

ADMIN PAPER

IFRS® Foundation Trustees meeting – Executive Committee

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Strategic Work Plan 2016: benchmarking

Introduction and summary of findings

1. The purpose of this paper is to put on record for the DPOC the staff's work on benchmarking the IFRS Foundation against other similar organisations, in line with one of the required actions – as noted below - in the organisation's *Strategic Work Plan for 2016*.
2. It follows the work described in the May 2016 DPOC meeting, when the staff used a number of different frameworks to evaluate the IFRS Foundation.
3. This paper sets out the staff's work and findings in detail, but at a high level. This exercise has demonstrated that the IFRS Foundation follows best practices in nearly every, if not all, of the areas that we benchmarked.
4. The staff would welcome any views, comments and suggestions from DPOC members.

Structure of the paper

5. This paper is structured as follows:
 - a. background to the issue (paragraphs 6-8); and
 - b. a summary of the work the staff has done to benchmark the IFRS Foundation against other standard-setters and similar organisations (paragraph 9-46).

Earlier work on benchmarking

6. Benchmarking is not a new issue for the Foundation and has been looked at a few times:
 - a. in 2007, an organisation called the One World Trust (a not-for-profit organisation that works to make global governance more accountable), included the 'IASB' in its *2007 Global Accountability Report* ('the 2007 report') that assessed 30 global

- organisations from the inter-governmental, non-governmental and corporate sectors against the Global Accountability Framework ('GAF') it had developed.
- b. in the February 2012 report of the Trustees' *Strategy Review*¹, one of the recommendations was that the Board's due process should continue to be reviewed and regularly enhanced, benefiting from regular benchmarking against other organisations. That report noted that such a benchmarking exercise was currently underway, which compared the Board's due process against that of a number of other organisations (although the results were never made public).
7. In the May 2016 DPOC meeting, the staff brought an initial consideration of benchmarking to the DPOC (please see Agenda Paper (AP) 3F for that meeting). This paper looked at benchmarking in an 'absolute' sense, in terms of measuring the IFRS Foundation against a variety of frameworks that they thought were relevant benchmarks against which to measure a standard-setter's performance. These frameworks were:
- a. the International Corporate Governance Network ('ICGN')'s view of the standards that it expects to be met in relation to the governance of standard-setters²;
 - b. the International Organization of Securities Commissions ('IOSCO')'s *Objectives and Principles of Securities Regulation*³, which includes principles that need to be met by regulators;
 - c. the Organisation for Economic Co-operation and Development ('OECD')'s *Best Practice Principles for Regulatory Policy: The Governance of Regulators*⁴, which sets out 7 principles for the governance of regulators;
 - d. the International Law Association ('ILA')'s report *Accountability of International Organisations*⁵ that sets out recommended rules and procedures it believes should be common to all international organisations.
8. With regard to all of these frameworks, the staff found that the Foundation met the applicable criteria in the frameworks, while noting that this exercise was a self-assessment.

¹ IFRS Foundation (2012) *Report of the Trustees' Strategy Review 2011—IFRSs as the Global Standards: Setting a Strategy for the Foundation's Second Decade*, available at: <http://www.ifrs.org/About-us/IFRS-Foundation/Oversight/Strategy-Review/Documents/TrusteesStrategyReviewFeb2012.pdf>.

² ICGN Accounting and Auditing Practices Committee *'What Investors Want from Financial Reporting'* [https://www.icgn.org/sites/default/files/ICGN%20%27What%20Investors%20Want%20from%20Financial%20Reporting%27%20position%20pa](https://www.icgn.org/sites/default/files/ICGN%20%27What%20Investors%20Want%20from%20Financial%20Reporting%27%20position%20paper.pdf)
[per.pdf](https://www.icgn.org/sites/default/files/ICGN%20%27What%20Investors%20Want%20from%20Financial%20Reporting%27%20position%20paper.pdf)

³ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD323.pdf>

⁴ <http://www.oecd.org/gov/regulatory-policy/the-governance-of-regulators-9789264209015-en.htm>

⁵ <http://www.ila-hq.org/en/committees/index.cfm/cid/9>

Benchmarking against other organisations

9. Since the May 2016 meeting, the staff has focussed on benchmarking the Foundation against a number of other relevant organisations. To do this, the staff needed to decide:
 - a. which organisations to benchmark against the Foundation; and
 - b. how to perform the benchmarking.

Organisations to benchmark against the Foundation

10. The staff has selected 15 different organisations to benchmark against the Foundation. Many of these are described in Appendix E of AP3F from the May 2016 meeting. The staff has focussed on standard-setting organisations for this exercise, as we think they are the most relevant organisations against which to compare the Foundation. Seven of the organisations included in this exercise are national accounting standard-setters, and the rest are standard-setters in other areas.
11. The staff has mainly focussed on organisations which provide public materials in English to facilitate this exercise. However, the staff has reviewed two organisations with public materials in non-English languages (the Accounting Standards Board of Japan and the Comitê de Pronunciamentos Contábeis of Brazil).

Benchmarking framework

12. When considering how to benchmark the Foundation against other organisations, the staff analysed the frameworks that were used to perform the ‘absolute’ benchmarking in May 2016, as set out in paragraph 7 above. When considering these frameworks, we found that there were many areas of overlap and common themes. We then used these frameworks to develop a composite framework, incorporating the most relevant themes for evaluating the governance of standard-setting organisations.
13. In the framework that we developed to benchmark the organisations, we identified six main areas for evaluation:
 - a. *role clarity*: how well the organisation communicates its mission and mandate;
 - b. *governance and oversight*: the general governance structure of the organisation, and the level of oversight around the standard-setting body;
 - c. *independence*: the level of independence of the standard-setting body;
 - d. *accountability*: how the organisation holds itself accountable to ensure it is fulfilling its mission;
 - e. *transparency*: how transparent the organisation is in terms of communicating information about the standard-setting process; and

f. *due process*: the level of due process that is in place to guide the standard-setting process.

14. For each of these overarching areas, the staff has developed a number of specific tests on which to evaluate each organisation. Appendix A of this paper contains a summary of this process.

Results of benchmarking

15. For each of the main areas identified in paragraph 13, this paper provides a high-level summary of the results of the benchmarking, both in terms of a general summary of the results, and how the Foundation compares to the other organisations.

Role clarity

16. Many of the frameworks we looked at emphasised that organisation's responsibilities and mandates should always be clear and objectively stated, with clear explanations of how the organisation has the power to set standards and its role and relationship with other bodies.

17. The staff developed a number of specific tests to evaluate in this area, including whether the organisation has publicly and clearly explained the power it has to set standards, whether there are any memoranda of understanding or other public explanations of its relationships with other bodies, and whether there is a clear public documentation of the organisation's mandate and activities.

18. Generally, organisations performed very well in this area. Nearly all had clear public information showing their mandate, activities, and the source of their power for the standards they set. This information came from documents like charters, strategic plans, and terms of reference.

19. Most of those reviewed also had very clear communications about their relationships and collaborations with other bodies, although some did not mention this at all.

20. In this area, the Foundation performs very well; the Foundation has a wide range of public documents illustrating its mandate, activities, and commitment to the public interest (for example, the 'Who We Are and What We Do' document, the Constitution, and in annual reports). It also has clear public explanations of its relationships with other national standard-setters and memoranda of understanding between organisations like the International Federation of Accountants and the International Integrated Reporting Council.

Governance and oversight

21. The frameworks we analysed were focussed on governance, and many emphasised the importance of a clear system of governance. These frameworks also had a range of

different mechanisms for evaluating that governance, specifically evaluating the level of oversight that an organisation has and how that oversight is conducted.

22. When developing specific tests for this area, we looked at areas around the general governance structure and the makeup of the standard-setting body, as well as specific tests around oversight (for example, the membership and responsibilities of any oversight body as well as how those members are appointed).
23. Generally, most organisations we looked at clearly explained their governance structure, and had a similar governance structure to the IFRS Foundation, with a separate, independent body providing oversight to the standard-setting body.
24. In terms of the makeup and membership of the standard-setting body, results were mixed; some organisations had clear visibility over the backgrounds and qualifications of their members and provided a lot of detail in this area, while others offered no or very little information. All of the organisations offered public information regarding the number of members the standard-setting body should have, and some of these organisations had flexibility over the number of members.
25. In terms of oversight, again, information provided varied greatly. A minority of organisations did not provide any information on oversight at all. Of those that did, some kept the oversight role all under one body, while others split oversight responsibilities between bodies or committees. The level of independence of the oversight bodies also varied, with some having close links between the membership of their oversight body, and the membership of the standard-setting body (independence is discussed in more detail in paragraphs 29-36).
26. There was also varied information about how membership of oversight bodies was determined. Some provide great detail in terms of the background and qualifications that a member of an oversight body should have, and guidance that nominating committees should follow. In contrast, other oversight bodies are self-selecting, and other organisations do not provide detail in this area at all.
27. The IFRS Foundation achieves what the staff view as best practices in this area by doing a number of things: by clearly explaining its governance structure in multiple public documents, by clearly explaining the size and qualifications that Board members should have in the *Constitution*, and by explaining the role, responsibilities, and membership criteria for its oversight bodies in the *Constitution*. The one organisation which rivals the Foundation in this area is the US-based Financial Accounting Foundation—in particular, the FAF provides a significant amount of detail in terms of the background and appointment of oversight body members.

Independence

28. The frameworks that the staff analysed also emphasised independence. In order to set the best-quality standards and be free from influence from outside forces, organisations must be independent.
29. When developing tests for this area, we examined how organisations assert independence generally, as well as looking at a number of specific tests about independence, including how board members are appointed and the terms of their appointments; whether there is any policy on conflicts of interest; the appointment and independence of senior staff members; and funding.
30. Nearly all of the organisations we examined generally committed to independence, although they demonstrated this in different ways. Many have a separation between standard-setting and other organisational responsibilities, such as fundraising and/or appointing board members. A few have specific statements that board members must vote according to their individual beliefs and not those of the organisation they originally came from, or specific policies about personal investments and other personal activities or board and senior staff.
31. A minority had specific policies on conflicts of interest (for example, a requirement for board members to recuse themselves from discussions or decisions if there is a conflict of interest).
32. With regards to the appointment and terms of board members, all of the organisations had set policies in this area. In many cases, there is a specific nominating committee, and most stipulate details over the backgrounds or other characteristics that their board members must have in order to be appointed (although very few have anything approaching quotas that must be filled).
33. The terms of appointment of board members varied greatly, ranging from two years to indefinite appointments. In some cases, the Chair of the board had different terms of appointment. In some cases, reappointments were allowed (although at the discretion of the nominating committee or other body with power to make the appointments).
34. The organisations examined are all fairly transparent about disclosing their funding (with a few exceptions), although few provided detailed analyses of funding sources. Those sources included funds mandated by laws or statutes, internally generated revenue, members' fees, accountancy bodies, grants and corporate sponsorship.
35. In this area, the IFRS Foundation practices what the staff view as best practice: the Foundation is very clear in its explanation of how the Board is independent (ie independence is enshrined in the Constitution and there is clear separation of powers between the Trustees, the Board and the Monitoring Board) and offers a clear explanation of how Board members are appointed and the terms of Board members. The Foundation

has a specific policy on conflicts of interest on its website, and provides a breakdown of its funding sources.

Accountability

36. A key element of effective systems of governance is that the organisations should have a clear framework of accountability to demonstrate that they are fulfilling their mission.
37. In assessing this we considered how organisations assert their public accountability (including clearly outlined expectation against which they can be assessed) and whether these are subject to periodic reviews, which could be internal or external and be assessed through Key Performance Indicators or external benchmarking. We also considered whether standards are subject to review, whether there is a right of appeal and whether there is a system of effects analysis.
38. There is a wide range of practice on these issues among the organisations we surveyed. Most undertake self-evaluations, sometimes through separate committees; some do not disclose anything, and only one uses an external evaluation. Some have to report to external bodies, but most do not make a public statement. A few organisations undertake Post-Implementation Reviews, and provide details of the work undertaken and of these the US FASB also provides details on cost-benefit analysis. Some organisations provide details on the public's right to appeal decisions or complain.
39. The IFRS Foundation has done a lot to demonstrate accountability and evaluate processes. The DPOC has responsibility for evaluations, and there are clear requirements for PIRs and effect analyses, as well as processes in place for the public to appeal or complain. The work that is now underway on benchmarking and developing Key Performance Indicators will help with this. The DPOC also accepts correspondence and comments which the Committee considers. The Committee replies to such letters and also include a response in the public summaries.

Transparency

40. Here the staff assessed how transparent the organisation is in terms of communicating information about the standard-setting process. In particular we focussed on whether meetings and meeting papers are in public; whether discussions and reasons for decisions are made public and whether the consultation process is transparent. We considered also the processes around transparency, including procedures strategies and objectives, the appeal process, transparency of oversight, and protection against release of confidential information.
41. Most of the organisations surveyed have some level of transparency but the staff's assessment is that none achieved the same high standards as the IFRS Foundation. Particular areas where the Foundation is the benchmark leader are on the use of video webcasts, the transparency of the consultation process, and the availability of meeting

archives. From October 2016 transparency will be further enhanced by the opening of DPOC meetings to the public.

42. One area where more could be done relates to the protection of confidential information, where some organisations offer clearer guidance on how and to what extent responses to consultations can be kept private.

Due process

43. Here the staff assessed the level and extent of the formal due process framework that organisations have developed to support their standard-setting. The staff focussed in particular on the nature of the due process steps that are applied; the key elements that are documented (e.g. voting requirements, due process documents, procedures for dissents, consultation requirements, and minimum time periods) and the oversight of the due process.
44. The staff found a wide range of approaches to Due Process, with organisations with greater levels of transparency (e.g. public meetings) having the most formal process. Some organisations make decisions by consensus and so do not have formal voting requirements or rules for dissenting opinions, but those that do have voting requirements set out clearly how they are expected to operate and how dissenting opinions can be published (where that is permitted). Many organisations have formal working groups and advisory panels, but these are not documented consistently or extensively.
45. Relatively few organisations conduct formal reviews or provide oversight of the Due Process. Some have systems of self-review, but few have the formal review and reporting structure that is delivered by the Foundation Trustees' Due Process Oversight Committee, and that is further enhanced now that the DPOC meetings are to be public.

Appendix A – Approach to the review

1. Organisations benchmarked

Accounting standard-setters

Accounting Standards Board of Canada
Australian Accounting Standards Board
Financial Accounting Standards Board (US)
Financial Reporting Council UK
Financial Reporting Standards Council South Africa
CPC (Accounting Pronouncements Committee) Brazil
Accounting Standards Board Japan

Other standard-setters/international bodies

Basel Committee on Banking Supervision
Global Sustainability Standards Board (GSSB)
International Auditing and Assurance Standards Board
International Association of Insurance Supervisors
International Integrated Reporting Council
International Organisation of Securities Commissions (IOSCO)
International Valuation Standards Council
Sustainability Accounting Standards Board

2. Template for review

To provide consistency and comparability to the processes, the following template was used. The completed summaries are set out in Appendix B

Category	Detail
	Role clarity
Name of Body	
Standards produced/source of power	
Co-operation with other organisations	
Clear documentation of mandate, activities, etc.?	
	General Oversight
Oversight provided by:	
Membership of oversight body	
Appointment of Members by:	
	Independence
Status (are decisions made at arm's length? any power to influence?)	
Recuse on decisions that affect previous employers? Cooling-off period? Policy on conflicts of interest?	
Appointment of Members process	
Terms of Members	
Appointment and independence of senior staff members	
Horizon scanning of potential major issues (allow for comment)	
	Funding
Sources	
	Public Interest
Membership of body	
Commitment to Public Interest?	
	Accountability
Public	

Category	Detail
	Role clarity
Accountability?	
Clearly outlined expectations?	
Periodic reviews? Independent? Benchmarking?	
Right of appeal of decisions?	
Channels of complaint for public?	
Effects analysis?	
	Transparency
Meetings in Public (including non-plenary)?	
Meeting Papers available publicly?	
Decisions, and reasons for decisions, made public?	
Public policies and procedures, strategies, objectives?	
Public appeals?	
Public access to archive?	
Protection against release of confidential info?	
Oversight meetings in public?	
	Full and Fair Consultation
Due process followed?	
Due process documented?	
Voting requirements?	
Oversight of due process	
Documentation of committees, working groups, etc.?	
Due process of oversight body?	

Category	Detail
	Role clarity
Procedure for dissents?	