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IFRS Strategy Review  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH

14<sup>th</sup> January 2011

Dear Trustees of the IFRS Foundation,

Thank you for the opportunity to respond to the IFRS Strategy Review consultation document.

The CFA Society of the UK represents more than 9,000 investment professionals working across the financial sector. For advocacy purposes, these members are represented by committees that consider proposals relating to Financial Reporting and Analysis Committee.

### **Notes on the Trustees' future strategy review**

#### **Mission: How should the organisation best define the public interest to which it is committed?**

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?

- The objective should be refocused on investors, particularly equity investors. Since they take the greatest risk, the needs of other capital providers should be satisfied within that priority.

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?

- Prudential regulators have much greater access to information than that available to the public markets. Therefore their needs should not influence the information that the public markets receive.
- There is a need to join up accounting and auditing standards and build into accounting standard-setting some concept of the need for auditability.

**Governance: how should the organisation best balance independence with accountability?**

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 are comfortable with the 3-tier structure. It is important to have a buffer between the IASB and political influence so as to maintain the confidence of the market.

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)?

- We believe that the structure is appropriate and that the legitimate parties are represented on the Monitoring Board, which has sufficient political legitimacy. If other organisations feel they need input to the Monitoring Board, they should consider how to communicate their views through the existing members or formally propose an expansion of the Board.

**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?**

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?

- We believe there should be much more field-testing of ideas in the market before they are formally proposed, so that draft standards are practical and effectively carry through the IASB's intent. Staff should prepare descriptions of the impact of proposals in practical cases, so that users can consider concretely whether the proposals assist them in their work, rather than needing to interpret the implications of abstract concepts.
- In a similar way, we believe that the Board should more actively consider input from the market about standards that currently include problematic areas; this should form part of the agenda priorities. There should not be change for its own sake, only where there is an actual need. We believe the shift of focus away from a convergence agenda will help to refocus the IASB's work on issues that need to be addressed, not just those required to deliver convergence.
- Implementation reviews need to be active processes, which are considered and seek to uncover practical problems with standards and their implementation. There may be aspects of standards that can and should be dropped altogether (eg we would suggest intangibles amortisation in IFRS 3 – which requires significant effort for companies to produce but is then ignored by the market).

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?

- Yes. As suggested above, we would welcome the board considering such practical issues more actively in its work. We believe that standards need to be auditable and capable of application in practice without excessive additional work. These two requirements are likely to lead to greater consistency in the adoption and implementation of standards.
- It is important to note that poor adoption and implementation may be evidence of a poor standard, not just problems on the part of those attempting to implement that standard.
- It is also important for the IASB's authority that its standards are seen to be implemented fully and consistently. This, too, suggests that more attention should be paid to monitoring what happens in practice after a standard is adopted.

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

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

- We believe that there must be some system whereby those markets that apply IFRS provide the consistency of funding required by the IASB in order to deliver high quality standards<sup>1</sup>.

**Other issues**

8. Are there any other issues that the Trustees should consider?

- We continue to be of the view that membership of the IASB should be determined by quality and skills rather than by geographical origin.
- The Trustees will need to consider over time how to bring the governance of the IAASB together with that of the IASB because we do not believe that the IAASB being part of IFAC is sustainable for much longer. Such a move is also likely to assist efforts to ensure that accounting standards are auditable.

Yours,

Jane Fuller, Chair Accounting Advocacy Committee

Will Goodhart, Chief Executive

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<sup>1</sup> One committee member suggests that a fee could be paid (and collected by audit firms) by any company using IFRS that is required to produce audited financial statements, so that even publicly accountable private entities would contribute.