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(Submitted online at www.ifrs.org)

IFRS FOUNDATION (IFRSF) TRUSTEES' REVIEW OF STRUCTURE AND EFFECTIVENESS: ISSUES FOR THE REVIEW – JULY 2015

Dear Michel,

The International Federation of Accountants® (IFAC®) values the opportunity to comment on the [*IFRS Foundation Trustees' Review of Structure and Effectiveness: Issues for the Review*](#) document (the "Review Document").

Through its current membership of more than 175 professional accountancy organizations in 130 countries and jurisdictions, IFAC represents over 2.8 million accountants in public practice, industry and commerce, government, and education. As such, it aims to provide the perspective of the global accountancy profession, but recognizes that there may be diverse views within the profession on particular topics.

General comments

One of IFAC's key strategic objectives is to support the development of high-quality international standards for auditing and assurance, professional ethics, accounting education, and public sector accounting. To meet this objective IFAC provides financial, operational, and administrative support to four international standard-setting boards.¹

IFAC recognizes the importance and benefits of having single sets of high-quality international standards in key areas; as well as the need for robust governance arrangements—arrangements that are "shared" and recognize the importance of involving both the private and public sector—that enhance the legitimacy and broad global acceptance of those standards. Additionally, it recognizes that the development of high-quality standards is one key aspect to consider; equally important is the need for consistent global adoption and implementation of standards, and having appropriate support arrangements in place.

It is within this context that IFAC offers the following responses to the specific questions posed in the Review Document, as well as other general comments, as appropriate.

¹ The four standard-setting boards are: the International Auditing and Assurance Standards Board (IAASB); the International Accounting Education Standards Board (IAESB); the International Ethics Standards Board for Accountants (IESBA); and the International Public Sector Accounting Standards Board (IPSASB).



Specific questions

A. *Primary Strategic Goal 1: Development of a single set of standards*

For many years IFAC has supported the development of a single set of globally recognized, high-quality international financial reporting standards. It has promoted this view in submissions made to G-20 Leaders' Summits, as well as through obligations it imposes on its member organizations as part of IFAC's Member Compliance Program.²

The topic of financial reporting standards for small- and medium-entities elicits a diverse range of views and perspectives. As presented in the [response](#) to the European Commission (EC) *Green Paper: Building a Capital Markets Union (CMU)*, while IFAC concurs that balance in financial reporting requirements is crucial, the specific needs raised in establishing a CMU may be satisfied by means other than developing a new set of accounting standards—for example, by more fully revisiting and enhancing the relevant thresholds and definitions applying to entities utilizing multilateral trading facilities and other alternative trading venues. IFAC is encouraged by the fact that the IASB has expressed a willingness to work with the EC and other constituents in considering further the financial reporting implications of developing a CMU.

Furthermore, IFAC notes that the IASB does not intend, as part of this current review, to consider further the possible expansion of the IASB's scope to encompass financial reporting standards for the public sector. IFAC supports this decision—especially in light of the recently enhanced governance arrangements for the IPSASB, including the establishment of a Public Interest Committee to oversee its activities—as well as the IASB's stated intention to continue its current liaison arrangements with the IPSASB.

Q1 Considering the consequences referred to (in the Review Document), what are your views on whether the IASB should extend its remit beyond the current focus of the organisation to develop Standards; in particular for entities in the private, not-for-profit sector?

Any decision to extend the remit of the IASB beyond its current focus requires careful consideration and analyses of the associated costs and benefits. In particular, changes to scope would likely mean that changes would need to be made to the oversight arrangements (including the role and membership of the IFRSF Trustees and the Monitoring Board), IASB membership and competencies, staff competencies and resources, and Advisory Council membership. The implications could be quite significant and may detract from the IASB's objectives with respect to IFRSs.

Furthermore, it is currently unclear to IFAC that there is strong demand internationally for standards for the private, not-for-profit sector; it is possible that it might be a specific jurisdictional or regional issue. That demand would need to be further assessed before making a decision.

Therefore, IFAC is of the view that the IASB should not extend its remit to develop standards for this sector.

² Members of IFAC are required to fulfill certain obligations outlined in IFAC's Statement of Membership Obligations (SMOs), including using their best endeavors to have international standards adopted and implemented in their jurisdictions. SMO 7 is titled [International Financial Reporting Standards and Other Pronouncements by the IASB](#).



Q2 Do you agree with the proposal that the IASB should play an active role in developments in wider corporate reporting through the co-operation outlined (in the Review Document)?

IFAC believes that the IASB has a potentially significant role to play in developments in wider corporate reporting, and that the relationships and cooperation identified in the Review Document are important in fulfilling that role. Indeed, such relationships can assist in informing the IASB of emerging trends and thinking, and the demands of practical implementation and compatibility, which could in turn inform the development of IFRSs.

Additionally, the IASB should be encouraged to consider the future of corporate reporting in a wider context (e.g., digital reporting, integrated reporting, real time reporting, on-line and extended non-financial reporting, reporting through the use of KPIs, etc.) and consider what strategic impact these developments may have on the development of financial reporting and therefore on the development of IFRS in the longer term. This also applies to considerations directed toward reducing the increasing volume and complexity of financial reporting.

However, the notion of wider corporate reporting raises questions about whether reporting one single measure of organizational performance—or, in fact, one single measure of financial performance—is an appropriate goal for which standard setters should strive. Many argue that multiple measures of performance, and different measures of performance for different types of organizations in different industries, might be seen as a better approach to corporate reporting.

Finally, IFAC is unclear what is meant by the sentence in paragraph 25, “*this includes consideration by the IASB of where the boundaries should be between the scope of its work and that of securities regulators in particular.*” IFAC’s view is that the setting of standards, and the monitoring of compliance with and enforcement of standards, are very different tasks—the former being the primary objective of the IASB, and the latter being the primary objective of regulators.

This is consistent with views held by many, who argue for the need to ensure that the different roles and responsibilities are kept separate. Indeed, IFAC notes that in paragraph 63 of the Review Document, “*the Foundation has always taken the view that IASB’s role is to develop the Standards and that others are better positioned to deal with implementation and enforcement responsibilities.*”

Q3 Do you agree with the Foundation’s strategy with regard to the IFRS Taxonomy?

IFAC supports the view of the IFRSF Trustees that the IASB’s expertise is in determining how transactions and economic phenomena should be classified, measured, and presented.

With this in mind, IFAC agrees with the Foundation’s strategy with regard to the IFRS Taxonomy, noting that the taxonomy represents an important way in which the IASB can support users of structured data, as well as assisting in the verification and auditing of financial reports.

Q4 How can the IASB best support regulators in their efforts to improve digital access to general purpose financial reports to investors and other users?

IFAC believes that the IASB can best support regulators in their efforts to improve digital access to general purpose financial reports to investors and other users through its focus and strategy on the IFRS Taxonomy, as articulated in the Review Document.



Q5 Do you have any views or comments on whether there are any other steps the IASB should take to ensure that it factors into its thinking changes in technology in ways in which it can maintain the relevance of IFRS?

The ability to implement standards and verify the information resulting from their application, and the access to and processing of that information by users, are important considerations for standard setters.

As noted earlier, IFAC agrees that the IFRS Taxonomy represents an important way in which the IASB can support users of structured data. It supports the Foundation’s suggestion for it to consider establishing a network of experts to provide advice on how to monitor and assess changing technology and how the Foundation and/or IASB should respond to and exploit changes.

B. Primary Strategic Goal 2: Global adoption of IFRS

IFAC strongly supports the goal of global adoption and implementation of IFRS. As noted previously in this response—commenting on the development of a single set of standards—IFAC has promoted the importance of global adoption and implementation of IFRS in submissions made to G-20 Leaders’ Summits, as well as through obligations it imposes on its member organizations as part of its Member Compliance Program

C. Primary Strategic Goal 3: Consistency of application and implementation

Q6 What are your views on what the Foundation is doing to encourage the consistent application of IFRS? Considering resourcing and other limitations, do you think that there is anything more that the Foundation could and should be doing in this area?

In its Policy Position Paper 6, [Global Regulatory Convergence and the Accountancy Profession](#), IFAC recognizes the importance of globally consistent adoption and implementation of high-quality international standards.

IFAC agrees that standard setters are perhaps not always best placed to ensure the consistent application of standards. However, consistency of application is promoted where standards are set in a manner that considers their practical implementation and the verifiability of the information that results from their application.

While IFAC agrees that the IASB needs to work with securities regulators to pursue the objective of consistency of application and implementation, it is important to consider the role that the accountancy profession plays. In particular, the IASB needs to consider how it can best engage with the various key stakeholders in the profession, such as professional accountancy organizations³, academics, accounting firms, and, of course, IFAC.

In this context, IFAC believes that in determining its cooperation with others, the IASB needs to look beyond the regulatory community to these other important stakeholders.

³ Professional accountancy organizations that are members of IFAC are obliged to fulfill the requirements of SMOs—refer to footnote 2.



D. Primary Strategic Goal 4: IFRS Foundation as an organization

Governance

Independence of the standard-setting process

IFAC agrees that a critical element in promoting the legitimacy and credibility of the standards promulgated by an international standard-setting board is the need for an independent standard-setting process that clearly represents and balances the variety of views and perspectives of all key stakeholders (including, for example, the accountancy profession, regulators, preparers, and the investor community).

This is why IFAC strongly supports shared private sector/public sector arrangements, whereby the inputs of those who need to implement and use the standards are valued and recognized as highly as those parties who need to monitor and enforce compliance. Equally, appropriate safeguards, checks, and balances are required to ensure that the process is not subject to undue influence exerted by one or a small number of interested parties, thus minimizing the risk that standard setting becomes nothing more than a political or regulatory exercise.

The three-tier structure

Q7 Do you have any suggestions as to how the functioning of the three-tier structure of the governance of the Foundation might be improved?

IFAC's responses to the [Consultative Report on the Review of the IFRS's Foundation Governance](#) (April 6, 2011) and the [Report of the Trustees' Strategy Review: IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade](#) (July 25, 2011) identified the need to more clearly delineate and define the roles and responsibilities of the various bodies involved in the governance arrangements for the IASB.

Reiterating the comments made in these responses, IFAC stresses that, to be most effective, various aspects of the governance arrangements for standard setting should be clearly defined with separate responsibilities assigned to different components of the governance structure.

Specifically, IFAC notes that it seems that the IFRSF Trustees have responsibilities that can be defined as both management and administration, as well as oversight responsibilities (largely through a sub-committee of the Trustees), for standard setting. Similarly, the Monitoring Board responsibilities for external public accountability and oversight do not appear to be clearly delineated. IFAC believes that there may be work that can be done to provide greater clarity with respect to the various roles and responsibilities undertaken by these two parties.

Issues specific to the IFRS Foundation

Q8 What are your views on the overall geographical distribution of Trustees and how it might be determined? Do you agree with the proposal to increase the number of 'at large' Trustee appointments from two to five?

It is not clear to IFAC how increasing the number of "at large" appointments from two to five will be accommodated. One can assume that it will be achieved by reducing the appointments by one from each of the regions shown in paragraphs 78 (a) through (c)—i.e., Asia/Oceania, Europe, and North America.

On this basis, IFAC agrees with the proposal to increase the number of "at large" Trustee appointments from two to five and that a distribution that is representative of the world's capital markets is appropriate.



Q9 What are your views on the current specification regarding the provision of an appropriate balance of professional backgrounds? Do you believe that any change is necessary and, if so, what would you suggest and why?

IFAC recognizes the importance of having a diverse range—and yet appropriate balance—of professional backgrounds represented on the Foundation, and encourages consideration of ways in which representation from key groups, such as the accountancy profession, investors, and those with corporate board experience, can be maintained, developed, and enhanced—while still taking account of the competency requirements for such persons—as required.

Q10 Do you agree with the proposal to change the focus and frequency of reviews of strategy and effectiveness, as set out (in the Review Document)?

The proposal to change the focus and frequency of reviews of strategy and effectiveness, such that a review of the entire strategy and effectiveness of the organization should commence, at the latest, five years after the previous review has been completed, is appropriate.

IASB

Q11 Do you agree with the proposals to reduce the size of the IASB as set out in the Constitution from 16 members to 13 and the revised geographical distribution?

IFAC does not agree with the proposals to reduce the size of the IASB, as set out in the Constitution, from 16 members to 13 and hence the revised geographical distribution. A broad geographical spread and membership that is inclusive of different professional backgrounds is an important element to ensuring that issued standards have broad support across the globe. Additionally, geographical diversity provides for important regional and jurisdictional perspectives to be fully considered in standards development, and potentially assists in efforts for outreach and promoting the adoption and implementation of standards.

Indeed, IFAC encourages efforts to deepen the pool of candidates for IASB membership from diverse geographical and professional backgrounds, while recognizing that appointments to the IASB should ultimately be based on finding the best candidate for the role.

There seems to be a potential contradiction inasmuch as there is a requirement for geographical diversity and yet the IFRSF Trustees reiterate in the Review Document that IASB members are not appointed as representatives of any particular region.

Q12 Do you agree with the proposal to delete Section 27 and to amend the wording of Section 25 of the Constitution on the balance of backgrounds on the IASB?

To the extent that a broad range of diverse professional, but relevant, backgrounds is important for members of the IASB, IFAC cannot foresee concerns with the proposed deletion and amendment.

Q13 Do you agree with the proposal to amend Section 31 of the Constitution on the terms of reappointment of IASB members as outlined (in the Review Document)?

IFAC recognizes the important balance to be achieved between the rotation of IASB members and the new ideas, innovations, and perspectives that come with such rotation, and the retention of members allowing for long term projects to be completed and institutional and project knowledge to be imparted. However, ten years seems to be a particularly long time for a member to remain on the IASB.



By comparison, members of the international standard-setting boards supported by IFAC are limited to two terms of three years (i.e., six years maximum unless that member becomes the Chair of the board) and there has been little evidence to suggest that this has negatively impacted on the completion and quality of projects.

IFAC recommends that the proposed amendment to Section 31 be re-considered.

Financing

Q14 Do you have any comments on the Foundation’s funding model as outlined (in the Review Document)? Do you have any suggestions as to how the functioning of the funding model might be strengthened, taking into consideration the limitations on funding?

An integral element of independence of standard setting is funding. International standard-setting boards need to have safeguards in place to ensure: that funding is not conditional on pre-determined outcomes from the standard-setting process; and that funders—whether public sector or private sector—are unable to exert undue influence over the standard-setting process.

IFAC encourages the IFRSF Trustees to continue to strive for greater revenue diversity—taking into account the need to ensure there are adequate safeguards as noted above—including greater publicly-sponsored contributions from jurisdictions where “significant gaps” are evident, as well as from other self-generated income initiatives.

In the section headed “Contributions from the accounting firms” (page 27 of the Review Document), reference is made to the fact that there are some who have cited the contributions of the major accounting firms as being a potential risk to the IASB’s independence, and that the concern is based on perceptions rather than in reality.

IFAC strongly supports the view of the IFRSF Trustees in making it very clear that funding is not contingent on fulfilling any conditions that would compromise the independence of the standard-setting process. However, IFAC notes that potential risks to the independence of the standard-setting process exist for all sources of funding, including publicly-sponsored contributions. Threats from politicians and governments to withhold funding unless certain conditions are met with respect to standard-setting activities have occurred in recent years, and so should also be recognized in the Review Document. It is important therefore to ensure that every effort is made to receive commitments for longer-term funding so that risks associated with short-term political interference can be mitigated.

Finally, IFAC notes that the accounting firms are very strong supporters of international standard setting, both for financial reporting—through their support for the IASB—and auditing and assurance, including auditor independence—through their support for IFAC. It is important that their contribution to achieving the public interest objective of developing high-quality, globally accepted international standards is not taken for granted or under-valued.

Other issues

Q15 Should the Trustees consider any other issues as part of this review of the structure and effectiveness of the Foundation? If so, what?

IFAC has no further issues it wishes to discuss with respect to this review of the structure and effectiveness of the IFRSF.



Please do not hesitate to contact me or Russell Guthrie (Executive Director, Professional Relations) russellguthrie@ifac.org if you have any questions or wish to seek clarification about comments included in this letter.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Faye Choudhury', is written over a light gray rectangular background.

Fayezul Choudhury
Chief Executive Officer