



IFRS Foundation Trustees' Review of Structure and Effectiveness

ICAEW welcomes the opportunity to comment on the *Trustees' Review of Structure and Effectiveness* published by the IFRS Foundation on 7 July 2015, a copy of which is available from this [link](#).

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MAJOR POINTS

The importance of the review process

1. ICAEW regards the periodic review of the strategy and constitutional arrangements of the IFRS Foundation as an essential aspect of the engagement of the Foundation with its stakeholders. ICAEW has been closely involved at each stage of this review process. We have submitted detailed comments on all the proposals for reform of the strategy and constitution issued since February 2004. Moreover, we have been represented at each of the public hearings held in London since that time. More recently, we have been closely involved with the debate over the reform of EFRAG and IPSASB. The issues we raise below draw on our interest and experience in this area.

Focus on the basics

2. The consultation paper discusses a number of possible areas into which the IFRS Foundation could potentially expand its work. These include setting standards for the not-for-profit and public sectors, playing a more active role in setting the wider corporate reporting agenda, supporting regulators in their efforts to improve digital access and more actively encouraging consistent application of its standards.
3. These are all important matters and in an ideal world a case could certainly be made for dedicating significantly more time to each of them. We discuss below a possible way forward in each case, and in particular are supportive of the Trustees exploring further the desirability and feasibility of extending the IFRS Foundation's remit into the not-for-profit sector. However, given its limited resources, we believe that the IFRS Foundation should be cautious about expanding beyond its core brief. In particular, the IASB should not be distracted from its focus on setting standards that facilitate the production of financial information for capital providers to commercial organisations. Under no circumstances would we support the diversion of existing resources in order to fund an extension of the scope of the IFRS Foundation's activities.
4. Our thoughts on these matters are set out in more detail in our responses to questions 1 to 5 below.

Getting it right first time

5. Thorough and transparent due process of the highest quality is essential if the IASB is to achieve its aim of developing globally-accepted accounting standards that are clear, understandable and enforceable. Major improvements have been made in this respect in recent years. Indeed, the IASB provides a valuable model for those seeking to establish mechanisms for good global due process. But there remains room for improvement. For example, the increasing number of narrow-scope amendments and instances where new standards have been amended shortly after publication is a cause for some concern.
6. We appreciate that standard-setting is inherently a difficult process, especially when diverse views are expressed by global constituents. We nonetheless feel that more needs to be done to ensure that the standards issued by the IASB are without exception clear, easy to understand and operational in practice. If it is to be achieved, it may be necessary to introduce some sort of new or improved 'fatal flaw' or 'quality control' review mechanism to ensure that the final standards are not only technically sound and applicable in practice but are also very well drafted and easily understood.
7. This and other suggested improvements to the IASB's due process – which we believe will help to ensure that the board can get it right first time - are set out in our response to question 6 below.

Accountability

8. We strongly believe that the Trustees should be high profile champions of IFRS within their own jurisdictions and regions, engaging proactively with key stakeholders. However, in our experience, including in the UK, some at least of the current Trustees seem to maintain a relatively low profile.
9. A number of issues have arisen in recent years with regard to due process and standard-setting. But throughout this time, the Trustees seem to have stood rather on the side lines, rather than proactively intervening to ensure that IASB remains on track. Although there are risks involved which would need to be addressed, we believe that the Trustees should hold the IASB to account when things appear to go awry, but we are not aware of any evidence that this is truly happening.
10. Our thoughts on how the Trustees could better hold the IASB to account are set out in more detail in our response to question 7 below.

Quality not quotas

11. The consultation paper asks a number of questions about the make-up of the board of Trustees and the IASB. While it is important that both boards continue to be regarded as broadly geographically balanced and that their membership is drawn from a range of professional backgrounds, we believe that quality and commitment should always be the primary consideration when making appointments.
12. Our thoughts about this and other elements of the governance and effectiveness of the Trustees and the IASB are set out in more detail in our responses to questions 8 to 13 below.

Funding

13. It is essential for the IFRS Foundation's funding system to be established on a secure and mandatory basis such that its continued effective and independent operation can be assured. We continue to believe that the ideal source of funding is levies on companies listed on the capital markets of those jurisdictions adopting IFRS, fixed for more than one year at a time, albeit a flexible approach will be necessary.
14. Our thoughts on funding are set out in more detail in our response to question 14 below.

RESPONSES TO SPECIFIC QUESTIONS

Question 1

Considering the consequences referred to above, 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?

15. We discuss in some detail below the possibility of expanding the remit of the IFRS Foundation. This is an important issue. Before doing that, we would make two important points.
16. Firstly, whatever decisions are taken about the remit of the Foundation, now or at a future date, they should not be allowed to undermine or distract the IASB from its focus on setting standards that facilitate the production of commercial financial information for capital providers. It would not be acceptable for standards to be drafted in such a way that they detracted from the ability of IFRS financial reporting to satisfy these information requirements.
17. Secondly, the IFRS Foundation already faces significant challenges with regard to its funding and resourcing, and any extension in remit would require significant alternative funding sources to be secured. Under no circumstances would we support the diversion of existing resources away from the IASB's existing projects in order to fund an extension of the scope of the IFRS Foundation's activities.

Not-for-profit entities

18. The not-for-profit sector is of substantial and growing economic significance. Moreover, charities and other NGOs are increasingly working across borders. Consequently, governments and private donors are tending to take a more international approach when it comes to funding development and relief activities. When it comes to financial reporting, however, there are no agreed global norms. In many cases entities in the not-for-profit sector use national GAAP or local laws when preparing their financial statements. However, many funders have concerns about some aspects of national regimes.
19. In our July 2011 comment letter on the IFRS Foundation report *IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade*, we noted that the work of the Foundation in establishing a high quality international regime for financial reporting is coming to be seen, not only as the accepted global currency for listed companies, but as a gold standard for other types of entity seeking greater transparency. We suggested that it was in the public interest for the Trustees to consider the desirability, and feasibility, of addressing accounting by not-for-profit entities as soon as resource constraints allow, accepting that may not be for some time.
20. A 2014 CCAB study on international financial reporting in the not-for-profit sector found that over 70% of those surveyed supported some form of international solution to diversity in the sector's financial reporting. A similarly high proportion thought that donors and funders would value accounts prepared in accordance with international standards. In October 2015, an international seminar was held in London to explore options for developing global standards for the sector. Those attending included standard-setters and accounting institutes as well as accountants, researchers and organisations with an active interest in the topic. The majority of those present supported the development of international guidance; the challenges involved and a number of potential options for taking the initiative forward were discussed.
21. We note that some larger charities such as the International Red Cross use IFRS when preparing their financial statements and much of the guidance offered in the standards is just as applicable to them and other entities in the not-for-profit sector as it is to those in the commercial sector. Nonetheless, some countries – including the UK – do not allow charities to follow IFRS. One reason for this is that IFRS have been developed with capital markets and investors in mind, and accordingly do not always provide solutions to issues faced by the not-

for-profit sector. For example, IFRS contain no guidance on fund accounting, heritage assets or accounting for 'non-exchange transactions' such as donations of cash, goods and services and legacies.

22. In the UK, a Statement of Recommended Practice (SORP) provides guidance for charities on how to apply UK financial reporting standards to their particular activities and transactions. It also includes additional charity-specific requirements relating to the trustees' annual report, fund accounting, the format of the statement of financial activities and additional disclosures aimed at providing a high level of accountability and transparency to donors, funders, financial supporters and other stakeholders. A similar approach could, potentially, be adopted internationally. The SORP may be of particular interest to the Trustees as it provides guidance for charities applying UK standards that are based on the IFRS for SMEs (which in turn is based on full IFRS).
23. Whether or not there is a need for a complete set of separate standards for the not-for-profit sector, if much of the existing standards are acknowledged to work well for both commercial and not-for-profit entities, guidance on these and no doubt other issues would certainly improve transparency and comparability of financial reporting in the not-for-profit sector. Moreover, we believe an international solution could act as a catalyst for a more consistent approach by major donors to funding applications, saving costs and efforts for would-be recipients.
24. We are therefore supportive of the Trustees exploring further the desirability and feasibility of extending the IFRS Foundation's remit into the not-for-profit sector and how this would be done. We accept, however, that there will be many challenges to overcome, not least in establishing how any international regime would mesh with existing national laws and regulations. Moreover, careful thought would need to be given to the scope of any new regime, whether it would be mandatory or presented as best practice.
25. Finally, if the Foundation does assume responsibility for developing international standards or guidance for the not-for-profit sector, there would need to be a debate over whether the work would be undertaken by the IASB or by a separately-funded technical body sitting alongside the IASB under the auspices of the IFRS Foundation.

Public sector entities

26. ICAEW supports the vision of high quality global public sector accounting standards, set by an independent standard-setter in the public interest and aligned as far as possible with IFRS. We acknowledge that IPSASB – and before that IFAC's Public Sector Committee – has made an important contribution to the realisation of this vision. We also welcome the increasing interest in IPSAS around the world.
27. The global financial crisis threw into bold relief the serious shortcomings in public sector accounting practices and financial reporting in many jurisdictions, shortcomings that are inimical to the interests of providers of capital and society generally. The acknowledged need for a step-change in the quality of public sector financial information has put IPSASB standards in the spotlight. But it has also highlighted the importance of ensuring that the global standard-setter for public sector accounting, if that role is to be fulfilled successfully by IPSASB, has an appropriate, resilient and well-respected governance structure. Accordingly, we supported recent efforts to reform existing monitoring and oversight arrangements as a prerequisite for improving the standing of IPSAS and the likelihood that the standards, or jurisdictional standards based closely on IPSAS, will in time become an accepted basis for public sector accounting around the world. If that were to come about, IPSASB and its governance processes would come under intense scrutiny and it is imperative that these are fit for purpose.

28. As noted above, in our July 2011 comment letter on the IFRS Foundation report *IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade*, we noted that the work of the Foundation in establishing a high quality international regime for financial reporting is coming to be seen as the accepted global currency for all types of entity seeking greater transparency. However, we accepted that it was impractical for the IASB 'at present' to extend its activities to the public sector.
29. In our May 2014 response to the January 2014 consultation paper *The Future Governance of the International Public Sector Accounting Standards Board*, we concluded that of the options sketched out in the consultation paper, responsibility for IPSAS would ideally lie with the IFRS Foundation. This approach seemed most likely to avoid the sorts of accusations of conflicts of interest sometimes made in relation to IPSASB and at the same time has the potential to afford good protection for the independence of the standard-setter. Further, most of the current suite of IPSAS is very closely based on IFRS. If it is accepted that public and private sector financial reporting – including the importance of its stewardship aspect – are not so very different, bringing IPSASB and the IFRS Foundation together avoids reinventing the wheel and duplication of overhead. It is also important to note that the IFRS Foundation governance structure enjoys a fair degree of credibility, credibility that should be advantageous to IPSASB.
30. In our May 2014 response we also emphasised that, before we could offer support for this option, we would have to be convinced that some highly significant preconditions would be met, and that it seemed unlikely that that would be the case for the foreseeable future. The risks for the IFRS Foundation – the potential impact on its ability to achieve its current mission – would have to be carefully evaluated, and, as far as possible, mitigated. We examined four inter-related issues – governance, the focus of the IASB, political pressure and funding. We re-iterate these issues below. They incorporate a number of highly challenging preconditions, building on the concerns raised above in paragraphs 18 and 19 above.

Governance

31. Assumption of responsibility for public sector financial reporting would necessitate substantial reform of the Foundation's institutional architecture. We would envisage a separate public sector board sitting alongside the IASB, but are unsure at this stage whether it would be feasible for a single Monitoring Board to cover both the IASB and IPSASB, and similarly whether it would be feasible to have one body of Trustees over-seeing both areas of standard-setting. A single Monitoring Board would perhaps need to be expanded to encompass say the IMF, World Bank and OECD; the Trustee body might have to be revised to incorporate wider experience of the public sector.

The focus of the IASB

32. As explained above, it would be critical to ensure that the IASB is not distracted from its focus on setting standards that facilitate the production of financial information for capital providers to commercial organisations. It would be important to ensure that both boards – the IASB and IPSASB – were able to carry out their work programmes separately, effectively and in a timely fashion, in order to satisfy their different constituents, only aligned and connected where appropriate.

Political pressure

33. It is inconceivable that new threats of undue pressure from regulatory or governmental organisations would not be brought to bear on the standard-setting processes of the Foundation were governments subject to its standards. Governments will, of course, have a legitimate interest in the development of the standards they will implement. But if pressures were successful in changing standards for other policy ends, and particularly to avoid transparency, this would be highly damaging to the public interest.

34. Accounting solutions should be determined on their technical merit, not according to political weight or social or economic policy objectives. Where decisions are seen to be influenced unduly by pressure from governmental or regulatory organisations, the result tends to be a lack of adequate due process or rigorous exposition of the technical issues involved. Effective governance arrangements can mitigate the risks involved, up to a point; indeed a key objective of any high level Monitoring Board should be to assist Trustees and members of standard-setting boards to resist political pressure and lobbying in the technical standard-setting process.
35. The political environment already represents a huge challenge for the IFRS Foundation in the context of private sector accounting standards, both in encouraging wider adoption of IFRS and in making sure that IFRS is implemented thereafter to a high standard; it would not be acceptable to leave the Foundation exposed to even greater political difficulties than those it faces already.

Funding

36. As explained above, funding challenges would need to be addressed convincingly. We believe that over time a significant increase in IPSASB funding may be necessary, not only in respect of governance and oversight, but to ensure that the board operates as effectively as possible and that its technical work and its due process are always of the rigour required for an international standard-setter of major economic significance.
37. All of the above are major challenges, both individually and collectively. At present, given the IFRS Foundation's budgetary constraints and the recent significant efforts by IFAC to improve IPSASB oversight, we continue to believe that extending the remit of the IFRS Foundation to cover the public sector does not seem to be either feasible or necessary for the immediate future.

Question 2

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 above?

38. We agree that the IFRS Foundation and the IASB should continue to collaborate closely with a range of organisations around the world that share their objectives. There is little to be gained from operating in a vacuum. We are therefore very supportive of active co-operation with bodies such as the IIRC, the IVSC and IFAC and the IASB's participation in the Corporate Reporting Dialogue. Discussions with these and other like-minded organisations will not only help to identify potential issues but should also help to clarify the boundaries of the IFRS Foundation's remit.
39. It is important at the same time to ensure that there is no detrimental impact on due process or the integrity and independence of the IFRS standard-setting process. Collaboration should not impair the commitment of the IASB to full consultation with its constituents or its ability to have the final say over the outcome of its own standard-setting projects, which should be subject to clear and transparent due process.
40. Before substantial time and effort is invested in moving into the wider corporate reporting space, the Trustees should carefully assess the appetite for the Foundation producing further guidance in this area. Doing so would be of little value if it meant merely replicating work that has already done by others or resulted in non-mandatory guidance that is not widely followed. The IASB's practice statement on management commentary – which in our experience is not widely used in most jurisdictions – might provide a chastening lesson in this regard.

Question 3

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

41. We agree that it is important for the IFRS Foundation to develop and maintain its own IFRS taxonomy. The alternative of leaving it to individual jurisdictions or third party organisations is likely to lead to divergent practices that would undermine comparability. We take the opportunity to re-iterate below recent ICAEW observations on this important topic.
42. The current IFRS taxonomy takes the standards as its starting point, and we understand why that is so. But the purpose of the taxonomy is to convert financial reports made under IFRS into XBRL, not to convert the standards themselves into XBRL. Therefore we suggest that the data model for the taxonomy should come from financial reports which correctly implement IFRS. Put simply, the taxonomy would work better if it were more 'report-centred', rather than 'standard-centred'.
43. We believe a more comprehensive IFRS taxonomy, built upon a full data model of the information than normally appears in accounts, would be a realistic and worthwhile aim. Such a taxonomy, designed to represent the range of real-world financial statements made under IFRS in a variety of different countries, would greatly reduce the need to rely upon extension taxonomies. This in turn would make the tagging of accounts more truly consistent and comparable across different entities and jurisdictions. That, after all, is a key purpose of XBRL.
44. We caution against the publication of a proposed IFRS Taxonomy Update at the same time as an exposure draft is issued. In our view, amendments to accounting standards and IFRS Taxonomy will, in most cases, be reviewed by very different groups of stakeholders. We are concerned that combining the amendments may result in confusion and reduce overall awareness of proposed changes to the IFRS Taxonomy. In addition, we have some concerns over timing. For example, we assume that a proposed IFRS Taxonomy Update included within an exposure draft would need to be revisited if subsequent changes were made to the proposed amendments to IFRS. We strongly believe that a more effective and efficient approach would be to issue the proposed IFRS Taxonomy Update as a separate consultation shortly after the IASB board has reached a conclusion in principle on any proposed amendments.
45. Any taxonomy is merely a tool for encoding the information required by financial reporting standards to facilitate electronic tagging and analysis. Important though this is, it should not affect the way in which a particular standard develops. We are pleased to note that the Trustees share this view.
46. Before investing further resources in this project, we suggest that the Trustees undertake some research into how widely the taxonomy is being used in practice. If – as we suspect – it is not widely used, efforts should be made to establish why not, and to determine what is actually needed.

Question 4

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

47. The IFRS taxonomy and digital access to general purpose financial statements should form a part of the IASB's on-going dialogue with regulators. This is an important topic and the board should continue to monitor the situation and respond appropriately whenever questions are asked or where particular issues arise. A more proactive approach might however be unrealistic for the time being given the IFRS Foundation's budgetary constraints. Moreover, we would question whether efforts to co-ordinate matters on a global scale should be within the IASB's remit. Efforts to support regulators should, perhaps, be left to IOSCO.

48. We note that ESMA is currently consulting on a European Single Electronic Format (ESEF). The consultation paper includes an assessment of current electronic reporting and explores ways forward with regards to the establishment of an ESEF by taking into account technical developments in financial markets and telecommunication technologies. The findings of this consultation are likely to be highly relevant to any work the IASB is contemplating undertaking on the important subject of digital access.

Question 5

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?

49. Before undertaking new research in this area, the Trustees may wish to examine the work on 'corporate reporting in a digital world' that is currently being undertaken by the UK Financial Reporting Council's Financial Reporting Lab.
50. The Lab has already published a report on the 'digital present', which explores investors' views on digital communication used by companies in their corporate reporting. We understand that the Lab intends to build on the findings from this report to inform the next phase of its work on the 'digital future', working with companies and investors to develop ideas for optimising the opportunities digital reporting offers.
51. We would also refer the Foundation to the relevant sections of FEE's draft report, *The Future of Corporate Reporting – creating the dynamics for change*, currently out for comment.

Question 6

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?

Strong enforcement is critical

52. We agree with the Trustees' that the IASB's role is to develop standards and that the responsibility for implementation and enforcement lies elsewhere. However, we appreciate that it is in the IFRS Foundation's interest for its standards to be applied consistently and that the Foundation has a role to play in supporting the preparers, auditors and regulators who bear the primary responsibility for ensuring consistent practice.
53. Building relationships with securities regulators, auditors and accounting bodies is essential if consistency of implementation across the globe is to be improved. Significant progress has been made in this area, perhaps most notably through the signing of protocols with securities regulators such as IOSCO and ESMA and the creation of ASAF as a means of bringing together national standard-setters and regional groupings. But more work needs to be done. It is only by engaging with and listening closely to constituents that the IASB will be able to write standards that are widely-accepted and that can cater for the different and evolving business models and economic systems that exist around the world.
54. We therefore encourage the IASB to continue to build relationships with key national standard-setters and regional groupings, as well as with securities regulators, auditors and national accounting institutes. This should help to engender an increased sense of ownership among stakeholders around the world, perhaps reducing the likelihood of local amendments, interpretations or carve-outs.

100% uniformity is never possible

55. While consistency has many benefits, it is important to acknowledge that professional judgement will always be needed when applying financial reporting standards to complex, uncertain or new transactions or events. Putting in place what amount to ever more detailed rules will never negate this need and in the end becomes self-defeating, as more rules lead to more opportunities for underlying principles to be circumvented.
56. Ultimately, the goal of the IFRS project should be ensuring that financial reporting facilitates international investment and trade by meeting the evolving needs of international businesses and investors, rather than necessarily achieving complete consistency across the globe. 100% uniformity may never be possible, as even a global language will encompass different dialects and accents. Local differences seem likely to be a feature for the foreseeable future, although we can expect their significance to decline over time as both regulatory and market forces push towards further globalisation. Setting high quality, principles-based, well-understood standards will certainly help in this endeavour, but the IFRS Foundation should not overreach in attempting to tackle all areas of inconsistent application.

Thorough and transparent due process

57. Thorough and transparent due process is essential if the IASB is to achieve its aim of developing high quality, globally accepted accounting standards that are clear, understandable and enforceable. Major improvements have been made in this respect in recent years. For example, the IASB's outreach activities are far more extensive and inclusive than was the case just a few years ago. The introduction of post-implementation reviews and public agenda consultations are other positive developments, and the IFRS Foundation's educational initiatives too are to be applauded. But despite the progress made, there remains room for improvement.
58. In this connection, we would highlight the increasing number of narrow-scope amendments made in recent years. This is a cause for some concern, as amending standards too regularly is just as likely to prove as harmful as it is helpful. It can sow confusion among both preparers and users of financial statements. Likewise, IFRS users have seen a number of instances where new standards have been amended shortly after they have been issued. All of this is likely to prove counter-productive and risks undermining confidence in the IFRS brand.
59. We have heard a number of possible explanations for these problems. Some suggest that they are indicative of something awry with the IASB's due process that is preventing the board from getting it right first time, while others argue that the board is a little too content to tinker with standards to meet calls for change from vocal constituents. In any case, the Trustees might consider why it has been necessary to issue so many narrow-scope amendments. It is possible that some of the issues that have resulted in amendments could have been better dealt with in other ways, perhaps by publishing an interpretation, making changes via the annual improvements process or simply deferring the matter until post-implementation review. There is also the option of simply allowing those preparing financial statements to exercise their professional judgement. The issues are not straightforward, but further analysis seems advisable.

Transition resource groups

60. We are generally supportive of the idea of transition resource groups (TRGs) as a means of providing a forum for stakeholders to learn about new requirements and to discuss the implementation issues that they are facing. They are an example of innovation in the standard-setting environment, which we welcome. However, we agree that a TRG will not be necessary every time a major new standard or amendment is issued.

61. It is unfortunate, of course, that one outcome of the revenue TRG is likely to be a series of amendments to the standard that are primarily designed to clarify the board's original intentions when the board could – it seems fair to assume – have made those intentions clearer at the time. However, we accept that the exceptional circumstances surrounding the revenue standard meant that the TRG would almost inevitably flush out a number of problems and potential improvements.
62. In our view, TRGs should generally aim above all else to educate preparers and users on the application of new standards. In this way they can provide a helpful forum for stakeholders to discuss their concerns and learn more about the new standard from others involved in the implementation process. But they should not routinely generate clarifications and amendments to the standards. The board should therefore make it clear that the outcome of discussions by the revenue TRG should be seen as the exception rather than rule, and that the output of any such groups formed in the future is unlikely to result in changes to standards.

Post-implementation reviews

63. The IASB normally carries out a post-implementation review of each new IFRS or major amendment two years after the new requirements have become mandatory and been implemented. While this is a relatively recent development, we have now seen reviews of IFRS 8 and IFRS 3.
64. According to the IASB website, the scope of such reviews is normally limited to 'important issues identified as contentious during the development of the pronouncement and consideration of any unexpected costs or implementation problems encountered'. This is perhaps surprisingly wide and – as demonstrated by the output of the recent review of IFRS 3 – can result in fundamental principles being revisited. In our view it would be better for such reviews to focus on how those principles are applied in practice rather than re-opening the debate and going back to basics.

Getting it right first time

65. It seems that significant resources have been dedicated to fixing problems that should have been identified during the standard-setting process. Again, this may indicate that further improvements can be made to the board's due process. We therefore encourage the Trustees to step back and ask themselves what can be done to help to ensure that as far as possible the standard-setters get it right first time.
66. We appreciate that standard-setting is inherently a difficult process, especially when diverse views are expressed by global constituents. We also understand why the board is keen to bring some of its long running projects to a close and why they do not want to issue an endless stream of exposure drafts. But at the same time, due process needs to be impeccably rigorous and not expedited to an extent that endangers the quality of the outcome. As noted above, we think improvements can still be made. For example, changes were made during the final drafting of the revenue standard that introduced new concepts and ideas which had not been reflected in an exposure draft, rather than simply fine tuning proposals that had previously been exposed. This has – arguably – led to the exposure draft of proposed clarifications to the standard.
67. We appreciate that the consultation process is already a protracted one. We nonetheless feel that more needs to be done to ensure that the standards issued by the IASB are clear, easy to understand and operational in practice. This is an enormous challenge. If it is to be achieved, it may be necessary to introduce some sort of new or improved 'fatal flaw' or 'quality control' review mechanism into the IASB's due process to ensure that the final standards are not only technically sound and applicable in practice but are also very well drafted and easily understood.

68. We appreciate that a 'fatal flaw' review already happens on an informal, private basis, but only a small number of parties are invited to take part and turnaround times are often very tight, which may mean that the range and depth of feedback is sometimes limited. Moreover, we have heard anecdotally questions about the clarity of the drafting raised during this process – not seen as fatal flaws – are sometimes disregarded. It is issues of this nature that have tended to result in standards being amended shortly after they have been issued. Identifying and acting on such feedback during final drafting stage may mean it takes a little bit longer to publish the final standard, but we believe doing benefits both constituents and the credibility of the standard-setting process.
69. Exactly how an improved process for finalising new standards would work in practice should be the subject of a separate consultation. It would be crucial to avoid the process re-opening agreed technical positions. It might involve some kind of public forum where interested parties could raise not only fatal flaws but also areas where the language is unclear or ambiguous or where operational issues are likely to arise. It is also essential that – whatever the pressures to publish are from inside or outside of the organisation – sufficient time is given to enable interested parties to undertake a suitable thorough review of the near final draft of the standard in question and to deal with the comments received.

Question 7

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

70. We are supportive of the three-tier structure, although there does appear to be some overlap between the roles of the Monitoring Board and the Trustees. Existing governance arrangements could perhaps be strengthened through a clearer definition of the role of each tier. But while the existing framework should work in principle, we do have some concerns about how it is operates in practice.
71. We believe that the Trustees should be high profile champions of IFRS within their own jurisdictions and regions, engaging proactively with key stakeholders. However, in our experience, some at least of the current Trustees seem to maintain a relatively low profile, including in the UK.
72. We have already highlighted that a number of issues have arisen in recent years with regard to due process and standard-setting. But throughout this time, the Trustees seem to have stood rather on the side lines, rather than proactively intervening to ensure that IASB remains on track. Although there are risks involved which would need to be addressed, we believe that the Trustees should hold the IASB to account when things appear to go awry, but we are not aware of any evidence that this is truly happening.
73. This leads us to question whether the effectiveness overall of the Trustees is quite all it should be in this respect. Perhaps they are not receiving sufficient information to enable them to challenge the policy decisions made by the IASB or perhaps they simply don't have sufficient technical skills to enable them to ask the right questions. Or perhaps, as we have already alluded to above, they are not engaged enough with either the process or their stakeholders to fully understand the types of issues that are being faced on a day to day basis by those trying to implement the standards in practice. Whatever lies at the heart of the apparent problem, we think it would make sense at this stage of the development of the Foundation and the take-up of IFRS for the Trustees to stand back and consider whether the oversight that they deliver needs to be recalibrated.

Question 8

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?

74. Quality should be the primary consideration when making appointments. But it is important that the board of Trustees as a whole continues to be regarded as broadly geographically balanced, taking due account of the level of commitment within particular jurisdictions to the application of IFRS by domestic companies. The prescriptive approach adopted in the current constitution is not particularly helpful in this respect, as its rigid approach to the geographical composition of the Trustees is likely to result in periodic pressure for amendments as different regions – understandably - seek greater representation.
75. To some extent this pressure would be eased by the proposal to increase the number of 'at large' Trustees. This would allow greater flexibility and enable changes to be made to the composition of the board of Trustees to reflect changes in the balance of the world economy, without the need for changes to the constitution. However, it would nonetheless remain something of an unwelcome strait jacket.
76. We would be supportive of allowing even more flexibility when it comes to appointing new Trustees, with greater focus on the selection of high calibre candidates. Ultimately it is better to appoint a Trustee who is fully committed to actively engaging with stakeholders in their region and to exercising effective oversight of the IASB while vigorously defending its technical independence. That seems more important than appointing someone merely to satisfy a geographical quota.
77. When reviewing the make-up of the board of Trustees, it may be worth considering whether it is really necessary to have as many as 22. This seems a high number and it is questionable whether any governance body with so many members can be truly effective. We believe that there is scope to cut the number of Trustees without damaging the effectiveness of the IFRS Foundation or the geographical spread of its membership.
78. At present, a significant segment of the Trustees are US citizens and as long as the United States restricts the use of IFRS by domestic registrants, calls will no doubt be made from some quarters demanding that this representation is reduced or removed. We do not share this view. In our opinion, continuing to work with the US will only serve to make IFRS stronger in the longer-term. The United States remains the world's largest capital market and it has much to contribute by way of financial reporting expertise. Any notion of removing the SEC from the monitoring board or removing US citizens as Trustees should – for the foreseeable future at least – be resisted. Doing so would be both counter-productive and divisive. Equally, to be clear, neither the US nor any other individual jurisdiction should be guaranteed a seat at the table.

Question 9

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?

79. We agree that ideally, the board of Trustees should be drawn from an appropriate range of professional backgrounds. Again, however, we believe that quality should be the primary consideration when making appointments. We would therefore oppose any move to introduce a quota system, as this, coupled with the geographical quota that already exists, would make it ever harder to find individuals of the appropriate quality and experience to fill vacancies as and when they arise.

80. It is interesting to note that the constitution states that 'normally' two Trustees should be senior partners in prominent international accounting firms but that currently none are. This merely serves to demonstrate that quotas are difficult to fill if no suitable candidates step forward or if views on the appropriateness of such quotas change over time. We would, nonetheless, encourage the Trustees to seek further representation from these firms.
81. We also note the current gender imbalance on the board of Trustees. Again we would not propose introducing a quota to address this, for the time being at least, but we would encourage the Trustees to have this front of mind when making future appointments.

Question 10

Do you agree with the proposal to change the focus and frequency of reviews of strategy and effectiveness, as set out above?

82. We agree that the IFRS Foundation has spent a good deal of its time in existence reviewing itself and the way it works. While these reviews have often resulted in tangible improvements being made, at the same time little is achieved by frequently tinkering with the constitution.
83. Reducing the frequency of these reviews will create some much needed stability and continuity and will also free the Trustees up to focus on their other responsibilities. We are therefore supportive of the proposal to reduce their frequency to once every five years. However, doing so should not preclude urgent issues being dealt with on a more timely basis, as we suggest in paragraph 73 above.
84. While the Trustees' reviews have reaped a number of rewards, there is only so much that can be achieved by reviewing one's own effectiveness. Perhaps some form of external effectiveness review should also be undertaken in advance of the next Trustees' review.

Question 11

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?

85. As noted above, it can be difficult for a board to be truly effective when its membership is too large. Moreover, the IASB's own experience of working with a reduced membership shows that a smaller board can bring many other benefits. We are therefore supportive of the proposals to reduce the number of board members from 16 to 13, providing there is enough evidence that this will not reduce the quality or scope of its work.
86. While the constitution gives the chair a casting vote in the event of a tie, we believe that the chances of and need for this card being played should be minimised wherever possible. We are therefore supportive of having an odd number of board members.
87. We are, however, less convinced about the continuation of the board's rather rigid approach to geographical factors. Quality must always be the primary criterion when selecting IASB board members. Only by recruiting the best qualified and highest quality individuals can the IFRS Foundation hope to develop global accounting standards that are fit for purpose. Balance in terms of the professional backgrounds and – perhaps to a lesser extent – geography is also an important factor, but professional competence and practical experience must take precedence.
88. In our view, it is also questionable whether board members can ever be truly representative of the regions from which they are drawn. They may arrive at the IASB with close allegiances with their individual jurisdictions and regions, but we observe that as time goes by they are – as we would expect - likely to become more aligned with the mission and principles of the IASB itself.

89. Moreover, the board is – quite rightly – increasingly reliant on bodies such as ASAF and regional groupings of standard-setters for gathering and sharing jurisdictional and regional points of view. We acknowledge that many of these bodies are in their relative infancy, but we consider that ultimately they will have a central role to play in undertaking coordinated research, field testing and outreach activities. Against this backdrop, it is questionable whether there is a great deal to be gained from continuing with any strict geographical breakdown of the board.
90. We have already noted our acceptance of the need for continued US representation on the board of Trustees and the Monitoring Board. Likewise, we are supportive of the ongoing involvement of US citizens on the IASB, but only where they are the best person for the job as and when a vacancy arises. Specifically excluding US citizens would reduce the number and quality of available candidates.

Question 12

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?

91. As noted above, we believe that achieving a balance of professional background is more important than adhering to strict geographical quotas.
92. We agree that the constitution currently casts the net too narrowly when referring to a 'mix of practical experience among auditors, preparers, users and academics, and that it would be beneficial to draw on the broader experience of other professionals, such as those with a background in market or financial regulation. We also agree that there is no need to introduce a quota defining the mix of backgrounds and that the composition of the board at any one time should be left to the judgement of the Trustees. Nonetheless, we believe that every effort should be made to reach out both to users and preparers as – although finding suitable candidates from each group can sometimes be difficult – they have much to offer to the standard-setting process.
93. We also note the current gender imbalance on the board, which is unwelcome. Again we would not propose introducing a quota to address this but it should always be borne in mind when making future appointments.

Question 13

Do you agree with the proposal to amend Section 31 of the Constitution on the terms of reappointment of IASB members as outlined above?

94. It takes new board members a substantial period of time to become familiar with the range of issues and considerations involved in setting global standards. Moreover, major standard-setting projects can take many years to complete. It is for these reasons that we have always supported a ten-year period of service for board members. We are therefore pleased that the Trustees are minded to introduce a degree of flexibility that will allow board members to serve a second term of up to five years.
95. Having said that, allowing a second term of up to five years may cause some questions and concerns as it may not always be apparent why some board members have been appointed for a second term of three years while others have been appointed for as many as five years. If the Trustees wish to ensure they have sufficient flexibility to bring in new board members on a more regular basis, we suggest that they consider moving to a maximum term of ten years but with a first term of four years and the possibility of two subsequent terms of three years each.
96. Board members should not simply be re-appointed as a matter of course. There must be some form of effective performance management process that means that only the best people are reappointed. Those who underperform should be removed from the board when their initial

term in office is complete, if not before. It should fall to the Trustees to manage such a process, though they may wish to take confidential soundings from both internal and external stakeholders before making a decision on whether or not each individual board member should or should not be reappointed. On the occasion of reappointment, the Trustees should also be able to look to the overall balance of the board to ensure it remains optimal.

97. Board members approaching the end of a ten year term will inevitably lack recent practical experience, and we appreciate that some stakeholders are uneasy about this. These concerns can, however, be overcome provided that all incumbent board members are not reappointed as a matter of course.
98. Finally, care should be taken to ensure that appointments are staggered in order to ensure that the terms of a significant number of board members do not end simultaneously.

Question 14

Do you have any comments on the Foundation's funding model as outlined above? Do you have any suggestions as to how the functioning of the funding model might be strengthened, taking into consideration the limitations on funding?

99. We agree that it is essential for the IFRS Foundation's funding system to be established on a secure and mandatory basis such that its continued effective and independent operation can be assured. We continue to believe that the ideal source of funding is levies on companies listed on the capital markets of those jurisdictions adopting IFRS, fixed for more than one year at a time, albeit a flexible approach will be necessary.
100. We appreciate that this model has not yet been fully achieved, that alternative funding needs to be sought in the meantime and that the funding gap is currently filled to some extent by contributions from self-generated income. We accept that this is necessary, but question whether it will ever be possible for the IFRS Foundation to make up the shortfall in its funding through such activities. We also caution against pursuing these options too enthusiastically as doing so may compromise the Foundation's mission.
101. While the core standards continue to be available without charge, in reality they are of limited use without the often detailed implementation guidance, illustrative examples and basis for conclusions that accompany them. We are concerned to note that the cost of accessing these other resources whether in paper or electronic format has risen significantly in recent years and encourage the Trustees to think carefully about the implications that further price increases could have.
102. Likewise, while it may be possible to generate additional funds via the Foundation's education initiative, any temptation to turn it into principally a cash-generating activity should be resisted. There is a fine balance to be struck between generating revenues and serving the public interest.
103. Whenever sources of financing are being considered, the greatest care should be taken to ensure that influence over governance is not linked to funding arrangements. To avoid any perception that this is the case, there should be no dominance of one funder or group of funders. Some stakeholders have raised concerns about the reliance on contributions from the EU and from the largest accountancy firms and the impact this may have on the IFRS Foundation's independence. Although we do not believe that this has had any effect in practice, efforts should continue to reduce dependency on funding from these sources.
104. The Trustees have an important role to play in ensuring the financing of the IFRS Foundation. This should be borne in mind when appointments are made. Efforts should be made to appoint Trustees who have experience of fundraising or who have the ability to

identify and influence the key stakeholders in their region so as to facilitate appropriate funding contributions.

105. We recommend that a new Trustee committee is formed to focus specifically on the matter of fundraising and to work with the Monitoring Board to ensure that all constituents are making appropriate contributions. Alternatively, this responsibility could perhaps be taken on by the existing audit and finance committee.

Question 15

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

106. We have no further comments at this time.