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IFRS Foundation
To the Trustees
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e-mail: strategyreview-comm@ifrs.org

1 March 2011

Re: Status on Trustees ‘Strategy Review’

Dear Sir,

OIC is pleased to have the opportunity to comment on the consultation document on the *Status on Trustees ‘Strategy Review’*.

OIC welcomes the fact that the IFRS Foundation Trustees are seeking to make a comprehensive review of the organization’s strategy in order to evaluate whether it will be able to achieve its objective of a single set of global standards. We appreciate the efforts made over the years to enhance the accountability and the independence of the Foundation. However, some aspects could be further improved.

As a general remark, we do think that any change to the actual provisions should be made bearing in mind the public interest that the IFRS Foundation pursues.

Our main concerns are summarized below as follows:

- We agree with the objective of IFRS Foundation. However, we reaffirm that the Foundation should limit its mandate to develop accounting standards and not extend it to other financial reporting.
- We think that in order to develop high quality global accounting standards, a dialogue with all stakeholders, regulators included, is essential. The consideration of public policy objectives is important, but what should drive the accounting choices is the public interest. This final objective should also drive the convergence decisions.

- The current governance of the IFRS Foundation, organized into three major tiers, seems the appropriate structure. We are of the opinion that the oversight function should be mainly exercised by those who fund the IFRS Foundation as well as those who can be considered as guarantors of public interest. Furthermore, we think that the oversight body and the IASB should consist of individuals from countries that have adopted the IFRSs. Notwithstanding this, we note the difficulty of pursuing a public objective through a private body, such as the IFRS Foundation, funded significantly from private organizations. We think that in order to strengthen the Foundation's accountability, ensuring financial independence and stability, the main issue to be dealt with is represented by funding rather than governance.
- We think that some enhancements to the standard setting process could be made in order to improve the accountability and the transparency of the IASB towards its stakeholders. We think that it is important that the relationship between the IASB and the national standard setters is clearly defined. In order to achieve this, we suggest the adoption of a Memorandum of Understanding between the IASB and the NSSs that recognizes to NSSs a more critical role in the standard setting process, given that they are stakeholders that voice national issues.
- Financial independence is essential to ensuring that the IFRS Foundation operates in the public interest. The funding system should be based mainly on contributions from countries that adopt IFRSs and not on financing from subjects that represent private interests. A proposal to achieve more automaticity of financing and independence could be a stable funding system from individual countries. The more relevant financial contributors should be represented in the governance.

Please find our detailed comments attached below.

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

1. *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?*

2. *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?*

We agree with the objective of the IFRS Foundation that information in financial statements, prepared under IFRSs, should require high quality, transparent and comparable information that is decision-useful. We note that the IASB’s activity addresses the setting of accounting standards for financial statements but it can be broader including also other financial reporting.

As already noted in previous consultations regarding the *Management Commentary* and the *Constitution Review* in 2009, we strongly recommend that the IASB concentrates on the development of IFRSs, carrying out projects that will result in accounting standards and using its resources in an effective manner. Moreover, these other types of financial reporting, under IFRSs, are neither included in the set of financial statements nor is their adoption prescribed to be in accordance with IFRSs.

Furthermore, we think that stewardship should be included among the objectives of the Foundation, since it is a fundamental characteristic of accounting and financial reporting. This would mean that the objective in the Constitution would be aligned with the Conceptual Framework.

With regard to what extent the financial reporting standards and other public policy concerns need to be reconciled, we acknowledge that they meet different objectives. Indeed, financial reporting does not have as its main objective ensuring the financial stability but rather providing information useful in making economic decisions. However, this information can be useful to regulators and members of the public even if it is not specifically for them, as indicated in the Conceptual Framework “*Other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups*” (Chapter 1, par. OB10).

As said above, any change to the actual provisions should be made bearing in mind the public interest that the IFRS Foundation pursues. Therefore, we think that in order to develop high quality global accounting standards, a dialogue with all stakeholders, regulators included, is essential. The consideration of public policy objectives is important but what should drive the accounting choices is the public interest. This final objective should drive also the convergence decisions.

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

3. 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?

4. 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 current governance of the IFRS Foundation, organized into three major tiers, seems the more appropriate structure. Indeed, there is a technical body such as the IASB, the Trustees with governance responsibility and the Monitoring Board that should monitor and reinforce the public interest oversight function of the Foundation.

We support the establishment of a public oversight body considering the fact that the IFRS Foundation acts in the public interest despite it being a private-sector organization. We are of the opinion that this oversight function should be mainly exercised by those who fund the IFRS Foundation as well as those who can be considered as guarantors of public interest.

Furthermore, we think that the oversight body and the IASB should consist of individuals from countries that have adopted the IFRSs, as they are those who have more interest in the Foundation operating in the public interest as well as ensuring their implementation. Others should not have the same voting rights.

We do not think that the Monitoring Board should be more involved in the development of strategic aspects. Moreover, as already indicated in our reply to the consultation on the Constitution Review in 2009, a level of more detailed provisions regarding its functions is not appropriate.

Notwithstanding this, we note the difficulty of pursuing a public objective through a private body, such as the IFRS Foundation, funded significantly from private organizations. We think that in order to strengthen the Foundation's accountability, ensuring financial independence and stability, the main issue to be dealt with is represented by funding rather than governance.

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?

5. 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?

6. 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?

We strongly believe that it is more fundamental to develop high quality global accounting standards that result in a real enhancement of financial reporting rather than to meet the deadline of June 2011 for the completion of the convergence projects. Furthermore, this deadline is no longer required. We believe that more time is necessary to carry out field testing, effects studies and discussions in order to make high quality, clear and fully operational standards.

We believe that a period of calm would be necessary to allow the implementation of the new standards without further changes being made.

With regard to the due process, we think that some enhancements could be made in order to improve the accountability and the transparency of the IASB towards its stakeholders. We would like to point out the following concerns, some of which we have already brought to the attention of the Trustees and the IASB:

- We want to highlight the importance that impact assessments are carried out at several phases of the standard setting process, early in the process and in the phase of post-implementation. This aspect is particularly important and has been discussed in several circumstances. In order to comply with its Due Process Handbook, the IASB should develop procedures that ensure the transparency of the attempts to analyse the effects and the practical implications of its proposals. This is especially valid for new projects and should be carried out before the decision to take the project into the active agenda.
- There is a need for a clear distinction of the amendments from the interpretations, and therefore the attempt of the Trustees both to define criteria for the annual improvements projects and to review the due process of interpretations is welcomed. In the latter case, we noted that the application of the Agenda Criteria in order to assess an issue to add to the IFRS Interpretation Committee's agenda is not always consistent – in particular, with regard to assessing the widespread nature of an issue and the existence of significant divergent interpretations. To this end, the involvement of NSSs is very important. We acknowledge that a liaison with the NSSs exists, however we think that it is not pursued in a consistent manner.
- In addition, we think that it is important that the relationship between the IASB and the national standard setters is clearly defined. In order to achieve this, we suggest the adoption of a Memorandum of Understanding between the IASB and the NSSs that recognizes to NSSs a more critical role in the standard setting process, given that they are stakeholders that voice national issues. We think that the IASB should intensify its liaison relationship with NSSs. In particular, the NSSs could play a more active role with reference to the IFRS Interpretation Committee's activity and in carrying out impact assessments, as said above. The views of the NSSs should be taken in consideration in order to set the priority and the scope of the agenda items. For example, the IASB has not addressed projects such as Business Combination under Common Control and the definition of the concept of performance despite many standard setters believing them to be a priority because they are essential for other projects. With regard to the performance concept, the reason given by the IASB for not adding the issue to its agenda is that in order to develop a clear principle for measuring performance it would take a substantial amount of time.
- The IASB should take into more consideration, when it assesses the opinions on the pros and cons of a proposal, the real number of respondents behind each comment letter instead of the number of comment letters received.
- We have some remarks regarding the responsiveness of the IASB. The IASB should consider again its proposals when concerns are expressed by a significant number of commentators or an important minority, even if no new aspect is raised in addition to those that it has already evaluated. Moreover, any reassessment should be transparent. In general, the IASB should enhance the due process with stakeholders strengthening the consultation procedures. It would be hoped for that the IASB communicate directly to the commentators the reasons for which it has rejected the comments. We acknowledge that it would be difficult, given the number of comment letters that it receives. However, we believe that this feedback should be given at least to commentators that express general interest, such as, for example, EFRAG and National Standard Setters. The public interest of the IFRS Foundation can be pursued also with a better transparency of the standard

setting process. In order to improve transparency in the due process, we encourage the IASB to provide some feedback about the reasons for not proceeding with a re-exposure of proposals, when significant changes to the original proposals are made.

- The wording for rejections by the IFRS Interpretation Committee should not express positions akin to an interpretation, which can result in a change in an accounting practice. Nevertheless, we acknowledge that it might not be always possible to meet the objective to give explanations of the rejections and, at the same time, to avoid interpretations of the wording of the rejections. Moreover, the agenda decisions are published in the IFRIC Update, which does not have the same authority as IFRSs. Therefore, given the potential impact of the rejections, we think that it would be important that they are approved by the Board. Doing so, the Board would ensure consistency between the potential effects of the explanations of the rejections and the IFRSs. This would attribute more official weight to the Committee's decisions.
- Furthermore, we want to take the opportunity to reiterate one of our concerns on the use of option, and its subsequent removal, as a tool for introducing potentially significant changes in accounting standards. This approach is not acceptable when proceeding with a revision of the standard would be more appropriate.
- We are also concerned about finalising some of the standards on a phased basis. This is because the development of subsequent phases could lead to a revision of what had previously been decided or not regarding introducing accounting policies as inconsistent with the provisions of the stages already completed. In the latter case, there would be a great risk that the standard is not high quality.

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

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

The funding of the IFRS Foundation is essential in order to ensure both continuity in the Foundation's activities and the independence of the standard-setting process.

Therefore, it is fundamental that the Foundation has a funding system that guarantees that the financing is stable, able to achieve a diversification of the funding sources and appropriate in order to permit it to operate efficiently and independently.

We think that the current funding model, based on direct contributions from stakeholders who represent private interests cannot be sustainable in the long run for an organization, like the IFRS Foundation, that has to operate in the public interest, free of undue influence. The financing from private parties does not secure the independence of the Foundation.

Furthermore, in order to enhance the Foundation's accountability, an appropriate transparency should be provided about the sources of financing.

We think that the financing should come mainly from countries that adopt IFRSs, as they are those who have more interest in the Foundation operating in the public interest as well as ensuring their implementation.

We acknowledge that the IFRS Foundation is a private organization and that, therefore, it has no authority to impose funding requirements. A proposal to achieve more automaticity of financing and independence could be a stable funding system from individual countries. The more relevant financial contributors should be represented in the governance.

Other issues

8. *Are there any other issues that the Trustees should consider?*

No other comments.

If you have any queries concerning our comments, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(OIC Chairman)