



20 December 2012

Our ref: ICAEW Rep 191/12

Mr Michel Prada
Chairman
IFRS Foundation
30 Cannon Street
London EC4M 6XH

Dear Michel

Proposal to Establish an Accounting Standards Advisory Forum

ICAEW is pleased to respond to your request for comments on the Foundation's proposal to establish an Accounting Standards Advisory Forum.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

PROPOSAL TO ESTABLISH AN ACCOUNTING STANDARDS ADVISORY FORUM

Memorandum of comment submitted in December 2012 by ICAEW, in response to the IFRS Foundation's invitation to comment on its proposal to establish an Accounting Standards Advisory Forum published in November 2012.

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the *Proposal to Establish an Accounting Standards Advisory Forum* published by the IFRS Foundation on 1 November 2012.

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 138,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
4. The Financial Reporting Faculty is recognised internationally as a leading authority on financial reporting. The Faculty's Financial Reporting Committee is responsible for formulating ICAEW policy on financial reporting issues, and makes submissions to standard setters and other external bodies. The faculty also provides an extensive range of services to its members, providing practical assistance in dealing with common financial reporting problems.

MAJOR POINTS

The institutional context

5. Turning the vision of a truly global set of standards into a reality involves huge challenges that are likely to require significant organisational change at the IASB. The IFRS Foundation – like any other successful, international organisation with a global brand to build and support – must continue to look long and hard at proven ways of decentralising its non-core responsibilities.
6. Critically, this process must involve finding a way of creating an effective feedback mechanism that enables it to work successfully with other organisations without leading to a degree of organisational paralysis. This will require a good deal more debate and experimentation over the next few years. There is no well-tested model for standard-setting on a global scale, so good practice and the mechanisms necessary to achieve it will need to evolve over time. The challenge is to demonstrate that the IASB is an organisation that listens and learns as well as leads, that it is a global body that belongs to and is responsive to its national stakeholders, without embedding operational inefficiencies that prevent effective decision-making.
7. It is with these factors in mind that we have considered the IFRS Foundation's proposal to establish an Accounting Standards Advisory Forum (the forum) to improve communication with national standard setters and other regional bodies involved with accounting standard-setting.

Support for the initiative

8. We support the proposed creation of a forum of national standard setters. If successful, this may prove an important step towards the establishment of the institutions required to underpin global standard setting. We agree that one objective of this exercise should be to streamline the relationship of the national standard-setters and the IASB in a way that enhances their sense of participation in the IASB's standard-setting activity, and improves the access of the board to the experience and technical expertise of their national counterparts.

9. There are, however, significant risks and challenges involved in this process, some of which need further thought by the IFRS Foundation. We explore some of these risks and challenges below

Experts or representatives?

10. There is a tension at the heart of the IFRS Foundation's proposals which needs to be resolved before the new forum is established. It is explained in paragraph 4.3 of the proposals that their "aim is that the relationship will be based on productive discussions on technical issues, in sufficient depth, that will contribute to the technical work of the IASB". If this were the primary objective of the forum, its members would be selected on the basis of their proven technical experience and expertise in standard-setting. It would of course be entirely appropriate to take account of national and regional factors in choosing between suitably qualified candidates. It seems clear however in the IFRS Foundation proposals that the primary consideration in making appointments will be geography. Paragraph 6.8, for example, states that "the ASAF members will each be providing input from their region".
11. The Foundation goes some way to acknowledging this tension (in paragraph 6.7); but the paper leaves the objective of the forum unclear, and that needs to be addressed before any final decisions are taken.

Regional organisations: representative?

12. Our assumption is that the Foundation is seeking first and foremost to establish a body that is broadly representative of the views of national standard setting bodies around the world, rather than to obtain technical insights per se. In so doing, it evidently envisages a significant role for each existing regional body, leaving a small number of places for national standard setters. We have doubts about how optimal this approach will prove in practice
13. Where a regional body has been established expressly to represent the views of major national standard setters within its constituency (and with their explicit consent), is constituted in a way that facilitates that representation, has access to sufficient technical resources and enjoys the broad support of all key IFRS jurisdictions in the region, we fully agree that appointment to the forum of a leading member of the regional group is likely to be an efficient and effective way of determining the views – possibly diverse – of national standard setters. In some instances, however, these conditions will not be met. Some regional bodies may encompass countries that in fact have little in common in important respects, other than a degree of geographical proximity. Others may not be established to be representative of the countries within their region, either implicitly or explicitly, and technical capacity may be variable.
14. The early indications are that regional bodies can contribute effectively to shaping the global debate and sharing experience. But for the next few years at least, regional groups cannot displace major national standard setters as key partners of the IASB on technical issues. The quality of discussions at the forum will be much enhanced by the experience and insights of the relatively small number of long-standing national bodies with a track record of effective standard-setting and innovation in financial reporting thinking. Such bodies are relatively few in number, but the apparent priority accorded in the proposals to regional groups is likely to mean that the standard setters of some IFRS jurisdictions with major capital markets will be excluded from direct participation in the forum.
15. These are difficult issues. But in our view the IFRS Foundation needs to reconsider its proposals for membership, once it has clarified the objective of the forum. We suspect that the success of this particular attempt at institutional experimentation might be better assured if for an initial period at least IASB accepts the need for a somewhat larger membership, and a preponderance of key national standard setters. We understand the rationale for keeping the size of the forum reasonably small. However, we think there is scope to increase the number of members quite significantly without leading to inefficiencies.

Wider due process

16. Even if the size of the forum is expanded, it will in no sense be representative of all IFRS stakeholders, even those within a jurisdiction represented on the forum by its national standard setter. It is therefore very important that IASB due process arrangements continue to be as inclusive and rigorous as now, building on the enhanced outreach activities developed very successfully in recent years.

Operational inefficiencies

17. The proposed forum will be judged a success if above all its outcome is more ready acceptance of the conclusions of IASB agenda-setting and due process. The risk is that this and other changes in institutional arrangements may embed operational inefficiencies that in time might stymie effective decision-making. To minimise this risk we suggest that:
- Expectations are managed carefully. The advisory, non-decision making role of the new body should be clearly articulated and communicated. Its technical views should be listened to and reflected on very carefully, but there should be no sense that the new group has a veto over technical proposals, even if a majority of participants are in agreement. Formal votes and elaborate feedback mechanisms should be avoided
 - Board members and relevant IASB staff should attend the meetings, and the meetings should be chaired by the IASB chair or vice-chair
 - The overlap with existing Foundation bodies should be considered, both in terms of membership and role, and, after due public consultation, any avoidable duplication eliminated.

Transparency

18. The exclusion of some jurisdictions from the forum may lead to tensions and dissatisfaction. As one way of keeping this to a minimum, we recommend that the meetings of the forum are as transparent and open as possible. In accordance with best standard-setting practice, they should be held in public and webcast, with agenda papers published in advance of the meetings.

RESPONSES TO SPECIFIC QUESTIONS/POINTS

Q1: Do you agree with the proposed commitments to be made by ASAF members (paragraph 6.4) and that they should be formalised in a Memorandum of Understanding (paragraph 6.5)? Why or why not?

19. We broadly support the proposed commitments for ASAF members and the underlying principles as set out in paragraph 4.7. We also agree that such commitments should be formalised in an MoU.

20. In paragraphs 16 and 17 above we suggest how this process can be enhanced.

Q2: The Foundation believes that, in order to be effective, the ASAF needs to be compact in size, but large enough to allow for an appropriate global representation. Do you agree with the proposed size and composition as set out in paragraphs 6.7–6.13? Why or why not?

21. We refer to our important comments above regarding the proposed membership of the forum, which should be dealt with before membership is finalised.

22. We agree that membership of the ASAF should be on the basis of organisation rather than on an individual basis, and that organisations should be represented by a designated senior individual. We also broadly support the way in which places at the forum have been allocated to different regions of the world, and agree that membership of the forum should be reviewed every two years, allowing scope for a degree of rotation of members. The size and modus operandi of the forum should also be reviewed after the first two years of operation.

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