



Mr Tsuguoki Fujinuma and Mr. Robert Glauber, Interim Co-Chairmen
IFRS Foundation
30 Cannon Street
London
United Kingdom
EC4M 6XH

24 February 2011

Dear Mr. Fujinuma and Mr. Glauber,

Response from CAFOD to the Public Consultation on the Trustees' Strategy Review

Thank you for the opportunity to comment on the Paper for Public Consultation on the Status of Trustees' Strategy Review.

CAFOD is the official development and humanitarian agency of the Catholic Bishops Conference of England and Wales. We work with hundreds of partner organisations in over 60 countries to address poverty and global injustice. A significant and growing strand of our work relates to the huge impact of the private sector on communities and economies in the developing world. For example, there are now some 82,000 trans-national corporations worldwide with 810,000 foreign affiliates. As economic entities, the largest multi-national companies dwarf many nation states.

Access to robust financial data disclosed in a timely manner is essential for understanding the true nature of companies' operations, decision-making and associated risk. The financial crisis has demonstrated that the repercussions of poor financial practices and a lack of transparency and accountability are not felt solely by investors but instead have a direct impact on the lives of millions of citizens around the world as well. Given the increasing influence of the private sector globally and the growing reach of the IFRS, it is vital that the standards are fit for purpose and developed in a way which ensures that they genuinely are in the public interest.

Our responses to the specific consultation questions draw on observations from our experience working with partner organisations around the world as well as our work with other members of the Publish What You Pay coalition in engaging on the need for country-by-country reporting requirements to be included within a new IFRS for the extractive industries.

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

The current Constitution refers explicitly to the public interest. The full paragraph, Objectives of the IFRS Foundation 2 (a) reads:

“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. These standards 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.”

In our experience, however, the public interest does not appear to be given much weight during development of the IFRS. We are of the opinion that the public interest will only be truly served if the IFRS Foundation:

- highlights the importance of ‘other users of financial information’ in its Constitution and;
- widens the objective of IFRSs beyond just decision-useful financial information needed to make ‘economic decisions’.

Although the Constitution includes reference to the needs of “other users”, in practice it appears the IASB has focussed primarily on investor protection and filer convenience. The Board contends that meeting the narrowly defined needs of investors will automatically address the needs of those “other users.” As representatives of “other users” we do not believe that this is the case.

In defining relevant “other users” it is helpful to look at reports of the UK’s Accounting Standards Steering Committee in 1975¹ and of the United Nations Conference on Trade and Development in 2008². It is apparent that over that period, there remained uniformity in those considered to have an interest in the accounts of multinational corporations, who are as follows:

- The equity investor group (shareholders);
- The loan creditor group (banks and bondholders);
- The analyst-adviser group who advise the above groups;
- Business partners;
- Consumers;
- Employees;
- The business contact group;
- The surrounding community;
- Civil society organizations; and
- Governments and their institutions.

¹ The Accounting Standards Steering Committee, *The Corporate Report: a Discussion Paper published for comment by The Accounting Standards Steering Committee* (1975). See particularly, Section One, paragraph 1.9. <http://www.ion.icaew.com/ClientFiles/6f45ef7e-1eff-41ff-909e-24eeb6e9ed15//The%20Corporate%20Report2.pdf>.

² UNCTAD, *Guidance on Corporate Responsibility Indicators in Annual Reports* (2008). See particularly the section, “Stakeholders and their information needs”, page 6. http://www.unctad.org/en/docs/iteteb20076_en.pdf

In summary:

- The Constitution objectives in relation to the range of appropriate users are well-stated but there have been significant problems with its interpretation in the over-focus on investors and neglect of 'other users'. To address this, a new definition should highlight the importance of these other groups to signal the necessary change of interpretation.
- The Constitution objectives in relation to the purpose of financial reports has been too narrowly stated by focussing only on financial information needed to make 'economic decisions,' and even within this, has been too narrowly interpreted to focus only on investor share trading decisions. A new definition should highlight that the scope of the standards should cover all those requirements needed to generate information that is in the public interest that can only be generated from the general ledger of corporations. This is necessary to avoid the demand for duplicate financial statements.

These changes are necessary to ensure that the IFRS Foundation remains relevant and responsive in its role as the global standard setter for corporate reporting.

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

This is a timely question. In CAFOD's view there is a significant gap in both accountability and legitimacy under the current governance structures.

There are three main problems where we see the need for reform of the governance structure of the IFRS Foundation:

(a) The inappropriately narrow profile of the members of the IASB and the Trustees

As outlined above, the Constitution refers to a range of 'other users' of financial reports. Yet the profile of IASB and Trustees members is extremely narrow. We strongly recommend that representatives from the full range of users of financial information, as laid out in the bullet point list above, should be included in both bodies. Only this way will the institution be well placed to consider the needs of, and improve accountability to, its core users.

(b) The lack of public accountability of these bodies

We know of no mechanism by which these bodies open themselves to direct discourse on key decisions to representatives of each of the key user groups outlined above, as well as elected representatives. Currently individuals may attend meetings but only as silent observers. We recommend that each body hold public hearings on key issues, and that these are interactive and discursive, as other policy setting bodies do. The proceedings of these hearings should also be open and on the public record.

(c) The lack of formal political endorsement

We support the call for greater linkage to public authorities. However, this must be associated with genuine engagement, debate and accountability to be of value and not a 'rubber-stamping' exercise.

3. 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?

As argued above, the best way to ensure the quality of standards and their implementation is to ensure their usefulness in meeting the needs of the full range of users of financial reports in the public interest. Our experience of consistent engagement with the IASB for six years suggests the need for very significant changes to improve:

(i) consultation with the full range of users, and inclusion of the costs and benefits to them all in the selection of priorities and the development of reporting requirements;

(ii) much greater engagement with actors in developing countries and emerging markets;

(iii) much greater speed of responsiveness – three years is too long for stakeholders to wait for a Discussion Paper and four years for them still not to have a decision on whether an issue is on the agenda for action.

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

We support the proposal made by the Publish What You Pay network that the IFRS should move to public funding by all adopting countries. This would end the conflict of interest inherent within a system where funding comes from preparers and companies whose business is to support the financial reporting of others.

As highlighted above, CAFOD believes that the IFRS Foundation Strategy Review represents a significant and timely opportunity to address accountability gaps in current systems and practice. These comments are offered in the spirit of constructive engagement and we remain very willing to engage with the further steps of the process.

Yours sincerely

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