

# Trustees' review of structure and effectiveness: issues for the review

Request for views issued by the IFRS Foundation in July 2015

Comments from ACCA

30 November 2015

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Further information about ACCA' s comments on the matters discussed here may be obtained from the following:

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ACCA welcomes the opportunity to provide comments on the request for views on the trustees' review of structure and effectiveness of the IFRS Foundation. This has been done with the assistance of the members of ACCA' s Global Forum for Corporate Reporting who have considered the questions raised, and their views are reflected in the following comments.

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## MAIN COMMENTS

In terms of the scope of activities we consider that the IFRS Foundation should extend its current scope to allow it to set standards for the not-for-profit sector. This is an important sector in many

countries and one where there are no current global standards, but there is demand for them.

We support the proposals for the Foundation to be active in the areas of

- Wider corporate reporting developments, but this also requires leadership from securities regulators in particular
- Ensuring better digital access to financial information
- Assessing the impact of technology on reporting

In terms of the governance issues at the Foundation, the geographical balance of the trustees needs to be reviewed and aligned with the use of IFRS and the source of funding. A proper balance needs to be established in the Constitution itself and not as proposed be achieved by increasing the number of 'at large' appointments. An adjustment looks likely to reduce the number of trustees from North America relative to Europe and Asia-Pacific.

The trustees need to play a more active role in the post-implementation reviews of recent standards.

On the composition of the IASB we support a reduction from 16 to 13 but note that both the geographical balance and the balance of backgrounds may need to be adjusted. The most important is that the preponderance of the board should be made up of members with recent practical experience as users, preparers or auditors of financial reporting. Half of the current board seem to have their immediate background as securities regulators or standard setters.

Though this review raises important issues for the progress of IFRS as global accounting standards, we consider that the constitution is settling down after fifteen years of operation and that the next review could be in five years time.

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## SPECIFIC COMMENTS ON QUESTIONS RAISED

**Q1 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?**

We support this scope extension as a matter of principle as the private not-for-profit (NFP) sector is otherwise without a global standard setter, being covered neither by IASB currently nor IPSASB either.

Most NFPs are relatively small entities and IPSAS are not presented in a suitable form with appropriate simplifications for smaller entities. So we consider that IASB with its IFRS for SMEs is in a better position to cover the needs of the sector.

The NFP sector is significant in many countries. A recent study funded by the CCAB in the UK indicated the demand for such standard or standards. We have supported the initiative which has flowed from that study and which is promoting the idea of an international

reporting standard for NFPs. As an interim step the IASB is aware that ACCA have just launched a companion guide for NFPs to the IFRS for SMEs <http://www.accaglobal.com/guiaESAL> which is currently available in English and soon to be translated into Spanish.

We would like to see the IFRS Foundation extend the scope of the IASB' s work to the private NFP sector and make a statement of intention at this stage that a project in this area would be assessed. We realise that others are concerned about the diversion of resources away from what are perceived as IASB' s core tasks. We think that in terms of impact an NFP standard might bear comparison to some others being considered, and furthermore it might not involve such great resources as some might think.

**Q2 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?**

Users are an expanding constituency and are needing reporting that goes beyond the financial statements that IASB currently exclusively addresses – that is looking at non-GAAP financial reporting and also non-financial reporting. IFRS Foundation needs to reflect on the implications of developments such as Integrated Reporting for example. FEE is also promoting a 'core and more' – a layered approach of a core report in concise form of key matters, supported by more reports of differing levels of analysis and data. We note that

that IASB has already acknowledged the issue of the need for wider reporting with its own Management Commentary guidance. Perhaps that guidance should be reconsidered in the light of current trends.

The IFRS Foundation's scope of action, however, is currently quite clearly limited to financial reporting. In our view the Integrated Reporting framework looks to be a promising way forward, so we think IASB should co-operate with that initiative. It may however not be the only answer. While the Corporate Reporting Dialogue represents a useful vehicle for progressing this, there needs also to be a lead from the securities' regulators and governments on the direction along which corporate reporting should develop and how that might be best achieved.

**Q3. Do you agree with the Foundation's strategy with regard to the IFRS Taxonomy?**

We agree that IASB needs to develop the IFRS taxonomy itself and in step with the standards.

**Q4. How can the IASB best support regulators in their efforts to improve digital access to general purpose financial reports to investors and other users?**

We agree with the data gathering approach suggested. Any digital access in the near future is likely to be based around XBRL and the taxonomy, but IASB needs to keep in touch with developments as other approaches may come through.

**Q5. 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?**

IASB needs to think carefully about the implications of technology on its work that may take reporting even further away from the current model – a unitary printed report produced once a year a couple of months after the year end . For example differing delivery methods for financial information may allow for tailored reporting to suit the specific needs of the increasing range of users. We would very much support the proposals in paragraphs 38 and 39 for an advisory group of experts and for research into the implications.

**Q6 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?**

We think that IFRS are not always being written in a way that encourages consistent application by preparers and allows for consistent enforcement by regulators. For example IFRS15 has already spawned the need for clarifications for preparers and IFRS8 seems to pose an issue for enforcement in allowing too much latitude to management in terms of the level of disaggregation of segmental performance.

Transition Resource Groups have been established for IFRS15 and for IFRS9 (impairment) and these seemed to have fulfilled an important function in these cases in providing a forum for discussion and highlighting of implementation issues. They need not however be a standard part of the due process for major new standards. They perhaps have drawn attention to the question of adequate field-testing of major new or revised standards.

The Trustees should in our view take a more active role in the post-implementation reviews and the reports of the reviews should be coming to them, given that this is in essence the main way of assessing IASB' s standard setting performance. The Trustees' due process role currently may be seen as a rather process-driven one.

We are broadly content with the current roles that IFRIC and the IFRS education initiative are playing in trying to help consistent application.

**Q7 Do you have any suggestions as to how the functioning of the three-tier structure of the governance of the Foundation might be improved?**

We support the current three tier structure, as necessary to show the safeguarding of the public interest and some degree of democratic accountability via the Monitoring Board, while allowing more detailed oversight by the Trustees on behalf of the different market participants and funders .



**Q8 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?**

The geographical distribution of Trustees needs to be reviewed and needs to better reflect the use of IFRS around the world and also the funding of the organisation. The need for participation in the oversight mechanism is clearly greatest for those markets most dependent on IFRS. Another aspect of the trustees’ role is fundraising and so as a body they are broadly accountable to those funders. The implication of both of these would probably be a relative reduction of trustees from North America while the numbers from Europe and Asia-Pacific might remain broadly comparable.

The appropriate balance should be got right in the first place rather than being achieved via ‘at large’ trustees. The meaning of the first sentence of paragraph 81 is not very clear – it begs the question what is the appropriate balance? If the proper balance is established in the constitution then we consider there should be fewer rather than more ‘at large’ appointments.

**Q9. 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?**

There should be no specific allocations of trustees by background, but the constitution should refer to a balance of skills and experience. We do not think that specific reference to the major accounting firms is appropriate. That said it would be essential that some have a background in accountancy, given the Trustees' oversight role over IASB. The majority of the Trustees should have senior roles in business or investment. Currently we are concerned that too many of the trustees have a background in regulation or standard setting.

**Q10. Do you agree with the proposal to change the focus and frequency of reviews of strategy and effectiveness, as set out above?**

We agree that the Foundation's structure is settling down after about fifteen years of operation and that a five year interval may be appropriate for the next review.

**Q11. 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?**

This proposal will have the advantage of allowing for a reduction in expenditure on the board members. The other advantages may be that a smaller board is more manageable for making decisions. However the demands on board members to represent IASB and conduct outreach to constituents in different markets may have grown, as the take up of IFRS around the world has itself increased.

On balance we support the proposals to reduce to 13 and we note that the trustees have already for an extended period allowed the numbers to fall below the 16 specified in the constitution, without major problems.

As to the geographical balance, the same sorts of issues arise here as with the Trustees noted in our answer to Q8 above, albeit without the funding issue noted. We consider the question of geographical balance much less important with IASB membership than with the Trustees and it is the recent background and experience that is more important. If the geographical requirements are continued with, then there should on any rational basis be a relative reduction in the North American component. We are not sure that the current reckoning of geographical backgrounds to put the chairman and deputy chair in the 'at large' category will always be appropriate.

**Q12 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?**

While a greater range of backgrounds is probably a good thing, retaining the majority of the board as users, preparers and auditors as the principal players in the financial reporting dialogue, should be the objective. We are concerned that even before this change has gone through the Trustees have appointed a current board where seven out of fourteen members have an immediate role in standard setting or securities regulation before joining IASB. Recent practical experience should be the determinant of background.

**Q13. Do you agree with the proposal to amend Section 31 of the *Constitution* on the terms of reappointment of IASB members as outlined above?**

We support this change to a reappointment up to five years as a reasonable amendment.

**Q14. 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?**

We agree with the objectives for the funding that the Foundation has set out in paragraph 96. We note that these objectives have not been met either in terms of public rather than private sources, or relative GDP and not in terms of forward commitment.

**Q15. Should the Trustees consider any other issues as part of this review of the structure and effectiveness of the Foundation? If so, what?**

We have no further issues to propose.