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25 July 2011

**Re: Report of the Trustees ‘Strategy Review’**

Dear Sir,

OIC is pleased to have the opportunity to comment on the report of the Trustees’ Strategy Review *IFRS as the Global Standard: Setting a strategy for the Foundation’s Second Decade*.

OIC welcomes the fact that the IFRS Foundation Trustees are seeking to make a comprehensive review of the organization’s strategy.

We also welcome the fact that the Trustees are committed to co-ordinating the conclusion of their consultation with the review of the Monitoring Board, in order to arrive at an integrated set of proposals. However, it is not clear whether this integrated package will be subject to a further public consultation. We think that this should be the case, especially if the proposed changes will require modifications to the Constitution.

Generally, we are fully supportive of most of the proposed recommendations. However, same concerns still remain:

- We concur that the final target is the global adoption of IFRSs. Convergence solutions are not desirable, they do not ensure the consistent application of IFRSs while, in order to have global standards, consistent application of IFRSs internationally is achieved. We note that consistent application is undermined when the adoption mechanisms of IFRSs permit the issue of national guidance regarding the IFRSs application. This should lead to a reflection about the more critical role that countries that adopt IFRSs should play in the standard-setting process compared with jurisdictions that have chosen a convergence solution.

In this regard, it is reasonable that country which adopts IFRSs may play a more significant role than others in the governance of the IFRS Foundation and therefore, in the IASB. Instead, the Board is currently composed also of individuals from jurisdictions which have not yet adopted the IFRSs. We believe that this situation can be acceptable only on a temporary basis.

- We are convinced that in the harmonisation of accounting standards a critical role is played by the IFRS Interpretation Committee, both when it issues an interpretation and when it rejects a request for interpretation. With regard to the latter case, we have expressed concerns in the past about the wording for rejections by the IFRS Interpretations Committee, that should not express positions akin to an interpretation, which can result in a change in an accounting practice. Given the potential impact of the rejections, it would be essential that the Trustees review the oversight process of the IFRS Interpretations Committee decisions. Consistent with this, we encourage Trustees to consider a formal approval by the IASB of all IFRS Interpretations Committee decisions. By doing so, the Board would ensure consistency between the IFRS Interpretations Committee decisions and the IFRSs, and at the same time will make the IASB responsible for all the accounting standard-setting process, including clarifications.
- We welcome the recommendation to maintain a network of national and other accounting standard-setting bodies as an integral part of the standard-setting process. However, we think that it is important that the relationship between the IASB and the national standard setters (NSSs) is clearly defined. In order to achieve this, we suggest the adoption of a Memorandum of Understanding between the IASB and the NSSs that recognizes to NSSs a more critical role in the standard-setting process, given that they are stakeholders that voice national issues. In our opinion, regional groups could be a tool to facilitate the dialogue between NSSs and the IASB but not be a substitute for a direct relationship with NSSs. Therefore, the IASB should intensify its liaison relationship with NSSs.
- We welcome the proposal of Trustees to seek a global funding system with the features mentioned, because it seems adequate to achieving the objective of a stable, diversified and independent funding. In order to avoid the Trustees from being too committed to the search for new funding, it could be proposed that in the context of a relationship with the countries that are IFRS adopters, a funding mechanism could be considered.

Please find our detailed comments attached below.

## **A. Mission: defining the public interest to which the IFRS Foundation is committed**

### **Purpose of financial reporting standards**

***A1 In carrying out the IFRS Foundation's mission as the standard-setting body, the IASB should develop financial reporting standards that provide a faithful presentation of an entity's financial position and performance. Those standards should serve investors and other market participants in their economic and resource allocation decisions. The confidence of all users of financial statements in the transparency and integrity of financial reporting is critically important to the effective functioning of capital markets, efficient capital allocation, global financial stability and sound economic growth.***

The report notes that the Constitution makes a direct reference to the 'public interest' without providing a specific definition of the public interest. We think that it would be useful to try to define it. This effort has been made, for example, by the International Federation of Accountants that published in last November an exposure draft of a position paper "A Public Interest Framework for the Accountancy Profession". In this document, it has provided a definition of public interest, clarifying what it is meant by *public* and by *interest*.

We think that this exercise should also be undertaken by the IFRS Foundation.

We agree with the mission of the IFRS Foundation, which consists of developing accounting standards that provide a faithful presentation of an entity's financial position and performance. Therefore, information included in the financial statements should be useful to assist investors and other market participants in taking their decisions.

However, we think that it would be appropriate to clarify that information should be mainly useful to those who have a long-term perspective, because they are interested in knowing the entity's future prospects and in sustainable value creation. This would be consistent with the sound economic growth, mentioned in the proposed recommendation.

We wish to recall two aspects, already noted in a previous consultation (see our letter of 1 March 2011):

- the recommendation that the IASB concentrates on the development of IFRSs, carrying out projects that will result in accounting standards and using its resources in an effective manner. The other types of financial reporting, under IFRSs, are neither included in the set of financial statements nor is their adoption prescribed to be in accordance with IFRSs. Moreover, we note that it would be useful for the IASB to clarify the boundaries of financial statements and to make the IFRSs the mandatory in relation to financial statements only.
- stewardship should be included among the objectives of the Foundation, since it is a fundamental characteristic of accounting and financial reporting. This would mean that the objective in the Constitution would be aligned with the Conceptual Framework.

Furthermore, in the report, it is said that because general purpose financial reporting cannot fulfil all public policy objectives that require financial information, the IASB "*should work with regulators and other stakeholders, to the maximum extent possible, to enable other authorities to require the display of financial information outside the general purpose financial reports in a way that meets other public policy objectives without compromising transparency*". We think that the disclosure required to meet public policy objectives could be provided outside the general purpose financial statements. This could enhance the comparability of financial statements, about the disclosure, enabling users to distinguish disclosure required by IFRSs from that required by national regulators.

### **Adoption of IFRSs**

***A2 As the body tasked with achieving a single set of improved high quality global accounting standards, the IFRS Foundation must remain committed to the long-term goal of the global adoption, in their entirety and without modification, of IFRSs as developed by the IASB.***

***Convergence may facilitate adoption over a transitional period. Convergence, however, is not a substitute for adoption. Adoption mechanisms may differ among countries and may require an appropriate period of time to implement but, whatever the mechanism, they should enable relevant entities to have an audit opinion stating full compliance with IFRSs as issued by the IASB.***

We agree that convergence may be only a temporary solution in order to facilitate the adoption of IFRSs but it is not a substitute for it. Therefore, we concur that the final target is the global adoption of IFRSs. Convergence solutions are not desirable, they do not ensure the consistent application of IFRSs and, consequently, the comparability of financial statements.

We note that consistent application is undermined when the adoption mechanisms of IFRSs permit the issue of national guidance regarding the IFRSs application. This should lead to a reflection about the more critical role that countries that adopt IFRSs should play in the standard-setting process compared with jurisdictions that have chosen a convergence solution.

In this regard, it is reasonable that country which adopts IFRSs may play a more significant role than others in the governance of the IFRS Foundation and therefore, in the IASB. Instead, the Board is currently composed also of individuals from jurisdictions which have not yet adopted the IFRSs. We believe that this situation can be acceptable only on a temporary basis.

We are convinced that in the harmonisation of accounting standards a critical role is played by the IFRS Interpretation Committee, both when it issues an interpretation and when it rejects a request for interpretation. With regard to the latter case, we have expressed concerns in the past about the wording for rejections by the IFRS Interpretations Committee, that should not express positions akin to an interpretation, which can result in a change in an accounting practice.

Given the potential impact of the rejections, it would be essential that the Trustees review the oversight process of the IFRS Interpretations Committee decisions. Consistent with this, we encourage Trustees to consider a formal approval by the IASB of all IFRS Interpretations Committee decisions. By doing so, the Board would ensure consistency between the IFRS Interpretations Committee decisions and the IFRSs, and at the same time will make the IASB responsible for all the accounting standard-setting process, including clarifications.

***A3 With co-operation from national and international market and audit regulators, the IFRS Foundation should seek full disclosure where adoption of IFRSs is incomplete or there is divergence from the full set of IFRSs as issued by the IASB. The Foundation should seek a mechanism to highlight instances where jurisdictions are asserting compliance with IFRSs without adopting IFRSs fully.***

We understand the interest of the IFRS Foundation to have full disclosure of situations in which the adoption of IFRSs is incomplete or there is a divergence from the full set of IFRSs as issued by the IASB.

However, it is not clear how the IFRS Foundation thinks to obtain evidence of not full compliance to IFRSs or of jurisdictions that assert the compliance without adopting IFRSs fully. Furthermore, it is not clear what the effect is of the analysis that the IFRS Foundation wishes to carry out. If a country does not adopt full IFRSs, we wonder whether this could produce any consequences.

#### **Scope of standards and IFRS activities**

***A4 In the near term, the primary focus of the IFRS Foundation and the IASB should remain on developing standards for private sector entities (ie both publicly traded***

**entities and SMEs). Taking into account the necessary resource requirements, the Foundation and the IASB will consider developing standards for other entities and for other purposes at a later date.**

We agree with the recommendation. It is fundamental that the primary focus of the IFRS Foundation and the IASB is on developing standards for private sector entities, at least in the near term.

#### **Consistency of application and implementation**

**A5 In pursuing its mission, the IFRS Foundation has a vested interest in helping to ensure the consistent application of IFRSs internationally. The Foundation should pursue that objective in the following ways:**

- **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. All application guidance and examples must be necessary to understand the principles.**
- **The IASB will work with a network of securities regulators, audit regulators, standard setters and other stakeholders to identify divergence in practice. 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 IFRS Foundation, through its education and content services, should undertake activities aimed at promoting consistent application.**
- **The IASB, in partnership with relevant authorities, will identify jurisdictions where IFRSs are being modified and encourage transparent reporting of such divergence.**
- **The IFRS Foundation will seek the assistance of the relevant public authorities to achieve this objective.**

As said in the Constitution, an objective of the IFRS Foundation is to promote the use and rigorous application of IFRSs. In our opinion, it is important that, in order to have global standards, consistent application of IFRSs internationally is achieved. The ways found by the Foundation seem appropriate to contribute to the achievement of that objective. Furthermore, we recall our comments to question A2.

#### **B. Governance: independent and publicly accountable**

**B1 The independence of the IASB in its standard-setting decision-making process, within a framework of public accountability, must be maintained.**

We fully support the idea that the independence of the standard-setting decision-making process must be maintained. It must be guaranteed through appropriate oversight and transparent due process.

**B2 The current three-tier structure (Monitoring Board, Trustees, IASB) is appropriate for the organisation's mission. Within that governance structure, the Monitoring Board, the IFRS Foundation and the IASB should enhance their interaction and procedures where appropriate to reinforce the principles of transparency, public accountability and independence. In doing so, the roles and responsibilities of each element of the organisation's governance should be clearly defined.**

We welcome the retaining of the three-tiered structure. Furthermore, we appreciate that the Trustees' proposals will be co-ordinated with the conclusions of the review of the Monitoring Board on governance and financing aspects.

We agree with the intention to define clearly the roles and responsibilities of each element of the organisation's governance, especially with regard to the oversight function.

Please refer also to our comments in point A2 regarding the membership of the IASB.

***B3 Consistently with point B2, the Trustees should further clarify how they discharge their oversight responsibilities.***

We support the proposal that the Trustees should further clarify how they discharge their oversight responsibilities.

We welcome the recommendation to enhance the role of the Due Process Oversight Committee and the proposal to develop enhanced procedures and clearer criteria for the nomination of Trustee candidates

We have nothing against the development of a staff resource, reporting directly to the Trustees. However, it should ensure efficiency as well as avoid significant rises in costs.

***B4 Elements of the governance structure should provide regular public reports to demonstrate their effectiveness.***

As already noted in previous consultations, we welcome any proposal that can increase transparency. Making available regular reports about each element of the governance structure seems a good way to demonstrate their effectiveness. Furthermore, these reports will enhance understanding by the stakeholders of the Foundation's work.

However, in addition to public reports, the presence of representatives of the IFRS Foundation at public meetings would be useful in order to create a more direct relationship with the stakeholders as well as to enhance confidence in the Foundation.

With regard to the Trustees, they could commit themselves to building up a close relationship with the main stakeholder organizations present in their jurisdiction, at regional level.

**C. Process: ensuring that its standards are of high quality, meet the requirements of a well-functioning capital market and are implemented consistently across the world**

***C1 A thorough and transparent due process is essential to developing high quality, globally accepted accounting standards. The IASB's due process is and should continue to be reviewed and further enhanced regularly, benefiting from regular benchmarking against other organisations and from stakeholder advice.***

We agree that a transparent and thorough due process is fundamental to developing high-quality accounting standards that are globally accepted. Therefore, we welcome the fact that the due process continues to be reviewed and enhanced.

***C2 The framework for the Trustees in their oversight of the IASB's due process should be clarified. The Trustees' Due Process Oversight Committee should review and discuss due process compliance regularly throughout the standard-setting process and at the end of the process before a standard is finalised. The Committee should report regularly on these activities to the Trustees and in its annual report.***

Consistent with our previous replies, we fully support the idea that the Trustees clarify the framework for their oversight of the IASB's due process. We appreciate the role that the

Due Process Oversight Committee could play in the oversight of the IASB's due process. The review of due process compliance regularly throughout the standard-setting process and at the end of it, before the finalization of a standard, is an important step. However, in our opinion, it is essential that the oversight is not limited to reviewing compliance with the procedures required but goes beyond, including a review of the reasons for the technical decisions taken and the evidence supporting such decisions. This would help to overcome the criticism that the IASB does not always take sufficiently into account the stakeholders' opinions, and does not clearly explain how different positions are reconciled regarding both the definition of the agenda and the accounting issues.

***C3 Building on the existing due process framework and in an effort to improve the usability of financial information, the IASB should undertake the following:***

- Clear demonstration of how priorities on its agenda are set: In the agenda-setting process and after the required public consultation, the IASB should provide full feedback. This will assist in demonstrating how the IASB's priorities are set.***
- Agreed methodology for field visits/tests and effect analyses: The IASB should work with relevant parties to develop an agreed methodology for field visits/tests and effect analyses (more often referred to as cost-benefit analyses or impact assessments).***
- Integration of XBRL into the standard-setting process and the development of relevant XBRL taxonomy extensions: In order to take into account the impact of technology, the development of the IFRS XBRL taxonomy should be integrated into the IASB's due process. In addition, the IFRS XBRL taxonomy should be expanded to include a relevant number of extensions to the existing base taxonomy.***

With regard to agenda setting, we welcome the commitment to undertake public consultation on the IASB's agenda and priorities, as well as providing a feedback statement explaining how the IASB accounted for the views of the Trustees, the IFRS Advisory Council, the Monitoring Board and stakeholders. We wish to reaffirm that, among stakeholders, the views of the NSSs should be taken more into consideration in order to set the priority and the scope of the agenda items.

Furthermore, it would be appropriate if Trustees clarified what their oversight on this phase would be in substance.

As said above, enhancing oversight of the IASB, also with reference to the definition of the agenda, is a way to address the general sentiment that the IASB does not always take the stakeholders' opinions adequately into account.

Moreover, in our opinion, the public consultation on the agenda should be extended to include fully developed proposals. Stakeholders should be aware of why there is a need for improvement and what benefits are expected.

With reference to field visit/tests and effects analyses, we support the proposal to develop an agreed methodology for them. We wish to highlight the importance that impact assessments are carried out at several phases of the standard setting process, early in the process and in the phase of post-implementation. In order to comply with its Due Process Handbook, the IASB should develop procedures that ensure the transparency of the attempts to analyse the effects and the practical implications of its proposals. This is especially valid for new projects and should be carried out before the decision to take the project into the active agenda. In this manner, it would be possible to avoid proposing projects that later do not meet the cost/benefit analysis.

Regarding the integration of XBRL into the standard-setting process, and granted that the only accounting standard setter is the IASB, the involvement of XBRL specialists before the development of standards could be appropriate. In our opinion, it could be useful in order to consider the impact of the IASB's decisions on how the standards are represented in the IFRS XBRL taxonomy as well as to avoid interpretative effects arising in developing the taxonomy. Therefore, we propose that XBRL specialists may be consulted during the

standard-setting process, being very careful that this does not take the IASB away from a principle based approach to standard setting.

However, we do not agree with the proposal to expand IFRS XBRL taxonomy to include a relevant number of extensions in order to reflect common IFRS practice. We see the risk that this could increase further the disclosure requirements.

***C4 To support the IFRS Foundation's interest in consistent application of IFRSs and within the IASB's standard-setting mandate, the Foundation and the IASB should undertake the following actions:***

- ***using an agreed methodology, undertake post-implementation reviews to help identify implementation issues.***
- ***establish formal co-operation arrangements with securities regulators, audit regulators and national standard-setters to receive feedback on how IFRSs are being implemented and to encourage actions aimed at addressing divergence.***
- ***refine the scope of the IFRS Interpretations Committee's activities to ensure consistency of interpretation, without undermining the commitment to a principle-based approach to standard-setting.***

We support the IFRS Foundation's interest in consistent application of IFRSs and we welcome the development of an agreed methodology for undertaking post-implementation reviews. We think that NSSs could make a contribution in carrying out these reviews. Furthermore, we think that national standard setters and regional organizations can also contribute to giving feedback on how IFRSs are implemented, given that they are in the best position to identify any application issues.

We agree that the IFRS Interpretation Committee should communicate persuasive explanations and reasons for not issuing authoritative guidance. We have expressed concerns in the past about the wording for rejections by the IFRS Interpretations Committee, that should not express positions akin to an interpretation, which can result in a change in an accounting practice. Regarding this aspect, please see the answer to question A2.

We would like to understand whether the interpretations and the authoritative guidance issued by IFRS IC are the same thing or not. We note that in the report and in the IFRIC Handbook the two terms seem to be used with the same meaning.

***C5 The IFRS Foundation and the IASB should encourage the maintenance of a network of national and other accounting standard-setting bodies as an integral part of the global standard-setting process. In addition to performing functions within their mandates, national and other accounting standard-setting bodies should continue to undertake research, provide guidance on the IASB's priorities, encourage stakeholder input from their own jurisdiction into the IASB's due process and identify emerging issues.***

We welcome the recommendation to maintain a network of national and other accounting standard-setting bodies as an integral part of the standard-setting process.

However, we think that it is important that the relationship between the IASB and the national standard setters is clearly defined, as set out in our responses to previous consultations. In order to achieve this, we suggest the adoption of a Memorandum of Understanding between the IASB and the NSSs that recognizes to NSSs a more critical role in the standard setting process, given that they are stakeholders that voice national issues. In our opinion, regional groups could be a tool to facilitate the dialogue between NSSs and IASB but not be a substitute for a direct relationship with NSSs. Therefore, the IASB should intensify its liaison relationship with NSSs.



***C6 To provide thought leadership in the field of financial reporting, the IASB should establish, or facilitate the establishment of, a dedicated research capacity.***

We agree with the intention to establish a research capacity, as research activity is a fundamental step in developing high-quality standards. Given the limitations of financial resources, as said in the report, it is appropriate to consider a combination of internal and external intellectual resources. In this context, the academic community could make a useful contribution.

We hope for a greater development of discussion papers. It is especially important for the main projects, in order to deepen the debate on critical aspects that accounting treatments present and to arrive at solutions that are really high-quality.

Furthermore, we note that the IASB could take more into consideration the proactive projects carried on by NSSs and other regional organizations as useful starting point for its work on issues which need to be dealt with.

**D. Financing: ensuring the organisation is financed in a manner that permits it to operate effectively, efficiently and independently**

***D1 The funding system must maintain the independence of the standard-setting process, while providing organisational accountability.***

***D2 The existing base of financing should be expanded to enable the IFRS Foundation to serve the global community better and to fulfil the strategy described above.***

***Specifically, funding should be proposed by the Trustees to 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 (consistent with the principle of proportionality) and provide sufficient organisational accountability.***

We support the idea that the funding system is essential for the independence of the standard-setting process. It is fundamental that the Foundation has a funding system that guarantees that the financing is stable, is able to achieve a diversification of the funding sources and is appropriate in order to permit it to operate efficiently and independently. The current funding model, based on direct contributions from stakeholders who represent private interests, cannot be sustainable in the long run for an organization like the IFRS Foundation that has to operate in the public interest, free of undue influence. Indeed, the financing from private parties does not secure the independence of the Foundation.

Therefore, we welcome the proposal of Trustees to seek a global funding system with the features mentioned, because it seems adequate to achieve the objective of a stable, diversified and independent funding. In order to avoid the Trustees from being too committed to the search for new funding, it could be proposed that, in the context of the relationship with the countries that are IFRS adopters, a funding mechanism could be considered. That would permit, on the one hand, the IFRS Foundation to meet its financing needs and ensure its independence, and, on the other hand, IFRS adopters to contribute using formulae depending on the Foundation budget.

If you have any queries concerning our comments, please do not hesitate to contact us.

Yours faithfully,

Angelo Casò  
(OIC Chairman)