

10 February 2011

IFRS Foundation Trustees
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Sir/Madam

Strategy Review

The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with the purpose of advancing Australia's financial competitiveness.

In general, the G100 believes that the IASB's processes are operating satisfactorily and improving. Recent changes to the due process and the IASB's developing outreach activities seeking input from companies and other constituents and feedback statements, are welcome and important in this regard. However, there remains a need to ensure that new IFRSs and amendments to IFRSs are satisfying an identified need and improve the quality of financial reporting in a cost-efficient, timely and effective manner.

MISSION

How should the organization best define the public interest to which it is committed?

While the current objective serves the IFRS Foundation well in relation to its accountability to investors and users of financial information, there is another arm of accountability that is recognized implicitly in the work of the IASB and may be appropriately included in an expansion of the objective.

We refer to the accountability of the IFRS Foundation to those who must implement its standards in the preparation of financial statements - the preparers and auditors. The IASB implicitly acknowledges its accountability to this stakeholder group by ensuring that these stakeholder groups are consulted and listened to during the development of the standards, as it is these groups that can and do provide input on the important issues of potential ease, cost and timing of implementation. However there is no specific requirement in the charter for the IASB to recognize and act on this accountability.

The G100 believes that it is vital that preparers and auditors support the work of the IFRS Foundation.

It is accepted that there are many diverse views on technical content of new standards. Further, at times the IASB may make technical decisions that are welcomed by investors but not widely welcomed by preparers. Such occasional divergence is recognized, and can be explained by the different mandates of the parties. These comments do not address this issue nor do we seek to remove such conflicts – the IASB must continue to provide high quality technical standards.

However, issues relating to the ease, cost and timing of implementation are a different matter. On these issues, entities in similar industries generally have similar views.

As the IASB has a good record of listening and responding to the implementation comments that are made by those who must implement its standards there should be support for making explicit such an objective.

The G100 suggests that this 'downstream' accountability, to preparers and auditors, be made explicit in the Constitution. The existing comment in the Constitution (paragraph 2c: To take account of, as appropriate, the needs of a range of sizes and types of entities in diverse economic settings) provides a beginning towards recognition of this accountability.

The G100 proposes that accountability to preparers and auditors be recognized as follows:

"To ensure that International Financial Reporting Standards are appropriate for use in the preparation and audit of financial statements".

GOVERNANCE AND FINANCING

How should the organization best balance independence with accountability and best ensure forms of financing that permit it to operate effectively and efficiently?

Independence and Funding

The G100 considers that the way in which the structure is funded is critical to maintaining its independence and accountability. The independence of the standard-setting process is an integral component of the development of high quality financial reporting standards and their acceptability in capital markets. A perception that the process is susceptible to particular interests or sectors is inimical to the longevity and reputation of the process. In this regard we consider that the objectives of financial reporting and those of regulators (whether prudential supervisors, competition authorities etc) while similar are different such that financial reporting standards should not be developed from the perspective of such regulatory requirements.

In order to maintain the independence of the process a funding mechanism based on a modest levy on listed companies is likely to offer the benefits of an equitable and fair approach while the principal focus of the standards remains on listed companies. In addition, contributions should be sought from the governments of those countries adopting IFRSs, as presently occurs in Australia.

Other governance issues

The work of the IFRS Foundation has, quite correctly, expanded to include many activities that are additional to consultation and development of financial reporting standards. These activities include, but are not confined to, educational workshops and training material, conferences and seminars, translations of the standards, and development of the IFRS XBRL taxonomy.

The current governance framework as enunciated in the Constitution does not include specific identification of where the accountability for these activities rests. Clarity on this

accountability is critical to assessment of whether the funds of the organization have been expended in line with the objectives of the organization.

The criteria for determining the allocation of funds to activities other than those required for the development of standards is not outlined in the Constitution, nor does the Constitution provide guidance on how the assessment of competing priorities for funds is made.

Members of the IASB are appointed for their professional competence and practical experience, with the group appointed to give "the best available combination of technical expertise and diversity". The activities that the IASB is charged with in the Constitution are all directed to the development and issuance of financial reporting standards, and not to the additional activities mentioned above. This is an appropriate delineation of accountability.

However, outreach activities such as educational activities, translation of the standards, XBRL and other implantation projects will become more important as the use of IFRS continues to grow. While these activities currently occur without formal mandate, and without clarity as to which body within the IFRS Foundation should determine the relative priority of such activities, the Foundation is open to criticism of the extent of its involvement in these activities.

Continued widespread acceptance of IFRS will require a contemporaneous increase in the outreach activities as the Foundation works with adopting countries to assist their initial implementation and subsequent acceptance of new and amended standards. The G100 views these outreach activities as crucial to the continued success of the IFRS Foundation and hence is keen to see the governance around the activities formally articulated.

The IFRS website states that outreach activities are 'managed by the IFRS Foundation's staff'. It would be helpful for clarity to be provided around what outreach activities are legitimately funded from by the Foundation, what criteria are used in reaching this determination, the process for allocating funding between competing requests, and the accountability for outreach activities in relation to the Chairman of the IASB.

PROCESS

How should the organization best ensure that its standards are high quality, meet the requirements of a well functioning capital market and are implemented consistently across the world?

Work Program

The G100 strongly believes that the IASB's work program be subject to regular review to ensure that the topics being addressed and its priorities remain relevant. Regular consultation with constituents is seen as an essential part of this process and we suggest that it should be more frequent than the current three year requirement.

Convergence and June 2011

While the G100 supports efforts to converge IFRSs and US GAAP we are concerned that the excessive focus on this project is detracting from the balanced development of the IASB's work program.

We believe that it is now appropriate for the IASB to redirect its activities to better service the needs and expectations of companies in those jurisdictions that have adopted IFRSs. The failure to address these concerns has resulted in the deferral of work on a number of projects such as performance reporting, emissions trading and a comprehensive project on accounting for pensions.

In addition, the emphasis on meeting a June 2011 'deadline' as part of the IASB/FASB MoU has created resource constraints for companies wishing to participate in the due process which, taken in conjunction with the rush to complete/deliver, creates an environment in which the quality of the standards may be impaired and unintended consequences and implementation problems amplified.

We strongly urge the IFRS Foundation to reconsider the timing of the development of standards, in the context of the number of countries that have adopted IFRS. Many of these countries have a significant translation and education task to complete before they can actively participate in the debate during the development of standards. Progressing at a speed that inhibits active participation by multiple jurisdictions will ultimately lead to disenfranchment.

Standards and Complexity

The G100 is concerned with the tendency to include optional treatments in standards. It is suggested that recourse to optional treatments erodes the achievement of high quality standards. We also believe that imposing further detailed disclosure requirements is not a substitute for clear, unambiguous recognition and measurement requirements. The G100 believes that disclosures required in each IFRS should be based on the application of disclosure principles and that such a project should be given a high priority by the IASB. In 2010 the G100 submitted a proposed set of disclosure principles "Less is More" to the IASB.

Frequency

There are also concerns about the number and frequency of changes to IFRSs and it is pleasing that the IASB has responded by undertaking consultation on effective dates of IFRSs etc. However, the frequency of minor amendments under the Annual Improvements Process (AIP) can be frustrating for preparers. It is suggested that amendments arising from those matters currently satisfying AIP criteria should be issued less frequently, say, on a triennial basis.

Dissenting views

Prior to the widespread use of webcasts of IASB meetings, the publication of dissenting views enabled constituents to understand more fully the extent and diversity of debated during the development of a standard.

However, such information is now readily available from the use of webcasts, the extensive use of the "Basis for Conclusions" and the issue of "Feedback Statements". These mechanisms provide ample opportunity for constituents to understand the different views around the Board table.

Publishing dissenting views gives the appearance that certain Board members do not accept the final majority decision. By analogy, a country adopting IFRS may argue that as dissenting views are published with the IFRS there are grounds for not accepting/adopting certain components of a standard.

The G100 suggests that the reasons for publishing dissenting views have now been removed through advances in communication, and that the Board would be better served if dissenting views were no longer published.

Yours sincerely
Group of 100 Inc

Peter Lewis
President
