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25 July 2011

IFRS Foundation Trustees  
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Our Reference: 2011/JE/TCSC1/IFRSF/106

**Subject: Report of the Trustees' Strategy Review - IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade**

Dear Trustees:

The International Organization of Securities Commissions Standing Committee No. 1 on Multinational Disclosure and Accounting (SC 1) appreciates the opportunity to provide comments regarding the International Financial Reporting Foundation's Report "IFRS as the Global Standard: Setting a Strategy for the Foundation's Second Decade." The International Organization of Securities Commissions (IOSCO) is committed to promoting the integrity of international capital markets through promotion of high quality accounting standards, including their rigorous application and enforcement.

Members of SC 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of SC 1. They are not intended to include all the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

As with our 24 February 2011 response to the Paper for Public Consultation: Status of Trustees' Strategy Review, IOSCO will provide input on strategic matters facing the IFRS Foundation through its role as a member of the Monitoring Board, in addition to the comments we offer, below. The broad topics of governance are central to the Monitoring Board governance review and thus IOSCO input on this topic will be addressed solely through that effort.

#### **Overall Comment**

Overall we think the Strategy document is comprehensive and thorough, and that it presents a good analysis of the matters that are most relevant to the Foundation's focus for the next ten years. We

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continue to believe that emphasis on the areas of mission, governance, process and financing are appropriate because these are the significant factors that will support and guide the work of future IFRS standard-setting, including its independence and accountability. However, there are a few statements that we would comment on that are reflected in our comments that follow.

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

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.

We are supportive of the mission and believe the purpose of financial reporting standards as stated above is appropriate.

A possible improvement to the wording of the mission in the Constitution could be accomplished by stating that "Those standards should serve investors and other market participants in **making informed** resource allocation **and other economic** decisions." It is fundamental to high quality accounting standards that the standards form a basis for preparation of transparent and comparable financial statements for users because it is such transparency and comparability that contributes to informed economic decisions. In October 2008 the IOSCO Technical Committee stated in its Statement on Accounting Standards Development and Enforcement that:

"Accounting standards for public companies must provide clear, accurate and useful information to investors to allow them to make informed investment decisions; furtherance of this goal promotes investor confidence in financial statements and capital markets. We strongly support accounting standards that afford investors transparency, maintain market integrity, and facilitate capital formation and are consistent with financial stability."

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.



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We continue to believe that it is important that combined efforts are aimed at achieving a single set of high quality accounting standards.

We believe the right mission and goals for the IASB center on developing a high quality set of international financial reporting standards. The IASB should not lose sight of the potential benefits of convergence in making progress toward global accounting standards. Convergence on high quality standards can be helpful to investors and in those instances is important.

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 agree that the IFRS Foundation should seek full disclosure, as described. To this end, on 6 February 2008 IOSCO issued its Statement on Providing Investors with Appropriate and Complete Information on Accounting Frameworks Used to Prepare Financial Statements. This IOSCO statement “recommends that all annual and interim financial statements that are prepared on the basis of national standards that are modified or adapted from IFRS and published by publicly traded companies should include at a minimum the following statements, (which should be tailored to the company’s circumstances and the markets in which securities may be traded):

1. A clear and unambiguous statement of the reporting framework on which the accounting policies are based;
2. A clear statement of the company's accounting policies on all material accounting areas;
3. An explanation of where the accounting standards that underpin the policies can be found;
4. A statement that explains that the financial statements are in compliance with IFRS as issued by the IASB, if this is the case; and
5. A statement that explains in what regard the standards and the reporting framework used differs from IFRS as issued by the IASB, if this is the case.”

Additionally, we agree that the IASB should seek a mechanism to highlight instances where IFRSs are not fully adopted yet compliance is asserted. This area would cause even more concern regarding providing proper information to investors about the accounting framework used.

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.



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We agree with this for the near term.

A5	<p>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:</p> <ul style="list-style-type: none"><li>• The IASB, as the standard-setter, should issue standards that are clear, understandable and enforceable.</li><li>• 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.</li><li>• 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.</li><li>• The IFRS Foundation, through its education and content services, should undertake activities aimed at promoting consistent application.</li><li>• The IASB, in partnership with relevant authorities, will identify jurisdictions where IFRSs are being modified and encourage transparent reporting of such divergence.</li><li>• The IFRS Foundation will seek the assistance of the relevant public authorities to achieve this objective.</li></ul>
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We agree that the IFRS Foundation has a vested interest in helping to ensure the consistent application of IFRSs internationally. SC 1 is willing to work with the IASB as proposed. As securities regulators acting in the public interest, we believe there should be appropriate weight given to the input and roles of various stakeholders to the standard setting process.

While principles-based standards are desirable and appropriate for application in a global context, unless one is comfortable with a wide range of variations in application, there is going to be a need for a vigorous and effective function that provides resolution of questions and parameters for appropriate application. We believe an active and productive function will be a key and essential part of promoting consistent application of IFRS in a global environment. As standards are developed, the IASB should continually examine whether its proposed approach would both yield improved information for financial statement users and assist in the consistent application and enforcement of the standards.

As we stated in our 24 February 2011 letter in response to the Review of the operational efficiency of the IFRS Interpretations Committee, the combination of both standards with a principles focus and a desire to avoid a proliferation of interpretations and rules from the IFRS Interpretations Committee has in some respects created an application and implementation need that is not fully being met. While we agree that standards should be objectives and principles oriented, and that thus there should



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not be the need for a large quantity of rules to be issued, we believe that more support is needed than exists at present and that more could be done.

In our 24 February 2011 letter, we provided comments regarding the IFRS Interpretations Committee's rejection of submissions and its method of communicating rejections. We stated our belief that the Interpretations Committee should have a remit that provides for a manner of handling rejected issues more comprehensively. We also stated that, when the Interpretations Committee rejects submissions on the grounds that appropriate guidance is already available in the standards, we believe it is important for the rejection wording to include a detailed rationale, including explicit references to the relevant standards and, if appropriate, to related paragraphs in the Basis for Conclusions. In addition, because there are some who will use staff papers as guidance, staff papers that are given undue prominence and some standing demonstrate the existence of a gap in IFRS literature. Gaps in the IFRS literature are also evident when the IFRS Interpretations Committee recommends to the Board that it address a matter that has arisen in practice and that is broader in scope than is the Interpretation's Committee's remit. Even if the Board cannot get to them right away, it is important that these remain prominent as matters to address.

Even without the new standards that will be coming online, users, regulators and other stakeholders have on a regular basis asked for more implementation help and guidance. While IASB staff may respond to these requests individually on a best efforts basis, making institutional the arrangements for responding to these requests would appear to be "a next frontier" in the evolution and use of IFRS. It is difficult to say whether attending to implementation matters on standards deserves more time relative to improving the standards themselves, but it is highly important.

Issuers will face significant changes when they implement all the new standards that the IASB is currently developing, so the implementation process will inevitably reveal issues that the IASB will need to consider.

We believe that there is a need for balance and that guidance should be issued when necessary. The Board may need to consider whether to devote more resources when the IFRS Interpretations Committee is unable to do something in the existing standards instead of putting more resources into the development of new standards. We would encourage the Foundation to ensure that both the IASB and the IFRS Interpretations Committee have sufficient resources to deal with implementation issues on a timely basis. In this task it would be helpful to take the benefit of the practical experience of enforcers of financial reporting in evaluating an issue that is presented to the IFRS Interpretations Committee for consideration.

The increase in countries adopting IFRS could accentuate all of these pressures noted above. Adoption implementation issues—for example, any parts of the standards that countries do not adopt as is—can serve as an indication that particular IFRSs are in need of improvement or clarification. This may not necessarily be indicative that a project is needed but could be indicative of areas deserving closer re-examination.



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

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| B1 | The independence of the IASB in its standard-setting decision-making process, within a framework of public accountability, must be maintained.   |
| 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. |
| B3 | Consistently with point B2, the Trustees should further clarify how they discharge their oversight responsibilities.   |
| B4 | Elements of the governance structure should provide regular public reports to demonstrate their effectiveness.   |

The broad topic of governance is central to the previously mentioned Monitoring Board review and thus IOSCO input on this topic will be addressed through that effort.

**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**

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| 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. |
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We agree.

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| 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. |
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We agree. In addition, we believe the Trustees should publish details on how the effectiveness of their oversight function would be assessed and include this area within their update discussions with the Monitoring Board.



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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.

We welcome the recent amendments to the Constitution to provide for the IASB's periodic consultation on its agenda. Periodic consultation will allow the Board to keep current in its awareness of its constituents' views. We agree there should be field testing when appropriate or useful and that it is a good step in identification of the costs and benefits of a standard. This step is similar to what may be required for legal processes in national jurisdictions. We believe there should be transparency to the extent possible when the methodology is developed.

We also support the integration of XBRL, but would not want rules-based XBRL considerations to drive the content of the standards. While we support the proposal in terms of greater transparency and timeliness, it is not clear what will be done or considered in the area of XBRL and why. There is also no mention of interacting with regulators and others in jurisdictions around the world that have their own XBRL taxonomies that do not mesh with the IASB's IFRS XBRL taxonomy. We believe there is a need to articulate and explain the strategy and actions that are being considered or contemplated with respect to XBRL, and to seek comment on those ideas and plans.

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 formalised 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.



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Please see the response to A5.

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 agree that national and other accounting standard-setting bodies should be encouraged to undertake research and participate as indicated.

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

What do the Trustees have in mind and what is meant by this? We can understand the usefulness of looking at the broader picture economics. However, we are not sure there would be adequate cost/benefit in the IASB establishing a dedicated research capacity or dedicating particular resources to working with academics in research work. We would need to know more about what is envisioned in order to provide further input.

**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.

SC 1 continues to believe the fewer the number of groups among whom the Trustees need to coordinate funding commitments the more "automated" the funding will seem. At the same time, however, there cannot be so few groups that each effectively has influence over the Foundation or the IASB by virtue of withholding funding. The goal should thus be to give the Foundation the stability it needs to plan its activities by striking the right balance between these two factors. If ever in doubt as to what constitutes the best balance, the bias should be toward mitigating opportunities for influence over easing funding coordination efforts.





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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 direction described in D2.

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We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information, please do not hesitate to contact me at + 202-551-5344.

Sincerely,

  
Julie A. Erhardt  
Chairman

IOSCO Standing Committee No. 1  
International Organization of Securities Commissions