



International Federation of Accountants

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The Trustee's Executive Committee
IFRS Foundation
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By e-mail: *strategy-review@iasb.org*

Re: Comment on the Status of Trustee's Strategy Review

The International Federation of Accountants (IFAC) values the opportunity to provide input into the IFRS Foundation's Strategy Review. The strategy of the IFRS Foundation and future of 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 (IFRS);
- 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 convergence to IFRS. Our Statement of Membership Obligations (SMO) 7, "International Financial Reporting Standards," requires the members of IFAC to support the work of the 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.

IFAC recognizes that the IFRS Foundation is a private institution that bears some public elements. However, an important aspect of the strategic implications moving forward should focus on creating a better balance between public and private sector involvement in the standard setting process. IFAC maintains the position that standard setting should be a private/public partnership and a shared responsibility between both sectors as this facilitates greater legitimacy

and wider scope of accountability to society at large. This case can be made in the context of each of the strategic fronts: mission, governance, process, and funding.

In the spirit of achieving an appropriate balance between public and private sectors, IFAC stresses that it would be desirable for the Trustees to coordinate feedback and cooperate with the Monitoring Board which is also undertaking a review process. Such should be done in a transparent and consultative manner.

The following responses are structured to correspond to questions for each of the Foundation's four strategic parts: mission, governance, process, and financing.

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

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?

AND

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?

The Mission as Set Forth in the Constitution

1. IFAC proposes that the objective stated in the Constitution should be subject to further consideration. IFAC believes that the "public interest" is the common benefit that all citizens share from financial reporting and IFRSs. The "public" should be inclusive of all individuals and groups because the responsibilities of the profession impact every aspect of society.¹ Financial statements are intended for general purposes, including the needs of employees, suppliers, consumers, and taxpayers. It should be clearly stated that IFRSs are applicable to all preparers and users of financial reporting based on IFRS. Currently, the Constitution specifically identifies investors while placing all others in a nondescript category. However, we believe the mission of IFRSs should include preparers as well as all legitimate user groups in addition to investors.
2. The identification of a wider range of groups affected by IFRS may facilitate the convergence and global adoption of IFRSs. Although investors are the recipients of the benefits of IFRSs, they are not generally the preparers of financial statements, the economic decision-makers (e.g., chief financial officers, boards, and political leaders) or analysts (e.g., credit rating agencies) who affect the decisions of investors and other stakeholders. By stating such user groups more specifically, the mission of IFRS speaks directly to potential

¹ See IFAC's exposure paper, *A Public Interest Framework for the Accountancy Profession IFAC Policy Position Paper #4*, at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0145>

users and the regulatory bodies empowered to adopt, implement, or mandate the use of such standards.

3. When taking the considerations presented in the previous points into account, we suggest that the wording in the Constitution might be revised as such:

These standards [IFRSs] should require high quality, transparent and comparable information in financial statements and other financial reporting. This will assist all groups in the public domain that rely on financial reporting based on IFRS, in making sound economic decisions.

Tension Between Financial Reporting Standards and Financial Stability Requirements

4. A reasonable degree of separation should exist between those who set financial reporting standards and those who set prudential reporting requirements. The comparability of financial statements risks serious erosion if national or regional prudential regulators impose specific requirements on individual financial institutions to be included in financial reporting—unless the impact of these requirements is transparent from a reading of the financial statements.
5. IFAC recognizes that the interaction between prudential regulation and financial reporting standard setters is constructive and necessary. However, the Monitoring Board’s mandate should remain focused on financial reporting, with the aim of meeting the needs of a broad range of users. From a political standpoint, governments and political leaders may find the grouping of prudential regulation and financial reporting appealing because of the role both play in facilitating financial stability. However, the Monitoring Board should not at any time succumb to political pressures to consolidate the two.

Tension Between Financial Reporting Standards and Other Public Policy Concerns

6. The recent financial crisis has reinforced the interconnectivity of all financial industries. The systemic risks that affect the global economy are similarly interconnected and should be assessed accordingly. Listed among the Financial Stability Board’s (FSB) twelve key standards for sound financial systems, IFRSs should be viewed as an important tool for financial stability and a safeguard for the public interest. IFRSs facilitate the accountability, transparency and comparability of financial information for society at large. As financial stability requirements represent a critical public policy concern for all governments and regulatory institutions, the role of IFRSs and the standard-setting processes employed to develop and implement them are becoming increasingly important.
7. Creating more effective financial stability requirements are among the top priorities of policymakers today. Therefore, one area of tension concerns the gap between those who have authority to develop the standards and those who adopt them. Naturally, a wider range of users would like to have greater participation in the development process. As a result, there will be greater pressure to ensure that membership on the International Accounting Standards Board is representative of these user groups. The question of whether all key parties affected by IFRS should be involved in the process of standard-setting deserves scrutiny. The strategy of the IFRS Foundation should be flexible enough going forward to accommodate changing

representational requirements to include a wider scope of interests in the standard-setting processes.

8. Increased emphasis should be placed on improving financial stability in the public sector. There is clearly a need for greater accountability and transparency in the finances of public sector entities. Private industry in the capital markets cannot continue to be the sole focus of policymaking in respect to financial stability. IFRS must be evaluated and, where needed, adapted, in conjunction with IPSASs, for the greater role it can potentially play in the reform of public sector accounting.

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

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?

AND

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)?

The Governance Structure and the Role of the Monitoring Board

9. As IFRSs assume increasing importance, so too will the necessity of ensuring that the governance structure is easily understood, transparent, independent, accountable, and legitimate in the eyes of society at large. Further consideration should be given to the three-tiered governance structure of the IFRS foundation (IASB, IFRS Foundation, and Monitoring Board) and whether or not it can evolve as a sound framework with clearly delineated roles for standard-setting, management/administration, governance, and oversight. **IFAC will provide input on the governance structure and role of the Monitoring Board in its response to the Monitoring Board Consultative Report on the Review of the IFRS Foundation's Governance in March 2011.**

Representation on the Monitoring Board

10. The representation of the Monitoring Board should be expanded to reflect a wider range of global constituencies. Even if the mandate of the IFRS Foundation remains as developing standards for the capital markets, restricting membership to the US SEC, EC, IOSCO and JFSA will present future challenges in respect to other regions of the world that have considerable influence on the capital markets, who legitimately can seek membership. Other institutions that support IFRS as one of their 12 sets of core standards to enable sound financial infrastructure might also be appropriate for representation. In addition, as IFRS adoption continues to occur in regions throughout the world, other jurisdictions should be considered, such as Latin and South America, Asia, Africa, and Oceania.

Representation on the Trustee and IASB Levels

11. The Monitoring Board should enact a more transparent selection process for the Foundation Trustees by providing more information in regard to the nominations/appointments of candidates and criteria sought. This also applies to IASB Board members and the Chair of the IASB. Such a process would build greater confidence in the eyes of all stakeholders.

12. A more transparent nominations/appointments process (observed by a representative of the Monitoring Board) would provide greater public confidence and insight into related due process. The Constitution and its Annex refer to certain selection criteria for IASB members and IFRS Trustees in terms of regional, professional competence, technical expertise, and practical experience. We support this approach and encourage the IFRS Foundation to provide a greater understanding into how potential candidates are solicited, identified, and evaluated. This would improve public awareness in regards to such processes. This approach could be executed on an annual basis through a public call for nominations which explicitly expresses the qualities and skills sought for board members as well as the regional representation the Trustees seek to fill on the board. This should be done in accordance with each appointments process as environmental demands (e.g., the need to compensate for changes in the overall balance, changing candidate pools, and changing requirements of the work programs) will likely vary from year to year.

Part III: 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?

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?

AND

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?

The IASB Standard-Setting Process

13. The standard-setting process currently in place is satisfactory; however, the financial crisis has demonstrated that a significant challenge for the IASB and other standard-setters is having the capacity to ensure both due process and expedience under circumstances (e.g., crisis or any pending threat to the stability of the world financial system) that may require rapid reactions and responses.
14. Outlining an additional set of procedures for a “rapid response” system that can be reserved for times of crisis or unusual circumstances would likely be a reasonable and proactive measure for alleviating systemic threats in the future. A rapid response system would essentially provide the IASB with a mandate to override the normal due process protocol in favor of a modified or truncated process that enables its members to convene, consult with relevant stakeholders, and issue either a standard or some provisional authoritative guidance when environmental stresses necessitate such action. Such a standard or guidance might be subject to further reviews and final approval at a later date with the wider group of stakeholders. Without a rapid response system, there is the risk that individual jurisdictions will develop their own solutions in the absence of an IFRS solution. These solutions will vary and create differences in the application of IFRS on a global basis as opposed to the goal of a single set of accounting standards.
15. The Trustees might also consider ways to standardize Regulatory Impact Assessments (RIAs) so that they can be enacted on a global level using a universally accepted approach. Currently, many jurisdictions employ their own RIAs for IFRSs to determine cost/benefit analysis relevant to their own, direct domestic environments. However, it would be beneficial for the Trustees to consider ways that redundancies could be reduced and RIAs conducted for multiple jurisdictions.

Application and Implementation Issues

16. The IASB will have to ensure that due attention is given to the consistent application and implementation of IFRS as they are established on a global basis. The Foundation and the IASB do not have any authority to mandate or resources to monitor the proper adoption and implementation of IFRS in any jurisdiction. This must be the role of the relevant oversight authorities. The IASB should have an interest in the level of training and implementation guidance available, coordinating with other providers as required, with the objective of encouraging more consistent implementation of the IFRS. We understand that the IASB has

implementation monitoring as part of its work program. We suggest that the IASB work more closely with countries that have limited implementation and training resources. This should be a critical concern for the IFRS Foundation for the following reasons:

- a) There is, and will continue to be, a wide range of jurisdictions adopting IFRS in the coming years. This includes developing and emerging economies, and rules-based jurisdictions, each with their own unique requirements and issues. The IASCF should work closely with these jurisdictions to ensure that sufficient guidance and accurate translations are provided.
- b) In addition to impact assessments, field testing of IFRSs in a variety of jurisdictions will also be helpful during the exposure stage of the standards. Such testing should not only concentrate in English-speaking jurisdictions. This would include engaging in dialogue with preparers of financial statements, users of financial information, SME constituents, and others.

17. National standard-setters, professional organizations, securities regulators, and firms also have key roles in the implementation of IFRS in their jurisdictions. These institutions can assist with ensuring compliance with IFRS.

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

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

Automaticity and Considerations for a New Funding Model for the IASB

18. Whatever funding solutions are agreed upon, they must not result in a model whereby the funders have control over the work of the IASB. Nor should the ability of the IASB to develop its standards without donor influence be compromised. At the same time, the public markets benefit from the development of the IFRS which are used around the world. Companies benefit by requiring only one set of financial statements that can be used in multiple jurisdictions. Accountants and auditors benefit by being able to transport their skills and knowledge from one jurisdiction to another. Governments around the world have delegated at least some of their standard setting role to the IASB. Such governments have therefore avoided a direct cost that would otherwise be supported out of taxation revenues.
19. The Foundation should consider funding models that reflect the public/private arrangement set forth in the outset of this document. IFRS are global public goods that should be appropriately funded. Neither entirely direct government nor private funding models would be desirable due to the threat that either could impose on the independence of the Foundation. However, a model incorporating an indirect yet consistent source of funding originating from both is conceivable. For example, stock exchanges or corporate regulators in countries which adopt IFRSs might levy a fee (a fraction of one percentage) on registered public companies

to support the costs of developing IFRS and potentially other global professional accounting standards. This model could be instituted under the mandate of governments worldwide.

20. Each country that has adopted IFRS should assume greater responsibility in mobilizing institutions to contribute resources to the Foundation on an annual basis. The Foundation may consider providing guidance and public awareness to IFRS countries regarding the establishment of funding arrangements (all based on the mobilization of local institutions, accounting and audit firms, or public funds) that can facilitate funding from the national level to the Foundation.

Wider Representation to Ensure Independence in the Funding Model

21. The Foundation's current model for geographic representation as outlined in the Constitution (and concurrent with the IASB model) also curtails the extent to which any one region of the world can truly dominate the course of IFRS development. In this respect, it is more difficult for any country or funding source to use financing as a means to manipulate outcomes and compromise the independence of the Board. Without being subject to a predetermined arrangement of direct government funders, the Foundation can eventually expand the range of support it receives from others jurisdictions. Over a long period of time, the increased distribution of funding parties (e.g., sources from emerging and developing jurisdictions) could lessen the degree to which any one party could assert excessive influence.

IFRS User Fees are not Desirable in the Long Term

22. While we understand that one stream of funding for IFRSs comes from costs incurred by users who purchase the standards, IFAC believes that the standards should eventually be available for no charge to anyone who wishes to view or download them. The Foundation should consider the possibility of phasing out such costs over a given period of time (e.g., 5 years).

Other issues

Are there any other issues that the Trustees should consider?

There are no additional issues for the Trustees to consider at this time.

IFAC strongly supports the Trustee's Executive Committee's consideration of the input other organizations can provide in the strategic review process. Please do not hesitate to contact me should you wish to discuss any of the matters raised in this submission.

Sincerely,



Ian Ball
Chief Executive Officer