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Our ref
Contact

MT/288
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24 February 2011

Dear Sirs

IFRS Foundation – Status of Trustees’ Strategy Review

We are writing to respond to the IFRS Foundation’s Paper for Public Consultation document *Status of Trustees’ Strategy Review* (the Strategy Review). We have consulted within the KPMG network in respect of this letter, which represents the views of the KPMG network.

We understand that the Trustees’ objective in soliciting input to this document is to identify areas and to develop suggestions for a future consultation. We are pleased to contribute to developing the Trustees’ future proposals and look forward to commenting on them later this year.

We believe that the Trustees should focus their proposals on:

- Enhancing the effectiveness of the IASB’s consultation on its agenda and strengthening the effectiveness and engagement of its due process. We commend the IASB’s enhanced outreach efforts and encourage the IASB to continue these initiatives. However, such efforts should complement rather than replace other consultations such as field testing and cannot in the longer term compensate for compressed comment periods. We recognise that the IASB has been under significant pressure to accelerate its priority projects and that, in our view, some trade-offs were necessary. However, these should not become the new normal.
- Leveraging national standard setter and regional bodies to increase interactions with the IASB’s large and diverse stakeholder group.
- Enhancing the use and effectiveness of advisory bodies such as its subject matter (e.g., leases) and functional (e.g., users) groups.
- Improving the feedback from the capital market authorities and similar bodies, who act as enforcement bodies, regarding application issues that may lead to diversity in practice so as to inform the IASB and the IFRS Interpretations Committee priorities and its agenda priorities.



Other issues that we wish to draw attention to, from our responses to the questions posed in the Strategy Review, are:

- We believe that, at this time, the IASB's focus should continue to be on the needs of capital market participants.
- We encourage enhanced interaction between the IASB, the International Auditing and Assurance Standards Board (IAASB) and the International Valuation Standards Council (IVSC) and encourage the Trustees to consider how to achieve this. We believe that improving interaction with both the auditing standard setter and the valuation profession will (i) improve the quality and operationality of IFRSs; and (ii) facilitate the development of complementary and/or supporting standards and guidance by the IAASB and IVSC on a more timely basis.
- We believe that the IASB Foundation current three-tiered structure should be retained.

Given the interaction between the Trustees' Strategy Review and the Monitoring Board's consultation we strongly support the plan for the two consultations to be aligned and result in an integrated set of proposals.

Our detailed comments on the questions posed in the Strategy Review are set out in the appendix to this letter.

Please contact Mary Tokar at +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix – Responses to questions in the Strategy Review

Mission: How should the organisation best define the public interest to which it is committed? – Question 1

The current Constitution states “These standards [IFRSs] should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world’s capital markets and other users of financial information make economic decisions.” Should this objective be subject to revision?

No part of the IFRS Constitution should be so “sacred” that it never can be changed or reconsidered. However, at the present time we believe that no further changes are needed to this part of the objective.

Currently the financial reporting standards issued by the IASB are developed considering only “for profit” organisations. The IASB’s remit could be expanded to other areas such as the public sector, either directly or jointly with the current international standard setter, the International Public Sector Accounting Standards Board (IPSASB), and/or to the not-for-profit sector. However, the IFRS Foundation and the IASB currently lack the capacity and funding to carry out this wider remit. Therefore we support not changing the scope of the IFRS Foundation’s activities at this time.

We support periodic reconsiderations of the scope of the IASB’s work and its coordination and interaction with bodies such as the IPSASB. In our view this is something that should be considered as part of the five-yearly cycle of Constitutional Reviews.

Mission: How should the organisation best define the public interest to which it is committed? – Question 2

The financial crisis has raised questions among policymakers and other stakeholders regarding the interaction between financial reporting standards and other public policy concerns, particularly financial stability requirements. To what extent can and should the two perspectives be reconciled?

The correct functioning of effective and orderly capital markets is in the public interest in a market-driven economy. High quality, transparent and comparable financial reporting is a necessary instrument to assist investors, other participants in the world’s capital markets and other users of financial information to make appropriate economic decisions. We believe that this focus is appropriate.

Therefore when there are differences between this primary objective of financial reporting and other public policy concerns, such as financial stability objectives, then in our view the primary objective of supporting the information needs of capital markets should prevail. This is on the basis that regulators have other avenues and processes open to them to obtain both their required information and to deal with any concerns that they may have.

We believe that both the IFRS Foundation and the IASB should work closely with regulators and, when possible, support supervisory considerations (e.g., through disclosure of amounts required for supervisory adjustments). The IASB’s work with financial institutions, prudential

supervisors and other stakeholders via its Expert Advisory Panel on the operational challenges of the financial asset impairment proposal is a good example of this type of close, collaborative work.

Governance: how should the organisation best balance independence with accountability?
– Question 3

The current governance of the IFRS Foundation is organised into three major tiers: the Monitoring Board, IFRS Foundation Trustees, and the IASB (and IFRS Foundation Secretariat). Does this three-tier structure remain appropriate?

We believe that a three-tiered structure remains appropriate. However, we do have concerns about the inter-relationships in practice among the three tiers. We believe that the Trustees should work with the Monitoring Board to develop proposals to provide greater clarity over the respective roles and powers of the three constituent parts.

We also encourage enhancing the transparency of how the Trustees provide their due process oversight of the IASB's standard-setting process and how the Board makes its agenda decisions. For example, the Trustees may wish to consider whether prior to a standard or amendment being issued by the IASB, the IASB Chair should report to the Trustees on the due process for that project. Items that such a report might address include key issues raised in comment letters, extent of field testing and findings, a cost-benefit analysis of the changes being made and the reasons for the planned transition method and effective dates. We see this type of reporting as a way to facilitate the Trustees' satisfaction of their responsibility to provide oversight of the IASB's standard-setting process. However, such a process should not result in the Trustees having veto power over standards being issued as this impairs the IASB's independence.

We believe that the Monitoring Board is an important enhancement in the public accountability of the IASB and the Trustees. We will comment further on that role and the composition of the Monitoring Board in response to their recent consultation.

Similarly we agree that the oversight and appointment of the IASB and other technical bodies should be separate from these bodies themselves.

Finally we note that in the separate Monitoring Board consultation there is a proposal to separate the roles of IASB Chair and the CEO of the IFRS Foundation. We support the concept of greater clarity of the separate roles of the IASB and the Foundation and agree that alternatives should be explored to the current combination of the IFRS Foundation CEO role and the IASB Chair role. A related consideration that the Monitoring Board and the Trustees may wish to explore is whether an enhanced role for the chair of the Trustees and the concomitant increase in his/her time commitment should be the primary focus as a possible alternative to enhancing the role of a separate CEO of the IFRS Foundation.

Governance: how should the organisation best balance independence with accountability?
– Question 4

Some stakeholders have raised concerns about the lack of formal political endorsement of the Monitoring Board arrangement and about continued insufficient public accountability associated with a private-sector Trustee body being the primary governance body.

Are further steps required to bolster the legitimacy of the governance arrangements (including in the areas of representation of and linkages to public authorities)?

As this is an area that is cross cutting with the separate consultation being carried out by the Monitoring Board we intend to respond to this question in our response to that consultation.

Process: how should the organisation best ensure that its standards are high quality, meet the requirements of a well functioning capital market and are implemented consistently across the world? – Question 5

Is the standard-setting process currently in place structured in such a way to ensure the quality of the standards and appropriate priorities for the IASB work programme?

The standard-setting process currently is under strain. The IASB has an extremely active and tightly-timed agenda as it tries to meet the G20 request to complete its work on its convergence projects in 2011.

Consultation effectiveness and outreach

The combination of compressed time periods and a large number of significant proposals to consider at the same time runs the risk of both reducing the effectiveness of consultation and disenfranchising stakeholders.

In such an active period, some of the supplemental consultation activities that the IASB has carried out have been very helpful in obtaining more extensive input especially the enhanced outreach efforts in connection with its financial instruments projects. We believe that there is a continued benefit on many projects for the IASB to carry out extensive outreach efforts including enhancing field testing. Benefits that are realised include better standards and greater engagement with and buy-in to the process from stakeholders.

We believe that enhanced and robust field testing as part of outreach helps to ensure that the IASB's understanding of the economics of transactions and the operability of their proposals are consistent with the expected ultimate practice.

We believe that the IASB outreach for each project should be proportionate to the issues being considered, especially the degree of changes involved, and that the due process should not be onerous or overly procedural. Therefore we are not suggesting mandating specific additional consultation procedures. However, the Trustees may wish to consider evaluating the IASB's view of the benefits and costs of such activities, perhaps as best practice considerations. The Trustees also may wish to incorporate consideration of such activities as part of their due process oversight throughout a project.

Continued outreach activities impact both resources and the time need to complete projects. Both of these should to be taken into account when the IASB sets its agenda for future projects. The IASB has a track record of slippage in its standard-setting activity. The IASB would benefit from being seen as delivering its projects broadly in line with its original project plan. We encourage the Trustees, in consultation with the IASB and staff, to reflect on the resources required including on outreach activities when setting and forecasting its project activity.

A key starting point in the process of developing quality standards and its work programme with appropriate priorities would be for the IASB to consult on its agenda. We support the IASB's plan to consult periodically (say every two or three years) with all its stakeholders on its proposed agenda for the next few years. An understanding of stakeholders' views at this initial stage should help the IASB to focus its work in areas for which stakeholders consider that the benefits of major changes or improvements would outweigh the costs of the project and implementation of the new or revised standard. It also might help identify early those areas that may prove more contentious with stakeholders than initially expected and hence may require a greater consultation period. This consultation should provide a valuable input to the IASB's agenda decisions.

Leveraging national standard setters and regional bodies to enhance stakeholder interaction

The adoption of IFRSs in countries throughout the world has increased significantly over recent years and is due to increase further over the next few years. This will result in an increased stakeholder base. There is the question of whether the current IASB structure is sufficiently scalable to deal with a substantially increased stakeholder base. Without increasing resources, which may not be feasible, different solutions may be required. One possible approach is to enhance and formalise the IASB's interaction with national standard setters.

We encourage the Trustees to explore how the IASB's outreach can be leveraged via national standard setters. The Trustees may wish to consult with the National Standard Setters forum, recently chaired by Ian Mackintosh, the incoming IASB vice-chair, regarding ways to enhance their work with the IASB. This might involve the national standard setters:

- partnering with IASB to conduct (or conducting on behalf of) outreach activities;
- researching existing practices under IFRSs or IFRS-based national standards; and
- conducting field tests with and/or on behalf of the IASB.

Process improvements and post-implementation reviews

To try to ensure that the quality of standards is enhanced as far as possible we suggest that the Trustees consider reviewing the standard setting process to identify areas for improvement in execution.

As a first step, we encourage the IASB staff to consider what issues have been raised with recent standards and to try to develop "lessons learned" to improve the drafting of future standards. The output from such a cross-cutting review should be not only considerations specific to that standard being reviewed but also generic lessons learned that can be applied in other future projects.

We believe that the IASB's upcoming consultation with the IFRS Advisory Council over the IASB's planned programme of post-implementation reviews also may provide useful inputs to the Trustees' further proposals. The issues that we believe that the post-implementation reviews should be assessing include: (i) the clarity of principles and objectives included in the standards; and (ii) sources of and possible cures for complexity within a standard.

Enhancing co-ordination with the IAASB and the IVSC

The financial statements of listed entities prepared under IFRSs often are required to be audited. The IAASB recently published a discussion paper, *The Evolving Nature of Financial Reporting: Disclosures and Audit Implications*. This paper highlights some challenges of auditing financial statements which increasingly contain qualitative, subjective information to amplify and contextualise amounts recognised in the financial statements.

We encourage the Trustees to explore how to enhance the interaction of the IAASB and the IASB. Increased interaction should inform each other's work and also facilitate the development of complementary standards and guidance by the IAASB to support the capital market's requirement for audited financial statements.

Similarly we encourage the Trustees to explore the IASB's interaction with the valuation profession e.g., working with the IVSC. Many standards require measurement based on a valuation either incorporated in the primary financial statements (e.g., derivatives) or disclosures (e.g., investment properties not measured at fair value). Others require consideration of value to determine if there has been impairment (e.g., IAS 36 *Impairment of Assets*). We believe that more direct engagement with the valuation profession would enhance the quality of IFRSs. It also would assist the IVSC in setting its agenda priorities to enhance the valuation profession's infrastructure to support consistent application of IFRSs that rely on measurement of value. Each body should remain responsible for the operationality of its standards but enhanced interaction should strengthen both bodies of standards.

Process: how should the organisation best ensure that its standards are high quality, meet the requirements of a well functioning capital market and are implemented consistently across the world? – Question 6

Will the IASB need to pay greater attention to issues related to the consistent application and implementation issues as the standards are adopted and implemented on a global basis?

There is a risk to the IASB brand if varying dialects of IFRSs emerge through varying interpretations in different market places. However, we believe that neither the Trustees nor the IASB should undertake enforcement activities to assess whether its standards are applied consistently. Responsibility for enforcement activities should continue to rest with national capital market authorities and similar bodies that already exist in various countries. However, we believe that a valuable information stream between these bodies and the IASB, perhaps via the IFRS Interpretations Committee, should exist, and that it would be valuable to protect the IASB brand if the cross-border coordination of national enforcement activities were enhanced in order to identify emerging national practices that are inconsistent on a cross-border basis.

Such co-ordination with the IASB should not be on the basis that the IASB acts as the decision maker in enforcement questions. Instead the IASB should be aware of the decisions being made by the enforcement regimes (both public ones and private ones) and also be informed when no action was possible due to gaps or contradictions in standards so that possible improvements to and weaknesses (e.g., lack clarity) in standards can be identified and addressed more expeditiously.

We encourage the Trustees to explore with the International Organization of Securities Commission (IOSCO), perhaps via the Monitoring Board, how the regulatory community could enhance the information it provides to the IASB. This might include coordinated thematic reviews by IOSCO members of financial statements to be more proactive in identifying diversity in practice; another possibility is for IOSCO to provide information, based on enforcement activities of its members, to support the post implementation review work. It also might be useful for IASB staff to meet periodically with IOSCO members, e.g., with its Standing Committee 1 of the Technical Committee, regarding the security regulators' experience with application of IFRSs. Such initiatives also may benefit regulators in markets without well resourced national standard setters or a history of active enforcement in the financial statements area.

We believe that the role of the IFRS Interpretations Committee does not require fundamental revision e.g., to allow fast-track development of guidance to address urgent issues with limited or no consultation. This would change the nature of not only its role but also that of the IASB. However, we believe that the IFRS Interpretations Committee should be more willing to develop guidance on issues that overlap with current IASB projects. Often decisions are made to not add a project on the basis that IASB has an active project on this subject. The time scale until an IASB project might result in an effective standard gives rise to gaps for lengthy periods for which the IFRS Interpretations Committee could have provided clarity.

We believe that the IFRS Interpretations Committee should be more willing to develop responses to significant interpretation issues. In some cases this work may end up being fed into an IASB project. However, in our experience, while many issues are not taken to the IFRS Interpretations Committee agenda because of an active IASB project, ultimately the issues raised with the IFRS Interpretations Committee are not resolved in that project.

We also believe that the IFRS Interpretations Committee should review its past agenda decisions and consider whether any projects previously not added to its agenda now should be added in light of both recent IASB projects completed and changes in the anticipated scope and timing of those IASB projects that are not yet completed.

Financing: how should the organisation best ensure forms of financing that permit it to operate effectively and efficiently? – Question 7

Is there a way, possibly as part of a governance reform, to ensure more automaticity of financing?

The current financing of the IFRS Foundation has four main aspects being (i) a levy-based system in certain countries organised by either capital markets authorities, accountancy bodies or national standard-setters; (ii) donations from private / public companies; (iii) voluntary contributions from the major accounting firms; and (iv) income generated through the sale of its publications and royalties received.

In order for the IFRS Foundation to have a more stable income basis we believe that it should move to the position under which all or a substantial majority of its income is generated through a levy system.



We believe that the Monitoring Board should be responsible for working with the capital market regulators e.g., through IOSCO to establish a levy to allow the Foundation to fund its operations. The work of the IFRS Foundation is an important element of the infrastructure supporting effective capital markets, which IOSCO members are responsible for regulating. Financial support of the IFRS Foundation should reflect this fact.

We recommend that the Trustees work with the Monitoring Board to propose putting such a levy system into place.

Other issues – Question 8

Are there any other issues that the Trustees should consider?

We have no other matters that we would wish to raise in this response.