

IFRS Foundation

Review of Structure and Effectiveness Update

Advisory Council meeting, June 2016

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Purpose of this session

- To update the Advisory Council on the results of the Trustees' review of structure and effectiveness of the Foundation by:
 - informing the Council of the Trustees' decisions to date; and
 - seeking the Council's input on the Trustees' proposed changes to the *Constitution*.

Background and context for the Review

- 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, the Trustees have carried four reviews, plus an external review of governance by the Monitoring Board (MB).
- 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.
- Advisory Council has discussed the review at their last three meetings (June and October 2015; February 2016)

Strategic goal 1: Relevance of IFRS Standards

- **Scope of IFRS Standards:**
 - Public sector entities:
 - Trustees reaffirmed view that the scope should not be expanded in this area
 - Not-for-profit entities:
 - Trustees decided not to expand scope to cover NFPs at this time. However, Trustees continue to support the need for transparent financial reporting requirements for NFPs and decided that the Board should be involved in initiatives in this area
- **Remit of the Board:**
 - Trustees reaffirmed Foundation’s strategy towards wider corporate reporting: Board should play an active role, but not be at the forefront of leading developments in areas outside the traditional boundaries of financial reporting
 - Trustees also agreed to dedicate a modest staff resource to this area

Strategic goal 1: Relevance of IFRS Standards

- **IFRS Taxonomy:** July 2015 Request for Views (RFV) asked whether respondents agree with the Foundation's strategy on the IFRS Taxonomy, in particular the focus on:
 - the content of the Taxonomy rather than the computer language used (XBRL);
 - the needs of regulators.
- Trustees confirmed strategy for the Taxonomy, and agreed on a number of proposals to take forward and enhance that strategy in order to meet the challenges that remain in this area
 - Trustees believe that the Foundation has a role in ensuring high quality reporting in the digital world and needs to own the digital representation of its Standards to ensure that the Taxonomy is fit for purpose
 - Key aspect of strategy is working to improve the quality of the data investors get from electronic filings
 - To achieve this, Foundation will:
 - widen its consultation with investors; and
 - enhance its cooperation with securities regulators.

Strategic goal 1: Relevance of IFRS Standards

- **Technology:** RFV sought comments on how the Board should consider changes in technology and its impact on the relevance of the Standards and proposed establishing a network of experts to provide advice in this area
 - Respondents broadly agreed with these proposals
- Trustees confirmed proposal in the RFV and agreed that the Foundation and Board should formalise how they track technological developments
 - Difficult to predict which existing and future technological innovations may have an impact on financial reporting and IFRS Standards
 - Advisory Council's assistance needed; Trustees look to the Council to provide advice and help the Foundation monitor developments in this area

Strategic goal 3: Consistent application of IFRS Standards

- Even if prime responsibility rests with others, inconsistent application of IFRS poses a risk for the Foundation.
- RFV outlined 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;
 - Post-Implementation Reviews.
- RFV sought views on Foundation's efforts and asked whether there was more the Foundation should be doing

Strategic goal 3: Consistent application of IFRS Standards

- Trustees confirmed strategy for consistent application laid out in RFV, with further enhancements
 - Will focus on producing high-quality, understandable, well-drafted Standards based on clear principles
 - Will also focus on two other areas of activities:
 - activities supporting maintenance of existing Standards; and
 - activities supporting implementation generally
 - Importance of co-operation emphasised

Strategic goal 4: Governance and financing

- **Geographic distribution of Trustees and Board:** RFV proposed changes to the geographic distribution of the Trustees and Board
 - Trustees have decided:
 - not to directly link representation to funding and/or adoption, but to rebalance the geographic distributions of the Trustees and the Board, in particular with an ‘Americas’ category; and
 - to increase the number of ‘at-large’ Trustees by one.
- **Size of the Board:** RFV proposed reducing the size of the Board to 13 members
 - Trustees have decided to change the size of the Board to 13 members but retain the flexibility to appoint a 14th member if appropriate.

Strategic goal 4 – Governance and financing

- RFV covered a number of other governance points, including:
 - Professional background of Trustees and Board members;
 - The focus and frequency of reviews of structure and effectiveness; and
 - The reappointment of Board members.
- The Trustees have decided:
 - To amend the guidance in the *Constitution* regarding the professional backgrounds of Trustees and Board members;
 - To change the focus of the review to be one of strategy and effectiveness, and to commence this review, at the latest, five years after the previous review has been completed;
 - To amend the *Constitution* to state that, while the normal renewal for Board members remains three years, reappointment for up to five years may be available on a case-by-case basis; and
 - To hold meetings of the Due Process Oversight Committee largely in public

- **Financing:** The RFV asked for views on the Foundation's funding model and how its functioning might be strengthened
 - The Trustees confirmed that the Foundation should have such a funding system, and that this should essentially be based on publicly supported financing. However, as this funding regime has yet to be achieved fully, the Trustees affirmed that their current three-pillar funding model is appropriate for the time being.

- Trustees have decided to publish an Exposure Draft with 10 proposed changes to the *Constitution*
- ED has 90-day comment period
- Issues already consulted on in the RFV, but ED will include some changes not discussed in the RFV (eg creating an ‘Americas’ category)

What are Council members’ views on the proposed changes contained in the following slides?

Proposal 1: geographical distribution of Trustees

Current Constitution – Section 6	Proposed Amended Constitution – Section 6
<p>All Trustees shall be required to show a firm commitment to the IFRS Foundation and the IASB as a high quality global standard-setter, to be financially knowledgeable, and to have an ability to meet the time commitment. Each Trustee shall have an understanding of, and be sensitive to, the challenges associated with the adoption and application of high quality global accounting standards developed for use in the world’s capital markets and by other users. The mix of Trustees shall broadly reflect the world’s capital markets and diversity of geographical and professional backgrounds. The Trustees shall be required to commit themselves formally to acting in the public interest in all matters. In order to ensure a broad international basis, there shall be:</p> <ul style="list-style-type: none">(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.	<p>All Trustees shall be required to show a firm commitment to the IFRS Foundation and the IASB as a high quality global standard-setter, to be financially knowledgeable, and to have an ability to meet the time commitment. Each Trustee shall have an understanding of, and be sensitive to, the challenges associated with the adoption and application of high quality global accounting standards developed for use in the world’s capital markets and by other users. The mix of Trustees shall broadly reflect the world’s capital markets and diversity of geographical and professional backgrounds. The Trustees shall be required to commit themselves formally to acting in the public interest in all matters. In order to ensure a broad international basis, there shall be:</p> <ul style="list-style-type: none">(a) six Trustees appointed from the Asia/Oceania region;(b) six Trustees appointed from Europe;(c) six Trustees appointed from <u>the North</u> Americas;(d) one Trustee appointed from Africa;(e) one Trustee appointed from South America; and(f) <u>three</u> two Trustees appointed from any area, subject to maintaining overall geographical balance.

Proposal 2: professional background of Trustees

Current Constitution – Section 7	Proposed Amended Constitution – Section 7
<p>The Trustees shall comprise individuals that, as a group, provide an appropriate balance of professional backgrounds, including auditors, preparers, users, academics, and officials serving the public interest. Normally, two of the Trustees shall be senior partners of prominent international accounting firms. To achieve such a balance, Trustees should be selected after consultation with national and international organisations of auditors (including the International Federation of Accountants), preparers, users and academics. The Trustees shall establish procedures for inviting suggestions for appointments from these relevant organisations and for allowing individuals to put forward their own names, including advertising vacant positions.</p>	<p>The Trustees shall comprise individuals that, as a group, provide an appropriate balance of professional backgrounds, including auditors, preparers, users, academics, and officials serving the public interest. Normally, two of the Trustees shall be senior partners of prominent international accounting firms. To achieve such a balance, Trustees should be selected after consultation with national and international organisations of auditors (including the International Federation of Accountants), preparers, users and academics. The Trustees shall establish procedures for inviting suggestions for appointments from these relevant organisations and for allowing individuals to put forward their own names, including advertising vacant positions.</p>

Proposal 3: remuneration of Trustees

Current Constitution – Section 11

The Trustees shall meet at least twice each year and shall be remunerated by the IFRS Foundation with an annual fee and a per-meeting fee, commensurate with the responsibilities assumed, such fees to be determined by the Trustees. Expenses of travel on IFRS Foundation business shall be met by the IFRS Foundation.

Proposed Amended Constitution – Section 11

The Trustees shall meet at least twice each year and shall be remunerated by the IFRS Foundation with an annual fee and a per-meeting fee, commensurate with the responsibilities assumed, such fees to be determined by the Trustees. Expenses of travel on IFRS Foundation business shall be met by the IFRS Foundation.

Proposal 4: focus and frequency of reviews of structure and effectiveness

Current Constitution – Section 17

17 The accountability of the Trustees shall be ensured inter alia through:

- (a) a commitment made by each Trustee to act in the public interest;
- (b) their commitment to report to and engage with the Monitoring Board according to the terms described in sections 18–23;
- (c) their undertaking a review of the entire structure of the IFRS Foundation and its effectiveness, such review to include consideration of changing the geographical distribution of Trustees in response to changing global economic conditions, and publishing the proposals of that review for public comment, the review beginning three years after the coming into force of this Constitution, with the objective of implementing any agreed changes five years after the coming into force of this Constitution; and
- (d) their undertaking a similar review subsequently every five years.

Proposed Amended Constitution – Section 17

17 The accountability of the Trustees shall be ensured inter alia through:

- (a) a commitment made by each Trustee to act in the public interest;
- (b) their commitment to report to and engage with the Monitoring Board according to the terms described in sections 18–23;
- (c) their undertaking a review of the strategy ~~entire structure~~ of the IFRS Foundation and its effectiveness, such review to include consideration of the structure of the organisation (if appropriate) and changing the geographical distribution of Trustees in response to changing global economic conditions, and publishing the proposals of that review for public comment, ~~the review beginning three years after the coming into force of this Constitution, with the objective of implementing any agreed changes five years after the coming into force of this Constitution; and~~
- ~~(d) their undertaking a similar review~~ at the latest every five years after the conclusion of the previous review.

Proposal 5: size of the Board

Current Constitution – Section 24	Proposed Amended Constitution – Section 24
<p>The IASB shall comprise fourteen members, increasing to sixteen members at a date no later than 1 July 2012.</p>	<p>The IASB shall <u>normally</u> comprise fourteen <u>thirteen</u> members, <u>but the Trustees shall have the discretion to appoint a fourteenth member if they deem it appropriate.</u> increasing to sixteen members at a date no later than 1 July 2012.</p>

Proposal 6: professional background of the Board

Current Constitution – Sections 25 and 27	Proposed Amended Constitution – Sections 25 and 27
<p data-bbox="232 344 375 368">Section 25</p> <p data-bbox="232 418 990 882">The main qualifications for membership of the IASB shall be professional competence and practical experience. The Trustees shall select members of the IASB, consistently with the Criteria for IASB members set out in the Annex to the Constitution, so that it will comprise a group of people representing, within that group, the best available combination of technical expertise and diversity of international business and market experience in order to contribute to the development of high quality, global financial reporting standards. The members of the IASB shall be required to commit themselves formally to acting in the public interest in all matters. No individual shall be both a Trustee and an IASB member at the same time.</p> <p data-bbox="232 1001 375 1025">Section 27</p> <p data-bbox="232 1075 990 1175">The Trustees shall select IASB members so that the IASB as a group provides an appropriate mix of recent practical experience among auditors, preparers, users and academics.</p>	<p data-bbox="1002 344 1145 368">Section 25</p> <p data-bbox="1002 418 1875 882">The main qualifications for membership of the IASB shall be professional competence and <u>recent relevant professional</u> practical experience. The Trustees shall select members of the IASB, consistently with the Criteria for IASB members set out in the Annex to the Constitution, so that it will comprise a group of people representing, within that group, the best available combination of technical expertise and diversity of international business and market experience <u>including auditors, preparers, users, academics and market and/or financial regulators</u> in order <u>that the IASB as a group can</u> contribute to the development of high quality, global financial reporting standards. The members of the IASB shall be required to commit themselves formally to acting in the public interest in all matters. No individual shall be both a Trustee and an IASB member at the same time.”</p> <p data-bbox="1002 929 1145 953">Section 27</p> <p data-bbox="1002 1001 1829 1100">The Trustees shall select IASB members so that the IASB as a group provides an appropriate mix of recent practical experience among auditors, preparers, users and academics.</p>

Proposal 7: geographical distribution of the Board

Current Constitution – Section 26	Proposed Amended Constitution – Section 26
<p>In a manner consistent with the Criteria for IASB members as set out in the Annex to the Constitution and in order to ensure a broad international basis, there shall normally be, by 1 July 2012:</p> <ul style="list-style-type: none">(a) four members from the Asia/Oceania region;(b) four members from Europe;(c) four members from North America;(d) one member from Africa;(e) one member from South America; and(f) two members appointed from any area, subject to maintaining overall geographical balance. <p>The work of the IASB shall not be invalidated by its failure at any time to have a full complement of members according to the above geographical allocation, although the Trustees shall use their best endeavours to achieve the geographical allocation.</p>	<p>In a manner consistent with the Criteria for IASB members as set out in the Annex to the Constitution and in order to ensure a broad international basis, there shall normally be, by 1 July 2012:</p> <ul style="list-style-type: none">(a) four members from the Asia/Oceania region;(b) four members from Europe;(c) four members from <u>the North Americas</u>;(d) one member from Africa;(e) one member from South America; and(f) at times when the Board comprises fourteen members, <u>one/two</u> members appointed from any area, subject to maintaining overall geographical balance. <p>The work of the IASB shall not be invalidated by its failure at any time to have a full complement of members according to the above geographical allocation, although the Trustees shall use their best endeavours to achieve the geographical allocation.</p>

Proposal 8: terms of reappointment of the Board

Current Constitution – Section 31	Proposed Amended Constitution – Section 30
<p>Members of the IASB appointed before 2 July 2009 shall be appointed for a term of five years, renewable once for a further term of five years. Members of the IASB appointed after 2 July 2009 shall be appointed initially for a term of five years. Terms are renewable once for a further term of three years, with the exception of the Chair and a Vice-Chair. The Chair and a Vice-Chair may serve a second term of five years, but may not exceed ten years in total length of service as a member of the IASB.</p>	<p>Members of the IASB appointed before 2 July 2009 shall be appointed for a term of five years, renewable once for a further term of five years. Members of the IASB appointed after 2 July 2009 shall be appointed initially for a term of five years. Terms are <u>may be</u> renewable once for a further term of three years, <u>with the possibility of renewal up to a maximum of five years, in line with procedures developed by the Trustees for such renewals,</u> with the exception of the Chair and a Vice-Chair. The Chair and a Vice-Chair may serve a second term of five years, but <u>The terms</u> may not exceed ten years in total length of service as a member of the IASB.</p>

Proposal 9: voting requirements for the Board

Current Constitution – Section 36	Proposed Amended Constitution – Section 35
<p>The publication of an exposure draft, or an IFRS (including an International Accounting Standard or an Interpretation of the Interpretations Committee) shall require approval by nine members of the IASB, if there are fewer than sixteen members or by ten members if there are sixteen members. Other decisions of the IASB, including the publication of a discussion paper, shall require a simple majority of the members of the IASB present at a meeting that is attended by at least 60 per cent of the members of the IASB, in person or by telecommunications.</p>	<p>The publication of an exposure draft, or an IFRS (including an International Accounting Standard or an Interpretation of the Interpretations Committee) shall require approval by nine eight members of the IASB, if there are fewer than sixteen <u>thirteen</u> members or by ten <u>nine</u> members if there are sixteen <u>thirteen</u> or <u>fourteen</u> members. Other decisions of the IASB, including the publication of a discussion paper, shall require a simple majority of the members of the IASB present at a meeting that is attended by at least 60 per cent of the members of the IASB, in person or by telecommunications.</p>

Proposal 10: meetings of the Advisory Council


Current Constitution – Section 46	Proposed Amended Constitution – Section 45
The Advisory Council shall normally meet at least three times a year.	The Advisory Council shall normally meet at least three <u>two</u> times a year.

- ED published together with a Feedback Statement on the RFV
 - Will be open for comment through to September 2016
- Trustees plan to finalise review in their October 2016 meeting
- Aim to complete review by end of 2016


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