



International Organization of Securities Commissions
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24 February 2011

International Financial Reporting Standards Foundation
Board of Trustees
30 Cannon Street
London EC4M 6XH
United Kingdom

Via: strategyreview-comm@ifrs.org

Subject: Paper for Public Consultation: Status of Trustees' Strategy Review

Our Reference: 2011/JE/TCSC1/IFRSF/21

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 strategy review consultation paper. 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.

Context of Our Response

The input in this letter is based upon the day-to-day efforts of SC 1 and its members in working with International Financial Reporting Standards (IFRS). These efforts involve interacting with the IASB with respect to its work to improve IFRS and interacting with our constituents in implementing IFRS in or considering IFRS for our respective jurisdictions. IOSCO will, however, provide its input on the strategic matters facing the IFRS Foundation principally through its role as a member of the Monitoring Board. As you know, the Monitoring Board is in the process of conducting a review of whether the current governance arrangements promote the IASB's primary mission of developing high quality, global

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accounting standards while providing for both the accountability and independence of the IASB. This governance review is further described in the Monitoring Board’s press releases dated 2 July and 21 December 2010 and in its “Consultative Report on the Review of the IFRS Foundation’s Governance” which it released on 7 February 2011.

Overall Comments

We welcome the Trustees’ strategy review because of the benefits of continuous improvement in the work of the IASB as the use of IFRS continues to expand around the world. We think the Trustees’ 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.

Our comments on the matters raised by the Trustees for consultation are intended to support the Foundation’s efforts to develop further. They do not imply that SC 1 thinks the current arrangements are fundamentally flawed. We believe the IFRS Foundation is a transparent organization and the IASB in particular has made significant steps in developing its outreach program to obtain and take into account stakeholders’ views during the standard-setting process. Beyond setting the standards, we think having effective resources and accountability for the interpretation and application of IFRS for significant issues is important to achieving a high quality implementation of the standards.

Responses to the Matters Raised by the Trustees

Mission: How should the organization best define the public interest to which it is committed?

Trustees’ Question 1: The current Constitution states, “These standards [IFRSs] 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.” Should this objective be subject to revision?

We believe the current mission and objective are appropriate in order for IFRS to function as standards for the financial statement information that issuers disclose to the public capital markets. However, a possible improvement to the concept and wording of the Constitution could be attained by adding the word “informed” preceding the term “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.

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Trustees' Question 2: The financial crisis has raised questions among policymakers and other stakeholders regarding the interaction between financial reporting standards and other public policy concerns, particularly financial stability requirements. To what extent can and should the two perspectives be reconciled?

The recent financial crisis has led securities regulators to put greater emphasis on systemic risk and financial stability. This greater emphasis has led IOSCO to the conclusion that securities regulators have a key role to play in addressing systemic risk by bringing their particular perspective as market integrity regulators. To this end IOSCO has identified reducing systemic risk as one of the three objectives of securities regulation¹ and in June 2010 IOSCO added the following principle to its principles of securities regulation:

“The Regulator should add or contribute to a process to monitor, mitigate and manage systemic risk, appropriate to its mandate.”²

In considering how to apply this IOSCO principle it is perhaps important to note that the securities regulator “adds or contributes to a process...appropriate to its mandate” versus reconciles or handles or solves matters related to systemic risk. Since IFRS serves to carry out the securities regulator’s responsibilities with respect to issuer financial statement transparency, we believe the systemic risk considerations of the IASB would, accordingly, be of a contributory nature similar to that described in this IOSCO principle.

This contributory nature may be illustrated by an IOSCO Technical Committee Statement from the early days of the credit crisis. 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, facilitate capital formation and are consistent with financial stability.”³

This investor confidence focus in standard-setting differs from an approach in which a standard-setter takes on the responsibility to satisfy the needs of the common good during a

¹ The other two objectives are (i) protecting investors and (ii) ensuring that markets are fair, efficient and transparent.

² IOSCO Objectives and Principles of Securities Regulation; June 2010.

³ IOSCO Media Release, “IOSCO Technical Committee Statement on Accounting Standards Development and Enforcement”; Madrid, 21 October 2008.



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crisis, and then directs the production of financial information to that end. This is because, at a minimum, contributing to the common good during a crisis may involve more than just transparency measures; a securities regulator could also consider business conduct rules and organizational, prudential and governance requirements and emergency powers.

In making many of these difficult contributory determinations we think it is important and have found it useful to reach out to, have dialogue with, and understand the perspectives of those with mandates related to financial stability. This helps us to become more aware of factors and considerations that are outside our areas of responsibility yet nonetheless “in the system.” This cognizance helps us to make more informed decisions that are nonetheless consistent with our mandates and responsibilities. This is true even without trying to reconcile any differing perspectives beyond understanding what underlies the perspectives of others.

Governance: How should the organization best balance independence with accountability?

Trustees' Question 3: The current governance of the IFRS Foundation is organised into three major tiers: the Monitoring Board, IFRS Foundation Trustees, and the IASB (and IFRS Foundation Secretariat). Does this three-tier structure remain appropriate?

Trustees' Question 4: Some stakeholders have raised concerns about the lack of formal political endorsement of the Monitoring Board arrangement and about continued insufficient public accountability associated with a private-sector Trustee body being the primary governance body. Are further steps required to bolster the legitimacy of the governance arrangements (including in the areas of representation of and linkages to public authorities)?

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

Process: How should the organization best ensure that its standards are high quality, meet the requirements of a well functioning capital market and are implemented consistently across the world?

Trustees' Question 5: Is the standard-setting process currently in place structured in such a way to ensure the quality of the standards and appropriate priorities for the IASB work programme?

While we recognize that any standard-setting process cannot provide a guaranteed outcome as to the quality of the standards and their application, we believe the overall existing structure incorporates important considerations around diversity, transparency and accountability that should be resident within the standard-setting process. That said, we describe below the areas that come to mind in considering the current standard-setting

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process relative to the quality of the standards and the appropriate priorities for the IASB work programme.

Quality of the Standards

The IASB should continue to allocate sufficient resources to enable it to meet with constituents as part of assessing the need for and scope of new projects, as well as their potential costs and benefits. This also applies in considering significant changes in course for a project or re-exposure of previous proposals.

It would be helpful to develop processes that provide feedback to the IFRS Advisory Council members regarding consideration of their previous input. Such processes can help ensure that the members' points do not get "lost" and the right amount of attention is focused on them.

As it develops a standard, the IASB should continually examine not only whether its proposed approach would yield the right information for financial statement users but also whether the proposed approach is capable of consistent application and enforcement. Securities regulators, who carry out enforcement responsibilities, can help by providing input about potential enforceability issues associated with proposed standards.

Recently the IASB has engaged widely with stakeholders regarding some proposed standards. With the benefit of these experiences the IASB could now put this type of engagement on a more structured or institutionalized basis going forward.

We welcome arrangements for activities such as the use of expert groups and education sessions on standards projects. In all of this, however, independence in standard-setting decision making remains critical.

Priorities for the IASB Work Programme

The IASB's agenda has been extremely congested recently even though the Board has postponed some projects. This type of situation may be improved by additional engagement with stakeholders during the agenda setting process and greater consideration for the number of new proposals that constituents can reasonably absorb within certain time frames. To these ends 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 constituent's views.

Trustees' Question 6: Will the IASB need to pay greater attention to issues related to the consistent application and implementation as the standards are adopted and implemented on a global basis?

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

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. We believe that the IFRS Interpretations Committee is a mechanism through which greater support could be provided.

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 would encourage the Foundation to ensure that both the IASB and the IFRS Interpretations Committee have sufficient resources to deal with implementation issues.

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 of something that may still be potentially at odds with respect to having the best standard globally. This may not be indicative that a project is needed but could be indicative of areas deserving closer re-examination.

Financing: How should the organization best ensure forms of financing that permit it to operate effectively and efficiently?

Trustees’ Question 7: Is there a way, possibly as part of governance reform, to ensure more automaticity of financing?
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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 over 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

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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.

In making our overall point about “automaticity”, above, we observe that the “open source” collaborative development model which makes the basic set of IFRS standards available to jurisdictions without charge will always, to some degree, pull against automaticity of the IFRS Foundation’s funding. This is because there is no fee for access to the IFRS Foundation’s core product. Given this, the angle of pursuit for the Trustees would seem to be to try to facilitate additional collective action among those who can provide monetary support that is not dependent on or affected by the outcomes of the IASB’s work. We realize this is broadly the approach the Trustees have taken. Thus, perhaps additional improvements fall more within than outside of this broad approach.

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,

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