



IFRS Foundation
Chairman of the Trustees
30 Cannon Street
London EC4M 6XH
United Kingdom

10 December 2015

Dear Sir,

Re: Trustees Review of Structure and Effectiveness: Issues for the Review

BUSINESSEUROPE is pleased to respond to the request for views on the Trustees Review of Structure and Effectiveness: Issues for the Review (the Review).

We strongly believe that the IASB should not broaden the scope of its standard-setting activities from its present focus. We also think that the focus of the IASB's activities should remain on financial reporting.

BUSINESSEUROPE places a high value on principle-based standards, as we believe that these are more likely than the alternative approaches to result in relevant and reliable financial information. It is very important that these standards are consistently applied.

Our detailed response to the questions raised is provided in the appendix to this letter.

Please do not hesitate to contact us should you wish to discuss these issues any further.

Yours sincerely,

Jérôme P. Chauvin
Deputy Director General

APPENDIX

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 strongly believe that the IASB should not broaden the scope of its standard-setting activities from its present focus. It is better that the IASB concentrate on its acknowledged area of expertise and push ahead with improvement of the body of IFRS and IFRS for SMEs, rather than to enter into new domains which will require additional resources and new expertise, which may not be readily available.

Any expansion of the IASB's activities from its current remit would inevitably create a risk of a dissipation of the IASB's energy and lead to conflicting calls for effort and resources. It would be better, in our view, to leave these other areas to specialised bodies funded entirely by dedicated financing provided by the parties interested in those new areas.

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?

We think that the focus of the IASB's activities should remain on financial reporting. However, since financial reporting is just one element of corporate reporting in its broader sense, and the coordination of corporate reporting initiatives is important for preparers, it seems sensible that the IASB continues to monitor closely developments in the area of integrated reporting in order to maintain the relevance of financial reporting. This should include monitoring of trends in the use of "non-IFRS APMs" which can provide an indication of whether the requirements of IFRS continue to respond users' needs.

We agree that the IASB should continue to cooperate with the groups discussed in the Review, but only in a role of observer and advisor with the aim of remaining aware of developments. We think that the IASB should not pursue an active role in the development of integrated corporate reporting or other areas referred to.

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

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 general direction of the Trustees' recommendations, that is: that the IASB must maintain control over the IFRS Taxonomy in order to protect and maintain the quality of the IFRS brand; that it should take into account the needs of the IFRS Taxonomy by setting standards using clear drafting and language that can easily be translated into a consistent Taxonomy; and that the IASB should leave to others the responsibility of developing the computer tools needed to process the data compiled

according to the Taxonomy. We entirely agree with, and would emphasise, the point made by the Trustees, that the consideration of Taxonomy should not dictate the standard-setting process. The development and maintenance of Taxonomy should remain a “by-product” of financial reporting.

We think that the best way to support regulators is for the IASB to ensure that the IFRS Taxonomy is of appropriate quality and then to leave the decisions about the acceptability of the computer tools to individual regulators to decide in the context of their jurisdiction. Once again, we would urge the IASB not to lose its focus on its primary role.

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?

We think that the IASB should limit its action to maintaining an awareness of developments by occasional discussion with external experts. If changes in technology become relevant to the work of the IASB, the Board will become aware of this fairly quickly through the demands of users and others, and should not give this area a high priority or devote anything other than minor amounts of resources to it. We understand that currently the role of technical-advisory and review forum is filled by the IFRS Taxonomy Consultative Group (ITCG).

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 place a high value on principle-based standards, as we believe that these are more likely than the alternative approaches to result in relevant and reliable financial information. We also think that consistent application of standards is very important. However, principle-based standards require preparers to exercise judgement in many areas, and this means that it is inevitable that on occasion different conclusions will be drawn by different entities. This is particularly likely with a set of global standards which have to be translated into different languages and applied in different cultures. What is important is that application should be consistent with the standard, which does not necessarily mean that it should be entirely uniform across the globe.

The primary responsibility for the assurance of consistent application rests with persons other than the IASB – preparers, auditors and regulators - but it is clear that the IFRS brand will suffer if there is a perception of major inconsistencies in the application of the standards. The IFRS Foundation’s and the IASB’s role is therefore to put in place a strong due process to ensure that the standards produced are of high quality, that is, based on clear and consistent principles, drafted in clear and understandable language, and tested thoroughly by a representative cross-section of constituents before finalisation.

Overall, the activities described by the Trustees respond adequately to these concerns. We would however reiterate the suggestion from EFRAG to enhance the quality control process by the IASB's making "fatal flaw" drafts more widely available in order to allow all interested parties to review near-final standards for their ease of comprehension and clarity. Provided that the ground rules were made clear, this would not be transformed in to an additional "exposure draft", but would on the contrary facilitate the elimination of inconsistent application arising from drafting issues. We regret that the Board did not pursue this suggestion fully. We consider that the role of preparers is key in the process of implementation of a new standard and think therefore that they should be involved in the drafting process and in the fatal flaw review, and that field testing should be systematic for major standards.

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 note that the existing three-tier structure provides for:

- a) Public accountability of the organisation by the Monitoring Board;
- b) Governance and oversight by the Trustees; and
- c) Standard-setting and related activities by the IASB and the Interpretations Committee.

Overall, we think that this three-tier structure is appropriate.

However, we do not agree with the statement that it is not within the remit of the Trustees to consider any comments related to the Monitoring Board as part of this review. Our understanding is that, as a signatory of the Memorandum of Understanding (MOU) between the "capital markets authorities" and the Trustees, the Trustees as a body have the right to discuss the functioning of the MOU. In this respect, we would invite the Trustees to consider whether the current composition of the Monitoring Board (MB) is drawn from a sufficiently broad range of stakeholders in the world's capital markets to ensure that the public accountability and public interest oversight aspects of the IFRSF's activities are fully covered.

In addition, we would emphasise that membership of the Monitoring Board must be in accordance with the criteria of Appendix A of the Monitoring Board's Charter, and that satisfaction of these criteria must be positively confirmed on a frequent and regular basis in order for members to remain in place.

To conclude, we think that a prerequisite for membership of each of the three tiers should be a clear commitment to moving towards application of IFRSs and promoting global acceptance of a single set of high quality international accounting standards as the final goal.

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?

Although we agree that Trustees should be able to represent all parts of the world, we are strongly of the opinion that the IFRS Foundation should have as its primary focus the needs of those jurisdictions which have already adopted IFRS or are firmly and irrevocably committed to the adoption of IFRS, and should also take into account the stable and permanent financial commitment made by jurisdictions. The principal criteria for qualifying to be represented by a Trustee should therefore be commitment to IFRS and to stable long-term funding of the foundation.

We think that before any decisions are made about the number of "at-large" Trustees, the current composition of the Trustees' appointments should be reviewed using the criteria we propose. We would expect that the US representation would be reduced thereby making room for additional "at-large appointments. In any event, given the commitment of Europe to the IFRS Foundation and its funding, we would be opposed to any reduction in European representation.

Q9 Request for Views: 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?

We agree with the current approach of not setting a quota for types of professional backgrounds and that the Trustees should nonetheless seek to have a balanced composition reflecting the wide range of professions interested in financial reporting.

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 with the proposal to extend the period between strategy reviews. The proposal to review the entire strategy and effectiveness of the organisation at the latest five years after the completion of the previous review is reasonable. Indeed, strategy reviews could be conducted at even longer intervals without detriment to the organisation.

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?

We note that these proposals are based on a perceived increase in effectiveness since the number of members was reduced to 14, and a reduction in cost.

The Foundation's goal of developing a single set of high quality, globally accepted financial reporting standards inevitably means that a very wide range of jurisdictions is targeted. In addition, when we consider the amount of meetings and conferences, and

the related preparation, that has to be undertaken, and the detailed knowledge and challenge they have to provide, the workload of the members of the IASB seems heavy. Our members have not noted the perceived advantages of a reduced Board in practice over the last 18 months. On the other hand, we have not become aware of any evident disadvantages.

We think that it is important to maintain a balance of members which represents the range of jurisdictions actively committed to IFRS and the varied professions that make up the IFRS constituency. What is essential is that IFRS continues to be of high quality. We are not convinced that a smaller IASB can provide the broad range of representation required, and would thus oppose any further reduction in number.

As stated above in respect of the Trustees, if a decision were to be made to reduce the number of IASB members, then we are firmly of the opinion that Board seats should be allocated on the basis of commitment to the use of IFRS and funding of the IFRS Foundation. On these grounds we are opposed to any reduction in the representation of Europe and question the presence of US members on the Board in view of recent shifts in the commitment of the USA to convergence.

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?

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 note that there are some members of the current IASB whose background is really that of "market and/or financial regulators" and this amendment in effect would validate an accepted status quo. We do not disagree with this background being represented, provided that this does not exceed twenty to twenty-five percent of the Board, and the Board remains balanced overall.

We think that the maximum term of service for IASB members should remain at eight years, with ten years for the Chairman and Vice-Chairman. We agree that it is important that members' practical experience be recent, and any period longer than these terms would lead to the risk of their experience no longer being relevant in a changing world.

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 that in the long term a funding system as described in paragraph 96, that is, a system based on national funding regimes proportional to a country's relative GDP, will probably provide the most sustainable financing of the IFRS Foundation while providing independence and accountability.

In the meantime, we think that the current mix of public and private-sector contributions is acceptable, but we would encourage the Trustees to continue to monitor carefully the perceived impact of the contributions of the accounting firms.

In contrast, we think that it is unacceptable that a number of jurisdictions do not fully provide their agreed share of funding, particularly as this appears to be putting the IFRS Foundation under strain. We wonder whether any of the jurisdictions concerned have representation in the IFRS Foundation, and if so, we think that the Trustees should apply the criteria of representation being dependent on funding and commitment to adoption of IFRS as discussed above.

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