



International Federation of Accountants

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July 25, 2011

Mr. Tom Seidenstein
Chief Operating Officer
IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

By e-mail: strategyreview-comm@ifrs.org

Dear Mr. Seidenstein

Re: Report of the Trustees' Strategy Review: *IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade*

The International Federation of Accountants (IFAC) values the opportunity to provide comments on the Report of the Trustees' Strategy Review. The work of the IFRS Foundation and the future of the IFRSs are of particular interest to IFAC, as:

- The accounting profession, through IFAC, played an important role in the establishment of the International Accounting Standards Committee, and has a continuing interest in the development of International Financial Reporting Standards (IFRSs);
- Through its membership, currently 164 professional accountancy bodies in 125 countries, IFAC represents approximately 2.5 million accountants in public practice, industry and commerce, government and education, who—through their various roles, including those of preparers and auditors of financial statements—implement IFRS; and,
- IFAC has committed itself to the achievement of global adoption of IFRS for Public Interest Entities. Our Statement of Membership Obligations (SMO) 7, “International Financial Reporting Standards,” requires IFAC members to support the work of the International Accounting Standards Board (IASB) by notifying their members of every IFRS, and to use their best endeavors:
 - To incorporate the requirements of IFRS in their national accounting requirements or, where the responsibility for the development of national accounting standards lies with third parties, to persuade those responsible for developing those requirements that general purpose financial statements should comply with IFRS, or with local accounting standards that are converged with IFRS, and disclose the fact of such compliance; and,
 - To assist with the implementation of IFRS, or national accounting standards that incorporate IFRS.

Overall, IFAC generally supports the principles and recommendations outlined in this report. The views of IFAC on most of the issues raised in this report are included in IFAC's response letter of February 24, 2011 to the Foundation's "Status of Trustees' Strategy Review" consultation document issued in November 2010.

We have chosen not to provide comments on all sections outlined in this report. The comments below are additional to those previously provided to the Foundation, or relate to new principles or recommendations raised by the Trustees in this April 2011 report.

A: Mission: defining the public interest to which the IFRS Foundation is committed

IFAC supports the Trustees' view that it is important to define what the public interest means in relation to the IFRS Foundation's activities. Recognizing the importance of defining this concept, especially where private sector bodies such as the IFRS Foundation and IFAC are responsible for setting international professional standards, IFAC currently has a project aimed at describing and explaining a public interest framework for the accountancy profession.¹ IFAC would welcome the opportunity to participate in any future work by the Trustees in respect to defining the public interest.

Also, IFAC is currently revising its policy position paper outlining the rationale for the regulatory arrangements put in place for setting international standards for auditing and assurance, ethics, and accounting education—arrangements in which responsibility is shared between the public sector and the private sector.²

A4: In the near term, the primary focus of the IFRS Foundation and the IASB should remain on developing standards for private sector entities (both publicly traded entities and SMEs). Taking into account the necessary resource requirements, the Foundation and the IASB will consider developing standards for other entities and for other purposes at a later date.

IFAC supports the need for transparent financial reporting requirements for not-for-profit and public sector bodies, and notes that the argument for a single body responsible for setting accounting standards for all entities—public sector, private sector and not-for-profit—has conceptual merit. However, IFAC notes that the current arrangements for standard-setting, where the IASB issues IFRSs and the International Public Sector Accounting Standards Board (IPSASB) issues International Public Sector Accounting Standards (IPSAS), operate well, and the two boards collaborate effectively.

Notwithstanding the conceptual merit of the proposal, IFAC considers that current IASB arrangements do not meet the requirements for governance, skills, and resources, in an appropriate fashion, that would accommodate an expansion to embrace public sector accounting

¹ Refer IFAC Draft Policy Position Paper, *A Public Interest Framework for the Accountancy Profession*. This paper was exposed publicly, with comments received by March 25, 2011.

² Refer www.ifac.org for Policy Position Paper 3 *International Standard Setting in the Public Interest*

standards. To assume this wider responsibility in respect of public sector accounting, we are strongly of the view that the oversight arrangements (including roles and membership of the Trustees and Monitoring Board), board membership and competencies, staff competencies and resources, and Advisory Council membership would all require review and significant change.

In addition, the resources required to promote adoption of public sector accounting standards should not be underestimated. Part of the conditions for acceptance of the standards by all levels of government will be a level of satisfaction that users and stakeholders are fully involved in the development of the relevant standards, including those that are unique to the public sector and not simply adoption of private sector equivalent standards. The IPSASB is currently considering amendments to its governance process to enhance its credibility in the eyes of its stakeholder community, including independent oversight. We believe that these changes will enhance acceptance and adoption of IPSAS by governments at all levels.

Accordingly, we recommend that the Trustees reflect carefully on the resource implications of expanding the mandate of the IASB and establishing standard-setting arrangements for other areas of financial reporting. Any intention to consider expanding the mandate should be clearly identified as a medium- to long-term action and considered only in close consultation with those already discharging these roles.

B. Governance: independent and publicly accountable

IFAC strongly supports the view that the roles and responsibilities of each element of the organization's governance should be clearly defined, and that there should be further clarification of how the Trustees discharge their oversight responsibilities³. The extract below, which outlines IFAC's position on this matter, is from IFAC's response, dated April 6, 2011, to the Monitoring Board's *Consultative Report on the Review of the IFRS Foundation's Governance*.

“In the Consultative Report, the Monitoring Board indicates that it does not intend to revamp the three-tiered governance structure, but proposes improvements designed to enhance the legitimacy and accountability of the standard-setting process while retaining the necessary level of independence.

IFAC recognizes the critical importance of legitimacy, accountability, and independence in the standard-setting process, and supports proposals that advance these aims. Key to enhancing legitimacy, accountability, and independence are governance arrangements that include an external process for monitoring (external public accountability) and oversight arrangements to ensure that the public interest is being appropriately considered. To be most effective, the various aspects of the governance arrangements should be clearly defined, with separate responsibilities assigned to different components of the governance structure.

³ We note that Principle C2 also relates to the need for clarification in respect of the framework for Trustees in their oversight of the IASB's due process.

The independent standard-setting boards operating under the auspices of IFAC have governance structures that we believe clearly define the responsibilities for each component, and achieve this appropriate separation of responsibilities. Responsibility for external public accountability rests with the Monitoring Group, which monitors overall standard-setting arrangements, including the work of the Public Interest Oversight Board (PIOB). The PIOB is assigned responsibility for the oversight of the boards' due processes and operations, while management and administrative functions for the boards are the responsibility of the IFAC Board. The focus of the boards is on standard setting.

IFAC notes that within the governance structure for the IASB, the roles and responsibilities of the various bodies involved in the governance arrangements do not appear to be clearly delineated and defined. It appears that the Trustees have both management and administration responsibilities, as well as oversight responsibilities. Also, it is not clear how the external public accountability responsibilities and oversight responsibilities of the Monitoring Board are delineated.

For example, responsibilities of the Trustees include establishing and amending the operating procedures and due process for the IASB—clearly a management and administrative role. However, another responsibility of the Trustees is to review compliance by the IASB with those operating procedures and due process—clearly an oversight role. The Monitoring Board has a responsibility to confer with the Trustees regarding the Trustees' oversight responsibilities, which could be described as an external public accountability role. It also has responsibilities in regard to the process of appointing the Trustees, which could be deemed to be an oversight role.

In addition to the roles and responsibilities not being clearly defined and delineated, it seems that oversight responsibilities are being shared between the Monitoring Board and the Trustees, as evidenced by the statement on page 8 of the Consultative Paper that “...*at the oversight level the Trustees and the Monitoring Board should act as...*”.

IFAC recommends that consideration be given to ensuring that greater clarity is provided in respect of the roles and responsibilities of the Monitoring Board and the Trustees, including separation of the governance responsibilities, as appropriate. Our response to Question 5⁴ highlights the importance of this separation of management and oversight responsibilities in relation to the nominations process. In our response to Question 8⁵ we support the establishment of an Advisory Board for the Monitoring Board, which will potentially increase the involvement of public authorities and other international organizations in monitoring and external public accountability activities.”

⁴ Question 5 of the Monitoring Board report relates to a proposal to provide increased transparency into the process for Trustee nominations.

⁵ Question 8 of the Monitoring Board report relates to a proposal to increase involvement of public authorities and other international organizations in Monitoring Board activities,

C: Process: ensuring that its standards are of high quality, meet the requirements of a well-functioning capital market and are implemented consistently across the world

We note that the Trustees propose that the IASB's due process would benefit from regular benchmarking against other organizations. We consider that this should include benchmarking against the independent standard-setting boards operating under the auspices of IFAC. IFAC would be pleased to participate, where appropriate, with the Trustees in undertaking such benchmarking exercises.

Finally, IFAC welcomes the proposal by the Trustees that the IASB should establish, or facilitate the establishment of, a dedicated research capacity. IFAC recognizes the importance of having independent research inform and support, where appropriate, major policy and standard-setting decisions.

Please do not hesitate to contact me should you wish to discuss any of the matters raised in this submission.

Sincerely,

A handwritten signature in black ink, appearing to read "Ian Ball". The signature is written in a cursive, flowing style.

Ian Ball
Chief Executive Officer