

Trustees' Review of Structure and Effectiveness: relevance of IFRS and consistent application of IFRS

Objective

The EFRAG Board will review the IFRS Foundation's feedback on questions 1 to 6 in the *Request for Views - Trustees' Review Structure and Effectiveness* in relation to the relevance of IFRS and the consistent application of IFRS. The EFRAG Board will consider whether EFRAG should call on the IFRS Foundation for any further action.

Background

The IFRS Foundation published in July 2015 *Request for Views – Trustees' Review of Structure and Effectiveness: Issues for the Review*. EFRAG and the EC agreed that EFRAG would react to questions 1 to 6 in relation to the primary strategic goals 1 to 3: development of a single set of standards, global adoption of standards, and consistency of application and implementation and that the EC would address the governance and financing issues, which are covered by Questions 7 to 14. EFRAG submitted its comment letter on 21 December 2015 (paper 11.02 background document) and published a feedback statement on how EFRAG addressed the comments received on its draft comment letter during the public consultation and outreaches.

The Request for Views addressed in questions 3 and 4 on the IFRS Taxonomy. In addition the IFRS Foundation published an Invitation to Comment *IFRS Taxonomy Due Process* in November 2015. EFRAG submitted its comment letter on 19 February 2016 (paper 11.03 background document) and published a feedback statement on how EFRAG addressed the comments received on its draft comment letter during the public consultation.

The IFRS Foundation published in June 2016 a feedback statement: *Trustees' Review of Structure and Effectiveness: Feedback Statement on the July 2015 Request for Views* (paper 11.04 background document – pages 5 to 10 give a summary of the feedback received). Also in June the IFRS Foundation published a feedback statement on the IFRS Taxonomy Due Process ([link](#)).

Analysis

The table below contains an analysis the issues raised by EFRAG in its comment letter to the IFRS Foundation and the follow up provided by the IFRS Foundation in its feedback statement.

Questions raised in Request for views	EFRAG comment letter	Feedback statement IFRS Foundation	Observations EFRAG Secretariat
RELEVANCE OF IFRS			
<p>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?</p>	<p><i>EFRAG considers that the IFRS Foundation/IASB should not extent the scope of its standard-setting activities by developing standards for the public sector or the not-for-profit sector, since such activities would require substantial additional resources, as well as different knowledge, expertise and capacity.</i></p> <p><i>In terms of public accountability and governance, we recognise that there may be a need for international reporting standards for the not-for-profit sector. However, the absence of international standard setting for the not-for-profit sector is, in our view, not a convincing argument for the IASB to take on this activity. Moreover, the number of not-for-profit entities that operate cross borders on a worldwide scale, and which are potentially in need of international reporting standards, is relatively limited.</i></p>	<p>The Trustees have decided not to expand the Board's remit at this time to encompass financial reporting standards for the public sector and financial reporting standards for the private, not-for-profit ('NFP') sector.</p> <p>The Trustees have decided that the Board should be involved in any initiatives or working groups regarding financial reporting standards for the NFP sector and contribute as necessary.</p>	<p>No specific observations, in line.</p>

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<p>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?</p>	<p><i>The IASB's focus should remain financial reporting, the Trustees should ensure that the IFRS Foundation is at the forefront in terms of vision and consistency of all reporting developments, so as to maintain and enhance the relevance of financial reporting under IFRS in the wider corporate reporting arena.</i></p> <p><i>EFRAG believes that it is important that the IASB is fully aware of the developments across the whole range of corporate reporting and can take steps, if and when appropriate, to maintain the relevance of IFRS within the corporate reporting debate. Therefore, the IASB should continue to closely monitor the developments and continue to be involved in all relevant bodies — IIRC and beyond — to ensure that financial reporting evolves in a way that maintains or increases its relevance within corporate financial reporting.</i></p> <p><i>EFRAG underlines the importance of the IASB in addressing non-IFRS information, in particular alternative performance measures as part of the Disclosure Initiative project. [...] EFRAG recommends that the IASB considers the reasons why entities consider their presentation of non-IFRS information necessary and</i></p>	<p>The Trustees confirm that the Board should continue to examine the reporting of 'non-IFRS' (sometimes referred to as 'non-GAAP') information. Within the technical staff, there has been a restructuring to set up an enlarged team to focus on improving the effectiveness of the communication of information in financial reports, whose responsibilities cover the Board's projects on the Disclosure Initiative, Primary Financial Statements and the IFRS Taxonomy, as well as wider corporate reporting. The issue of non-IFRS information will be examined in the context of this new team.</p> <p>The Trustees also confirm the Board's current approach to wider corporate reporting. The Board will co-operate with, and monitor the developments of, bodies with responsibilities for areas across the whole range of corporate reporting (such as the Corporate Reporting Dialogue 'CRD'), and the International Integrated Reporting Council ('IIRC')). The Board is dedicating a staff resource to this area, where the plan is to develop a study of what the future role of the Board should be in the wider corporate reporting landscape.</p>	<p>No specific observations, in line.</p>

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	<i>identify lessons to be drawn for performance reporting.</i>		
<p>Q3: Do you agree with the IFRS Foundation’s strategy with regard to the IFRS Taxonomy?</p> <p>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?</p>	<p><i>EFRAG acknowledges the importance of the IFRS Foundation, itself continuing to develop and maintain an IFRS Taxonomy, in order to control the quality of the Taxonomy and the use of the ‘IFRS’ brand name. However, EFRAG is highly supportive of the Trustees’ statement that Taxonomy considerations should not dictate the standard-setting process.</i></p> <p><i>EFRAG also welcomes the IASB’s shift to focus more on the Taxonomy itself, leaving the development of the appropriate computer language/software to a different entity.</i></p> <p><i>In its letter of 19 February 2016 commenting on the Invitation to Comment “IFRS Taxonomy Due Process”, EFRAG expressed the concern that these proposals could constitute a risk of the IFRS Taxonomy having a too prominent role notably in relation to the role of the IASB Board and the IFRS Taxonomy Review Panel in approving the IFRS Taxonomy content updates reflecting new or amended IFRS.</i></p>	<p>The Trustees re-emphasise that IFRS Taxonomy considerations should not constrain the principles-based approach to standard setting.</p> <p>The Trustees believe that the Foundation has a role in ensuring high quality reporting in the digital world. In order to achieve this, there is a need to support the implementation of electronic reporting in the same way as the implementation of the Standards is supported, and that the implementation of IFRS electronic reporting should be as close to the Standards as possible. Therefore, in order to achieve its mission, the Foundation needs to own the digital representation of its Standards, with the objective of ensuring that the IFRS Taxonomy is fit for purpose and can be used effectively in a fully automated environment.</p> <p>A key aspect of the IFRS Taxonomy strategy is working to improve the quality of the data investors get from electronic filings. As part of this, the Foundation will consult more widely with investors, especially those making more use of the newer technologies, to examine the current usefulness of the IFRS Taxonomy and electronic reports and identify possible future improvements. In addition, the Foundation will enhance its co-operation with, and support, for, securities regulators. Among other things, the Trustees have tasked the staff to take up</p>	<p>The Trustees have re-emphasised that Taxonomy considerations should not constrain the principles-based approach to standard setting.</p> <p>The DPOC has evaluated the alternative proposal of a specialised committee and did not exclude establishing a taxonomy committee that would work in a similar way to the IFRS Interpretations Committee. But will at this stage continue with the proposals in the Invitation to Comment. The DPOC will re-evaluate after a period of time, in the light of the experiences with the new process, the proposal to establish such a committee.</p>

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	<p><i>Concern was expressed that the IASB Board members can only assume the responsibility of a supplementary task at the expense of their other activities.</i></p> <p><i>In its letter EFRAG proposed the establishment of a specialised committee similar to the IFRS Interpretations Committee with specific rights and obligations. The IASB would discuss and approve the strategic directions including the governing principles how to present financial statements in a structured format and considerations about the boundaries of the IFRS Taxonomy. The specialised committee composed of IFRS financial reporting experts with knowledge and expertise of taxonomies, supported by the relevant technical staff and operating within the strategic directions set by the IASB and under the oversight of the IASB, would prepare the Proposed Taxonomy Updates.</i></p>	<p>an offer by the International Organization of Securities Commissions ('IOSCO') to discuss how the Foundation might best support regulators in their efforts to improve digital access to general purpose financial reports.</p> <p>A review of the current limits on the content scope of the IFRS Taxonomy will be undertaken and recommendations for future action may be made.</p> <p>In the feedback statement on the IFRS Taxonomy Due Process it is indicated that:</p> <p>Given the broad support the DPOC (Due Process Oversight Committee) received for its proposals, the final IFRS Taxonomy due process has retained the role of the Board (and the approach to Board engagement) as proposed in the Invitation to Comment.</p> <p>The DPOC acknowledges that Board involvement will use resources, but is of the view that Board involvement is required to protect the integrity of the IFRS Taxonomy. In particular, it helps to ensure that the IFRS Taxonomy does not inadvertently interpret the IFRS Standards.</p> <p>On the alternative proposal of having specialised committee the DPOC recognises that the Board must be in a position (ie possess the required competency and have access to the appropriate materials) to take on a formal role for the IFRS Taxonomy content. The Board have been educated about the IFRS Taxonomy, and this education will be renewed regularly. The DPOC also would like to note that it has introduced a new consultation</p>	

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		<p>document 'the Proposed IFRS Taxonomy Update', which describes taxonomy content changes with minimal technology related language. The Board has already established a specialised consultative group for the IFRS Taxonomy, ie the ITCG. Many members of the ITCG have broad financial reporting and data modelling skills. These members review taxonomy updates and raise issues for the attention of the staff and Board. They also provide guidance on general taxonomy related matters. The DPOC thinks that the input of financial reporting specialists (including investors and preparers) could be particularly valuable to identify IFRS reporting practice that may need to be captured within the IFRS Taxonomy to increase its usefulness. In that respect, the DPOC notes that the <i>Due Process Handbook</i> already permits the Board to establish a consultative group (or task force) for a specific project. This includes IFRS Taxonomy common practice projects.The DPOC does not exclude establishing a taxonomy committee that would work in a similar way to the IFRS Interpretations Committee. The DPOC will re-evaluate after a period of time, in the light of the experiences with the new process, the proposal to establish such a committee.</p>	
<p>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?</p>	<p><i>The IASB should be open minded and monitor closely technological developments. Technology is changing continuously and is driving and affecting the way financial information is handled in practice and how information is communicated. EFRAG welcomes the Trustees' suggestion to establish a network of experts to assist and provide advice</i></p>	<p>The Trustees agree that the Foundation and the Board should formalise how they track technological developments, including establishing a network of experts to provide advice on technological issues and their potential impact on the Standards. This network of experts will comprise individuals from a variety of backgrounds, and the Foundation will work with them using a variety of different mechanisms (for example,</p>	<p>No specific observations, in line.</p>

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	<p><i>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. However, while recognising that their remit may be different EFRAG recommends that the IFRS Foundation clarifies the relationship between this network of experts and the existing IFRS Taxonomy Consultative Group.</i></p>	<p>roundtables and individual meetings). The Trustees note that the IFRS Advisory Council will also be focusing on this area in order to help the Foundation monitor developments.</p>	
CONSISTENT APPLICATION			
<p>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?</p>	<p><i>EFRAG believes that the best way to achieve consistent application is to develop clear, high-quality standards. Quality control including field-testing and effects analyses before finalisation of a standard is essential to ensure that the resulting standard is stable and less open to divergence in practice. [...]</i></p> <p><i>Allowing for judgement is an inevitable cost of having a principles-based system. There are circumstances where inconsistencies and, thus, diversity in practice are inherent to the design and purposes of IFRS. Diversity as such should not be taken as an excuse to regulate each and every standard, as this undermines principles-based standard setting and might ultimately</i></p>	<p>The Foundation's strategy for consistent application will focus on producing high quality, easily understandable and well-drafted Standards, which are based on clear principles. An area of particular focus will be on monitoring quality-control procedures relating to amendments to Standards. [...]</p> <p>With regard to supporting the maintenance of existing Standards, the team will focus on maintaining an effective interpretations process for responding to application questions. The team will be looking at ways to improve the efficiency of this process, including the work of the IFRS Interpretations Committee, while ensuring that there is still thorough research and analysis of the application questions raised. Supporting the maintenance of existing Standards will also include performing post-implementation reviews of Standards.</p>	<p>The IFRS Foundation's Feedback Statement is broadly in line with EFRAG's comments in response to the Request for Views. However, the Feedback Statement responds in a general way and is perhaps rather light on specific actions.</p> <p>Areas in which the EFRAG Board could request a more specific response and/or commitment to take actions might include:</p> <ul style="list-style-type: none"> • a commitment to field-testing and effects analyses

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	<p><i>lead to jurisdictions turning away from the concept of global standards.</i></p> <p><i>EFRAG also calls on the Trustees to examine and reconsider the effectiveness of its due process oversight. A due process oversight which also addresses the substance of the complaints would be a major step forward in building the buy-in of the various jurisdictions around the world.</i></p> <p><i>Quality control, including field-testing and effects analyses before finalisation of a standard, is essential to ensure that the resulting standard is stable and less open for divergence in practice. EFRAG would see field tests, effects analyses and quality control as essential elements of the standard-setting process (that should be carried out during the standard-setting process), thereby ensuring that final standards are less open to interpretations and divergence in practice.</i></p> <p><i>The IASB should be restrictive in the use of Transition Resource Groups (TRGs), since their activities may be counteractive to principles-based standard setting. [...]</i></p>	<p>[...] The Trustees are clear that their role is one of oversight and that the Board has complete responsibility for all technical matters. Within that clear division of responsibilities, the Trustees, in particular through the DPOC, not only examine the due process followed by the Board, but also consider the Board's rationale for making certain major technical decisions, while acknowledging the fact that it is for the Board, and the Board alone, to make such decisions. [...]</p> <p>The Trustees note that the Board has a process in place that supports the objective of producing high-quality, easily understandable and well-drafted Standards, which are based on clear principles. Furthermore, in the past year, quality-control procedures relating to the finalisation of narrow scope amendments and Standards have been enhanced. The Board will continue to monitor, develop and improve upon these procedures. [...]</p> <p>To further improve transparency and communication, the Trustees have decided that in future the meetings of the DPOC should be held in public session (while the DPOC will retain discretion to hold some of each meeting in private, the presumption will be that the meeting will be open). In so doing, the Trustees hope that this additional transparency will demonstrate that how their oversight is more than process and compliance-driven, while at the same time</p>	<p>before finalisation of a standard</p> <ul style="list-style-type: none"> • a more formal policy on the use of TRGs • analysis of how the pursuit of consistent application relates to principles-based standards

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	<p><i>The Trustees should formalise (a) the structure and the use of TRGs within the organisation and standard-setting process; (b) define the circumstances in which the use of TRGs is deemed useful; (c) the timing and the status of TRGs' outputs as part of the implementation of a new standard; and (d) the interactions of TRGs' deliberations with those issued by the IFRS Interpretations Committee.</i></p> <p><i>The Trustees should continue monitoring the functioning and effectiveness of the IFRIC, in order to better respond to the implementation issues identified in practice and provide any necessary guidance on a (more) timely basis.</i></p> <p><i>EFRAG would also like to emphasise that, in EFRAG's view, Post-Implementation Reviews (PIRs) should now be regarded as a useful tool in the IASB's research activities, helping to identify what works and what needs to be improved in current practice, regardless of the date at which a standard has been issued. Standards with many interpretations or clarification requests tend to qualify as candidates for Post-Implementation Reviews. At the time a Post-Implementation Review is</i></p>	<p>respecting the Board's decision-making on technical issues.</p> <p>The Board will continue to consider ways to best support the implementation of newly-issued Standards in the light of the implementation environment. This includes considering, on a case by case basis, whether and how to use a TRG for major, new Standards. It also includes considering how to make use of technology to reach many stakeholders.</p> <p>The Board has taken steps to improve the interaction between the IFRIC and the Board, and continues to look at other ways to improve the efficiency of the process of responding to implementation questions.</p> <p>The Board recognises the benefit of using the PIR process to undertake broad-scope research about older Standards. In line with the comments made by the Trustees in the RFV, the Board thinks that it should gain more experience of performing PIRs before it considers any formal change to the due process requirements around PIRs, including the requirement to undertake a PIR for all new Standards, normally after two years of implementation. The Trustees expect to undertake a review of the PIR process after the Board has completed the next two PIRs. [...]</p>	

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	<p><i>completed, the IASB should communicate on its action plan to provide improvement where needed and discuss the level of priority the related standard-setting efforts should receive.</i></p>		
OTHER			
<p>Effectiveness review on IASB standard setting process</p>	<p><i>EFRAG appreciates that the IFRS Foundation has undertaken an internal Operational Review and that, in addition, the Trustees have commissioned an external review of operational expenditure and cost-management effectiveness. The results of this external review have not been made public. EFRAG recommends that the IFRS Foundation, in addition to the operational and cost effectiveness reviews, commissions an independent review of the effectiveness of its standard-setting process, including the due process oversight, since the funders of the IASB rely on the IASB's effectiveness.</i></p>	<p>The feedback statement mentions under other comments on page 55 (F54 (m)) EFRAG's comment that the Foundation should undertake an independent review of the standard-setting process without commenting on it.</p>	<p>No follow up provided by the IFRS Foundation. The EFRAG Board could consider whether it wishes to reiterate this request.</p>