



Federation of European Accountants

Michel Prada
Chairman of the Trustees
IFRS Foundation
30 Cannon Street
GB – London EC4M 6XH
United Kingdom

Sent by e-mail:
commentletters@ifrs.org

Brussels, 30 November 2015

Subject: FEE comments on the IFRS Foundation Trustees' review of Structure and Effectiveness: Issues for the Review.

Dear Mr Prada,

- (1) The Federation of European Accountants (FEE) is pleased to provide you below with its comments on the IFRS Foundation *Trustees' review of Structure and Effectiveness: Issues for the Review*.
- (2) FEE welcomes the consultation paper on the review of structure and effectiveness of the IFRS Foundation, and takes note that the previous review was completed in February 2012. Reviews of the Foundation's structure and effectiveness should take place at clearly established intervals, given that they contribute to strengthening the accountability and demonstrating the continuous efforts of the Foundation in serving the public good. From a European perspective this particular review is timely, given that the matter of the Foundation's governance has been discussed in Europe over the last years. We are consequently pleased to see that the Trustees have initiated the process for receiving input from constituents in an effort to address concerns around the governance of the international accounting standard setting body. This is a key element in maintaining high standards across the world.

FEE's support for a common set of global standards

- (3) The IAS Regulation of 2002 demonstrated Europe's leadership and paved the way for IFRS to become a globally recognised set of standards. Several jurisdictions have followed EU's lead, including Japan, China and India which have taken steps towards the adoption of IFRS. In the US, IFRS are accepted for filing from foreign companies listed on US markets even though US GAAP remains compulsory for domestic entities. It is important that the IASB maintains an inclusive and collaborative approach with national standard-setters in order to facilitate and foster further convergence of the application of IFRS across the globe.
- (4) FEE continues to support international standards as they enhance Europe's access to global markets, something which necessitates comparability, reliability, relevance, understandability and transparency in financial reporting. IFRSs are a robust, complete and broadly accepted set of financial reporting standards that can effectively serve this role of global standards.
- (5) It is the view of the FEE that the IASB is the global standard setter and thus standards issued under its due process should be globally applicable as a general rule. Given that the goal should be a set of high quality global standards, gradual convergence or regional alterations may impair the quality of IFRS.



- (6) The current scope of IASB's work focusing on for-profit entities is appropriate. Instead of further widening its scope, we would recommend the IASB to further focus on improving the quality of standards at the point of issuing, and to take a more proactive role in the broader corporate reporting agenda.

Governance of the IFRS Foundation

- (7) FEE feels that the current level of accountability and transparency with regard to the due process, meetings, discussions and decision-making procedures provides for a robust and open institutional framework that is accountable not only to the stakeholders concerned, but the general public as well.

Consistent application of standards

- (8) It is important to ensure that the standards issued by the IASB are of high quality and enable their consistent application. FEE believes that the IASB should continue to progress in this respect, and to allocate additional efforts into ensuring that high quality standards are issued. This will reduce the need for amending standards before even being effective for the first time. To this end, we would welcome a more active role by the IFRS Foundation as this would ensure a more robust due process in the final stages of finalising a new standard.

Corporate reporting agenda for the future

- (9) FEE wishes for the Foundation and the IASB to take a more proactive role in the broader corporate reporting agenda, including both financial and non-financial reporting. Whilst we welcome the current levels of engagement, for instance participating in the <IIRC> and in its Corporate Reporting Dialogue, we would encourage the IFRS Foundation and the IASB to take a prominent part in driving the corporate reporting agenda.
- (10) The current focus on financial information only seems not to be sustainable over the long term as (primary) users are using other sources of information in their economic decision-making process, which leads to a declining relevance and importance of financial statements. We raise some concerns regarding this in the newly published FEE Cogito Paper on the Future of Corporate Reporting¹.

For further information on this letter, please contact Pantelis Pavlou, Manager from the FEE Team on +32 2 893 33 74 or via e-mail at pantelis.pavlou@fee.be.

Yours sincerely,

Petr Kriz
FEE President

Olivier Boutellis-Taft
FEE Chief Executive

Encl. APPENDIX: Responses to the questions in the invitation to comment on the IFRS Foundation Trustees' Review of Structure and Effectiveness: Issues for the Review

¹ <http://bit.ly/15futurecorprep>



Appendix - Responses to the questions in the invitation to comment on the IFRS Foundation Trustees' Review of Structure and Effectiveness: Issues for the Review

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?

- (1) FEE would not support at this time the expansion of IASB's remit to develop Standards for entities in the private, not-for-profit sector. Based on the expertise and profiles of IASB members, we suggest for the IASB to focus on profit-oriented private company reporting. Furthermore, the number of cross-border not-for-profit entities on a global scale and potentially in need of international reporting standards is relatively limited.
- (2) With regard to the public sector, we refer to our comments on the Review Group consultation on the future governance of IPSASB². FEE believes that a governance model expanding the IFRS Foundation's monitoring board with a public sector focus and creating a new IPSASB oversight body (a public sector version of the Public Interest Oversight Body (PIOB)) within the remit of IFAC would be worth considering. However, FEE welcomes the Trustees' decision not to consider at this time the expansion of the IASB's scope to encompass financial reporting standards for the public sector. Although this is a desirable goal for the medium-long term, we do not consider it realistic to take steps towards that direction in the context of this review in particular.

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?

- (3) FEE thinks that the IASB ought to further widen its focus from financial reporting to the corporate reporting agenda. The current focus on financial information only seems not to be sustainable over the long term as (primary) users are using other sources of information (e.g. non-GAAP and non-financial measures produced by companies) in their economic decision-making process, which leads to a declining relevance and importance of financial statements. In the FEE Cogito Paper on the Future of Corporate Reporting³, we express the view that in terms of corporate reporting standards, international convergence to the fullest extent possible in terms of standard setting and practices could provide better guidance on how to enhance the content of corporate reporting. Having a single reporting framework would promote consistency among preparers and give users access to comparable information across different entities and even across different industries.
- (4) Given the overlaps between financial and corporate reporting items and priorities, as well as the status of the Foundation and the IASB as the international reporting standard setter, FEE would strongly encourage the IFRS Foundation and the IASB to take a more proactive role in the corporate reporting agenda; to move from monitoring to the forefront and to contribute to shaping the vision for the future. This would of course have to be further clarified and discussed with other key stakeholders, including market regulators like the European Securities and Markets Authority (ESMA) and the International Organization of Securities Commissions (IOSCO).

² http://www.fee.be/images/publications/public_sector/IPSASB_governance_consultation_FEE_response_final.pdf

³ <http://bit.ly/15futurecorprep>



- (5) With regard to integrated reporting <IR>, FEE appreciates and acknowledges that the IFRS Foundation has played an important contributing role in the development of the <IR> Framework and is involved in various <IIRC> initiatives, including the Corporate Reporting Dialogue⁴. We also welcome the continued commitment and efforts of the Foundation towards the evolution of <IR> as evidenced via the Memorandum of Understanding between the IASB and the <IIRC>. It would however be desirable for the Foundation to further expand on its efforts in this area, and take a leading role in driving the corporate reporting agenda in the future.

Question 3

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

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?

- (6) FEE welcomes the Foundation’s work and action plan with regard to the IFRS Taxonomy. We note however that the IFRS taxonomy is not used in practice to the extent envisaged. We would suggest that the Foundation undertakes a stakeholders’ analysis and if there is clear expressed demand for it, to assess whether the IFRS Taxonomy would be embraced by different constituents before committing resources and efforts.
- (7) We consider that the Foundation and the IASB should continue to develop and maintain the IFRS taxonomy in order to control the quality of the taxonomy as well as the use of the “IFRS” brand name.
- (8) Moreover, IASB should engage in dialogue with relevant securities and markets authorities in charge of digitalisation. In the case of Europe, ESMA would be a relevant party to engage with given for example its Consultation paper on the Regulatory Technical Standard on the European Single Electronic Format (ESEF)⁵ issued at the end of September. The consultation notably looks into a variety of technological options with regard to digital reporting. ESMA’s initiative is an indication of the strong support and demand from market regulators towards a technology-based reporting in the future. FEE has not yet formed its views on this consultation and consequently cannot share its preliminary positions on the issues raised.
- (9) We feel that it is important for the IASB to be actively involved with regulators in order to ensure easy and extensive digital access of general purpose financial reports, like ESMA’s initiatives. This supporting work can take many different forms depending on the technical nature and progress of the work in question, and consequently we are not seeking to elaborate any further specific measures at this stage beyond broad support.

⁴ <http://integratedreporting.org/corporate-reporting-dialogue/>

⁵ http://www.esma.europa.eu/system/files/2015-1463_esma_consultation_paper_on_esef.pdf

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?

- (10) We believe that it is very important for the Foundation to keep pace with developments in technology and even look beyond the current practice in order to remain relevant. The proposed establishment of a network of experts is in our view a very welcome step, but more needs to be done in this area. For example IASB ought to look at the future of financial reporting in general, and take stock of a wide range of technological changes. As FEE explains in its paper on the Future of Corporate Reporting, technology has already affected the way that we work, engage and communicate; therefore, the reporting model in the future should be flexible and able to adapt to changes in order to remain relevant in the long-run.

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?

- (11) FEE would prioritise having sufficient quality and quality control processes with the view of issuing standards that can be applied in a consistent way. FEE calls on the IASB to ensure that the final standards issued are of high quality in order to avoid changes and amendments during the period during which the standards are not yet effective (like in the case of IFRS 15, the amendments in IAS 28 and IFRS 10).
- (12) In particular, we believe that the Trustees may be seen not to take an active role in what is happening on the ground. More active involvement of the Trustees in the standard setting processes and in particular in overseeing the due process would enhance the consistency of application and ensure that the new standards are conducive to the public good at large. This would additionally ensure a higher level of quality control in the finalisation phase of a standard, thereby removing the need for alternative and potentially problematic means of ensuring late-stage quality control. Having said this, it is important that the oversight body does not see the due process merely as a compliance process; instead, the IASB and the IFRS Foundation should ensure that the process results in high quality standards. Approaching the standard setting process in a way that all the main issues are identified and addressed before the finalisation of the new standards would remove the need for a public flaw review of the final standards, as suggested by some constituents.
- (13) FEE suggests for the Trustees to have a more active role in the Post-Implementation Reviews (PIRs) of major standards. Engaging with constituents around the world, being involved in the analysis of the key messages and providing strategic direction to the IASB could enhance the current process and assist in a more consistent application of IFRS. FEE believes that PIRs are one of the best tools that the IASB has to identify potential problems and unintended consequences from its standards. Such reviews should not be considered merely as a compliance exercise for the due process.



- (14) With regard to Transition Resource Groups (TRGs), FEE acknowledges that there are instances where they provide added value and that this has certainly been the case on certain occasions in the past, especially where implementation issues have emerged. Recent experience with the TRGs on the new revenue standard and the impairment of financial instruments has demonstrated this: TRGs managed to address a fair amount of significant implementation matters raised by constituents and also some of the matters have resulted in a standard-setting activity. We however take the view that their usage should not take place in all cases. Rather, a TRG should be established only when a compelling reason for one has been clearly identified. We would expect a need for TRGs for the forthcoming standards on insurance, for example.
- (15) Having said this, we strongly believe that the purpose of TRGs is not to overwrite either the need for high quality standards or the work and terms of reference of the IFRS Interpretations Committee; instead, the TRGs should assist preparers and other constituents in the implementation process of the new standards. This can be achieved by issuing some documentation from their meetings and discussions on specific matters.
- (16) Despite the views expressed in the paragraphs above, we believe that overall the IASB has an extensive due process taking considerable amounts of time and effort.

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?

- (17) FEE is overall satisfied with the three-tier structure of the Foundation and would consequently not propose any suggestions to further improve the governance structure. In our experience, the current structure has emerged from “market” practice as the major international organisations are using the same corporate governance. In addition FEE believes that public accountability can be achieved by alternative means, such as through a consistently transparent due process and we do not agree with the concerns raised by some constituents regarding the nomination process for Trustees.

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?

- (18) FEE considers it very important to have some correlation between representation within the Trustees, and the rate of IFRS adoption. Whether or not increasing the number of ‘at large’ Trustee appointments is desirable depends on its outcome in this regard. We would not support to increase the number of ‘at large’ Trustees if this implies weaker representation by jurisdictions with a stronger rate of IFRS implementation, but simultaneously would be supportive if the outcome is a greater representation of jurisdictions with a stronger commitment to IFRS.
- (19) FEE supports an appropriate balance between ensuring a fair geographical distribution of Trustees, commitment to IFRS adoption and proper representation from individuals who are of a proper calibre and committed to the organisation.

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?

- (20) We believe that the Trustees, as a body in its entirety, require an adequate balance of professional background ensuring appropriate levels of experience and expertise in order to fulfil its public accountability responsibilities. There is a particular need for persons with recent practical knowledge, expertise and experience with accounting as well as financial and corporate reporting, including professional accountants amongst others. We would not oppose to removing the specific quotas; however the nomination process needs to ensure a proper representation of different professional backgrounds.

Question 10

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

- (21) We understand that it might take some time for a new proposal or review of the governance to be prepared and implemented. Consequently, we would not be opposed to more time between consecutive reviews especially if this will enable the Trustees to allocate efforts to other areas of their work. FEE would suggest conducting the reviews with a frequency of between five and seven years, but this should not preclude addressing pertinent issues potentially requiring a governance review as they emerge.
- (22) As a suggestion, FEE believes that an independent review of the effectiveness of the Trustees could add more value to the governance review of the IFRS Foundation.

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?

- (23) Even though we understand that there might be practical reasons to reduce the number of the IASB members, FEE would not at this stage support decreasing the overall size of the current IASB (i.e. fourteen members as of today). Indeed, this might have unintended negative impacts on the quality of work conducted by the IASB in a time when we believe that greater emphasis on quality is necessary. We consequently believe that the Board should maintain its current structure. It is of utmost importance that the technical part of its work be maintained at a high level.
- (24) With regard to geographical distribution, although some balance is necessary in order to properly reflect the global scope of IFRS, it is more pertinent to in the first instance ensure appropriate and sufficient representation from areas and jurisdictions with stronger commitment to IFRS. Thus FEE does not in principle disagree with widening the geographical scope of the Foundation's bodies, including that of the IASB; on the contrary, a wider representation would reflect aspirations to render the IFRS into globally accepted standards. Having said that, we would not endorse any changes in composition that would disadvantage jurisdictions with stronger commitment to IFRS. Furthermore, the Trustees should ensure that the IASB members have the appropriate professional background and quality to undertake their tasks.

Question 12

“a) in terms of the balance of backgrounds on the IAMB, the *Constitution* (Section 27) specifies that the Trustees shall select members so that the IAMB, as a group, provides an appropriate mix of recent practical experience among auditors, preparers, users and academics. The Trustees do not intend to introduce a quota of the backgrounds that should be represented on the IASB, preferring to retain a degree of flexibility. However, the current wording of Section 27 implies an unduly restrictive limitation on the professional backgrounds of IASB members, in particular because Section 25 refers simply to the IASB comprising ‘the best available combination of technical expertise and diversity of international business and market experience’. To overcome this, the Trustees intend to delete the wording of Section 27 and to add to the wording of Section 25 that the mix of professional backgrounds on the IASB shall include auditors, preparers, users, academics and market and/or financial regulators (the last of these not currently being referred to in the *Constitution*). The Trustees will also seek to look at ways to address the gender imbalance on the IASB, which currently comprises 12 men (86 per cent) and 2 women (14 per cent), although they do not propose to specify any particular quota”

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?

- (25) An appropriate balance of practical professional background and experience ensures the highest possible quality of work in the IASB. In particular, we believe that having Board members with recent professional experience with accounting, financial reporting and audit would be the key to achieving a wide and relevant mix of professional backgrounds. The accountancy profession and its members can adequately fulfil the requirements for relevant experience in the area of corporate reporting and audit. We are however concerned about the current underrepresentation of persons with recent experience in the accountancy profession. It is overall our firm belief that the experience and expertise of notably professional accountants and auditors, amongst others, can help the IASB to better achieve its objectives. With regard to regulators in particular, FEE feels that this group is currently sufficiently represented within the organisation.

Question 13

“(b) the terms of appointment for IASB members. The *Constitution* (Section 31) specifies that IASB members appointed after 2 July 2009 shall be appointed initially for a term of five years, renewable once for a further term of three years (other than for the Chair and Vice-Chair, who may serve a second term of five years). The limitation of the second term to three years was introduced as part of the second *Constitution Review*, following comments from a number of stakeholders who questioned whether the IASB could include members with recent practical experience if they all served two five-year terms. Nevertheless, even at the time the responses to this proposal were mixed, with some respondents considering the proposal to be ‘unnecessarily limiting’, not least when taking account of the steep learning curve for new IASB members and the great need for continuity on the IASB, in part because of the long life cycle of a major project to develop a new Standard. The Trustees are mindful of the perception of having a Board with members who do not have recent practical experience, but are also mindful of the need to make the most effective use of IASB members. The Trustees therefore propose to introduce some flexibility on the term of any reappointment and to amend Section 31 to make the terms of IASB members renewable once for a further term of **up to** five years.”

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

- (26) FEE has no particularly strong views with regard to the reappointment of IASB members. It should however be noted that there exists a potential trade-off between having members with recent practical experience on the one hand, and the overall efficiency and effectiveness of the Board with more experienced members on the other. We feel that five year terms renewable for another three years but expandable to a maximum of five (when it is considered necessary based on objective and transparent criteria) is an appropriate structure for rotation and provides for sufficient flexibility if required.

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?

- (27) FEE firmly believes in a well-balanced and sustainable funding model that ensures both the sufficiency of resources for high quality outputs, as well as the independence of the Foundation’s work.
- (28) For practical reasons, we support the current model of both private and public sources of financing, with appropriate safeguards and balance to ensure that the Foundation’s work is independent, of high quality and conducive to its objectives for the establishment of a common set of global accounting standards. The aim however should continue to be a gradual transition towards a levy-based funding model.