the issue, the staff assume that they would support the network of experts described in the RfV. These respondents specifically mentioned big data and the increased trend towards 'dynamic' or frequently updated information as two technology developments that could impact the relevance of the Standards.

Consistency of application and implementation

17. The area of consistency of application and implementation of the Standards was discussed in particular by the World Standard-Setters (WSS) (see the summary of comments in Appendix A on pages 7-9). Particular issues to note relate to the need to ensure that the Standards are clear, understandable and enforceable, including the importance of how they are drafted and how they are translated), and making sure that the guidance produced is consistent with a principles-based approach.
18. The importance of the Education Initiative was emphasised, with views expressed that its activities could be better communicated and promoted.

Governance and financing

Three-tier governance structure (including comments on the Monitoring Board)

19. Support for the three-tier structure was expressed. CMAC in particular emphasised the importance of the independence of the Board being maintained in order to avoid politicisation and to protect the brand. A number of comments were made in respect of the Monitoring Board, including by the European Commission (EC) at the Accounting Regulatory Committee (ARC) (which the EC subsequently submitted in its comment letter to the RfV) and a view expressed at the Global Preparers Forum (GPF) about the lack of transparency of the Monitoring Board.

Trustees

20. The Advisory Council highlighted the importance of ensure that the composition of the Trustees remains relevant, not only in terms of ensuring a better gender balance and the Trustees being impartial, but also in ensuring that they have appropriate recent knowledge and understanding of the changing environment that can impact financial reporting.

The Board

21. The outreach revealed mixed views around the proposal to reduce the size of the Board to 13 members. Comments were received that the number of Board members from Europe and Asia-Oceania should not be reduced.

Financing

22. A number of comments made reflected the view that the adoption of the Standards and adequate financing contributions from jurisdictions should be reflected in the Foundation's governance arrangements.

Appendix A
**TRUSTEES' REVIEW OF STRUCTURE AND EFFECTIVENESS: SUMMARY OF OUTREACH ON REQUEST FOR VIEWS
CONSULTATION DOCUMENT 2015**

Date	Group/Location	Comments, plus Comment Letter (CL reference) or Summary reference
w/c 7 Sep 2015	Asia-Oceania Office, Tokyo	Executive Director Yael Almog and Executive Technical Director Hugh Shields held a number of meetings in Tokyo with stakeholders covering both the review of structure and effectiveness and the Board's Agenda Consultation. Final comments from stakeholders are covered in comment letters from a group of individual Japanese information users, preparers and public accountants (CL34), SAAJ (CL37), ASBJ (CL38) and JICPA (CL39).
14 Sep	ESMA IFRS Project Group, Paris	Hugh Shields and Director for Trustee Activities David Loweth held a session with the Project Group covering both the review of structure and effectiveness and the Board's Agenda Consultation. ESMA's final comments in response to the Trustees' review are set out in CL12.
17 Sep	Accounting Regulatory Committee (ARC), Brussels	The agenda included a brief session on the Trustees' review, presented by Technical Director Peter Clark. The extract from the draft minutes of the ARC meeting is set out at item (1) below.
21 Sep	EFRAG Board, Brussels	Chair of the Trustees Michel Prada, Trustee Antonio Zoido and Executive Director Yael Almog attended a session on the review of structure and effectiveness and had an exchange of views with the EFRAG Board. EFRAG's final comments in response to the Trustees' review are set out in CL93.
28 Sep	World Standard- Setters (WSS), London	Yael Almog and David Loweth gave a presentation on the review, after which small group discussions were held and feedback given – summary given at item (2) below.
29 Sep	IFASS, London	Michel Prada gave a speech to IFASS and held a Q&A session with IFASS members, including on issues related to the review. The relevant extract from the report of the

Date	Group/Location	Comments, plus Comment Letter (CL reference) or Summary reference
		IFASS meeting is at item (3) below.
5 Oct	EuroCRUF, London	David Loweth presented to the group. CRUF's final comments are in CL88.
27 Oct	Taxonomy Consultative Group (ITCG), London	David Loweth presented to the group and break-out sessions were held. The relevant extract from the report of the ITCG meeting is at item (4) below.
2-3 Nov	Advisory Council, London	Yael Almog and David Loweth presented to the Council, with break-out sessions held. The relevant extract from the report of the Council meeting is at item (5) below.
4 Nov	Global Preparers Forum (GPF), London	David Loweth presented to the GPF. The relevant extract from the report of the GPF meeting is at item (6) below.
6 Nov	Capital Markets Advisory Committee (CMAC), London	Yael Almog presented to the GPF. The relevant extract from the report of the CMAC meeting is at item (7) below.

1. **Accounting Regulatory Committee (ARC), 17 September 2015**

Unofficial record (the ARC minutes have yet to be published)

IFRS Foundation governance review

Peter Clark (IASB Technical Director) presented a summary of the main issues in the Trustees' consultation document on the review of structure and effectiveness of the IFRS Foundation. The Commission staff explained that the European Commission intended to answer questions relating to the governance of the IFRS Foundation whereas EFRAG would answer questions relating to relevance of IFRS and its consistent application and implementation. In line with its report on the evaluation of the IAS Regulation, the Commission response would recommend that the role of the Monitoring Board should be enhanced, that seats on the organisation's monitoring and decision-making bodies should go to countries that use IFRS and fund the Foundation and that the IASB should strengthen its impact assessments (effects analyses).

EFRAG presented a summary of its draft views on questions relating to IFRS. EFRAG tentatively believed that the IASB should not develop Standard for not-for-profit entities nor integrate aspects of non-financial reporting into IFRS. However, EFRAG was of the opinion that the IASB should commission an external review of its standard-setting process.

A Member State agreed with the Commission that the use of IFRS and adequate financial contributions should be reflected in governance arrangements and that the IASB should strengthen its impact assessment. It also expressed concern against the big audit firms increasing their share in the overall funding of the IFRS Foundation and the

possible conflict of interest that could result. The same Member State agreed with EFRAG that the IASB should not move beyond setting standard for listed companies. Finally, the Member State said that it opposed any reduction in the size of the IASB or in the number of European IASB members.

A second Member State agreed that the IASB should reinforce its impact assessments and should not set Standards for the public sector. It noted that the IASB had recently changed its standard-setting process by adding a "research phase". The same Member State stressed that the standard-setting process should remain with the IASB and that the Monitoring Board should not make any specific requests in that area. Finally, it also argued against any weakening of European presence in the IFRS Foundation.

A third Member State said that it was against the IASB extending the scope of its standards to cover not-for profit organisations / non-financial reporting and cautioned against excluding "currently non-IFRS countries" from the "wider IFRS family".

The last Member State to speak agreed with the first and stressed the link between governance and funding.

2. World Standard-Setters (WSS), 28 September 2015

Feedback from small group discussions:

Relevance: scope

For this topic, the Group was asked to consider whether standard-setting should be undertaken for the non-profit sector.

When put to a vote, only a minority were in favour of the IASB addressing accounting issues in the non-profit sector.

Some comments received were as follows:

- The IASB did not have the resources to address this topic considering its existing agenda items;
- The economics of the non-profit sector are fundamentally unique and thus the existing conceptual framework would not be appropriate for this sector;
- A few participants were in favour and commented that if it was not the IASB that led this project, would there be any other organization to fulfill such a role?
 - They commented that there is no significant difference between a public company and a non-profit organization as both were publically accountable;
- Some noted that the IASB could play a role but should not lead the project.

Relevance: Taxonomy and Technology

The Group agreed that technology was the right direction for the IASB to be considering – albeit members were not quite sure how digital reporting would develop. The general view was that the ability to analyse and manipulate data would be the first step.

One issue with digital reporting was how to maintain the integrity of the information – financial statements currently provided transparency and had barriers - how to maintain this in a digital world was an important question.

Technology can now handle detail, so one can expect much less aggregation and much more getting into general ledger detail

The importance of data aggregators was emphasised.

There was agreement that the IASB should have an open forum with technology providers. Not just financial applications, but also wider. The forum should send information both ways ie educate IASB about possibilities and

unblock technology problems for implementing standards.

There was a view that technology was about implementation and useability, which did not affect the concepts/principles.

Consistent application

For this topic, the Group was asked for its views on what the Foundation is doing currently to encourage the consistent application of IFRS and whether there was anything more it could or should be doing in this area.

Clear, understandable and enforceable Standards

- Comments were made that some Standards were very complex (IFRS 9 was cited as a case in point) and caused problems of understandability. One jurisdiction (Mexico) had convened a committee of experts in Financial Instruments, but even members of that committee had difficulties with some of the paragraphs and terminology in the Standard.
- Some questioned what happened after the IASB had given its agreement to permission to ballot a Standard and were unaware of the balloting process and editorial review process that took place (which was explained to the Group).
- Concerns were expressed about the complexity of some paragraphs in some Standards. It was felt that if a paragraph was more than 15 lines long, it was too long. Group members were encouraged to send to the IASB staff examples of complexity and difficulties with understandability.
- Translations further complicated the issue. Some felt that more time and effort should be devoted to the translation and translation review process.

Guidance consistent with a principles-based approach

- Concerns were expressed at having guidance outside the authoritative literature that was clearer than in the Standard itself. There were examples of stakeholders looking to Illustrative Examples rather than the Standard. In other cases, sometimes paragraphs in a Basis for Conclusions read more like something that should be in the body of a Standard.
- There needed to be clearer language in a Standard itself (linked to the above point) with the principles clearly articulated.
- In many jurisdictions, only the Standards themselves were translated and endorsed (ie not accompanying material such as the Basis for Conclusions).

Co-operation with others

- The principle of co-operation was agreed, but in some jurisdictions, there were challenges in working with regulators and others. One member (Taiwan) outlined its mechanism to bring together all parties to seek agreement on how a Standard should be understood and implemented. Cases of different interpretations were referred to the government.
- It was noted that the situation in Europe (with the existence of ESMA) was different to that of other regions, where the arrangements were on a country-by-country basis only. The Group acknowledged that there was a role for NSS to improve co-operation within its own jurisdiction.

Interpretations Committee (IFRIC)

- The Group noted that NSS received many outreach requests from IFRIC for views/experience on issues referred to IFRIC, often at short notice. There was a need to understand that the ability of NSS to respond to such requests was constrained by time and resources.
- In general, the Group view was that IFRIC was active and responsive and no particular issues other than the above were raised.

Education activities in support of consistent application

- One member knew little about the work of the Education Initiative and the Group view was that its activities could be better communicated and promoted. Others with experience of the Education Initiative praised it, but the limitations on resources were acknowledged.
- Group members agreed with the view that getting more leverage through the use of multimedia, e-learning etc.

Post-Implementation Reviews

- No particular issues were raised. There was some debate as to whether the timing of a PIR (after two years of a Standard being in effect) was too short, but it was noted that the IASB had the ability to defer if it was thought to be too short a period for the PIR to comment.

3. **International Forum of Accounting Standard-Setters (IFASS), 29 September 2015** (meeting report available at: <http://www.iasplus.com/en/publications/miscellaneous/h2-2015-ifass>).

1. Global IFRS Issues

1.1 Michel Prada, Chairman of the Trustees, IFRS Foundation, delivered the opening remarks. The speech, entitled “Roles and responsibilities in accounting standard-setting”, focusses strongly on the importance of the collaborative nature of standard-setting around the world, and the challenges facing IFRS. The three main topics that Mr. Prada introduced were:

- the main strategic challenges to IFRS;
- the current structure and effectiveness review of the IFRS Foundation; and
- the role and responsibilities of accounting standard setters in an IFRS world.

Mr. Prada's speech outlined the progress made so far and the challenges faced with honesty and clarity, and placed great emphasis on the importance of a united approach from standard setters around the world

1.2 Replying to questions, Mr. Prada's comments included the following:

- Relations between the IFRS Foundation and the U.S. Financial Accounting Foundation are very good. The IFRS Foundation is keen to make progress and both bodies meet with each other on a regular basis. The U.S. is a huge market accounting for about 50 per cent of the global capital markets. Both organisations need to work together to seek to limit divergences in their standards and focus as much as possible on convergence. This is in the interests both the markets and investors. He was highly encouraged by what was accomplished in the projects on leases and revenue recognition.
- Discussing the perceived influence of the U.S., Mr. Prada said that prior to the “big bang” in the mid-’80s in the U.K. and Europe, business in that region did not operate in a true market economy. When the markets opened up, many companies that operated on a global basis were of the view that the accounting standards in their jurisdictions were not entirely suitable for the changed circumstances. Although many companies started to adopt U.S. standards, a movement began in favour of a single set of standards that were fit for the global market economy.
- The influence of the U.S. is a non-issue. IFRSs are reasonably comparable and converged with U.S. standards today. This has resulted in foreign issuers being able to list their securities in the U.S. using IFRS-based financial statements. Fundamentally, both the IASB and FASB think in similar fashions and have standards that are fit for the global market economy.
- If the U.S. was so influential, the IASB's standards would be rules-based and this is not the case. Mr. Prada reiterated that the global economy needs global standards that are fit for all purposes.

- The IASB organisation has good relationships with prudential regulators. The IASB's accounting standards provide relevant and transparent financial information and it is up to the regulators to make relevant decisions pertaining to their function.
- For many reasons, jurisdictions make decisions at the local level that are not consistent with accounting requirements. The IASB can enlighten local tax authorities, but it cannot have the same level of global conceptual relationship as it has with prudential regulators.
- Regarding funding for the IASB organisation, the IFRS Foundation would like to receive two-thirds of its funding from publicly sponsored contributions. The organisation cannot impose levies and relies on support from those that have adopted IFRSs. The Foundation has established criteria to determine how much individual jurisdictions should contribute towards the funding of the IASB organisation. The organisation is currently properly funded, but there remain some gaps regarding funding from some jurisdictions.
- Regarding the strategic direction of the IASB, it is necessary to wait for stakeholders' comments on the Trustees' latest review of the structure and effectiveness of the organisation (comments are due by 30 November 2015).

- 1.3 The Chairman said that the resources for global standard setting are not infinite, so national so national standard setters can help to leverage resources.
- 1.4 Commenting on a remark by a participant from Germany that prudential regulators in some jurisdictions issue regulations as to how certain standards should be applied, the Chairman said that the issuance of differing requirements in different jurisdictions results in de-convergence. She observed that the Trustees could be helpful in this regard by helping to explain the purpose of accounting standards. She noted that in Asia, regulators and standard setters meet regularly to obviate problems.
- 1.5 The Chairman thanked Mr. Prada, stating that his remarks were exceptionally informative. She said that his presentation helped to define the meaning of the public interest and how accounting standard setters serve it.

4. **IFRS Taxonomy Consultative Group (ITCG), 27 October 2015** (meeting summary at: <http://www.ifrs.org/Meetings/MeetingDocs/XBRL/2015/October/Summary%20of%20ITCG%20meeting%20October%202015.pdf>)

IFRS Foundation Trustees's Review of Structure and Effectiveness, IFRS Taxonomy strategy and role of technology

The staff provided a brief overview of the objectives of the Trustees' Review of Structure and Effectiveness. The staff also informed members of the ITCG of the key themes that emerged from the discussions at the September 2015 World Standard-Setters meeting with regard to the impact technology may have on the relevance of IFRSs.

The Chair of the ITCG explained that the focus of the discussions was on the following questions, which the Trustees are seeking public comment on:

- Do you agree with the IFRS Foundation's strategy with regards to the IFRS Taxonomy? (Question 3)
- How can the IASB best support regulators in their efforts to improve digital access to general purpose financial reports to investors and other users? (Question 4)
- Do you have any views or comments on whether there are any other steps the IASB should take to ensure that it factors into its thinking changes in technology in ways in which it can maintain the relevance of IFRS? (Question 5)

The ITCG then moved on to discuss the topic in break-out groups.

The ITCG undertook an initial review of the consultation document in August 2015. What follows is a summary of the break-out discussions and the views expressed by some members of the ITCG in advance of the October 2015 meeting.

Report from the group looking at Question 3

The spokesperson for this group reported that members of the ITCG generally agreed with the goals, supporting pillars and initiatives as stipulated in the Trustees' review with regard to the IFRS Taxonomy strategy. In summary, these are:

- the strategic objective of the IFRS Taxonomy is to assist with the accurate digital representation of IFRS disclosures in a structured format;
- the IFRS Foundation itself should continue to develop and maintain the IFRS Taxonomy;
- the focus of the IFRS Foundation should not be on the underlying technology but instead on having the IFRS Taxonomy content recognised as the globally agreed standard to tag and intelligently structure IFRS financial statements;
- greater involvement of the IASB with the IFRS Taxonomy content, while recognising that the IFRS Taxonomy may aid, but does not dictate, standard-setting activities; and
- an emphasis on supporting regulators in their efforts to improve digital access.

The spokesperson, however, reported that members of this group expressed the view that the IFRS Taxonomy strategy does not stress enough the importance of collaboration with all stakeholders (for example, accountancy firms, investors, preparers) in ensuring a successful electronic filing regime. Members of this group also highlighted that the consumption of IFRS financial statements is changing, because technologies and corporate reporting itself are changing. This changing reporting environment again points to the need for more collaboration with external parties at both a taxonomy and standard-setting level.

Members of this group also discussed the topic of entity or regulatory extensions to the IFRS Taxonomy. Members thought that the use of IFRS Taxonomy extensions is unavoidable. In their view, the IFRS Foundation has an important co-ordinating role to play in this regard, specifically relating to:

- the continued maintenance and development of IFRS Taxonomy common practice, to minimise the number of extensions used;
- the architecture used for IFRS Taxonomy extensions; there is a user expectation that there should be a high level of similarity in systems and methods used; and
- specific guidance on the best ways to extend the IFRS Taxonomy.

It was suggested that it could be useful for the IFRS Taxonomy strategy to clarify the role of the IFRS Foundation, and the activities it may plan to undertake to support a co-ordinated use of IFRS Taxonomy extensions.

Members of this group supported the IFRS Foundation's strategy to involve the IASB more in the development of the IFRS Taxonomy. Although members agreed that the IFRS Taxonomy should not dictate standard-setting, they expressed the view that it might be useful for the IFRS Taxonomy strategy to explicitly state how consideration of the taxonomy could benefit standard-setting. For example, the taxonomy has the potential to better show the relationships that may exist between Standards. This group also noted that the staff should continue their efforts to illustrate the IFRS Taxonomy content in a non-technical format, in order to fully engage the IASB and other (non-technical) stakeholders.

In response to the overall report, a member of the ITCG stated that the IFRS Taxonomy currently combines accounting concepts and technical XBRL syntaxes. In this member's view, the use of the term 'IFRS Taxonomy content' may be confusing and could potentially mislead regulators and other users of the IFRS Taxonomy. This member suggested that the IFRS Taxonomy strategy could clarify better the meaning and implications of the terms 'IFRS Taxonomy content' and 'technology neutrality'.

Report from the group looking at Question 4

The spokesperson for the group reported that there was a consensus view that the IFRS Foundation should not only continue but further its research to establish whether the IFRS Taxonomy meets the needs of regulators and end users. Members of this group had various suggestions and remarks:

- The IFRS Foundation should not exclude the possibilities of analysing and using other technologies.
- The IFRS Foundation could take a more leading role to support dialogue between different regulators and encourage the sharing of knowledge and broader thinking. This could be achieved, for instance, through the setting up of forums or through leveraging existing Xii and regulatory conferences. Co-operation with organisations such as IOSCO and the World Bank may also be useful.
- Group discussions should not replace, but should instead complement, the individual discussions with regulators that currently take place.
- Outreach should include both existing and potential regulators using the IFRS Taxonomy. Other market participants, such as investors, also need to be involved, because they may have different views and perspectives.
- The use of group discussions and the focus on topics of particular interest could mitigate any resource constraints that the IFRS Foundation may have.
- Some additional help on how to implement and work with the IFRS Taxonomy might also be useful to support regulators. For example, what are the benefits and costs of different adoption mechanisms (closed vs open reporting, use of Inline XBRL etc)? A minimum set of rules (or principles) to work with the IFRS Taxonomy could be established.

Report from the group looking at Question 5

The spokesperson for the group reported that the discussion has centred around three main themes.

The first theme was that standard-setting and technology should be kept separate—specific technologies should not be a concern for standard-setting. It was suggested that this aim could be achieved via the introduction of a semantic layer sitting between the Standards and reporting technologies. Examples of this include the UPC (Universal Product Code), and other product codes, which use a semantic definition that is compatible with any kind of technology. A semantic layer should itself be technology-neutral, enabling the porting of taxonomy information between technologies.

The second theme arose from a discussion considering why the Trustees' Review of Structure and Effectiveness included a question on the technology and the relevance of IFRS. The group suggested that the subject matter experts involved in defining the accounting standards may be concerned about the relevance of their work in the light of advances in technology, such as 'Big Data' and unstructured data. The break-out group agreed with the proposal in the Trustees' review that a small group could be established to track technological developments. One of the functions of this group would be to alert the IFRS Foundation to advances in technology that might affect the IFRS Foundation's activities and the relevance of IFRS.

The third theme included the anchoring of the Standards and any semantic layer to a practical implementation. The group suggested that while a neutral semantic layer could facilitate the support of technologies, the demonstration of a particular technology would provide a link to solutions for the marketplace. This was reinforced through comments outside of the report back by the spokesperson for this group. Care must be taken in creating the semantic layer so that it does not become too abstract, and there should be specific technologies, such as XBRL, used to represent the semantic layer so as to ensure that there is always a working example of the standard in a broadly consumable technology.

Other discussion points outside of the report back by the spokesperson for the group also gave rise to topics that should be considered when addressing the implications of technology on the Standard, namely:

1. The use of artificial intelligence techniques and other technologies to mine and make sense of unstructured data is maturing and may evolve, or is already evolving, to not requiring taxonomy classifications any more to produce the results that desired by consumers.
2. Advances in technologies allow transactions to be tracked and cross-referenced outside of the financial statements. This may result in automated communication between parties and may become the primary means of exchanging

financial information. This raises a potential risk that technology may make accounting concepts irrelevant. Another member commented that, it may not be as radical as accounting concepts becoming irrelevant, however there is likely to be an impact. Investors only require the data, how standard setters choose to present, classify and aggregate data may become less relevant.

The group had also looked more briefly at some of the questions provided as prompts for discussion—mainly based more specifically around the IFRS Taxonomy. Several of the questions were discussed and seemed to be overall strategic questions instead of being specifically related to the issue of technology; this included the issues of adoption and principle-based reporting. The group suggested that the issue of comparability and the IFRS Taxonomy may be better considered as an issue of ‘consumability’, because comparability is more at the level of the Standards.

In response to the overall report, a member of the ITCG commented that instead of moving back and decoupling, we should move forward and embrace technology, including more engagement with technology groups and organisations. The group’s spokesperson responded that the decoupling strategy has the benefit of being able to react quickly to technology changes.

A staff member asked whether some real-life examples exist that illustrate the practical use and benefits of a technology-neutral semantic layer. Members of the ITCG referred to examples such as the FIBO Standard and the OMG Group.

5. **IFRS Advisory Council, 2-3 November 2015** (report of meeting available at: <http://www.ifrs.org/Meetings/MeetingDocs/Advisory%20Council/2015/November/2015-12-Report-of-the-IFRS-Advisory-Council-Chairman-November-2015-meeting.pdf>)

4. The Council discussed, largely in break out groups, the questions included in the review of structure and effectiveness of the IFRS Foundation consultation paper. The key feedback messages provided to the Trustees were:

- Little support for the IASB to extend its remit;
- Support for the appropriateness of the current approach in the wider corporate reporting arena; although it was suggested that this approach should continue to be evaluated;
- Support for the current three-tier structure; however it was suggested that there could be enhanced stakeholder communication to ensure there was clarity of understanding about the structure;
- Recommendations to ensure that the composition of the Trustees remained relevant; specific note was made of gender, impartiality, relevant recent knowledge and understanding of the changing environment;
- There were split views about the benefits of a smaller or larger IASB;
- There were a number of suggestions about how the IFRS Foundation as a whole could remain knowledgeable about the opportunities around disruption and technology; and
- General support for the current approach around the taxonomy; although there were a number of specific suggestions.

6. **Global Preparers Forum, 4 November 2015** (report of meeting available at: <http://www.ifrs.org/Meetings/MeetingDocs/Other%20Meeting/2015/December/GPF/Nov-2015-GPF-minutes.pdf>)

Trustees’ Review of the Structure and Effectiveness of the IFRS Foundation

50. GPF members were asked three questions from the RFV on the Trustees’ review:

- (a) How to ensure that the relevance of IFRS was maintained in the face of developments in financial reporting, corporate reporting and technology;
- (b) Whether there was anything more that the IFRS Foundation could be doing to encourage the consistent application of IFRS, taking into account resource constraints; and
- (c) Whether members had any views on the governance and funding issues raised in the RFV.

51. On the review of structure and effectiveness, in addition to the comments made in the discussion on the agenda consultation on relevance and consistent application and implementation of IFRS, GPF members made the following comments.

Relevance

52. One GPF member commented that the IASB's current role in developments in wider corporate reporting as described in the RFV was appropriate, and should not be extended further. Another GPF member commented that the IASB's remit should not be extended to develop Standards for entities in either the public sector or the private, not-for-profit sector. To do so would:

- (a) run the risk of the IASB losing focus; and
- (b) require additional funding.

Consistent application

53. On consistent application, one GPF member suggested the need to improve access to IFRS education material on the Foundation's website, as at present it was difficult to find.

Governance and funding

54. One GPF member commented that he did not know enough about role of the Monitoring Board to give an informed view, which suggested that there was a need for more transparency.

55. GPF members expressed a variety of views on the optimum size of the IASB.

- (a) One member felt that there was a paradox in the Trustees seeking to reduce the size of the IASB to 13 members while the use of IFRS had been extended to more countries. That GPF member felt that the IASB membership should better reflect those jurisdictions that had adopted IFRS, such as the European Union. This did not mean that there should be no US members at all, but that the proportion of such members on the IASB should be reduced.
- (b) Another GPF member did not support the proposed reduction of the IASB to 13 members and took the view that the number of members from Asia-Oceania should not be reduced.
- (c) A third GPF member expressed the view that the size of the IASB made the IASB cumbersome and perhaps could be reduced, as could perhaps the number of advisory and consultative groups that the IASB had.

56. One GPF member commented that the geographical composition of the IASB could perhaps be modified to reflect the relative aggregate market capitalisations of the entities that use IFRS in each jurisdiction or region. With 116 jurisdictions now having adopted IFRS, the 'Security Council' style of distribution, with some permanent members, needed to change.

57. On funding, one GPF member commented that the budget of the IFRS Foundation was immaterial in global terms and that it should be possible to raise more funds. Another GPF member suggested that an alternative approach to the funding challenge would be to reduce costs, in particular if the IASB had a period of calm. Another GPF member suggested a potential approach of a levy based on market capitalisation.

58. One GPF member stated that it seems unfair that entities filing in the US must pay a levy that contributes to the FASB, even if the entities report under IFRS.

7. **Capital Markets Advisory Committee, 6 November 2015** (report of meeting available at: http://www.ifrs.org/Meetings/MeetingDocs/Other%20Meeting/2015/November/CMAC/Nov2015_CMACSummary.pdf).

Trustees' Review of Structure and Effectiveness of the IFRS Foundation

The IFRS Foundation's Executive Director provided an overview on the background and context for the Trustees' latest review of the structure and effectiveness of the Foundation, on which a Request for Views (RfV) document had been issued in July 2015. Feedback from CMAC members was sought on two particular aspects raised in the RfV

that related to ensuring that the relevance of IFRS was maintained given developments in (a) wider corporate reporting and (b) technology.

On the relevance of IFRS within wider corporate reporting developments, the resulting discussion highlighted the following points:

- most CMAC members expressed the view that the IASB should stick to its core business of developing Standards for financial reporting, where there was still much to do. IFRS was a strong global brand and the IASB should maintain its attention on keeping the strength of that brand. Taking leadership for areas beyond financial reporting would run the risk of the IASB losing its main focus;
- some CMAC members acknowledged that it was important to maintain a dialogue with the International Integrated Reporting Council (IIRC) and other bodies operating in the corporate reporting arena, but not at the expense of the IASB being diverted from its core work;
- a few CMAC members saw merit in the IASB devoting some limited resources in this area, in particular in relation to non-GAAP measures.

On the relevance of IFRS within wider technological developments, the resulting discussion highlighted the following points:

- most CMAC members expressed the view that technology was of increasing importance and while the Foundation and the IASB should not themselves look to develop technological solutions, they should look to stimulate the development of technological tools by third parties that would assist investors and analysts by giving them rapid access to reliable data;
- CMAC members expressed a variety of views in relation to the IFRS Taxonomy. Some CMAC members saw it as an appealing product, but noted that there had been very little take-up of its use, which was an issue that needed to be explored. One CMAC member took a more positive view, stating that an effective IFRS Taxonomy was a useful tool in helping to achieve consistent application of IFRS. Another CMAC member felt that an important potential role for the IFRS Taxonomy would be in connecting the IFRS numbers in the financial statements to non-GAAP measures.

CMAC members commented on a number of other issues raised in the Trustees' RfV. The resulting discussion highlighted the following points:

- CMAC members were content with the three-tier governance structure and were strongly of the view that the independence of the IASB needed to be maintained in order to avoid politicisation and to protect the brand;
- some CMAC members acknowledged that the work of the Education Initiative could be enhanced to assist consistent application of IFRS, but they did not want to see this enhancement coming at the expense of the current work undertaken on investor education;
- some CMAC members acknowledged the importance of Post-Implementation Reviews (PIRs) as a tool for ensuring consistent application, but felt that the way in which PIRs had been conducted to date (in particular that for IFRS 8 *Operating Segments*) could have been better.

Next steps

The comment period for the Trustees' RfV closed on 30 November 2015. The Foundation staff planned to report the feedback from both the comment letters and outreach undertaken, including that from users, to the Trustees at their next meeting in January 2016.