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By e-mail: strategyreview-comm@ifrs.org

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Dear Sirs,

Re: STATUS OF TRUSTEES' STRATEGY REVIEW

- (1) FEE is pleased to respond to your request for comments on your paper *Status of Trustees' Strategy Review* ("Strategic Review").
- (2) We agree with the primary objective of the IFRSF ("Foundation") as defined in the Constitution and also believe that it remains fit for purpose. The Foundation is to act in the public interest and to develop a single set of high quality standards based on clearly articulated principles.
- (3) In our opinion, financial statements are most relevant to investors. Therefore, the IASB should keep the informational needs of capital market as its primary focus.
- (4) Relevant and faithfully represented financial information supports the efficient operation of the financial market and increases transparency. High quality financial reporting is an effective method for the communication of existing economic conditions. Therefore increased transparency, in general, reduces the level of risks and mitigates systemic financial risk in the market. We agree with the views of the Chairman-designate of the IASB, Mr Hans Hoogervorst, expressed in his recent speech at an EC conference, that financial stability and transparency are not two contradicting but rather supplementary goals. Transparency is a necessary precondition for financial stability.
- (5) We therefore disagree with the idea that financial stability should be included in the Constitution as a separate objective. In most instances, financial statements prepared primarily for investors will also serve the information needs of those charged with overseeing financial stability. Where their needs are not met, supervisory authorities have additional means of obtaining the information they need for those other purposes.

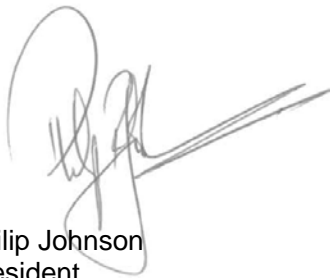
- (6) The stewardship concept that makes management accountable for the conduct of business affairs and their ability to generate economic value is considered as a fundamental element of the objective of financial reporting. Therefore, we believe that it would be desirable that the Constitution also articulate this concept explicitly.
- (7) We believe that the importance of the global capital markets and the investor community are such that the current structure, which includes the IFRS Foundation, best serve the needs and the interests of investors and other participants in global capital markets. However, we also call for a broader discussion worldwide on the role and use of IFRSs (including IFRS for SMEs) in order to consider whether the focus of the IFRS Foundation on capital markets needs is optimal in a longer term.
- (8) With respect to the governance model, on balance, FEE supports maintaining the three-tier system of a Monitoring Board, Trustees and the IASB. We believe that there needs to be a clear balance of responsibilities between the Monitoring Board and the Trustees. The potential ambiguity and over-lap between the roles of the Trustees and that of the Monitoring Board would be improved through greater definition of the role of each group.
- (9) In our view, the Monitoring Board, representing the public authorities views, is important to ensure that the IASB is ultimately accountable to those representing the public interest at large. On the other hand, the Monitoring Board should not take over responsibilities that better belong to the Trustees in fulfilling their governance role in the organisation.
- (10) The Monitoring Board should not intervene in the day to day operation of the Foundation, except in rare cases, for example, in cases of crisis or serious breakdown of the due process. The role of the Monitoring Board should focus on reviewing and advising the Trustees in the fulfilment of their responsibilities as the governance body charged with oversight over the IASB.
- (11) We believe that the Trustees should have the sole responsibility to appoint the Chair of the IASB while ensuring that the Monitoring Board is directly consulted during the nomination process. The Monitoring Board should have an explicit consultative role to maintain an ongoing dialogue with the Trustees on this and any other issues as appropriate.
- (12) The Trustees should ensure that transparency in respect of the standard setting process and the pace at which new standards are issued are carefully monitored in order not to impair the standing of IFRS.
- (13) FEE would welcome a more visible role for the Trustees in overseeing the key strategic and managerial decisions that determine the resources and activities of the IASB. In our view, the Trustees should also be more actively involved in the agenda setting process and challenge the agenda priorities of the IASB more robustly. FEE very much welcomes the announced public consultation on the IASB's agenda priorities that is due to be launched for the first time this year. A regular full public consultation on the agenda is important in order to ensure proper transparency and accountability.

- (14) We also acknowledge the need for the IASB to be independent in setting the standards. Therefore, the Board should have complete responsibility for the standard-setting process, including all technical matters and 'full discretion in developing and pursuing its technical agenda', once that agenda has been set following public consultation and debate.
- (15) Finally, consistent global application of accounting standards is an issue of some concern. We have separately responded to the recent review of the Interpretation Committee's operations. An effective Interpretations Committee is crucial to ensuring consistent application of the standards, in particular as more countries adopt IFRS. Significant diversity in practice in the application of IFRS is undesirable, as it undermines the objective of global standards and consequently damages the IFRS brand. We recommend that the Trustees explore with national market regulators, national standards setters and similar bodies how best to develop an effective early warning mechanism for application issues that may lead to diversity in practice, to inform the IASB's and the IFRS Interpretations Committee's agenda priorities.
- (16) However, the responsibility both for mandating the accounting standards and for enforcing compliance should rest with the respective jurisdictional authorities. Therefore, the Foundation should not attempt itself to undertake any kind of enforcement-related activities.

Our responses to the questions in Strategic Review are also included in the Appendix of this letter.

For further information on this letter, please contact Henri Olivier, Secretary General, at the FEE Secretariat on +32 2 285 40 71 or via e-mail at henri.olivier@fee.be.

Yours sincerely,



Philip Johnson
President

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

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?

- (17) We agree with the primary objective of the IFRSF ("Foundation") as defined in the Constitution and also believe that it remains fit for the purpose. The Foundation is to act in the public interest and to develop a single set of high quality standards based on clearly articulated principles. However, we have raised some specific issues as mentioned later in this letter that we would like to bring to the attention of the Foundation.
- (18) FEE has been a long-standing supporter of high quality and principle-based financial reporting. FEE is committed to the main objective of creating a single set of high quality global standards to promote efficiency and transparency in the operation of the world's capital markets, and restoring confidence in the markets in the aftermath of the financial crisis. The IASB's *Conceptual Framework for Financial Reporting* ("Framework") sets dual objectives for the financial statements that are to provide useful information to users in making economic decisions and to foster stewardship. We consider the latter one, which makes management accountable to future and existing shareholders and other creditors for the conduct of business affairs and their ability to generate economic value, as a fundamental element of the objective of financial reporting.
- (19) One of the concerns expressed about IFRS at times has been that it may focus too much on short-term economic decision-making. We believe that a more explicit reference in the Constitution to the stewardship concept would address some of these concerns, because stewardship also implies management's responsibility for the longer term health and sustainability of the company. Therefore, we believe that it would be desirable that the Constitution also articulate the concept of stewardship explicitly.
- (20) We also note that the Constitution includes the term 'economic decision' in its objective. We believe that 'economic decision' should not be restricted to forward looking economic decision-making by capital providers when deciding whether to buy or sell instruments in the reporting entity. Economic decision-making also includes an assessment of how management have discharged their stewardship responsibilities. In this context, providing information that serves as a record of accountability for past actions as well as providing information of a more predictive nature are both of importance for capital providers when making their investment decisions. We would support the interpretation of 'economic decision' with the inclusion of a longer term perspective embedded in the stewardship concept and believe that this should be the position reflected in the Foundation's constitution.

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- (21) FEE believes that the importance of the global capital markets and the investor community are such that the current structure, which includes the IFRS Foundation and the Monitoring Board, best serve the needs and the interests of investors and other participants in global capital markets. However, FEE also calls for a broader discussion worldwide on the role and use of IFRSs (including IFRS for SMEs) in order to consider whether the focus of the IFRS Foundation on capital markets needs is optimal in a longer term.

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?

- (22) The primary objective of the financial statements is to provide useful information to investors, other capital providers and other stakeholders who are identified as the primary users of financial information. This objective applies to general purpose financial reporting for all entities, regardless of the industry or whether the entity in a particular industry is subject to regulation that uses financial statements as input for other purpose.
- (23) In our opinion, the financial statements are currently most relevant to the investors and capital providers. However, it is also important to note that in our increasingly complex world, there are increasing demands for high quality financial information by other users as well, including depositors, suppliers, other creditors and prudential regulators. These users also require relevant and reliable financial information that is an essential element to build trust in the global economy and to serve the public interest.
- (24) Prudential supervisors sometime choose to use general purpose financial statements when meeting their objectives, but they often make their own adjustments to financial statements amounts or require a separate reconciliation between financial reporting capital and regulatory capital to better suit their primary objectives.
- (25) The receipt of relevant and faithfully represented financial information by capital providers is fundamental to investment decision making and as such can also be seen to underpin the efficient operation of the financial markets. High quality financial reporting is an effective method for the communication of existing economic conditions as well as for enhancing transparency. Increased transparency, in general, reduces the level of risks in the operation of the company and mitigates systemic financial risk in the market. We agree with the views of the Chairman-designate of the IASB, Mr Hans Hoogervorst, expressed in his recent speech at an EC conference, that financial stability and transparency are not two contradicting but rather supplementary goals. Transparency is considered as a necessary precondition for financial stability in the 21st century.

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- (26) The extent to which the regulator can rely on market discipline depends on the quality of the information available on the market. Therefore, the IASB should keep the informational needs of capital markets as a high priority and further strengthen the effectiveness of the market discipline by enhancing transparency. The addition of prudential safeguards into international accounting standards for regulatory purposes risks distorting or excessively complicating the information provided to markets and thus reduces the effect of market discipline.
- (27) The objective of the financial statements to provide a faithful presentation of the financial position of the company has, to a large extent, the same meaning to *all* users. Therefore, this objective should not be limited in such a way that it only satisfies the information needs of one specified user group. In our opinion, the interest of the investor should however remain the main focus when setting global financial reporting standards.

Governance: how should the organisation best balance independence with accountability?

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?

- (28) On balance, FEE supports maintaining the three-tier system of a Monitoring Board, Trustees and the IASB. We do, however, recognise the potential for ambiguity and over-lap between the roles of the Trustees and that of the Monitoring Board and therefore suggest that the system is improved by creating more clarity concerning the roles of the Trustees and the Monitoring Board.
- (29) We think that a broader geographical representation is necessary within the Monitoring Board in order to strengthen the political credibility of the Foundation and the standard setting process. However, in order to continue to be recognised as a global accounting standard setter, political accountability of the Monitoring Board has to be accompanied by indisputable technical expertise. The Trustees exercising oversight of the due process connected to standard setting as well as securing wide stakeholder acceptance is essential to maintaining the technical credibility of the IASB.
- (30) The responsibilities of the Trustees on funding issues also justify the three-tier approach. If sustainable funding is ensured by public authorities, the role of Trustees may have to be reconsidered. For the moment, this is not the case. The Trustees are in reality accountable to a broader range of stakeholders and have a wider role to play in exercising oversight over due process and ensuring the sustainability of the funding of the organisation.
- (31) Therefore, we recommend maintaining the three-tier system. However, clear delineation of responsibilities between the Monitoring Board and the Trustees needs to be found. This also involves increasing the role of Trustees by strengthening their interaction with the stakeholder community in order to support and strengthen the legitimacy and credibility of the organisation.

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- (32) Accountability to stakeholders must be evidenced by full compliance with the approved due process, subject to a close oversight by the Trustees. Accordingly, an area for enhancement of the role of Trustees is in the due process oversight function and the re-establishment of leadership oversight.
- (33) Good governance practices involve discussing underlying principles before developing a standard, demonstrating that underlying principles comply with the Framework. This should be accompanied by proper effect assessments. The IASB should discuss these issues with the Trustees without undermining the technical independence of the IASB members. Similarly, the role of Trustees concerning the setting of the agenda and the oversight of the compliance with the approved priorities in the agenda should be strengthened.
- (34) We also believe that the Trustees should have the sole responsibility for appointing the Chair of the IASB while ensuring that the Monitoring Board is directly consulted during the nomination process.
- (35) The responsibility for setting up the framework to ensure proper balance in the composition of the IASB should also remain with the Trustees. The Monitoring Board should be consulted throughout this process. The Monitoring Board should have an explicit consultative role during the ongoing dialogue with the Trustees on this and any other issues as appropriate.
- (36) The Monitoring Board should not intervene in the day to day operation of the Foundation. However, in exceptional circumstances, where there is a crisis, or where due process has not been appropriately followed, the Monitoring Board should consult more frequently with the Chairman and vice-Chairman of the Trustees and seek to rectify any deficiencies or issues. Other primary responsibilities borne by the Monitoring Board include participation in the nomination process of the Trustees and election of the Chairman of the Trustees as well as the ability to review the activities of the Trustees. This would include overseeing how the Trustees handle their oversight over the operational processes, public consultation on the agenda and whether items that are put on the agenda are properly justified. The Monitoring Board already has the ability under the current Memorandum of Understanding to discuss potential agenda items with the Chairman of the Trustees. In addition, as the IASB starts its new public agenda consultation process, the organisations represented on the Monitoring Board have the opportunity to participate fully in this public consultative process and to make their views on agenda priorities known.
- (37) Therefore, in our view, the role of the Monitoring Board should be limited to reviewing and advising the Trustees in the fulfilment of their responsibilities and to only intervene on rare occasions.
- (38) The oversight role of both the Monitoring Board and the Trustees must be designed to promote and not undermine the independence of the IASB and its standard setting process. The Monitoring Board should not direct the IASB on the resolution of accounting matters.

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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?)

- (39) As mentioned under Question 3, FEE on balance supports a three tier structure, including a Monitoring Board to ensure accountability.
- (40) While we do not support formal political endorsement or the relocation of the Trustee body into the public sector, we do recognise that the Monitoring Board does have a political role to play, and that its effectiveness does depend upon how well it executes this. Therefore we support a closer link with the Financial Stability Board that could be present in the meeting of the Monitoring Board as member or observer.
- (41) In any circumstances, the IFRS Foundation structures should guarantee the independence of the IASB. The governance bodies are established to monitor the compliance with the approved due process and discuss the agenda that involves allocation of resources. FEE believes that Trustees or Monitoring Board members should not be allowed to unduly intervene and not even expect to have a specific role to play in the technical work of the IASB.

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

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?

Independent standard setting

- (42) The need for independent standard setting in the public interest is paramount. The IASB should continue to have complete responsibility for the standard-setting process, including all technical matters and 'full discretion in developing and pursuing its technical agenda'. However, we also consider accountability as an essential characteristic of an independent standard setting process to deliver high quality standards.
- (43) We commend the IASB for the real improvements that have been demonstrated in their outreach and consultation efforts in recent years and would urge the Board to continue with these. We also believe that the current standard setting process is conceptually well structured. However, we have in previous comment letters and in meetings with the IASB raised some concerns about specific elements of the standards setting process as described below.

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Agenda setting

- (44) The agenda setting process of the IASB is one of the key concerns in the operation of the Foundation and has been so for some time. There has been a clear tendency to overload the agenda in spite of advice to the contrary. We welcome the announcement in 2010 that the Trustees will implement a regular full public consultation on the agenda in order to ensure proper transparency and accountability. The consultation should not only cover future potential agenda items, but also the current agenda, including objectives, changes in the scope and changes in priorities including removing items from the agenda.
- (45) The agenda decisions of the IASB are very important to all stakeholders, including regulators. The agenda has so far been solely decided by the IASB after a formal consultation with the IFRSF Advisory Council. It would be a clear improvement if the agenda was subject to regular public consultation, which includes discussion with the IFRSF Advisory Council and other stakeholders.
- (46) It is also important for the IASB to have a well-documented basis for conclusions in order to demonstrate the rationale for the agenda decisions made, including the outcome of effect analyses. In our view, the Trustees should also be more actively involved in the agenda setting process and challenge the agenda priorities of the IASB more robustly.
- (47) We acknowledge that it will not always be possible to foresee the entire development of a project. However, it is important for the IASB to determine the terms of reference for each project in order to avoid unexpected fundamental changes during the course of a project as it was seen, for instance, in the case of the ED IAS 37 *Liabilities*. This project was started with a narrowly defined scope, but resulted in a comprehensive revision of the whole standard. In our view, a public re-consultation process should be required when fundamental changes are introduced during the development of the proposal.

Convergence

- (48) In July 2009, FEE issued a policy statement in which we noted that convergence should no longer be the main driver for the IASB's agenda. Convergence with US GAAP over the past years has been necessary to facilitate a decision in the US on the adoption of IFRS for domestic listed entities, which is due later this year. However, there is now no longer a need to continue a strategy of convergence. In our view, the IASB should now concentrate exclusively on major improvements and simplification in IFRS over the medium term. To this end, it should work together with all constituents from around the world, so that all stakeholders can be fully engaged and ensure that the quality of IFRS is not compromised. Attention should be drawn on those projects that set the scene for the development of future standards.

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Consultation process

- (49) The Trustees should ensure that transparency in respect of the standard setting process and the pace at which new standards are issued are carefully monitored in order not to impair the adoption and hence the standing of IFRS. Preparers, users and other stakeholders that are affected by IFRS need to feel part of the standard setting process in the sense that their concerns have been demonstrably considered and appropriately reflected in the resulting standard or basis for conclusions. There is also a need to allow sufficient time to implement the standards once adopted.
- (50) There have been cases where the IASB made significant changes to its priorities without prior consultation as well as to its original proposals without exposing its revised proposals for comment. A proper due process including a careful consideration of inputs provided by different stakeholders is fundamental for the legitimacy and credibility of the IASB.

Conceptual Framework

- (51) To achieve the main objectives of financial reporting, the body of standards taken as a whole should be based on a Conceptual Framework that is sound, comprehensive and internally consistent. In our view, the Trustees should play an increasingly important role in monitoring compliance with the Framework and ensuring that it is amended as necessary.
- (52) We believe that it is imperative that the IASB completes its work on the Framework as a whole with a higher priority since this will provide structure and direction to the development of the standards. We believe that the Framework should have the formal status of principles upon which all standards are based and be referred to when an individual standard does not cover a particular issue.

Understandability of the standards

- (53) IASB should also give careful consideration to the understandability, practicability and auditability of its proposed standards. Given the increasing complexity of many business transactions, standards have to reflect this in their content. Changes to standards should be aimed at improving financial reporting, including better and more relevant presentation and improved transparency.
- (54) In order to further enhance IASB's accountability and credibility, the Foundation should consider strengthening its public oversight role in terms of public reporting on the assessment of the performance of the IASB and its success in meeting the criteria set for due process and consultation.

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

- (55) We agree that consistent global application of accounting standards is an issue of some concern. However, the responsibility both for mandating the accounting standards and for enforcing compliance should rest with the respective jurisdictional authorities.
- (56) An effective Interpretations Committee is crucial to ensuring consistent application of the standards, in particular as more countries adopt IFRS. Significant diversity in practice in the application of IFRS is undesirable, as it undermines the objective of global standards, and consequently damages the IFRS brand. We recommend that the Trustees explore with national market regulators, national standards setters and similar bodies how best to develop an early warning mechanism for application issues that may lead to diversity in practice to inform the IASB and the IFRS Interpretations Committee priorities.
- (57) However, it would be both undesirable and impractical for the Foundation to attempt itself to undertake any kind of enforcement-related activities.

Post implementation reviews

- (58) We believe that the Foundation should perform post-implementation reviews of major standards, to assess whether those standards meet their objectives and are considered useful and effective once they are in place. There might be other organizations such as enforcement bodies, academic researchers, accounting firms or others that might be better suited for this task.
- (59) We recommend the Trustees to carefully consider how the post implementation process could be effectively implemented and monitored to receive accurate and reliable results as a basis for evaluating new agenda proposals. It should also include consideration of who would be best placed to perform the reviews.

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

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

- (60) We support the efforts of the Trustees towards the establishment of a firm financial footing to help ensure the sustainability of the standard-setting process. We believe that broad based sustainable funding can ultimately only be achieved through the application of a capital markets-based levy mechanism. The precise mechanism would vary from country to country and may be supplemented in some countries by institutional funding such as that provided by the European Commission.

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- (61) Furthermore, we also welcome the European Union's stated intention to extend their contribution to the funding of the IFRS Foundation, which would reduce the necessity for private funding. In our view, private funding will always run the risk of being accompanied by a general inferred accusation of undue influence on the standard-setting process by the relevant stakeholder groups. The preferred source of financing should be through a levy on the capital markets of those jurisdictions adopting IFRS.

Other issues

Question 8: Are there any other issues that the Trustees should consider?

- (62) We believe that an enhanced interaction between the IASB, the IVSC and the IAASB is warranted and therefore encourages the Trustees to contemplate further ways to achieve this. A closer cooperation between these three global standard setters will help to improve the quality of IFRS application, eg in the area of valuations, and allow the IVSC and the IAASB to develop standards that support consistent and robust IFRS application.