

July 2015

IFRS Foundation®

Request for Views

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

Comments to be received by 30 November 2015



IFRS Foundation Trustees' Review of Structure and Effectiveness: Issues for the Review

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IFRS Foundation Publications Department
30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749
Email: publications@ifrs.org Web: www.ifrs.org



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IFRS FOUNDATION TRUSTEES' REVIEW OF STRUCTURE AND EFFECTIVENESS: ISSUES FOR THE REVIEW

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IFRS FOUNDATION TRUSTEES' REVIEW OF STRUCTURE AND EFFECTIVENESS: ISSUES FOR THE REVIEW

Introduction and Invitation to Comment

1. The purpose of this paper is to solicit input on the issues that the Trustees of the International Financial Reporting Standards (IFRS) Foundation (the Foundation) are addressing in the latest review of the structure and effectiveness of the organisation.
2. The Trustees invite comments on the proposals and the questions set out in this paper. The deadline for comments, to be received in writing, is **30 November 2015**.

Background

3. The Foundation's *Constitution* (Sections 17 (c) and (d))¹ requires the organisation to undertake a review every five years 'of the entire structure of the IFRS Foundation and its effectiveness, such review to include consideration of the geographical distribution of Trustees in response to changing global economic conditions, and publishing the proposals of that review for public comment'.
4. Previous reviews have been undertaken as follows:
 - (a) a *Constitution Review* initiated in November 2003 and completed in June 2005;
 - (b) a *Strategy Review* undertaken in 2007;
 - (c) a second *Constitution Review* initiated in February 2008 and carried out in two parts, with the first part (focusing on public accountability and the composition of the International Accounting Standards Board, IASB) being completed in January 2009 and the second in January 2010; and
 - (d) a second *Strategy Review*, launched in November 2010 and completed in February 2012.
5. The outcomes of these reviews have led to significant enhancements and improvements in the Foundation's governance and effectiveness, a summary of which is at Appendix A.

Context for the Review

6. The report of the Trustees' second *Strategy Review* (the *Strategy Review* report), published in February 2012,² sets out the strategy for the Foundation's second decade, focusing on four major areas:
 - (1) the organisation's mission, specifically the public interest served by the Foundation's work;
 - (2) governance;
 - (3) the process and procedures used by the Foundation and the IASB; and
 - (4) the organisation's funding.
7. In preparing for this review, the Trustees have reviewed the strategy as set out in the *Strategy Review* report, together with the Foundation's *Mission Statement*,³ published in April 2015. The Trustees have developed a *Strategic Overview* for the period 2015-17 that identifies four primary strategic goals for the organisation in support of its mission, as follows:
 - (1) to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles;
 - (2) to pursue the global adoption of IFRS;

¹ IFRS Foundation (2013) *Constitution*, available at: <http://www.ifrs.org/The-organisation/Governance-and-accountability/Constitution/Documents/IFRS-Foundation-Constitution-January-2013.pdf>.

² IFRS Foundation (2012) *Report of the Trustees' Strategy Review 2011— IFRSs as the Global Standards: Setting a Strategy for the Foundation's Second Decade*, available at: <http://www.ifrs.org/About-us/IFRS-Foundation/Oversight/Strategy-Review/Documents/TrusteesStrategyReviewFeb2012.pdf>.

³ The *Mission Statement* (April 2015) can be accessed at: <http://www.ifrs.org/About-us/Pages/IFRS-Foundation-and-IASB.aspx>.

- (3) to support the consistent application and implementation of IFRS globally; and
- (4) to ensure that the IFRS Foundation, as an organisation, is independent, stable and accountable.

Issues for this review

8. Although a number of previous reviews have been labelled as a ‘Constitution Review’, the Trustees plan to conduct this review within the context of the four *Strategic Overview* areas referred to above. The remainder of this paper examines each of the primary strategic goals and the achievements that have been made, in particular since the publication of the *Strategy Review* report. As this document shows, the Foundation has achieved a good deal and, as a consequence, the Trustees wish to focus attention on a number of particular areas. There are three main areas on which the Trustees are seeking comments and answers to the questions in this consultation document, which are as follows:

Relevance of IFRS

- (a) to consider whether the IASB should extend its remit beyond the current focus of the organisation, either in terms of the types of entity covered or the types of reporting (paragraphs 12–28);
- (b) to seek views on the Foundation’s strategy for the IFRS Taxonomy (paragraphs 29–34); and
- (c) to consider the impact of developments in technology on maintaining the relevance of IFRS (paragraphs 35–39);

Consistent application of IFRS

- (d) to consider whether the Foundation is doing the right things to support the consistent application of IFRS and whether there is anything more it could and should be doing in this area (paragraphs 43–65);

Governance and financing of the IFRS Foundation

- (e) to consider the current governance structure of the Foundation, including the functioning of the three-tier structure (paragraphs 69–77);
 - (f) to review the provisions in the *Constitution* that relate to the Trustees’ geographical distribution, how to ensure an appropriate balance of professional backgrounds, and their terms of appointment (paragraphs 78–85);
 - (g) to consider the focus and the frequency of the reviews of structure and effectiveness specified in the *Constitution* (paragraph 86);
 - (h) to review the provisions in the *Constitution* that relate to the IASB, including the optimum size of the Board and its geographical distribution, the balance between full-time and part-time members and their professional backgrounds, and their terms of appointment (paragraphs 87–94);
 - (i) seeking views on the Foundation’s funding model and how its functioning might be strengthened (paragraphs 96–102).
9. That said, given the number of reviews that have taken place, in particular the most recent *Strategy Review*, the Trustees believe that it is not necessary to open up all aspects of the Foundation for consultation. In particular, the Trustees believe that the following areas need not be covered:
- (a) the primary objective of the Foundation (as noted below, the development of a single set of high quality, globally accepted standards) and the processes and procedures in support of that objective, including the IASB’s due process, which was the subject of a major review in 2012 (paragraphs 10–11);

- (b) what the Foundation and the IASB are doing in support of its commitment to the long-term goal of the adoption of IFRS (paragraphs 40–42); and
- (c) the operations and performance of the Advisory Council (paragraph 95).

Primary Strategic Goal 1: Development of a single set of standards

10. In support of the goal of developing a single set of high quality, globally accepted financial reporting standards, the *Strategic Overview* outlines a number of secondary strategic goals as follows:
 - (a) develop, monitor and maintain IFRS;
 - (b) ensure IFRS serves the public interest;
 - (c) ensure best professional practices are embedded in standard-setting;
 - (d) ensure high quality of IFRS through a strong due process, based on the principles of transparency, full and fair consultation and accountability; and
 - (e) ensure the relevance of IFRS is maintained in response to developments in wider corporate and other reporting.
11. The Foundation and the IASB have put in place and/or enhanced a number of major processes and procedures in support of these secondary strategic goals, which was an important focus in the *Strategy Review*. These are outlined in detail in Appendix B, and include the introduction of the three-yearly Agenda Consultation by the IASB, major enhancements to the organisation’s due process, the introduction of the Research and *Investors in Financial Reporting* programmes, and the IASB further embedding field testing and effect analyses into its due process. In the light of what is set out in Appendix B, the Trustees believe that these processes and procedures of the Foundation and the IASB remain appropriate in respect of the four goals referred to in paragraphs 10(a) to (d) above. Accordingly, the Trustees do not propose to make any changes at this stage, including to the IASB’s formal due process.⁴ That said, the Trustees will continue to monitor these issues in the light of developments.

Ensure the relevance of IFRS is maintained

12. Developments in financial reporting and wider corporate reporting continue apace and there continue to be calls from stakeholders for the Foundation and the IASB to consider whether the scope of the IASB’s work should be broadened to develop standards for other types of entities and other purposes.
13. To date, the IASB has focused its work on developing standards for private sector for-profit entities, in particular those that have public accountability,⁵ but also for Small and Medium-sized Entities (SMEs). The *Strategy Review* report emphasised that, taking into account the necessary resource requirements, the Foundation will consider developing standards for other purposes and other entities at a later date. In that report, the Trustees noted that this current review would provide a timely opportunity to consider any expansion of the scope of IFRS. In this document, the Trustees are considering these issues and seeking views within the context of ensuring that the relevance of IFRS is maintained.
14. In addition, a number of stakeholders, together with the IFRS Advisory Council, have emphasised the need for the IASB to continue to ensure that IFRS remains relevant in the face of technological developments.

⁴ At the time of writing, the IASB has been undertaking trials of a revised due process for updating the IFRS Taxonomy, which may result in changes, but no changes are anticipated at this stage to the due process for the development of Standards (including amendments to Standards) and Interpretations.

⁵ Defined in the *IFRS for SMEs* (2009), paragraph 1.3, as an entity whose debt or equity instruments are traded in a public market or which holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

Differential reporting: SMEs

15. The IASB has already accepted the relevance of having differential financial reporting requirements for SMEs. In 2009, the IASB issued the International Financial Reporting Standard for SMEs (*IFRS for SMEs*). In deciding to develop the *IFRS for SMEs*, the IASB noted that, while the primary objective of the Foundation, as set out in its *Constitution*, is ‘to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted standards’, another objective specified in the *Constitution* is ‘to take account of, as appropriate, the needs of a range of sizes and types of entities in diverse economic settings’. In considering these two objectives together, the IASB has stated that reference to ‘single set’ means that all entities in similar circumstances globally should follow the same standards, but that circumstances can differ depending on the type and size of entities.⁶ This explains the IASB’s rationale for developing a separate reporting framework for SMEs.
16. In developing the *IFRS for SMEs*, the IASB concluded that the Standard is intended for use by entities that do not have public accountability. An entity has public accountability if its debt or equity instruments are traded in a public market, or if it is in the process of issuing such instruments for trading in a public market, or if it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. The IASB decided that it would not be appropriate to define SMEs by reference to quantified size criteria. This is because the IASB believes it is not feasible to develop quantified size tests that would be applicable across numerous countries and sectors.
17. The IASB has recently completed a comprehensive review of the *IFRS for SMEs*. As part of the review, the IASB considered whether the scope of the Standard should be expanded to cover some or all publicly accountable entities. The IASB has concluded that it should not, noting in particular two interrelated reasons:
 - (a) if the scope were widened to include some or all publicly accountable entities, this might lead to pressure to make changes to the *IFRS for SMEs* to accommodate that wider group, which would increase the complexity of the Standard. Even excluding concerns that might be raised by other interested parties, the IASB noted that in its own deliberations, it would be difficult, if not impossible, to ignore the existence of public users of a subset of financial statements prepared under the *IFRS for SMEs*; and
 - (b) there are specific risks associated with the inappropriate use of the *IFRS for SMEs*. The IASB noted that if publicly accountable entities were allowed to use the *IFRS for SMEs*, and, as a consequence of not being the intended user group, were producing financial statements of insufficient quality or usefulness, this would have the effect that a subgroup of financial statements, prepared under the brand of the IFRS, would essentially not be fit for purpose. This would have the consequence that some financial statements produced applying the requirements of an IFRS would nevertheless not meet the objectives of the Foundation.

⁶ *IFRS for SMEs*, Basis for Conclusions, paragraph BC42.

18. Given the IASB's long-standing position on financial reporting by SMEs, and the completion of the comprehensive review of the *IFRS for SMEs* referred to above, the Trustees do not plan to examine the issue again as part of this review. Nevertheless, the issue remains a topical one, in the light of the publication by the European Commission in February 2015 of a Green Paper *Building a Capital Markets Union*⁷ (CMU). The Green Paper poses a question as to whether there is 'value in developing a common EU level accounting standard' for SMEs listed on certain unregulated trading venues (Multilateral Trading Facilities, MTFs). The Foundation has submitted a response to the Green Paper⁸ outlining its current basis for differentiating on the basis of public accountability, but expressing a willingness to work with the European Commission and other constituents across the whole world (including the users of financial statements) in considering further the financial reporting implications of developing a CMU. The Trustees propose that the Foundation and the IASB should take forward any further work on this issue within that context, rather than as part of this review.

Scope: should the IASB develop Standards for other entities?

19. There continue to be demands for internationally consistent standards for the public sector and not-for-profit sectors.
20. With regard to the public sector, there are already in existence International Public Sector Accounting Standards (IPSASs), which are developed by the International Public Sector Accounting Standards Board (IPSASB), an independent standard-setting body under the auspices of the International Federation of Accountants (IFAC). The IPSASs that deal with financial reporting under the accruals basis of accounting are based on IFRS, where the requirements of those Standards are applicable to the public sector. The issue of whether the scope of the Foundation (and the Monitoring Board) should be extended to cover the governance of the IPSASB was considered by the Trustees during 2014, in response to a consultation document issued in January 2014 by the IPSASB Governance Review Group (GRG).⁹ The Foundation's response, submitted on 29 April 2014,¹⁰ while acknowledging the importance of developing international standards for the public sector, sets out the Trustees' view that, in the short- to medium-term at least, it would not be feasible for the Foundation and the Monitoring Board to take on responsibility for IPSASB. Instead, the Foundation proposed that a credible, practical and durable solution was for IPSASB to remain under the auspices of IFAC, but with separate monitoring and oversight boards.
21. The GRG published a summary of responses to its consultation in October 2014, which revealed that around three-quarters of the respondents expressed a similar preference. In March 2015, the GRG published its recommendations,¹¹ including that the IPSASB should continue to operate under the auspices of IFAC. On oversight, the GRG recommends the establishment of a single governance body, the Public Interest Committee, independent from IFAC, to promote the public interest in the IPSASB's standard-setting activities.¹² In the light of these developments, the Trustees do not intend, as part of this current review, to consider further the possible expansion of the IASB's scope to encompass financial reporting standards for the public sector. The IASB will, however, continue its current liaison arrangements with IPSASB.

⁷ European Commission (2015) Green Paper *Building a Capital Markets Union* (COM(2015)63) available at: http://ec.europa.eu/finance/consultations/2015/capital-markets-union/docs/green-paper_en.pdf.

⁸ The response can be accessed at: <http://www.ifrs.org/Alerts/Governance/Pages/IFRS-response-CMU-May-2015.aspx>.

⁹ The IPSASB Governance Review Group was established in 2013 to assess the current governance and oversight arrangements for the setting of IPSASs and other pronouncements, and to make recommendations to strengthen those structures and processes. The Group is co-chaired by representatives of the International Monetary Fund (IMF), the World Bank and the Organisation for Economic Co-operation and Development (OECD).

¹⁰ The response can be accessed at: <http://www.ifrs.org/Alerts/Governance/Pages/Response-to-IPSASB-public-consultation-Governance-Review-April-2014.aspx>.

¹¹ The GRG recommendations can be accessed at: <http://www.oecd.org/gov/budgeting/IPSASB-Governance-Review-Group-Recommendations.pdf>.

¹² The GRG recommends that the membership of the Public Interest Committee should include, but not be limited to individuals from the IMF, OECD, World Bank and INTOSAI.

22. Rather different considerations apply to the private, not-for-profit sector, which internationally has no equivalent of the IASB or IPSASB. There are calls for international standards for the not-for-profit sector to be developed. For example, in February 2014, the UK Consultative Committee of Accountancy Bodies (CCAB) issued a report *International financial reporting for the not-for-profit sector*¹³ which demonstrates a demand for developing international standards for the not-for-profit sector. The Trustees continue to strongly support the need for transparent financial reporting requirements for not-for-profit bodies. Given the demand for standards to be created for that sector and the lack of an international standard-setter to do that, the Trustees would welcome views on whether the scope of the organisation's mandate should be expanded to encompass not-for-profit bodies. Any consideration of this issue would need to take into account the consequences of such a development, including the impact on the organisation's objectives, the IASB's agenda, on which there is a separate consultation about to be launched, and the resources available to undertake this work.

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?

Scope: what is the boundary of financial performance?

23. Another issue that has become the focus of much debate concerns the reporting of non-IFRS information, and in particular the reporting of what some refer to as alternative performance measures (APMs).
24. Discussions about non-IFRS information are broader than merely covering APMs, and can also focus on whether information belongs in financial statements or in other reports. Decisions about the scope of information to be included in financial statements can have implications for whether information is audited and for where it is placed within an entity's package of general purpose financial reports.
25. Some stakeholders see the growth of such reporting as either a risk to the relevance of IFRS or a reflection that the current suite of IFRS alone does not provide companies with the means to report what they see as their 'true' financial performance and position. The Trustees, in common with the IASB, start off with the presumption that financial statements prepared using IFRS do provide a fair presentation of an entity's financial performance and financial position. That said, while acknowledging the concerns that some stakeholders have, the Trustees view this as a technical issue within the competence of the IASB. The Trustees note that this is an issue that the IASB is tackling already, notably within the context of its Disclosure Initiative.¹⁴ While the Trustees have a duty under the *Constitution* to consider the IASB's agenda, they cannot determine it, and any proposals for further work in this area should be examined within the context of the IASB's current Agenda Consultation rather than as part of this review. This includes consideration by the IASB of where the boundaries should be between the scope of its work and that of securities regulators in particular.

¹³ The CCAB report can be accessed at: <http://www.ccab.org.uk/documents/IFRNPO-FullReport-Final-07022014.pdf>.

¹⁴ See, for example, Agenda Papers 11–11D on the Disclosure Initiative considered by the IASB at its February 2015 meeting at: <http://www.ifrs.org/Meetings/Pages/IASB-Meeting-February-2015.aspx>.

Scope: wider corporate reporting

26. Developments in wider corporate reporting have continued to be made, most notably in the area of integrated reporting, <IR>, which has been defined by the International Integrated Reporting Council (IIRC) as ‘a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation’. The IIRC has developed *The International <IR> Framework*, published in December 2013, the purpose of which is to establish Guiding Principles and Content Elements that govern the overall content of an integrated report, and to explain the fundamental concepts that underpin them. Integrated reporting is now a ‘hot topic’ that is increasingly being referred to in discussions on financial reporting. For example, in a report commissioned by the B20 (the business forum that advises G20 governments) the six largest global accounting networks¹⁵ have endorsed <IR> as a key innovation that will make corporate reporting more conducive to long-term investment.
27. The IFRS Foundation has played a role in the development of the <IR> Framework, in particular through the Chair of the IASB being a member of the IIRC Council and the involvement of Foundation staff in the IIRC Working Group and Technical Task Force. This participation has taken place within the context of a Memorandum of Understanding (MoU) between the Foundation and the IIRC, which was signed originally in February 2013 and revised and renewed in December 2014.
28. The Trustees believe that it is important for the Foundation and the IASB to participate in such developments, but the Trustees continue to view the organisation’s existing forms of co-operation as a more appropriate approach than the IASB broadening the scope of its work into areas outside the traditional boundaries of financial reporting. As well as the IIRC, MoUs have been agreed with the International Actuarial Association (IAA), the International Federation of Accountants (IFAC) and the International Valuation Standards Council (IVSC). The IASB also participates in the Corporate Reporting Dialogue (CRD), a forum convened by the IIRC of organisations that issue standards and frameworks with international impact. Through the CRD, the IASB engages with organisations that cover all or some aspects of sustainability reporting, such as the Global Reporting Initiative (GRI), the Carbon Disclosure Project (CDP) and the Climate Disclosure Standards Board (CDSB). The Trustees believe that the IASB should continue to be an active participant in the CRD, which will ensure that the IASB remains fully aware of developments across the whole range of corporate reporting and can take steps, if and when appropriate, to maintain the relevance of IFRS within that range. In reaching this view, the Trustees have taken account of the views of the Advisory Council expressed at its October 2014 meeting that the IASB must stay at the forefront of such discussions, because they are very important to ensuring the future relevance of the IASB’s work.¹⁶

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?

¹⁵ B20 report *Unlocking investment in infrastructure*, available at: <http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Press-releases/Documents/unlocking-investment-in-infrastructure.pdf>.

¹⁶ See the *Public report of the IFRS Advisory Council Chairman to the Trustees and the IASB on the October 2014 Advisory Council meeting* at: <http://www.ifrs.org/Meetings/MeetingDocs/Advisory%20Council/2014/October/AC-report-October-2014.pdf>.

Relevance of IFRS in structured digital reporting: IFRS Taxonomy

29. Users of general purpose financial reports do not all access or process the information in those reports in the same way. Some investors and analysts focus on how information is presented by management, as reflected by their support for the IASB's projects on Financial Statement Presentation and the Disclosure Initiative. Other investors and analysts are more focused on the data within a general purpose financial report, and either extract data from the reports to use in their models or use data aggregator services to access the data. IFRS deals with the substance and content of the transactions and other economic phenomena that should be reported in general purpose financial reports. The IASB's expertise is in determining how transactions and economic phenomena should be classified, measured and presented in general purpose financial reports. The IASB focuses on understanding the needs of the different types of users and uses of general purpose financial reporting and sets its Standards with these in mind.
30. The IASB's Standards are developed on the basis that entities are required to prepare a general purpose financial report whether that report is printed or in electronic format, ranging from a PDF version to one that is 'tagged' (in a computer-readable code that identifies specific items) using a structured data format. One of the reasons the IASB produces the IFRS Taxonomy is to assist with the accurate digital representation of IFRS in a structured format—ie with the information tagged and structured to help with searches and analysis.
31. The Foundation believes that it is important that the organisation itself develops and maintains an IFRS Taxonomy in support of its mission in a digital world. If individual jurisdictions, or some other body, were to develop multiple Taxonomies, comparability would not be achieved and there is a risk that electronic standards developed by others will undermine the IFRS brand.
32. During 2013, the organisation initiated a shift in its strategy to focus more on the Taxonomy itself and leaving to others with more appropriate expertise the development of the computer language (XBRL) used to render and view the Taxonomy. This was in line with a recommendation by the Trustees in the *Strategy Review* report to integrate the IFRS Taxonomy into the process of setting Standards. In making that recommendation, the Trustees stressed the importance of the fact that Taxonomy considerations should not dictate the standard-setting process, but called on the IASB to have a level of involvement in the quality assurance process. Within the context of developing Standards based on clearly articulated principles, the Trustees also called upon the IASB, in drafting new Standards, to take into account the need for language that is easily translatable into a consistent Taxonomy. As a consequence, the Foundation's goal is now focused on having the IFRS Taxonomy recognised as the globally agreed standard to tag and intelligently structure IFRS financial information within a digital report.
33. Regulators in many jurisdictions have taken, or plan to take, steps to improve access to general purpose financial reports through electronic depositories, although the approaches taken remain diverse and therefore inconsistent. For example, the US Securities and Exchange Commission (SEC) requires all US domestic issuers to file an electronically tagged version of their financial statements using XBRL. Regulators in Australia, Japan, Korea and many South American countries have similar requirements or options. In the EU, the Transparency Directive requires electronic filing of financial statements from 2020. In other countries in the world, progress on digital reporting is slower.
34. To understand both the current state of electronic filing and the general direction in which it is heading, the Foundation's Taxonomy team is building profiles of current requirements in each jurisdiction for filing and distributing IFRS Financial Statements. Included in the profiles will be information about electronic filing initiatives (particularly whether the filings use structured data).

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?

Relevance of IFRS in the face of wider developments in technology

35. The Foundation thinks that the steps it has taken in supporting the electronic delivery of general purpose financial reports have been appropriate and have put the IASB in a strong position in this regard. However, technology can change quickly and it has the potential to affect many aspects of the IASB’s activities, including the different ways investors and other users access and process financial information. The Foundation is conscious that it needs to be able to anticipate and adapt to the impact of technology changes.
36. As noted above, the IFRS Advisory Council has stressed the importance of the organisation ensuring that the relevance of IFRS is maintained in the face of developments in technology. Technology can change how information in general purpose financial reports is delivered to investors and other users and how they access and process that information.
37. Technology can enable entities to deliver the information in their financial reports in innovative ways—ie it can enhance how the information is communicated. Technology can also enable users to search through and process larger, complex and increasingly unstructured data sets. This means that the IASB needs to assess whether tools are evolving that suggest that there are more effective ways to think about how the IASB should support others in their use of financial data. It is likely that the IFRS Taxonomy will continue to be the best way to support the users of structured data, but other approaches may be more appropriate for some of the newer tools and methods for both structured and unstructured data. Some of these newer tools and methods could also be used to support the standard-setting process and may have implications for the way in which the IASB writes its Standards.
38. The Foundation is considering establishing a network of experts to help and provide advice on how to monitor and assess changing technology and how the Foundation and/or the IASB should respond to, and where appropriate exploit, those changes.
39. The Foundation plans to undertake some research about how technology is changing and how the IASB’s development of the IFRS Taxonomy and its work on filing should respond to those changes. Relatedly, the Trustees think it is important to consider how technology might affect how financial information is shared and accessed more generally. The Foundation’s thinking is at an early stage and the Trustees would welcome any views and comments from stakeholders on these issues, including considering how these issues affect how the IASB writes Standards.

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?

Primary Strategic Goal 2: Global adoption of IFRS

40. In the *Strategy Review* report, the Trustees recommended that the Foundation should:
 - (a) maintain its commitment to the long-term goal of the global adoption of IFRS as developed by the IASB, in their entirety and without modification; and

- (b) seek full disclosure of the status of adoption of IFRS, in particular where that adoption is incomplete or where there is divergence from the full set of IFRS as issued by the IASB, and where jurisdictions are asserting compliance with IFRS without adopting IFRS fully.
41. The *Strategic Overview* maintains the commitment to the long-term goal of the global adoption of IFRS, with five secondary strategic goals as follows:
- (a) promote and support IFRS adoption;
 - (b) maintain relationship with existing adopters and promote endorsement of new IFRS;
 - (c) pursue convergence activities to facilitate future adoption;
 - (d) promote global support for the mission of adopting a single set of global standards; and
 - (e) facilitate global use of IFRS while protecting the high quality of the IFRS brand through Intellectual Property (IP) contractual arrangements.
42. The activities and procedures put in place by the Foundation and the IASB in support of these secondary strategic goals are outlined in Appendix C. The Trustees believe that these are appropriate and effective measures in pursuit of the primary strategic goal of global adoption of IFRS and, accordingly, the Trustees do not propose to make any changes as part of this review

Primary Strategic Goal 3: Consistency of application and implementation

43. As noted above, the Foundation’s objectives include the promotion of the use and rigorous application of IFRS. In the *Strategy Review* report, the Trustees noted that the organisation has an interest in helping to ensure the consistent application of IFRS internationally and recommended, among other things, that the IASB should work with securities regulators to pursue that objective.
44. Consistent application of IFRS is the third of the primary strategic goals in the *Strategic Overview* for 2015–17, with two secondary strategic goals as follows:
- (a) develop a timely and responsive interpretations process, while considering the principle-based nature of IFRS; and
 - (b) provide implementation support to IFRS adopters.
45. The *Strategy Review* report outlined in more detail a range of actions that the Foundation should pursue in helping to ensure the consistent application of IFRS:
- the IASB, as the standard-setter, should issue Standards that are clear, understandable and enforceable;
 - the IASB will provide guidance on its Standards that is consistent with a principle-based approach to standard-setting;
 - the IASB will work with a network of securities regulators, audit regulators, standard-setters, regional bodies involved with accounting standard-setting, accounting bodies and other stakeholders to identify where divergence in practice occurs across borders. Where divergence in practice could be resolved through an improvement in the Standard or an Interpretation, the IASB or the IFRS Interpretations Committee will act accordingly;
 - the IASB, in partnership with relevant authorities, will identify jurisdictions where IFRS are being modified and, in these circumstances, encourage transparent reporting of such divergences at the jurisdictional level;
 - the IFRS Foundation will seek the assistance of the relevant public authorities to achieve this objective;

- review and enhance the scope of the IFRS Interpretations Committee’s activities to ensure consistency of Interpretations, without undermining the commitment of a principle-based approach to standard-setting;
- the IFRS Foundation, through its education and content services, should undertake activities aimed at promoting consistent application; and
- using an agreed methodology, undertake post-implementation reviews to help identify implementation issues.

Clear, understandable and enforceable Standards

46. The *Due Process Handbook* outlines the procedures followed by the IASB in finalising the issue of a Standard or Interpretation to ensure that it is clear, understandable and enforceable.¹⁷ The Trustees believe that these procedures are appropriate.
47. In adopting IFRS, many jurisdictions require the Standards to be translated from English into other languages. In the *Strategy Review* report, the Trustees acknowledged this and recommended that, in drafting new Standards, the IASB should take into account the need for language that is easily translatable into foreign languages. The Foundation has an *Official IFRS Translation Process*¹⁸ that is designed to produce a high quality translation that accurately reflects the meaning of the original English.

Guidance consistent with a principle-based approach to standard-setting

48. In line with a recommendation in the *Strategy Review* report, the IASB and the Interpretations Committee will provide application guidance and examples when it is necessary to understand and implement the principles in a Standard in a consistent manner. This has been emphasised in the *Due Process Handbook* (paragraph 3.27). The work of the Interpretations Committee is considered further below. The IASB has also taken further action in support of this requirement, most notably with the establishment of two Transition Resource Groups (TRGs) as follows:
- Revenue Recognition (jointly with the US Financial Accounting Standards Board, the FASB) in June 2014, following the publication of IFRS 15 (ASU Topic 606 in the US) *Revenue from Contracts with Customers*; and
 - Impairment of Financial Instruments in August 2014, following the publication of IFRS 9 *Financial Instruments*.
49. The IASB is conscious that major new pronouncements, such as those referred to above, can give rise to implementation issues. The purposes of the TRGs are to:
- solicit, analyse and discuss stakeholder issues arising from implementation of the new requirements;
 - inform the IASB (and the FASB in the case of Revenue Recognition) about those implementation issues, which will help the IASB determine what, if any, action will be needed to address those issues; and
 - provide a public forum for stakeholders to learn about the new requirements from others involved with implementation.

¹⁷ In particular, the sections of the *Due Process Handbook* dealing with balloting (the formal process by which IASB members assent to the publication of a document) (paragraphs 3.22–3.30) and in seeking external input on a ‘draft for external review’ (a draft of a document that is circulated for an editorial ‘fatal flaw’ review whereby external reviewers are asked for feedback on whether the document is clear and reflects the technical decisions made by the IASB) (paragraphs 3.31–3.33).

¹⁸ IFRS Foundation (2013) *Translation, Adoption and Copyright Policy*, available at: <http://www.ifrs.org/Use-around-the-world/Adoption-and-copyright/Documents/Translation-Adoption-Copyright-Policy-August-2013.pdf>.

50. The TRGs do not issue guidance. It is for the IASB¹⁹ to determine what action, if any, will be taken on each issue considered by the TRGs.
51. The establishment of these two TRGs should not be taken as a precedent that such groups will always be set up following the publication of a new Standard or a major amendment to a Standard. The TRGs are a relatively new mechanism and the Trustees intend to first wait until there is more experience to draw on in their operations before reviewing them. In due course, the Trustees' Due Process Oversight Committee (DPOC) will review the operation of these groups to assess their effectiveness and whether any guidance developed as a result of the TRGs' discussions is in line with the above requirement as set out in the *Due Process Handbook*.

Co-operation with others

52. In pursuit of this objective, the Foundation has, for example, worked to deepen its co-operation with securities regulators. In September 2013, the Foundation and the International Organization of Securities Commissions (IOSCO) agreed a *Statement of Protocols for Cooperation on International Financial Reporting Standards*,²⁰ under which the two organisations agreed to deepen their co-operation in both the development of IFRS and implementation of IFRS on a globally consistent basis. This protocol is scheduled for review later in 2015. From the Foundation's perspective, the co-operation with IOSCO under the protocol has worked very well and the Trustees' hope is that the protocol will be extended. In addition, in July 2014, the IFRS Foundation and the European Securities and Markets Authority (ESMA) announced the agreement of a joint *Statement of Protocols* to serve as the basis for future co-operation in areas of mutual interest.²¹ The Foundation's view is that this co-operation is also working well.
53. The IASB has also worked to put in place appropriate processes to ensure that the Foundation is receiving information on implementation issues on a timely basis and then conducting the appropriate follow-up. The main focus of this work to date has been on developing the IASB's interactions with securities regulators, but has also included interactions with other stakeholders, including audit regulators, national accounting bodies and national standard-setters.

IFRS Interpretations Committee

54. In the *Strategy Review* report, the Trustees recommended that the IFRS Interpretations Committee should play a more active role in helping to ensure consistency of Interpretations, without undermining the commitment to a principle-based approach to standard-setting. In the report of their review of the efficiency and effectiveness of the IFRS Interpretations Committee, published in May 2012,²² the Trustees recommended—and the IASB agreed—that the Interpretations Committee should be provided with a broader range of 'tools', enabling it to be more responsive to requests for assistance in addressing diversity in practice in the application of IFRS. These include:
 - (a) enhancing mandatory requirements (new or revised requirements within IFRS), not only through the development of IFRIC Interpretations, but also amendments to Standards through either (i) the Annual Improvements process or (ii) proposals to the IASB for targeted, narrow-scope amendments that are beyond the scope of the Annual Improvements process; and

¹⁹ And the FASB in relation to the Revenue TRG.

²⁰ IOSCO/IFRS Foundation Press Release 18 September 2014, available at: <http://www.ifrs.org/Alerts/PressRelease/Pages/IOSCO-and-IFRS-Foundation-agree-joint-protocols-September-2013.aspx>.

²¹ ESMA/IFRS Foundation Press Release 15 July 2014, available at: <http://www.ifrs.org/Alerts/Governance/Pages/IFRS-Foundation-and-ESMA-sign-joint-Statement-of-Protocols-July-2014.aspx>.

²² IFRS Foundation (May 2012) *Report on the Trustees' Review of Efficiency and Effectiveness of the IFRS Interpretations Committee*, available at: <http://www.ifrs.org/Alerts/PressRelease/Documents/ReviewofEfficiencyandEffectofIFRSIntCommMay2012.pdf>.

- (b) providing non-mandatory guidance or explanations, which can include (a) proposals for additional illustrative examples, (b) referral to the IFRS Education Initiative for the preparation of additional educational material, or (c) agenda decision explanations, if no further action is proposed.
55. In response to the recommendations, the Interpretations Committee's range of activities has seen an increase. The Interpretations Committee considered 37 issues during 2014 (31 of which were new issues), down from 47 issues during 2012 (32 new issues).²³ The Interpretations Committee deals with issues predominantly through agenda decisions and Annual Improvements (only one Interpretation has been issued since 2012). The Interpretations Committee published 26 agenda decisions in 2014 (up from 16 in 2013), providing its technical conclusions on 17 of those issues (12 during 2013), thus providing assistance to those affected. This is consistent with the conclusions of the Trustees' review, in which it was identified that the Interpretations Committee should describe its view in an agenda decision when it is able to do so.²⁴ In 2014, 8 issues were recommended by the Interpretations Committee to be included in the Annual Improvements process (down from 12 in 2013).
56. In line with the Trustees' recommendations above, there has been an increase in the use of narrow-scope amendments in 2012 (four) and 2013 (seven) compared with earlier years, but this fell to two issues in 2014.

Education activities in support of consistent application

57. One of the Trustees' duties under the *Constitution* is to foster and review the development of educational programmes and materials that are consistent with the Foundation's objectives (*Constitution*, Section 15(k)). In fulfilment of this duty, the Foundation has an Education Initiative, the objective of which is to reinforce the organisation's goal of promoting the adoption and consistent application of a single set of high-quality international accounting standards. In fulfilling its objective, the Education Initiative takes account of the special needs of small and medium-sized entities and emerging economies. To achieve its objective, the Education Initiative makes available an appropriate range of high-quality, understandable and up-to-date material and services about standard-setting and IFRS, all of which is available on the Foundation's website,²⁵ as well as arranging IFRS events (such as major IFRS conferences and 'train the trainer' workshops).
58. The work of the Education Initiative is guided by its medium-term plan, the latest version of which covers the period 2012–2016 (*Plan 2012–2016*). Because most countries have now adopted IFRS, and to respond to concerns about the consistency and rigour with which IFRS is being applied (eg a topic repeatedly highlighted in the World Bank Accounting and Auditing Reports on the Observance of Standards and Codes (ROSC reports)), *Plan 2012–2016* focuses increasingly on supporting the rigorous and consistent application of IFRS (whereas previously the predominant focus was on adoption). For example, conferences now increasingly focus on updating attendees about new and amended IFRS and, through the sharing of the experience of those that have adopted early or who have tested the effects of adopting a new IFRS, on supporting others to implement new IFRS requirements.
59. The delivery of education in general across the world is undergoing development. This includes an increasing demand in education to provide multimedia-style content programmes structured in a more easily accessible way. There is an opportunity for the Foundation to assess if this is an area that could be advanced to assist with the consistent application of IFRS while developing potentially new self-generated income streams for the Foundation (see paragraph 102 below). The Foundation is currently undertaking a feasibility study to investigate the scope for new initiatives in this area.

²³ See *Review of Interpretations Committee Activity 2014*, Agenda Paper 15 for the January 2015 meeting of the Interpretations Committee, available at: <http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2015/January/AP15%20-%20%20IFRS%20IC%20Activity%202014.pdf>.

²⁴ The drafting of an agenda decision is also subject to due process. The *Due Process Handbook* (paragraph 5.22) requires that any proposed agenda decision is first made available publicly as a tentative rejection notice for a comment period of normally 60 days.

²⁵ *About the IFRS Education Initiative* at: <http://www.ifrs.org/Use-around-the-world/Education/Pages/Education.aspx>.

Post-implementation Reviews

60. The IASB is committed to performing post-implementation reviews (PIRs) of all new IFRS and major amendments. The IASB first gave such a commitment when it issued IFRS 8 *Operating Segments* in November 2006. The commitment to undertake PIRs was incorporated into the *Due Process Handbook* in October 2008. On timing, the *Due Process Handbook* states that a PIR is normally commenced two years after the new requirements have become mandatory and been implemented.
61. The first PIR, on IFRS 8, was started in 2012 and was completed in July 2013. At its April 2013 meeting, the DPOC reviewed the process that had been followed in conducting the PIR, focusing on a number of key areas: (i) engagement with stakeholder groups; and (ii) the transparency of the process, which had been valued by participants.²⁶ A second PIR, on IFRS 3 *Business Combinations*, was started in July 2013 and a report and feedback statement was published in June 2015.
62. In reviewing the PIR of IFRS 8, the DPOC took the view that the process was an appropriate one to be followed in future PIRs. The Trustees will undertake a review of the process when the IASB has gained further experience of conducting a number of PIRs, which will include consideration of how recommendations made in a final PIR report are followed up (acknowledging the fact that there is no presumption that a PIR will lead to any changes in a Standard). In the meantime, a particular issue that the Trustees are keen to investigate as part of this consultation is whether two years of full implementation of a new Standard is sufficient for an effective PIR to be carried out. The *Due Process Handbook* (paragraph 6.58) does give the IASB an option to defer a review, after having conducted an initial assessment.

Summary

63. While progress has been made in the area of consistent application, the Foundation has always taken the view that the IASB's role is to develop the Standards and that others are better positioned to deal with implementation and enforcement responsibilities.
64. However, the Foundation faces a dilemma in that although the primary responsibility for consistent application rests elsewhere, in particular with preparers, auditors and regulators, it is the IASB that bears a risk if IFRS is not consistently implemented. IFRS is positioned as a single set of global standards, and the important benefits that IFRS bring are based on their being a single set of standards applied globally. Carve-outs and inconsistent application of the Standards undermine their purpose, prevent comparability and damage the brand. Moreover, inconsistencies that are not addressed over time by the Foundation may eventually result in loss of trust and legitimacy. The Foundation has therefore a strong strategic interest in consistent application of the Standards, even if it is not directly and formally responsible for that. The Trustees believe that there is therefore a need to consider, as part of the review, whether the Foundation is doing all it can do to support those responsible for ensuring consistency in application and whether there is anything else, in particular from an operational perspective, that the Foundation should be doing.
65. In thinking about whether the Foundation should consider increasing its focus on implementation issues and challenges, there is a need to consider the implications and possible constraints on achieving that, for example in the *Constitution* and due process procedures, as well as from the Foundation's organisational structure. The implications for resourcing would also need to be carefully considered.

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?

²⁶ The report of the April 2013 DPOC meeting can be accessed at: <http://www.ifrs.org/DPOC/Documents/2013/DPOC-Report-April-2013.pdf>.

Primary Strategic Goal 4: IFRS Foundation as an organisation

66. The fourth primary strategic goal in the *Strategic Overview* is to ensure the continued independence, stability and accountability of the Foundation. This goal is underpinned by five secondary strategic goals as follows:
- (a) maintain and develop the governance structure to ensure independence and accountability;
 - (b) ensure sufficient funding through contributions and self-generated income;
 - (c) ensure the Foundation attracts, develops and retains high-performing staff;
 - (d) ensure compliance and best practices; and
 - (e) maintain operational efficiency.
67. The Trustees' view is that processes, procedures and enhancements on (c) to (e) above remain appropriate and are embedded as part of our on-going activities. Because of this, the Trustees' focus in the review is on (a) and (b).

Governance

Independence of the standard-setting process

68. As noted in the *Strategy Review* report, the *Constitution* establishes an independent standard-setting process, subject to extensive due process requirements, but protected from special and parochial interests. The Trustees believe that this independence, within the framework of public accountability as outlined below, remains a fundamental strength of the Foundation and the IASB. This gives credibility to the Standards and it must be maintained.

The three-tier structure

69. 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;
- with one advisory body (the IFRS Advisory Council) enshrined in the *Constitution* (see paragraph 95 below).

Monitoring Board

70. The Monitoring Board is a group of capital markets authorities that are responsible for setting the form and content of financial reporting in their jurisdictions, have a responsibility to protect and advance the public interest and are strongly committed to supporting the development of high-quality international accounting standards. The Monitoring Board was established in 2009 with the aim of providing a formal link between the Trustees and public authorities in order to enhance the public accountability of the IFRS Foundation. It is therefore separate from the Foundation. The *Constitution* (Section 19) sets out the responsibilities of the Monitoring Board as being:
- (a) to participate in the process for appointing Trustees and to approve the appointment of Trustees;
 - (b) to review and provide advice to the Trustees on their fulfilment of their constitutional duties and responsibilities; and

(c) to meet the Trustees or a subgroup of the Trustees at least once annually, and more frequently as appropriate.

71. The members of the Monitoring Board²⁷ co-operate to promote the continued development of IFRS as a high-quality set of global accounting standards. In particular, the Monitoring Board monitors and reinforces the public interest oversight of the Foundation, while preserving the independence of the IASB.
72. The Monitoring Board has developed since it was first established. In 2010 and 2011, it undertook a review of the Foundation's governance, with the final report being issued in February 2012.²⁸ In that report, the Monitoring Board reaffirmed that its purpose is to provide the link between the Foundation and the authorities that are responsible for setting the form and content of financial reporting for use in their jurisdictions' capital markets. As a result of the review, the Monitoring Board's membership has been expanded to include additional authorities, primarily from major emerging markets.²⁹ In addition, the Monitoring Board has also elaborated its membership criterion that members must be committed to supporting the development of high quality international accounting standards by requiring that a member's commitment must be demonstrated by the use of IFRS in the jurisdiction's capital markets and participation by the jurisdiction in the Foundation's funding.
73. The Monitoring Board's duties and responsibilities are set out in more detail in a Memorandum of Understanding (MoU) between the Monitoring Board and the Trustees.³⁰ In addition, the Monitoring Board has a *Charter* that sets out its organisational, operating and decision-making procedures.³¹ Further details of the Monitoring Board's activities are available on its website.³²
74. The Monitoring Board serves as a mechanism for formal interaction between capital markets authorities and the Foundation. The Monitoring Board is a separate body that is responsible for the public interest oversight of the Foundation, and it is not within the remit of the Trustees to consider any comments related to the Monitoring Board as part of this review.

Trustees

75. The *Constitution* (Sections 3–17) specifies that the governance of the Foundation primarily rests with the Trustees, a group of 22 individuals who are required to show a firm commitment to the Foundation and the IASB as a high-quality global standard-setter, to be financially knowledgeable, and to have an ability to meet the time commitment. The *Constitution* (Sections 13 and 15, reproduced as Appendix D to this paper) sets out the governance and oversight powers and duties of the Trustees. The Trustees are not involved in any technical matters relating to the Standards. As noted below, this responsibility rests solely with the IASB.

IASB

76. The *Constitution* (Sections 24–38) specifies the provisions relating to the IASB. Section 37 sets out the powers and duties of the IASB, and confers on the IASB complete responsibility for all IASB matters including the preparation and issuing of IFRS and the approval and issuing of Interpretations issued by the Interpretations Committee.

27 The Monitoring Board's original membership comprises representatives of the IOSCO Board, IOSCO's Growth and Emerging Markets Committee, the Financial Services Agency of Japan, the European Commission, and the US Securities and Exchange Commission. The Basel Committee on Banking Supervision is an observer.

28 IFRS Foundation Monitoring Board *Final Report of the IFRS Foundation's Governance*, available at: http://www.iosco.org/about/monitoring_board/pdf/Final%20Report%20on%20the%20Review%20of%20the%20IFRS%20Foundation's%20Governance.pdf.

29 In January 2014, the Comissão de Valores Mobiliários of Brazil and the Financial Services Commission of Korea were selected as members.

30 The MoU is available at: http://www.ifrs.org/The-organisation/Governance-and-accountability/Documents/Monitoring_Board_Mou_October-2014.PDF.

31 The Charter can be accessed at: http://www.ifrs.org/The-organisation/Governance-and-accountability/Documents/Monitoring_Board_Charter.pdf.

32 The Monitoring Board's website is hosted by the International Organization of Securities Commissions (IOSCO) at: http://www.iosco.org/about/?subsection=monitoring_board.

Summary

77. This structure was last examined as part of the last *Strategy Review* when the Foundation, as part of the public consultation on that review (issued in November 2010) asked a specific question of stakeholders as to whether the structure remains appropriate. The responses to that consultation revealed broad support for the structure, and the second public consultation issued in April 2011 contained a statement that the current structure remains appropriate. The responses to the consultation outlined very strong support for the continuation of the existing three-tier structure. The *Strategy Review* report and the Monitoring Board's *Final Report on the Review of the IFRS Foundation's Governance*, also published in February 2012, reaffirmed that the existing three-tier structure was appropriate for the organisation's mission. The Trustees continue to hold the view that the three-tier structure is the fundamental building block of the Foundation's governance. Nevertheless, the Trustees would welcome views on the functioning of the three-tier structure and any suggestions as to how it might be improved.

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?

Issues specific to the IFRS Foundation

Trustees

78. The *Constitution* specifies that the Trustees shall comprise a required geographical distribution (Section 6) as follows:
- (a) six Trustees appointed from the Asia/Oceania region;
 - (b) six Trustees appointed from Europe;
 - (c) six Trustees appointed from North America;
 - (d) one Trustee appointed from Africa;
 - (e) one Trustee appointed from South America; and
 - (f) two Trustees appointed from any area, subject to maintaining overall geographical balance ('at large' appointments).
79. As noted above, the *Constitution* requires that the review should include consideration of the geographical distribution of the Trustees in response to changing global economic conditions. The composition of the Trustees as at June 2015 reveals that, in categories (a) to (e) above, with one exception in relation to North America (following the death of Harvey Goldschmid in February 2015), the full quotas have been appointed. In (f), the two Trustees both come from the Asia/Oceania region (including the Middle East, following the appointment of the first Trustee from that area, Dr Abdulrahman Al-Humaid, in March 2013).
80. The current geographical distribution of Trustees is designed to be representative of the world's capital markets and to ensure a broad international base. The Trustees have always taken, and continue to take, the view that this basis is consistent with the Foundation's objectives of developing a single set of globally accepted financial reporting standards and promoting their global adoption. Having said that, the Trustees will, as required, review the geographical distribution, and at this stage would welcome views on the basis on which that distribution should be determined.

81. The Trustees are of the view that, whatever basis is selected, the ability to make a number of ‘at large’ appointments provides flexibility to ensure that an appropriate geographical balance can be maintained. In this respect, the Trustees believe that they should have more flexibility and so propose to increase the number of ‘at large’ appointments from two members to five, while retaining a total complement of twenty-two numbers. This reflects the context of the Foundation’s Jurisdiction Profiles project (as referred to in Appendix C) and the finding that 116 jurisdictions now mandate the use of IFRS for all or most public companies and a view that the current distribution does not reflect fully this diversity.
82. The *Constitution* also sets out (in Section 7) the need for the Trustees, as a group, to provide an appropriate balance of professional backgrounds, but it does not—unlike the geographical distribution—specify a quota for each of those backgrounds, other than stating that normally two of the Trustees shall be senior partners of prominent international accounting firms (currently there are none, although one Trustee is a former senior partner of a major firm). The Trustees plan to review the appropriateness of the *Constitution* continuing to identify specific backgrounds as being required for any of their number. The current balance of professional backgrounds is determined on the present scope of the Foundation’s activities. If the scope were to be enlarged, as considered earlier in this document, then the balance of backgrounds might need to be reviewed to reflect that enlargement.
83. As with other bodies, there is a challenge in encouraging applications and making appointments of suitable individuals, in particular those from a user background. The Trustees plan to investigate how they might more effectively encourage and incentivise representatives of the investor community to be more active participants in the structure of the Foundation.
84. The Trustees do not plan to introduce any specific quota, which could be unduly limiting in determining an appropriate balance of professional backgrounds. Nevertheless, the Trustees have been investigating and will continue to investigate ways in which applications and appointments from a full range of backgrounds can be achieved (recognising that a number of Trustees have more than one professional background). In terms of gender balance, the current membership of 21 Trustees comprises 17 men (81 per cent) and 4 women (19 per cent). The Trustees are also continuing to look to recruit more female members as opportunities arise.
85. The *Constitution* (Section 8) specifies that the Trustees shall normally be appointed for a term of three years, renewable once, although it also provides (in Section 10) that a Trustee who serves as the Chair or Vice-Chair may serve as a Trustee for up to nine years. The Trustees believe that this provides an effective balance between the need to have a limit on the length of their service, and the need to maintain an appropriate level of continuity and stability within the board of Trustees in order for them to carry out their duties effectively. The Trustees therefore do not intend to change their terms of appointment.

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?

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?

86. The Trustees believe that their powers and duties as specified in the *Constitution* (Sections 13 and 15) are appropriate and do not anticipate any changes to them as a result of this review. The Trustees take very seriously their oversight responsibilities. They believe that the enhancements to those responsibilities introduced as a result of previous reviews, together with regular reporting to the Monitoring Board and more generally to the public on the discharge of those responsibilities, provide them with an appropriate and proportionate oversight role. In terms of their accountability (Section 17 of the *Constitution*), the Trustees support without question the need for them to undertake periodic reviews of the **strategy** and effectiveness of the organisation (including, as appropriate, its structure) but as the list of previous reviews in paragraph 4 above shows, the Foundation has spent a good deal of its time in existence in reviewing itself. The Trustees believe that, while the Foundation should always strive to improve itself and the way it works, there is a need for the organisation to have some stability and continuity, in particular in terms of its structure. The Trustees plan to amend the wording of Section 17 of the *Constitution* to specify that a review of the entire strategy and effectiveness of the organisation should commence, at the latest, five years after the previous review has been completed.

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

IASB

87. The *Constitution* specifies that the IASB shall comprise sixteen members as from 1 July 2012 (Section 24). The increase, from the previous composition of fourteen members, was made in 2009 as part of the second Constitution Review. At that time, the Trustees put forward the following reasons to expand the size of the IASB:

- 'IASB members' needed for liaison: As the IASB becomes the global standard-setter, the consultation, liaison and communications task for IASB members continues to grow. This needs to be shared broadly, while permitting time for IASB members to work with staff and relevant internal working groups in developing international accounting standards.
- Diversity as providing legitimacy: While professional competence (particularly technical expertise) and practical experience are the foremost criteria for IASB members.
- Diversity as enabling new perspectives: The introduction of IASB members from different backgrounds has enabled the IASB to account for issues that may not have been raised in the past'.³³

88. The Trustees, however, acknowledged even then that the proposal to expand the IASB membership to sixteen members had generated 'mixed views', with many respondents taking the view that it would make the IASB 'more unwieldy, less effective and hamper its decision-making ability'.³⁴

89. Nearly six years on, the landscape has changed in such a way that the Trustees have announced already in February 2014 their intention to seek public comment on the optimum size of the IASB, as part of this review.³⁵ Developments such as the establishment of the Accounting Standards Advisory Forum (ASAF), the establishment of regional groupings of accounting standard-setters and the introduction of more sophisticated IASB outreach and stakeholder engagement programmes have all led to the IASB facing a different set of challenges and priorities in the coming years. Recognising this changed standard-setting landscape, the Trustees are seeking public input on the appropriate size of the IASB, while continuing to maintain geographical balance.

³³ IASC Foundation (April 2009) Changes in the Constitution: Report of the IASC Foundation Trustees on Part 1 of their Review, available at: <http://www.ifrs.org/About-us/IFRS-Foundation/Oversight/Constitution/Constitution-Review/2008-2010-Constitution-Review-part-one/Documents/ConstitutionReviewP1May09.pdf>, see paragraph 42.

³⁴ As footnote 14, see paragraph 47.

³⁵ The announcement, dated 24 February 2014, can be accessed at: <http://www.ifrs.org/Alerts/Governance/Pages/IASB-appointments-and-composition-February-2014.aspx>.

90. Since July 2014, the IASB has been operating with fourteen members on an interim basis. The factors that lead the Trustees to believe that a smaller Board is more effective include the following:
- communication and interaction is easier, more flexible and effective;
 - it provides for greater participation and engagement by individual Board members;
 - Board meetings are easier to structure and manage, with greater opportunity for each Board member to make a contribution;
 - it assists in giving Board members a feeling of greater ownership and responsibility for the work of the IASB;
 - as referred to above, the establishment of the ASAF provides an opportunity to consider the reduction of the number of Board members, because the enhanced breadth of geographical representation at the ASAF ensures that its members' now provide valuable jurisdictional/regional input. Consequently, ASAF members perform some of the consultation, liaison and communications tasks that have previously been the sole responsibility of the IASB;
 - having a smaller Board has freed financial resources to be deployed elsewhere in the organisation.
91. Reducing the maximum size of the IASB would have implications for the normal geographical distribution of members. The *Constitution* (Section 25), which specifies that, with a Board of 16 members, there shall normally be the following (with the numbers of members in each category of the current 14-member Board given in brackets):
- (a) four members from the Asia/Oceania region (four members at present);
 - (b) four members from Europe (three);
 - (c) four members from North America (three);
 - (d) one member from Africa (one);
 - (e) one member from South America (one); and
 - (f) two members appointed from any area, subject to maintaining overall geographical balance (two).
92. For the reasons set out in paragraph 90 above, and the positive experience reported by the IASB of operating with a reduced number, the Trustees propose that the size of the IASB should be reduced from the current complement of 16 as set out in the *Constitution* to 13 members. The geographical distribution of IASB members as referred to in paragraph 91 would be revised to reflect the smaller Board, which the Trustees believe can be achieved by reducing the normal allocation of members from four to three for each of the Asia/Oceania region, Europe and North America. In proposing this revised geographical distribution, the Trustees wish to reiterate that IASB members are **not** appointed as representatives of any geographical region. The main qualifications for membership of the IASB remain professional competence and practical experience, as set out in the *Constitution*. In the Trustees' view, the proposal to amend the geographical distribution of the Board can be considered separately from the review of the geographical distribution of the Trustees (as referred to above).
93. If implemented, the proposals would require amendments to the *Constitution* (Section 24 on the size of the IASB; Section 26 on the geographical distribution of IASB members). A further consequence would be to amend the IASB's voting requirements for the approval of the publication of an IFRS or an Interpretation as set out in Section 36. The approval of nine members would be required if there are thirteen members (as now), but if there are fewer than thirteen members, the Trustees propose that the approval of eight members would be required

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?

94. With regard to other aspects relating to the IASB the Trustees believe that the current provisions as set out in the *Constitution* should be amended, as follows:
- (a) in terms of the balance of backgrounds on the IASB, the *Constitution* (Section 27) specifies that the Trustees shall select members so that the IASB, 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;
 - (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.

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?

Advisory Council

95. The Trustees believe that the Advisory Council is operating efficiently and effectively, which is a view reaffirmed by the Council itself following a self-evaluation exercise undertaken in 2013. Further details are set out in Appendix E. As a consequence, the Trustees are not seeking specific views on the operation of the Advisory Council as part of this consultation. However, the Trustees still plan to consult the Advisory Council throughout the review and to consider any implications for the Advisory Council of any proposals for change that the Trustees might put forward.

Financing

96. The Trustees have for some years been working to ensure that the Foundation has a broad and sustainable source of funding. Since 2006 the Trustees have sought to establish a funding model based on national financing regimes, proportional to a country's relative GDP, which would establish a levy on companies or provide an element of publicly supported financing. The majority of the Foundation's finances are based on such regimes, but in the *Strategy Review* report the Trustees recommended that the existing base of financing should be expanded to enable the Foundation to serve the global community better and to fulfil the strategy that the funding system must maintain the independence of the standard-setting process, while providing organisational accountability. The Trustees proposed that funding should be on a long-term basis (at least three to five years), be publicly sponsored, be flexible to permit the use of differing mechanisms and to adjust to budgetary needs, be shared among jurisdictions on the basis of an agreed formula as noted above (that would be consistent with the principle of proportionality), and to provide sufficient organisational accountability.
97. The Trustees believe that the funding model outlined above is appropriate and should be retained. The Trustees do not, therefore, intend to consider any alternative model. As explained below, the system of funding on this basis has yet to be achieved fully. In the meantime, the Trustees continue to operate a three-pillar system of funding as a transitional approach to that outlined in the *Strategy Review*, with the first pillar covering publicly-sponsored contributions, the second private contributions (including contributions from the accounting firms) and the third, self-generated income from the sales of publications and related activities (in particular, royalties and permission fees).

Publicly-sponsored contributions

98. Over half of the Foundation's income in 2014 (around £16 million) came from publicly-sponsored contributions made by jurisdictions. The largest jurisdictional contribution is made by the European Union (EU) (£6.8 million: 45 per cent from the European Commission budget; 55 per cent direct from 9 Member States). The Trustees are very appreciative of the ongoing contributions made by many jurisdictions. Some significant progress has been made in increasing contributions from jurisdictions over the past five years, with six new jurisdictions providing contributions. However, there remain some significant gaps with a number of jurisdictions, who either contribute less than their allocated share according to the existing model described above or not at all. This makes the full achievement of a system of funding as outlined above particularly challenging. The Foundation has made repeated efforts to obtain the necessary contributions from those jurisdictions, where appropriate drawing on the support of the Monitoring Board, but these efforts have not been successful in all cases. As a private sector, not-for-profit organisation, the Foundation has no power to mandate that jurisdictions should make their full contributions nor has it yet been able to impose effective sanctions for those who do not.
99. The difficulty in achieving jurisdictional funding commitments has resulted in the Foundation facing budgetary constraints. In the *Strategy Review* report, the Trustees envisaged that the Foundation's budget may need to grow to around £40-45 million a year, because of the global spread of IFRS and to implement the strategy outlined in the *Strategy Review*. Because of the challenging economic climate and the levels of funding the Foundation can expect to raise, this increase has not proved to be achievable, nor is it likely to become achievable in the next few years. As a consequence, the Trustees' latest financial plan (covering the period 2015-17) proposes a stable budget of around £27-28 million a year (in terms of gross revenue).

100. In the light of these expectations, the Foundation has been taking steps to ensure that it manage its resources as efficiently as possible and continues to have sufficient resources to achieve its mission. For example, during 2013, the Foundation carried out an internal Operational Review to identify whether the organisation's costs were controlled appropriately and whether any improvements in processes could be identified. The Operational Review demonstrated that the Foundation has an effective financial control environment. Nevertheless, the Trustees recognised that, as an organisation that works in the public interest, the Foundation should also commission an external review of operational expenditure in order to provide an independent assessment as to whether the Foundation's operations are run in a cost-effective manner and are effectively managed. This review, conducted by Baker Tilly, was carried out in 2014 and confirmed that the Foundation is a cost-effective organisation. The Trustees will continue to monitor expenditure closely to ensure that the Foundation maintains its high level of cost-effectiveness.

Contributions from the accounting firms

101. In 2014, the Foundation received just under a quarter of its income (£6.4 million) from contributions from the accounting firms. The Foundation has taken initiatives to increase revenues from the accounting firms and their contributions remain an important source of revenue. In 2014, the four main accounting networks each contributed US\$2.5 million, with contributions coming from a number of other firms. The Foundation has been working to increase the number of firms making contributions. The Trustees have made clear that these contributions continue to be sought pending the full achievement of the system of publicly-sponsored contributions outlined above and an increase in self-generated income as referred to below. The Trustees are aware that the level of contributions from the major accounting firms has been cited as a source of concern for some stakeholders as a potential risk to the IASB's independence. While the Trustees acknowledge the concern, in their view it is one of perception rather than reality. In the *Strategy Review* report, the Trustees made it very clear that funding is 'not contingent on fulfilling any conditions that would compromise the independence of the standard-setting process'. A review by the technical staff of a sample of submissions made by the accounting firms has revealed that the firms take different views on particular issues and do not raise issues that would in any way compromise the IASB's independence. In addition, the Trustees' oversight activities and the robust standard-setting due process, together with the organisation's accountability to the Monitoring Board, serve to ensure and protect the IASB's independence.

Self-generated income

102. The Trustees have also been investigating ways by which the Foundation can increase revenue from self-generated income, as a means of helping the organisation to become more financially independent. In so doing, the Trustees are aware of the need to maintain an appropriate balance between raising revenue from self-generated sources and the Foundation's public interest mission, which requires the core Standards to be made available without charge. During this review, the Trustees plan to revisit whether there is scope for increasing the proportion of revenue raised from self-generated sources, including the potential for the Foundation's Education Initiative to generate more income. As referred to above, one of the objectives of the Education Initiative's *Plan 2012-2016* is to generate revenue to fund its activities. The Foundation is conducting a feasibility study on the potential to develop new initiatives, within the context of the Foundation's public interest mission, including the requirement, as referred to in paragraph 46 above, to develop Standards that are clear, understandable and enforceable.

- 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?**

Other issues

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

Appendix A

Summary of enhancements and improvements made in previous reviews

Mission

- Purpose of financial reporting standards clarified, with specific designation of investors and other market participants as a target audience.
- Adoption of IFRS as developed by the IASB remains the long-term goal. Convergence may be an appropriate short-term strategy, but is not a substitute for adoption. Nevertheless, the Trustees recognise that different jurisdictions have different pathways towards adoption.
- Scope: remains on developing Standards for for-profit corporate entities (including SMEs).
- Importance emphasised of consistency of application and implementation.

Governance

- Public accountability link introduced with establishment of the Monitoring Board.
- Three-tier governance structure (Monitoring Board, Trustees, IASB) reaffirmed as appropriate for the Foundation's mission.
- Trustees' oversight role clarified.
- Regular public reporting.

Process

- Due process has been regularly reviewed and enhanced.
- Establishment and enhancement of the role and activities of Due Process Oversight Committee (DPOC).
- IASB enhancements:
 - » Agenda consultations introduced;
 - » Agreed methodology for field testing/effects analysis;
 - » Enhanced liaison and outreach;
 - » Greater integration of IFRS Taxonomy;
 - » Introduction of Post-implementation Reviews;
 - » Establishment of formal co-operation arrangements with securities regulators and others;
 - » Establishment of the Accounting Standards Advisory Forum (ASAF);
 - » Scope of Interpretations Committee activities enhanced;
 - » Establishment of a dedicated research capacity.

Funding

- Clarification that funding system must maintain independence of the standard-setting process, while providing organisational accountability.
- Seeking to establish a firmer basis of funding:
 - » long-term (at least 3–5 years);
 - » publicly sponsored;
 - » flexible to permit use of different mechanisms;
 - » adjustable to budgetary needs;
 - » agreed formula for jurisdictions (consistent with proportionality).

Appendix B

Primary Strategic Goal 1: Development of a single set of standards—progress and achievements

- B1. The *Constitution* (Section 2) states that the objectives of the IFRS Foundation are:
- (a) to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. These standards 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.
 - (b) to promote the use and rigorous application of those standards.
 - (c) in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the needs of a range of sizes and types of entities in diverse economic settings.
 - (d) to promote and facilitate adoption of International Financial Reporting Standards (IFRS³⁶), being the standards and interpretations issued by the IASB, through the convergence of national accounting standards and IFRS.
- B2. As noted in the covering paper, the Foundation's *Strategic Overview* emphasises (a) above as a primary strategic goal for the organisation for the period 2015–17.

Develop, monitor and maintain IFRS

- B3. IFRS covers a broad range of activities, but there remain some gaps that are being, and over time will be, addressed. For example, there is a lack of IFRS guidance in a number of areas, such as accounting for insurance contracts, emission trading schemes and extractive activities. Nevertheless, the IASB continues to work on its project on insurance contracts. The IASB also has projects on its research programme dealing with emission trading schemes and extractive activities, as well as other areas in which IFRS guidance is limited, such as accounting for business combinations under common control.
- B4. As with any established set of accounting standards, there are areas in which IFRS can be improved. The major current example of such an area is the project that the IASB is undertaking, jointly with the US Financial Accounting Standards Board (FASB) to develop a new Standard on accounting for leases, which is scheduled to be issued later in 2015.
- B5. The IASB has various mechanisms in place for gaps in IFRS and improvements to the Standards to be made over time. These are described in more detail elsewhere in this document, in particular the IASB's three-yearly public consultation on its future agenda (see paragraph B6) and the work of the IFRS Interpretations Committee (see paragraphs 54–56 of the covering paper).

Agenda Consultations

- B6. In their report on the outcome of the second *Constitution Review*, published in February 2010, the Trustees introduced a requirement for the IASB to undertake a three-yearly public consultation on its future technical agenda. In their *Strategy Review* report, the Trustees recommended that the IASB should give a clear demonstration of how priorities on its agenda are set, by providing full feedback to the public. The first such Agenda Consultation was carried out in the second half of 2011 and 2012, with a comprehensive Feedback Statement being published in December 2012. The Trustees' view is that their initial belief has been confirmed that engaging stakeholders in the agenda-setting process has enabled the IASB to address the most pressing financial reporting issues and that public confidence in the standard-setting process has been strengthened. The IASB is about to carry out its second three-yearly agenda consultation during 2015, partly in parallel with this review. The Trustees believe that the Agenda Consultation is an important and effective means for the IASB to seek formal public input on the strategic direction and balance of its work, and have no plans to review it as part of this consultation.

³⁶ The *Constitution* refers to IFRSs, but the Foundation's current policy is to refer to 'IFRS', which is the convention adopted in this paper.

Research programme

- B7. One of the outcomes of the first Agenda Consultation was the establishment by the IASB of a Research programme, the purpose of which is to analyse possible financial reporting problems by collecting evidence on the nature and extent of the perceived shortcoming and assessing potential ways to improve financial reporting or to remedy a deficiency. The main output of the Research programme is the publication of Discussion Papers and research papers for public comment. The analysis in those papers and the comments from interested parties will help the IASB decide whether it should add to its standard-setting programme a project to develop a proposal for a new Standard or to amend or replace a Standard. Not all research will lead to a standards-level project.

Ensure high quality by embedding best professional practices

- B8. The processes and procedures introduced by the Foundation and described throughout this document show how the organisation has embedded best professional practices across all its activities in pursuit of all the primary goals outlined in the Strategic Plan.
- B9. In addition, the *Strategy Review* report recommended that the IASB should establish, or facilitate the establishment of, a dedicated research capacity. In response, the IASB has significantly increased its internal resources and processes dedicated to resourcing, as well as developing, a research network, including:
- a research web page on the IFRS Foundation website to provide information relevant to the broader research community, supplemented with email alerts and a newsletter;³⁷ and
 - establishing special events hosted by the IASB designed to attract academics and other research professionals.

Due process

- B10. In pursuit of the mission, the IFRS Foundation and the IASB maintain a thorough and transparent due process, as being essential to developing high quality, globally-accepted accounting standards. In the *Strategy Review* report, the Trustees recommended that the IASB's due process should continue to be reviewed and regularly enhanced. A major review of the *Due Process Handbook* was carried out in 2012, with a revised version being published in February 2013. The *Due Process Handbook* (paragraph 3.1) emphasises the principles on which the due process requirements are built, namely:
- (a) transparency—the IASB conducts its standard-setting process in a transparent manner;
 - (b) full and fair consultation—considering the perspectives of those affected by IFRS globally; and
 - (c) accountability—the IASB analyses the potential effects of its proposals on affected parties and explains the rationale for why it made the decisions it reached in developing or changing a Standard.
- B11. The *Due Process Handbook* highlights the fact that investors and analysts tend to be under-represented in submitting comment letters to consultations and that the IASB must therefore take additional steps to consult investors on proposals for new Standards or major amendments to Standards. As well as steps outlined in the *Due Process Handbook*, in December 2014 the IASB announced the launch of its *Investors in Financial Reporting* programme. Created with the support of some of the world's leading asset managers and owners, the programme is designed to foster greater investor and market participant participation in the development of IFRS. Central to the programme is a mutually agreed *Statement of Shared Beliefs*, with which:

³⁷ The IFRS Research Centre webpages are at: <http://www.ifrs.org/IFRS-Research/Pages/IFRS-Research-Centre.aspx>.

- (a) the IASB and the investment community highlight the importance of high quality, transparent reporting for building trust in the capital markets and for making investment decisions;
- (b) the IASB publicly reaffirms its commitment to continue to seek and consider investor and market participant views in the development of new accounting standards; and
- (c) leading representatives from the global investment community make visible their commitment that as responsible investors they will contribute to the development of high quality financial reporting standards. That commitment involves working with the IASB to ensure that the investor and market participant perspective is articulated clearly and is considered in the standard-setting process.³⁸

B12. The Trustees have no immediate plans to undertake a further review of the *Due Process Handbook*, in relation to the development of Standards (including the amendment of Standards) and Interpretations, but will continue to monitor the situation and will make a further assessment once the outcome of this wider review is known.

B13. In the meantime, the Trustees will continue to benchmark the Foundation, the IASB and its due process, both against frameworks developed by other bodies and against other standard-setting and regulatory organisations.

Trustee oversight of the IASB's due process

B14. The *Strategy Review* recommended that the framework for the Trustees in their oversight of the IASB's due process should be clarified. This has been achieved. The Trustees' DPOC reviews and discusses compliance with due process regularly throughout the standard-setting process and, at the end of the process, before a Standard is finalised. The DPOC reports on these activities to the Trustees at each of their meetings. As requested by the Trustees, the DPOC has developed a procedure for handling instances of potential non-compliance, which has been incorporated into the *Due Process Handbook*.

Agreed methodology for field visits/tests and effect analyses

B15. The *Strategy Review* report noted that, while field visits/tests and effect analyses had been incorporated into the IASB's due process, the role of these elements should be further clarified. In line with the Trustees' recommendation, the IASB established and chaired a working group, the Effects Analysis Consultative Group, to develop an agreed methodology for field testing and effect analyses. The report of the Consultative Group was published in November 2014 and has been welcomed by the Trustees, who have encouraged the IASB to implement the Group's recommendations so as to further embed field testing and effect analyses in the IASB's due process. The IASB is currently working on implementing the recommendations.

³⁸ Details are available at: <http://www.ifrs.org/Investors-in-Financial-Reporting/Pages/Home.aspx>.

Consideration of the impact of standard-setting decisions on the IFRS Taxonomy

B16. In the *Strategy Review* report, the Trustees recommended that the activities of the Foundation's XBRL team should be integrated more closely with the IASB's standard-setting process. As outlined in the covering paper (paragraph 32 in particular), the Trustees also agreed that there should be a shift in strategic focus, in such a way that the emphasis of the IASB should be on how an IFRS Taxonomy can help facilitate regulatory filing requirements and help users of IFRS financial statements to consume that information. As a consequence, there is now less emphasis on the technology behind the taxonomy, ie XBRL. This has had an impact on the role of the IASB in its review and approval of the IFRS Taxonomy. As a consequence, this has triggered a review of the due process for the IFRS Taxonomy, with a trial run of the proposed new process which started during the second half of 2014 and is continuing in the first half of 2015. The Trustees will continue to monitor progress in this area.

Importance of national and other accounting standard-setters

- B17. In the *Strategy Review* report, the Trustees recommended that the IFRS Foundation and the IASB should encourage the maintenance of a network of national accounting standard-setting bodies and regional bodies involved with accounting standard-setting as an integral part of the global standard-setting process. As a consequence, following a public consultation, in 2013 the Foundation established the Accountancy Standards Advisory Forum (ASAF), a group chaired by the IASB and comprising twelve representatives of standard-setters and regional bodies from around the world. In establishing the ASAF, the Foundation undertook to review all aspects of the group and its operations after two years. That review started in November 2014³⁹ and was conducted separately from this wider review of the structure and effectiveness of the organisation. The Feedback Statement following the review was published on 1 May 2015.⁴⁰
- B18. When establishing the ASAF, the Foundation highlighted the importance of ensuring that national accounting standard-setting bodies that are not members of ASAF do not feel disenfranchised and that there are still mechanisms for their voices to be heard. The IASB continues to host its annual World Standard-Setters (WSS) conference, bringing together the wider standard-setting community, and to attend meetings of the International Forum of Accounting Standard-Setters (IFASS). The IASB also continues to work with the standard-setting community at large on research, implementation challenges, outreach activities, field testing and PIRs. In recognition of the importance of these relationships, the Foundation has appointed a senior member of the technical staff to act as a liaison with the wider standard-setting community, as well as her role as the ASAF Co-ordinator, and is now developing a detailed strategy to address the challenge of maintaining and improving the effectiveness of the relationships.

³⁹ On 7 November 2014, the IFRS Foundation published a questionnaire to gain the views of national standard-setters and regional bodies as part of its review of ASAF, available at: <http://www.ifrs.org/Alerts/Governance/Pages/Trustees-review-of-Accounting-Standards-Advisory-Forum-November-2014.aspx>.

⁴⁰ The Feedback Statement can be accessed at: <http://www.ifrs.org/Alerts/PressRelease/Pages/ASAF-call-for-nominations-and-feedback-statement.aspx>.

Appendix C

Primary Strategic Goal 2: Global adoption of IFRS

- C1. As noted in the covering paper, the *Strategic Overview* maintains the commitment of the Foundation to the long-term goal of the global adoption of IFRS. The following paragraphs set out what that Foundation and the IASB has done, and continues to do, in pursuit of the secondary strategic goals referred to in paragraph 41 of the covering paper.

Promote and support IFRS adoption

- C2. As a first step to better understand how and where it might best promote and support IFRS adoption, in late 2012 the Foundation started a major Jurisdiction Profiles project, with the following objectives:
- (a) develop a central and authoritative source of information to chart jurisdictional progress towards global adoption of a single set of financial reporting standards;
 - (2) find out whether there are national variations of IFRS around the world; and
 - (c) identify where IFRS Foundation can help countries on their path to adoption of IFRS.
- C3. The Foundation first published the findings in a publication *IFRS as global standards: a pocket guide* in July 2014, with a second edition in April 2015. That research,⁴¹ which has been further updated,⁴² as verified by the relevant jurisdictional authority in each of the 140 countries surveyed, shows that 116 countries (83 per cent of those surveyed), now mandate the use of IFRS for all or most public companies. The research also reveals that jurisdictions have made very few modifications to IFRS, and the few that have been made are generally regarded as temporary steps in the jurisdiction's plans to adopt IFRS. These figures should serve as the measures of success of the Foundation's pursuit of the goal of global adoption of IFRS.

Maintain relationship with existing adopters and ensure endorsement of new IFRS

- C4. The IASB has no power to mandate the use of IFRS; that remains a decision for the relevant jurisdictional authorities. The Jurisdiction Profiles project has revealed that at least 58 jurisdictions have no endorsement requirement, which means that each new IFRS applies automatically in those jurisdictions. Elsewhere, there are specific endorsement processes in place that must be followed before a new Standard can be applied. This is particularly the case for the European Economic Area (EEA), which has the most elaborate endorsement procedure. The IASB has a clear interest in ensuring that IFRS is adopted in full and without modification in all jurisdictions. In the Trustees' view, the IASB should ensure that its outreach and support activities should not end with the publication of a Standard or a major amendment to a Standard, but should continue. This would particularly apply for jurisdictions that have endorsement requirements, because they IASB can help to facilitate the local endorsement processes.

Pursue convergence activities to facilitate adoption

- C5. The Jurisdiction Profiles project has given the Foundation a rich source to help it identify the jurisdictions to which priority should be given, including those where there are plans to converge local standards with IFRS to facilitate future adoption. The Trustees continue to acknowledge that convergence, although not a substitute for adoption, may be an appropriate short-term strategy and that the Foundation should continue to work with such jurisdictions to assist them in their convergence activities and to encourage them to move from convergence to adoption.

⁴¹ The details of the research are available at: <http://www.ifrs.org/Use-around-the-world/Pages/Jurisdiction-profiles.aspx>.

⁴² See <http://www.ifrs.org/Use-around-the-world/Pages/Analysis-of-the-IFRS-jurisdictional-profiles.aspx>.

Promote global support for adoption

- C6. In pursuit of the long-term goal, the Foundation has sought global support from international organisations. For a number of years, communiqués from the meetings of the G20 leaders emphasised the importance of working towards a single set of high quality global accounting standards, and called on accounting standard-setters to continue their efforts to achieve this goal. The Financial Stability Board (FSB), in reporting to the G20, continues to reaffirm the continuing relevance of the objective of achieving a single set of standards.⁴³ IFRS is also one of the Key Standards that have been designated by the FSB as key for sound financial systems and deserving of priority implementation, depending on each country's circumstances.⁴⁴ These standards are broadly accepted as representing minimum requirements for good practice, which countries are encouraged to meet or exceed. The International Monetary Fund (IMF) and the World Bank also recognise IFRS as the accounting benchmark of good practice in their work on Reports on the Observance of Standards and Codes (ROSCs).

Facilitate IFRS usage globally

- C7. In support of the long-term goal, the Foundation also provides support to jurisdictions as they adopt IFRS, in particular through the work of the Foundation's Translation, Adoption and Copyright (TAC) team. The team communicates with governments, or the relevant national legal authority, to support and enable national adoption of IFRS. Jurisdictions often have a unique national adoption process, which the team aims to support while maintaining consistency with the Foundation's international policies. To assist jurisdictions, the team has produced an Adoption Guide,⁴⁵ which identifies some common steps and approaches that have been proved to work, together with some common pitfalls.
- C8. The Foundation has also taken proactive measures through robust Intellectual Property (IP) policies to maintain and protect the IFRS trademark portfolio globally.

43 See, for example, the FSB report to G20 leaders *Overview of Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability* (14 November 2014), available at: <http://www.financialstabilityboard.org/wp-content/uploads/Overview-of-Progress-in-the-Implementation-of-the-G20-Recommendations-for-Strengthening-Financial-Stability.pdf>.

44 See FSB website at: http://www.financialstabilityboard.org/what-we-do/about-the-compedium-of-standards/key_standards/.

45 Available at: http://www.ifrs.org/Use-around-the-world/Adoption-and-copyright/Documents/Adoption_Guide_IFRS_Foundation-Nov-13.pdf.

Appendix D

Trustees' powers and duties

Constitution Section 13

13 The Trustees shall:

- (a) assume responsibility for establishing and maintaining appropriate financing arrangements;
- (b) establish or amend operating procedures for the Trustees;
- (c) determine the legal entity under which the IFRS Foundation shall operate, provided always that such legal entity shall be a foundation or other body corporate conferring limited liability on its members and that the legal documents establishing such legal entity shall incorporate provisions to achieve the same requirements as the provisions contained in this Constitution;
- (d) review in due course the location of the IFRS Foundation, both as regards its legal base and its operating location;
- (e) investigate the possibility of seeking charitable or similar status for the IFRS Foundation in those countries where such status would assist fundraising;
- (f) open their meetings to the public but may, at their discretion, hold certain discussions (normally only about selection, appointment and other personnel issues, and funding) in private; and
- (g) publish an annual report on the IFRS Foundation's activities, including audited financial statements and priorities for the coming year.

Constitution Section 15

15 In addition to the duties set out above, the Trustees shall:

- (a) appoint the members of the IASB and establish their contracts of service and performance criteria;
- (b) appoint the Executive Director, in consultation with the IASB Chair, and establish his or her contract of service and performance criteria;
- (c) appoint the members of the IFRS Interpretations Committee (the Interpretations Committee) and the IFRS Advisory Council (the Advisory Council);
- (d) review annually the strategy of the IFRS Foundation and the IASB and its effectiveness, including consideration, but not determination, of the IASB's agenda;
- (e) approve annually the budget of the IFRS Foundation and determine the basis for funding;
- (f) review broad strategic issues affecting financial reporting standards, promote the IFRS Foundation and its work and promote the objective of rigorous application of IFRSs, provided that the Trustees shall be excluded from involvement in technical matters relating to financial reporting standards;
- (g) establish and amend operating procedures, consultative arrangements and due process for the IASB, the Interpretations Committee and the Advisory Council;
- (h) review compliance with the operating procedures, consultative arrangements and due process as described in (g);
- (i) approve amendments to this Constitution after following a due process, including consultation with the Advisory Council and publication of an exposure draft for public comment and subject to the voting requirements given in Section 14;
- (j) exercise all powers of the IFRS Foundation except for those expressly reserved to the IASB, the Interpretations Committee and the Advisory Council; and
- (k) foster and review the development of educational programmes and materials that are consistent with the IFRS Foundation's objectives.

Appendix E

IFRS Advisory Council

- E1. The *Constitution* (Sections 44–46) requires that there shall be an Advisory Council that provides a forum for participation by organisations and individuals, with an interest in international financial reporting, having diverse geographical and functional backgrounds, with the objective of:
- (a) giving advice to the IASB on agenda decisions and priorities in the IASB’s work;
 - (b) informing the IASB of the views of the organisations and individuals on the Advisory Council on major standard-setting projects; and
 - (c) giving other advice to the IASB or the Trustees.
- E2. The Advisory Council shall normally meet, in public, at least three times a year. The *Constitution* also specifies that the Advisory Council shall be consulted by the IASB in advance of IASB decisions on major projects and by the Trustees in advance of any proposed changes to the *Constitution*.
- E3. The Council comprises at least thirty members, having a diversity of geographical and professional backgrounds, appointed for renewable terms of three years.
- E4. The Trustees last sought views on the effectiveness and operations of the then Standards Advisory Council (SAC) as part of the second Constitutional Review, completed in early 2010. At that time, it was noted that a reconstitution of the SAC had taken place in January 2009, which included having an independent Chair and two Vice-Chairs with different geographical and professional backgrounds, the membership reflecting major stakeholder groups around the world, the provision of additional staff resources, and meeting papers and agendas focused to ensure more effective guidance to the IASB and the Trustees. As a consequence, the view was taken that it would be premature to make any further changes, and a decision taken that the Advisory Council’s effectiveness should be reviewed later in 2010.
- E5. The Advisory Council conducted a self-review of its performance during the second half of 2010 and the first half of 2011. As a result of that review, the Advisory Council:
- (a) changed the focus of its activities so as to give more strategic, rather than technical, advice on the IASB’s agenda, predominantly on more medium to long-term issues, together with a more clearly defined role in relation to the IASB’s processes and procedures. The Advisory Council also proposed that it should have more of a role in advising the Trustees;
 - (b) proposed ways in which how it provides advice on the IASB’s agenda-setting process could be improved and made more effective;
 - (c) proposed ways in which the Advisory Council’s expertise could best be used, including more use of small groups (break-out sessions) during meetings; and
 - (d) proposed improvements to the Advisory Council’s communications in general, including raising its profile.
- E6. The Advisory Council undertook a further self-review of its performance during 2013, which in general revealed more positive results from members than the earlier review referred to above. That said, a number of proposals for further improvements were outlined:
- (a) on the Advisory Council’s shift in focus to more strategic issues, members agreed that the Advisory Council should be more pro-active in identifying new and emerging issues pertaining to standard-setting, in particular improving its monitoring and discussion of corporate reporting trends beyond financial reporting and on issues likely to impact on financial reporting in the future. The Advisory Council has now adopted such a pro-active approach, with regular discussions of such issues on its agenda;

- (b) Advisory Council members also sought a clear delineation between their activities and those of the Accounting Standards Advisory Forum (ASAF). The Trustees believe that the delineation is clear, and confirmed this view in The Review of ASAF that has been recently completed;
 - (c) at that time, the Advisory Council's Terms of Reference stipulated that its main objective was to provide advice to the IASB and Trustees, but included a secondary objective of supporting the IASB in the promotion and adoption of IFRS. The Advisory Council questioned the appropriateness of this secondary objective, given that members are now largely appointed in a representative capacity on behalf of organisations (not all of whom consider it within their own remit to explicitly 'promote' the use of IFRS) and whether such an objective is appropriate for an independent and unbiased body. In the light of this, at their June 2014 meeting, the Trustees considered, and approved, a proposal from the Advisory Council to amend its Terms of Reference in relation to its secondary objective, moving the focus from promotion and adoption of IFRS to one of the Council encouraging broad participation in the development of IFRS;
 - (d) the Advisory Council is keen to enhance its communications and liaison activities. At the Advisory Council's June 2014 meeting, members agreed to use their own networks to facilitate broader engagement in and understanding of the work of the Foundation and the IASB, as well as encouraging Trustees, IASB and staff to reach out more to Advisory Council members to mobilise the power of the global network.
- E7. The Advisory Council is a large body, comprising 49 members (one of which, for the International Organization of Securities Commissions, IOSCO, is a rotating seat between 2 members) and 3 observers. That said, on membership, in the 2013 self-review a majority of the members expressed the view that the existing size and balance of the body is about right, but feels that the need to retain balance of the membership should continue to be an area on which to focus, including the geographical and professional representation. A schedule showing the representation of the 2015 membership of the Advisory Council is set out below. In terms of gender, of the 2015 membership (including the 2 IOSCO representatives), 34 (68 per cent) are male; 16 (32 per cent) are female.
- E8. The Trustees highly appreciate the contribution of the Advisory Council to the work of the Foundation and the IASB and were pleased that the results of the 2013 self-review revealed that the members believe that the Advisory Council is operating efficiently and effectively. That accords with the Trustees' view.

IFRS Advisory Council: Distribution of Membership (2015)**Professional stakeholder distribution**

Category	Number	%
Preparer	12	24
Securities/Industry Regulator	11	22
User (Investor/Analyst)	7	14
Standard-setter	7	14
Auditor	6	12
Accountancy body	3	6
Academic	3	6

Geographical distribution

Region	Number	%
Global organisations	19	39
Europe	13	27
Asia Oceania	10	20
North America	4	8
South America	2	4
Africa	1	2

Geographical distribution (reallocating global organisations' representation to regions)

Region	Number	%
Europe	22	45
North America	12	24
Asia Oceania	11	22
Africa	2	4
South America	2	4

Percentages may not sum to 100 due to roundings

IFRS Foundation®

30 Cannon Street | London EC4M 6XH | United Kingdom

Telephone: +44 (0)20 7246 6410 | Fax: +44 (0)20 7246 6411

Email: info@ifrs.org | Web: www.ifrs.org

Publications Department

Telephone: +44 (0)20 7332 2730 | Fax: +44 (0)20 7332 2749

Email: publications@ifrs.org