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**Response to exposure IFRS Foundation Trustees' Review of Structure and Effectiveness: Issues for the Review (July 2015)**

The Financial Reporting and Analysis Committee (FRAC) of the CFA Society of the UK (CFA UK) welcomes the opportunity to respond to the IFRS Foundation Trustees' Review of Structure and Effectiveness. CFA UK represents about 11,000 investment professionals working across the financial sector including asset managers, buy-side analysts, sell-side analysts and credit rating analysts, among others. For advocacy purposes in the field of financial reporting, these members are represented by the FRAC.

We would like to thank the IASB for its increased efforts in investor engagement over the last four years.

The key issue we see for the IFRS Foundation is that it needs to secure adequate funding to carry out its important role without political interference or perceived conflicts of interest with donors such as large accounting firms. The trustees had hoped to increase the Foundation's budget to £40-45m annually because of the global spread of IFRS. However, this has had to be scaled back to £27-28m given funding difficulties. By way of comparison, the UK's FRC had an income of £20m last year around half of which came from a levy on preparers which is calculated based on market capitalisation. Another UK body, the Takeover Panel, collects a levy on share dealing which amounts to £7m per annum.

Below we respond to your specific questions on the exposure draft in more detail.



***Question 1 - What are your views on whether the IASB should extend its remit beyond the current focus of the organisation to develop Standards; in particular for entities in the private, not-for-profit sector?***

**Response:**

As an investor organisation we do not have a strong interest in accounting for public sector and non-profit organisations. As such any extension of the IASB's remit without a concomitant extension of its budget and resources would be dilutive to its core purpose of accounting standards for publicly listed entities.

***Question 2 - Do you agree with the proposal that the IASB should play an active role in developments in wider corporate reporting through the co-operation outlined above?***

**Response:**

So long as it does not impinge on the resource constraints of the IASB we are happy for the organisation to engage with IIRC and similar bodies. However, we believe the IASB's main focus should be on the financial aspects of reporting.

***Question 3 -***

***Do you agree with the Foundation's strategy with regard to the IFRS Taxonomy?***

**Response:**

Yes, we agree.

***Question 4 - How can the IASB best support regulators in their efforts to improve digital access to general purpose financial reports to investors and other users?***

**Response:**

No comment. This question seems to be targeted more towards regulators than users.

***Question 5 - Do you have any views or comments on whether there are any other steps the IASB should take to ensure that it factors into its thinking changes in technology in ways in which it can maintain the relevance of IFRS?***

**Response:**

The stated plans appear appropriate. Additionally we note that any technology that allows users to easily access information on any given subject across different PDFs or other digital content in one go would greatly facilitate the analytical process (currently, every document ever published by the company needs to be opened separately, and searches using different search terms need to be conducted, for lack of standard terminology). We would therefore encourage the IASB to evaluate any novel technologies specifically for the potential to easily extract information and to develop taxonomy with a view to extracting information in the simplest manner possible. For example, if digital reporting were



developed in such a way as to allow searches across a large number of periods and reports, and ideally even to allow the user to pull the search results into word and excel files in easily updatable format, the IASB could be of great help in defining the taxonomy.

If the Foundation does establish a network of experts, we would be happy to be involved to give a user perspective.

***Question 6 – What are your views on what the Foundation is doing to encourage the consistent application of IFRS? Considering resourcing and other limitations, do you think that there is anything more that the Foundation could and should be doing in this area?***

**Response:**

We believe the foundation is operating well in its encouragement of consistent IFRS application. The IASB needs to work even more closely with enforcement bodies to ensure inconsistencies are minimised.

***Question 7 – Do you have any suggestions as to how the functioning of the three-tier structure of the governance of the Foundation might be improved?***

**Response:**

We are comfortable with the 3-tier structure. It is important to have a buffer between the IASB and political influence so as to maintain the confidence of the market.

***Question 8 – What are your views on the overall geographical distribution of Trustees and how it might be determined? Do you agree with the proposal to increase the number of ‘at large’ Trustee appointments from two to five?***

**Response:**

The distribution of trustees broadly reflects the size of capital markets in each continent and therefore seems appropriate. However, the dominance of US GAAP in North America suggests if anything a slightly lower proportion of trustees should represent this region versus Europe, Asia and South America. Having 3 more “at large” trustees might help address this imbalance.

***Question 9 – What are your views on the current specification regarding the provision of an appropriate balance of professional backgrounds? Do you believe that any change is necessary and, if so, what would you suggest and why?***

**Response:**

We would like to see more trustees that have a background as users of accounts, particularly investors, rather than preparers and auditors.

***Question 10 – Do you agree with the proposal to change the focus and frequency of reviews of strategy and effectiveness, as set out above?***

**Response:**

Yes, a review every 5 years seems appropriate.



***Question 11 – Do you agree with the proposals to reduce the size of the IASB as set out in the Constitution from 16 members to 13 and the revised geographical distribution?***

**Response:**

Yes. 13 board members seem adequate and 16 are perhaps unwieldy. Reducing Asia, Europe and North America from 4 to 3 each seems suitable. Since Canada and some Latin American countries use IFRS, there may be a case for switching from North America to "the Americas" when stipulating the numbers from each region. The three "at large" places will still have to take in Australia/New Zealand and Africa.

Over time we would like to see the IASB move away from making appointments based on geographic connections and instead prioritise experience and competence.

***Question 12 – Do you agree with the proposal to delete Section 27 and to amend the wording of Section 25 of the Constitution on the balance of backgrounds on the IASB?***

**Response:**

The amended wording seems appropriate particularly the reference to users.

***Question 13 – Do you agree with the proposal to amend Section 31 of the Constitution on the terms of reappointment of IASB members as outlined above?***

**Response:**

We have no issues with the extension of the second term (after initial term of 5 years) from 3 years to up to 5 years.

***Question 14 – Do you have any comments on the Foundation's funding model as outlined above? Do you have any suggestions as to how the functioning of the funding model might be strengthened, taking into consideration the limitations on funding?***

**Response:**

An annual budget of approximately £30m seems a relatively small sum given the IASB's importance in capital markets and the huge sums of money involved in these markets. It is disappointing that funding from government sources is not more forthcoming though we note a complete reliance on government funding would risk greater political interference in the standards. It does not seem appropriate to us, however, that accounting firms should make up the shortfall as this also brings into question the independence of the IASB. We are more comfortable with the IASB generating revenue from educational services.

An alternative source of funding that might be considered is that a fee should be paid by any company using IFRS that is required to produce audited financial statements, such that even publicly accountable private entities would contribute. This fee would need to be paid before an audit firm could issue its opinion on a set of accounts. The fee could be calculated as a percentage of the audit fee so that it was proportionate to the size and complexity of the organisation's business.

Another alternative funding mechanism could be a levy on stock exchange dealing for those exchanges that require IFRS accounts for their listed companies. This would be similar to the Takeover Panel levy in the UK which generates around £7m of income each



year. The Takeover Panel levy is payable by the purchaser and seller of securities and is collected by the intermediary that undertakes the trade. Note the UK's FRC is also largely funded by a levy on public companies.

***Question 15 - Should the Trustees consider any other issues as part of this review of the structure and effectiveness of the Foundation? If so, what?***

**Response:**

No comment.



Yours sincerely,



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### About CFA UK and CFA Institute

The CFA Society of the UK (CFA UK) represents the interests of more than 10,000 leading members of the UK investment profession. The society, which was founded in 1955, is one of the largest member societies of CFA Institute and is committed to leading the development of the investment profession through the promotion of the highest ethical standards and through the provision of continuing education, advocacy, information and career support on behalf of its members. Most CFA UK members have earned the Chartered Financial Analyst® (CFA®) designation, or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

CFA Institute is the global association for investment professionals. It administers the CFA and CIPM curriculum and exam programs worldwide; publishes research; conducts professional development programs; and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry. CFA Institute has more than 100,000 members in 140 countries, of which more than 90,000 hold the Chartered Financial Analyst (CFA) designation.