

AUTORITE DES NORMES COMPTABLES
5, PLACE DES VINS DE FRANCE
75573 PARIS CÉDEX 12
Phone (+ 33 1) 53.44.28 53
Télécopie 01 53 44 20 63
Internet <http://www.anc.gouv.fr/>
Mel patrick.de-cambourg@anc.gouv.fr

Chairman
PDC N° 86

Paris, 3rd December 2015

Mr Michel Prada
Chairman of the Trustees

IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Request for Views – Trustees’ Review of Structure and Effectiveness: Issues for the Review

Dear Mr Prada, *Dear Michel,*

I am writing on behalf of the Autorité des normes comptables (ANC) to express our views on the above-mentioned Request for Views “*Trustees’ Review of Structure and Effectiveness: Issues for the Review*”, issued on July 7th, 2015.

This letter sets out the comments raised by all interested stakeholders involved in ANC’s Due Process. ANC’s Board has reviewed and approved this letter on December 3rd, 2015. Our comment letter identifies four main concerns we wish to share with you.

Three-tier structure

As regards the three-tier structure, ANC considers that some objectives, missions and membership features may need to be revisited to acknowledge the fact that the global standard setting process has entered a new phase. As general comment ANC concurs with the European Commission (Appendix B) in considering some important points need to be scrutinised.

As key comment, ANC believes that the participation and level of involvement in IFRS Governance bodies should be proportionate to the level of adherence to IFRS standards and to the level of compliance with the funding principles (based on GDP). However, a right balance is required to ensure all sensitivities are represented in the IASB discussion when elaborating a new standard.

At Monitoring Board level

ANC believes the Monitoring Board’s missions and objectives should be reviewed in order to reinforce Board members’ commitment to the funding process and to enhance their implication in the IASB’s global strategy and technical road-map. Hence, ANC believes that within the Monitoring Board a right balance should be found between members representing financial markets regulators and members more directly linked to Public Authorities. Such membership structure should, according to ANC, be able to assist Board members in fulfilling their liaison mission with the relevant jurisdictions.

At Trustees level

First of all, ANC acknowledges the Foundation achievements during the last ten years to develop a coherent standard setting strategy. In ANC's view Trustees shall maintain during the performance of their duties a close relationship with the public authorities of the jurisdictions they originate from. Hence ANC does not support the Trustees' proposal to increase the number of « at large » Trustees.

At IASB Board level

Rebalancing the composition in favour of IFRS-compliant jurisdictions and involving the Public Authorities of these jurisdictions in the appointment and assessment processes should, in ANC's view, be considered. ANC also believes IASB Board members need to remain close to the field and be professionals whose expertise, practice, integrity... are not only recognized by the nominating Committee and the Trustees, but also by their own jurisdiction to ascertain that information efficiently circulate both ways. The decision making process should also reflect the level of commitment of the jurisdictions of origin.

In ANC's view, developing high quality standards immediately understandable and enforceable require to set-up a robust and reliable due process before the new standards or amendments are issued. ANC considers that the IASB's main areas of improvement are (i) ensuring standards developed encompass a balanced level of complexity associated to implementation costs proportionate to final users' needs (to ensure it is worth bearing the cost for entities), (ii) issuing new standards / amendments that do not require a high level of interpretation.

Constitution objectives, mission statement definitions and conceptual framework

As IFRS users originate from diverse jurisdictions with different cultures, philosophies, interests... ANC believes there is an increasing need for defining more concisely the terminology used in each document and at each level of the three-tier structure to ensure constituents speak one "common language" and rely on generally accepted definitions of the underlying concepts (such as public interest, public authorities, objective descriptions and all key words used in the IFRS Foundation documents...).

Implementing a robust quality control process at each step of the IFRS standards development

ANC believes that developing a high quality set of accounting standards requires implementing and monitoring a robust, reliable and independent quality process. Quality is a key characteristic of IFRS that needs to be considered all along new standards' development. Hence, ANC considers that an efficient quality process should both encompass pre-issuance activities and post-publication maintenance.

Quality control preceding the issuance of new standards and amendments

As regards pre-publication activities, ANC considers that existing processes such as impact analyses, field tests and "fatal flaw" reviews should be enhanced and formalised in a way ensuring that (i) all expected impacts on the economy and business models are identified and monitored, (ii) standards and amendments issued are understandable on a standalone basis, however coherent with the overall set of accounting standards.

In ANC's view, the due process handbook should be supplemented to precisely describe how the IASB performs quality controls before new standards issuance. The IASB's internal organisation should be accordingly modified to ensure quality control activities represent a sufficient portion of Board members' and IASB staff's duties.

Subsequent technical vigilance over the existing set of accounting standards

ANC considers that the IASB and IFRS IC still have a nascent post-publication and maintenance process needing to be strengthened. Such subsequent technical procedures are not a substitute to quality controls preceding standards issuance, but should supplement them to fill the remaining gaps.

Therefore, ANC believes the IASB's and the IFRS IC's staff should ensure a high level of vigilance and responsiveness is in place to support preparers' first application of new standards and amendments, immediately after publication. Such process should become part of the Due Process Handbook with a clear status and well established way of functioning (for instance TRG or any more appropriate Group the IASB may set-up).

The post-implementation reviews (PIR) are a second source of maintenance. In ANC's view, PIRs have to be launched for each standard/amendment facing frequent or major interpretational issues. Hence, post-implementation reviews should not be initiated based on a pre-determined and fixed planning but when needed. ANC believes the scope of these reviews should be enlarged to all existing standards and should not be limited to major new standards.

Finally, ANC believes that an adequate level of segregation of duties should be set-up between who prepares the standards, who identifies which technical post-issuance working groups (TRG, PIR...) needs to be implemented, who performs the gap analysis to decide if and which action plan is required. A clear description of the nature, role and functioning principles of each working group could be better addressed while supplementing and detailing the existing Due Process Handbook.

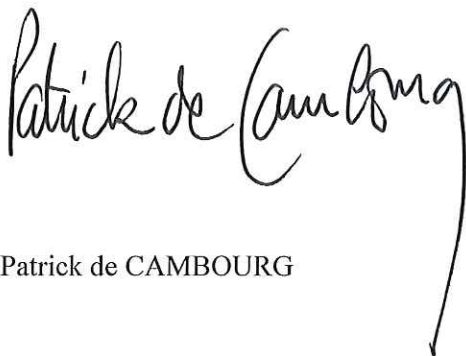
IASB's mission on related developments

As funds and technical resources are limited, ANC believes the IASB should not extend its remit to activities, missions beyond the current focus to develop standards primarily designed for public interest entities.

However, ANC acknowledges that the IASB should continue proactively interacting with other organisations in new developments such as corporate reporting, taxonomy, IT new technologies to ensure a consistent approach is implemented and to avoid potential overlaps.

Our Responses in the Request for Views are included in the Appendix A to this letter.
Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,



Patrick de CAMBOURG

Appendix A

IFRS Foundation Trustees' Review of Structure and Effectiveness: Issues for the review

Q1 – 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?

Activities in the private and not-for-profit sectors are primarily influenced by the cultures and legal systems of each and every jurisdiction. In such a context the benefits of an international approach are not obvious:

- Extending the IASB remit to private and not-for-profit entities would significantly increase the IASB's workload and would require additional resources and skills to develop such a specific set of standards.
- Developing international standards for the private and not-for-profit sectors is not a priority under the prevailing circumstances. ANC believes priority should be given to activities contributing to the progress of IFRS for public interest entities. In this respect ANC does not consider the IASB should concentrate further on standards for entities listed on non-regulated "growth" markets or for SMEs.

Q2 – 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?

ANC supports the IASB's strategy aiming to play a role in the corporate reporting developments through MoUs with the appropriate organisations. In our view, it is not the IASB's role to be deeply involved in these developments in a context where the IASB has limited budgetary resources and needs to prioritise its objectives.

However ANC believes that the IASB should focus on the assessment of the potential impact of Corporate Reporting developments on financial reporting and should (i) follow-up the discussions to ensure this work does not overlap the IASB's work on the Disclosure Initiative and (ii) promote similar and consistent concepts (already on-going through the MoUs signed).

ANC would like to point out that, as regards financial reporting *stricto sensu*, the IASB's contribution to define appropriate and precise performance indicators, that would improve the consistency and comparability among general purpose financial reports and would reduce the development of non-GAAP indicators outside of them, is a priority and would be welcome.

Q3 – Do you agree with the IFRS Foundation’s strategy with regard to the IFRS Taxonomy?

Q4 – How can the IASB best support regulators in their efforts to improve digital access to general purpose financial reports to investors and other users?

The relationship between standard setting and taxonomy might become a crucial issue since the developments of taxonomy may introduce specific requirements having an impact on the implementation of financial reporting standards and potentially impacting their content. It is therefore highly desirable for the IASB and other standard setters to follow closely the strategic developments of taxonomy. ANC, recognising the risk of shifting away from a principles-based approach, concurs with Trustees’ and EFRAG’s view that taxonomy considerations should not dictate the standard-setting process. However ANC acknowledges the constraint for the IASB in drafting new standards to take into account the need for language that is easily translatable into a consistent taxonomy.

ANC expresses the view that the taxonomy developments should be coordinated with the Disclosure Initiative project to ensure that approach and requirements are consistent.

ANC considers that the IFRS taxonomy needs to remain flexible enough to ensure it can be customised by local regulators and preparers in order to incorporate specific items required by the financial reporting standards themselves or the business models and to be compatible with the local environments (tax, prudential,...).

ANC also believes it is crucial that the language software used to tag and structure the financial report issued is congruent with the existing technological environment in each jurisdiction.

Q5 - 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?

ANC welcomes the IASB’s proposal to set up an advisory group of experts.

ANC believes that IT developments may change the way accounting is monitored and that they shall also be taken into consideration when balancing benefits of implementing new standards with the anticipated cost and impacts on systems.

Q6 – 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.

In ANC's view, the main and first objective of the Foundation should be to ensure new standards are understandable and applicable on a standalone basis, however in conjunction with the other related standards. The due process implemented should enable to reach this target before the initial issuance of the new standard and when needed after publication.

Impact analyses and field tests enhancements

ANC therefore shares the EU's request for the IASB and the IFRS IC to strengthen their field testing and impact analyses. Such tools should help to better assess the real needs for amending or supplementing standards. It would also provide input for a proper cost-benefit analysis in order to measure how the standard setting process actually meets the public interest criteria.

ANC agrees with IFRS Foundation's view that the IASB's role is to focus on standards which should be understandable without requiring a high level of interpretation. We also concur with the view that the primary responsibility for consistent application rests with jurisdictions, preparers, auditors and regulators. Accordingly, ANC will support the development of interpretations and guidance at local level, in full coordination with the IASB and the IFRS IC in order not to impair consistency of implementation.

Quality control process and "fatal flaw" reviews

ANC considers key to implement adequate processes in order to ensure standards are of high quality and understandable before their final issuance. In ANC's view such approach should rely on policies complying with the due process oversight handbook to make sure standards, interpretations and amendments published are of high quality, understandable and immediately enforceable.

In addition and before final issuance of a new standard a formal "fatal flaw" review process should be set-up with National Standard Setters and other major stakeholders (including notably major organisations representing preparers and users) being circulated for comment. Such process would complement the more theoretical impact analyses and field test previously performed and evidence interpretation issues preparers, entities, users... may identify.

Post-implementation reviews

ANC believes that a fixed period is not adequate to launch a post-implementation review process and should not be limited to major new standards. In ANC's view, PIR should be initiated as soon as and each time it is considered necessary, including on older standards where several interpretation issues have been identified.

Moreover, in order to improve the segregation of duties in the process, ANC considers that the decision to perform a PIR may be transferred from the IASB to a third party.

Q7 – Do you have any suggestions as to how the functioning of the three-tier structure of the governance of the Foundation might be improved?

ANC considers that the global standard setting process has probably entered a new phase. As a consequence there are serious reasons to consider an evolution of certain important aspects of the three-tier structure of governance of the Foundation.

The global standard setting process in a new phase?

ANC wishes to outline that since the beginning of the century (i) the Foundation has achieved significant progress, (ii) key economic areas have converged to IFRS and/or adopted them or are in a process towards convergence, but (iii) some key parameters of the « global equation » prevailing so far have significantly evolved.

Commendable standard setting achievements

First of all, the Foundation has been able to develop a coherent standard setting capacity of substance. In spite of the funding difficulties inherent to a Foundation vehicle, the current team is a very substantial team, both in terms of numbers and in terms of quality. Its due processes are coherent and reasonably well established. As a consequence the team has been and is in a position to determine and implement a coherent standard setting strategy.

On this basis, very serious efforts have been made to improve the initial set of standards in line with the Constitution's objectives, gaps have been filled and new issues have been addressed. As of today there is a coherent set of quality standards available that jurisdictions have considered and can continue considering.

Finally major convergence and promotion efforts have been conducted in such a way that all jurisdictions have been able to position themselves, in terms of adoption, convergence or independence.

Adoption of IFRS by key economic areas

Key economic areas have adopted IFRS. It is in particular the case of the European Union following the 2002 IAS Regulation. These jurisdictions have been major contributors in terms of credibility and funding.

Many other jurisdictions around the globe have also adopted IFRS. This is a very significant contribution to enhancing transparency, accountability and efficiency via financial reporting even if the quality of implementation remains under the sole responsibility of each jurisdiction.

Other key economic areas have decided to offer IFRS as an option (Japan) or to develop a set of standards substantially consistent with IFRS (China¹).

Finally one major economic area (the USA²) has decided to recognize IFRS as acceptable standards for foreign registrants.

Evolution of the « global equation »

A number of parameters of the « global equation » prevailing so far have evolved recently:

- The very substantial efforts dedicated to the convergence of US GAAP and IFRS following the 2002 « Norwalk Agreement » have been stopped. Even if a good dialogue continues between the IASB and the FASB, there is no convergence objective short or medium term. The importance of the efforts that would be required to achieve effective convergence is now fully assessed. Assuming the goal and timing are agreed, these efforts would be very significant: in addition to the fundamental options to be taken they would have to address the relevant volume of guidance (rules vs principles) and to a certain extent to overcome significant cultural differences. It must also be outlined that in this context the funding of the Foundation by US stakeholders seems to remain an unresolved issue as of today.
- Voices in Europe express the view that, following ten years of positive implementation of IFRS in the European Union, some parameters of the standard setting process and governance put in place by the Foundation should or could be revisited. The European Commission itself in its June 2015 report suggests to consider some important points, the summary of which is presented in Appendix B. It is also a matter that is seriously considered by the European Parliament and by Member States.
- From a more general standpoint, major strategic options have also to be considered in a context where a proper consensus among and with IFRS-compliant jurisdictions is highly desirable. It is in particular the case for the « Mission Statement » (as compared to the Constitution's objectives), the definition of public interest or public good (as compared to reference systems existing in the various jurisdictions), the fundamental options or principles that can be derived from the Conceptual Framework (as compared to the principles established in the legal systems of each jurisdiction), the status itself of the Conceptual Framework, the standard setting agenda and the content of certain key standards... Clarifying these issues (see answer to question 15) would contribute to clearer relationships between the IFRS Foundation and all stakeholders.

¹ China is currently exploring ways and steps to advance the use of IFRS standards (*IASB press release – November 24, 2015*)

² In addition, SEC Chief Accountant James SCHNURR indicated that there are plans to recommend that US companies be allowed to use IFRS as supplemental information, in addition to filing their financial statements in accordance with US GAAP. (*“Accounting Today”*; *“SEC may allow supplemental use of IFRS by US Companies”*, November 17, 2015.

The three-tier structure and the current challenges

On the basis of the above ANC believes there are serious reasons to consider an evolution of certain governance features that would enable the Foundation to respond to the challenges of a new phase and ensure a proper continuation of its crucial contribution.

The IFRS Foundation is a not-for-profit corporation under the General Corporation Law of the State of Delaware, USA which operates in England and Wales as an overseas company with its principal office in London.

Beyond the complexities of a given legal and tax structure (the dual registration being a topic in itself), in terms of governance *per se*, the choice of a not-for-profit organization is well suited to the concept of an independent international standard setter once key jurisdictions have decided to delegate, subject to endorsement or other procedures, their fundamental standard setting responsibilities. It must be noted that such an option does not go without saying and that maintaining the quality of dialogue, interaction and understanding at all times between the organisation and these key jurisdictions has to be a permanent objective. The three-tier structure of governance progressively put in place, in particular after the financial crisis, is in itself well adapted and consistent with the option taken and the context in which it has been taken. However, each tier must have a clear role and clear responsibilities, even if a degree of overlap is bound to exist.

In a not-for-profit organisation, the Trustees are pivotal. They constitute the core of the governance and, in a Foundation context, are individuals chosen for their high level of independence and integrity as well as for their capacity to (i) implement the Constitution ("deed of trust") and (ii) amend the Constitution if and when need be.

Even if the geographical origin constitutes a key criterion for selection, the emphasis is on the independence of each and every individual once she or he is appointed: her/his fiduciary duty is to the Constitution rather than to a jurisdiction or a culture of origin. This is foundational and positive, as long as the Foundation dimension remains the agreed upon core dimension.

It must be borne in mind that an appropriate balance of backgrounds has to remain a priority at all times. In conjunction with what is proposed at IASB level, and in line with the independence of the Trustees, an extension of their role should be considered in order to require from them to review and express a view upon the conceptual orientations adopted by the IASB (including *inter-alia* the Conceptual Framework).

As a consequence, the above-mentioned evolution of governance features should concentrate (i) on the IASB where more accountability should be introduced and (ii) on the Monitoring Board where the public interest dimension should be enhanced.

Independence and accountability of standard setting itself

ANC recognizes the importance of independence of standard setting as a pivotal principle. Standard setting must remain at all times independent of special interests even if absolute independence is somewhat an ideal concept. However such a principle needs to be implemented in a way that enhances accountability. In the current new phase, specific

attention needs to be paid to accountability to IFRS-compliant jurisdictions. Accountability to all stakeholders remains an important guiding principle, but it must be implemented in a way that is proportionate to the commitment of each and every jurisdiction.

Accordingly, ANC believes that the accountability of the standard setter to stakeholders depends on (i) whether and how they apply IFRS (in full, partly, via consistency, as an option, for foreign registrants only) and (ii) whether they finance the IFRS Foundation or not. The governance structure and rules should reflect that degree of accountability. ANC therefore suggests considering governance enhancements related to Board members' appointment and decision making processes.

Appointment of IASB members

In ANC's view, no jurisdiction should be excluded in terms of Board membership as ANC remains convinced that all sensitivities need to be taken into consideration in order to share experience, cross-fertilize accounting philosophies... All significant cultures, views, economic constraints... that can be identified worldwide in terms of accounting theory and practice should be used as an input for the development of IFRS, whatever their origin is.

However, since the allocation of Board seats takes into consideration geographical origins as one of the key criteria (and probably the primary one beyond individual competencies), ANC believes that (i) a proper balance reflecting the commitment of each geography should be established and (ii) appropriate representatives of the jurisdictions concerned should be involved in the IASB members' appointment process (for the members originating from the geographical area concerned). Involving the jurisdictions in the nomination process would also enhance the liaison member's role of IASB members and would reflect more effectively the local culture of each appointee.

ANC therefore suggest (i) to reconsider the balance of seats in line with the commitment of each jurisdiction³ and (ii) to establish an appropriate protocol to involve jurisdictions in the appointment process of Board members⁴

Decision making processes

ANC's view is that the enhanced accountability of Board members would not impair their independence. ANC also acknowledges that it belongs to the oversight role of the Trustees to guarantee the protection of independence of the IASB members. However ANC concurs with many observers to consider that the best technical experts cannot be fully independent from their own jurisdiction of origin, culture and accounting models.

Therefore, even if Board members do not "represent" stakeholders or economic areas, they may, under certain circumstances, be recognised as expressing, and being accountable to,

3 The commitment to be reflected could, for instance, be measured in terms of contribution to the funding and scope of application and compliance to IFRS.

4 In ANC's view, this involvement could take the form of a consultative right (with or without veto), or any other mechanism providing accountability (e.g. regular assessment).

their jurisdiction of origin. Accordingly, beyond processes geared towards consensus decisions in most cases, the level of commitment of the jurisdiction of origin should be taken into account in case of potential controversial decisions⁵. Once appropriately designed, solutions would have to be introduced at the right level of the Constitution and/or the internal rules.

Public interest via full involvement of Public Authorities

A public accountability that is not limited to financial markets

As stated in article 2.a of the Constitution, financial statements are designed for the purpose of *“investors, other participants in the world’s capital markets and other users of financial information make economic decisions”*.

In ANC’s view, “public accountability” should therefore encompass:

- (i) Public Authorities
 - Governments, sovereign wealth funds - Market and prudential regulators
- (ii) Markets’ participants
 - Financial institutions (central banks, investment banks, insurance companies, funds...) investing on the financial markets
 - Entities as preparers, issuers or investors
- (iii) Other users of the financial information (employees, providers...).

A strong emphasis should be put on authorities directly related to the exercise of sovereignty in the IFRS-compliant jurisdictions.

Monitoring Board members

At inception, the Constitution has determined the initial list of the Monitoring Board members (Par. 21 (a) to (f)). The Constitution specifies that this composition shall be reconsidered from time to time depending upon the Monitoring Board objectives (Par 22). In addition to the

⁵ ANC suggests considering one of the following proposals highlighting the specific responsibility that could be given to the Board members originating from IFRS-compliant countries financing the Foundation (in full). In ANC views, IFRS-compliant countries should be given weighted influence in accordance with their degree of commitment. Those Board members might:

- benefit from an enhanced (weighted ?) voting right for all decisions ; or,
- be in a position to ask for a second vote where they would be the only voters or benefit from an enhanced (weighted?) voting right ; or,
- be the ones to vote for certain key decisions, the members from non-compliant IFRS countries and/or countries which do not fund in full the Foundation having then an observer role only, but having full rights to participate in the debates, working groups and experts commissions ; or

As an alternative, a formal consultative right could be given to IFRS compliant jurisdictions on key decisions (with or without a veto right).

The above proposals are only examples to be considered since other solutions may exist and all sensitivities must be respected. The right balance will need to be found between geographical origin and the way Board members’ view are taken into consideration in the decision making process. ANC considers that both criteria aim at reaching the same objective and are commutable.

enlargement of the Monitoring Board to new countries / jurisdiction transitioning to IFRS, ANC believes that such review should also reconsider the background and status of new Board members in regards to the exercise of sovereignty (direct or delegated).

As one of the main duties of the members of the Monitoring Board is to provide a formal link between the Trustees and public authorities, ANC believes it is time to revisit again the members' list in order to take into consideration the aforementioned changes that occurred in the last few years. The objective would be to widen the background of the Monitoring Board members and enlarge the nomination process to stakeholders who are not financial markets regulators⁶. Such an evolution in the composition of the Board would acknowledge the fact that the global standard setting process is entering in a new phase.

It means that in ANC's view Board members could be more directly related to the exercise of sovereignty. Suggesting a process where the Monitoring Board members' nomination is validated by each geographical area would be an efficient way to ease the process and ensure the information adequately circulates both ways (between the IFRS Foundation and public authorities) in compliance with the objectives set out in the Constitution.

Extension of the role of the Monitoring Board

ANC believes the role of the Monitoring Board should be strengthened in order to ensure the **"formal link between the Trustees and public authorities"**⁷ is effective. The Monitoring Board should liaise with the IFRS-compliant jurisdictions' public authorities to identify their stakes and take into account their policies. In ANC's view, this is the key channel to reconcile sovereignty (of jurisdictions) and independence (of standard setting). Such a dialogue, involving the technical and political levels, would significantly facilitate endorsement and would minimise potential misunderstandings.

ANC is also convinced that the role and oversight of the Monitoring Board over the Trustees' review of effectiveness should be enhanced, notably as regards its involvement in identifying ways to increase and stabilise IFRS Foundation's funding, and in participating more deeply in the definition of the strategy.

International and convergence issues to be considered by the Monitoring Board

ANC believes the strategic positioning *vis-à-vis* convergence needs to be reviewed by the Monitoring Board and Trustees. Perhaps a careful reflexion is required on this theme, in order to bring an appropriate answer to the repeated and implicit calls from the SEC and other US institutions.

⁶ Acknowledging the European Commission's membership is fully aligned with the proposed evolution. A good example of much needed interaction is the unresolved issue related to the accounting treatment of long term investments.

⁷ Constitution Par.18.

Q8 – 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?

Q9 – 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?

Q8. ANC believes the number of ‘at large’ trustees should not be increased. Moreover, ANC does not support in principle the “at large” criterion. ANC considers that Trustees should be individuals able to have a strong input in the fundraising as well as in the IASB’s work programs definition in line with IFRS compliant countries’ needs⁸.

In addition, as explained above (see answer to question 7) nominating individuals whose expertise is recognised by all parties / stakeholders (Monitoring Board, Governments, authorities with delegated sovereignty, peers...) as IASB members would, in ANC’s view, have a positive effect on the dissemination at local level and acceptance of new IFRS standards or amendments. A Board Member accepted by its own jurisdiction would not only to support the views and interests that prevail in the geographical area it originates from; but would also, in the interest of the IFRS Foundation, be an efficient “transmission belt” in charge of promoting, explaining and justifying the overall strategy, options taken and new IFRS developments in its jurisdiction. Such a process would enhance the local acceptance and

⁸ Constitution, 13.a and 13.e:

“The Trustees shall: (a) assume responsibility for establishing and maintaining appropriate financing arrangements”... “(e) investigate the possibility of seeking charitable or similar status for the IFRS Foundation in those countries where such status would assist fundraising”

Constitution, 15(a) to 15(k):

“15 In addition to the duties set out above, the Trustees shall:

- (a) appoint the members of the IASB and establish their contracts of service and performance criteria;
- (b) appoint the Executive Director, in consultation with the IASB Chair, and establish his or her contract of service and performance criteria;
- (c) appoint the members of the IFRS Interpretations Committee (the Interpretations Committee) and the IFRS Advisory Council (the Advisory Council);
- (d) review annually the strategy of the IFRS Foundation and the IASB and its effectiveness, including consideration, but not determination, of the IASB’s agenda;
- (e) approve annually the budget of the IFRS Foundation and determine the basis for funding;
- (f) review broad strategic issues affecting financial reporting standards, promote the IFRS Foundation and its work and promote the objective of rigorous application of IFRSs, provided that the Trustees shall be excluded from involvement in technical matters relating to financial reporting standards;
- (g) establish and amend operating procedures, consultative arrangements and due process for the IASB, the Interpretations Committee and the Advisory Council;
- (h) review compliance with the operating procedures, consultative arrangements and due process as described in (g);
- (i) approve amendments to this Constitution after following a due process, including consultation with the Advisory Council and publication of an exposure draft for public comment and subject to the voting requirements given in section 14;
- (j) exercise all powers of the IFRS Foundation except for those expressly reserved to the IASB, the Interpretations Committee and the Advisory Council; and
- (k) foster and review the development of educational programmes and materials that are consistent with the IFRS Foundation’s objectives.”

understanding of the new IFRS developments and make stakeholders more comfortable with the decisions taken by the IASB Board. ANC considers that this objective can only be reached with involving the relevant jurisdictions (at least for advice) in IASB members' nomination process to ensure these professionals' expertise, integrity... are recognised and accepted by all parties.

Hence, ANC considers it is of the utmost importance that Trustees represent the geographical origin of IFRS-compliant jurisdictions in order for them to carry out their operational role in the IASB and IFRS IC oversight (members' appointments, strategy and effectiveness review, budget approval, reviewing and fostering educational programmes...).

ANC does not favour reducing main regions Board Members as these countries (i) are widely impacted by IFRS, (ii) have a high market capitalisation (iii) represent a large portion of publicly-sponsored contributions.

Q9. ANC agrees with the proposal to widen the Trustees' background while reinforcing the need to appoint individuals with a strong and comprehensive background in accounting and finance. However widening the background does not necessarily mean modifying significantly the balance existing as of today.

Q10 - Do you agree with the proposal to change the focus and frequency of reviews of strategy, as set out?

ANC believes the right moment to modify the focus and frequency of strategy reviews has not been and would not be reached before the Constitution objectives and the missions of each level of the three tier structure are considered stable by all IFRS stakeholders. If ANC is in the long-term in favour of maintaining the stability of the Constitution, it also acknowledges that a Constitution needs to be changed or modified when required by the context and each time major events modify the goals of the Foundation.

ANC notes that the Constitution has initially been developed when few countries were recognizing/applying IFRS and was taking into account the US GAAP convergence process. In ANC's view, the IFRS Foundation governance enhancements are not yet finalized as they do not reflect so far all economic and accounting changes (US GAAP convergence slowdown, increase of the number of countries applying in full the IFRS...).

For this reason, ANC recommends not changing the focus and frequency of the strategy reviews and maintaining under the currently prevailing circumstances a regular follow-up of the evolution of the geopolitical context and of the adjustments of governance required as a consequence of this evolution (see question 7).

Q11 – 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?

ANC disagrees with this proposal. There is no evidence that 16 Board members are less efficient than 13 Board Members. Moreover, it does not seem consistent to decrease the number of IASB Board members when the number of countries adopting IFRS increases.

As the IASB and the IFRS Interpretation Committee are dealing with operational issues to develop, amend or interpret IFRS standards, ANC believes that in terms of geographical distribution appointees in these Bodies should be primarily originating from IFRS-compliant jurisdictions.

Trustees believe that reducing the number of Board Members would free financial resources that can be deployed elsewhere. Should the reduction of the number of Board Members be financially required, ANC considers this reduction should impact first countries not paying in full the planned contribution.

Trustees also consider that the ASAF implementation has changed the IFRS Foundation environment by providing an advisory forum where members can constructively contribute towards the achievement of the IASB's goals. According to the terms of reference/charter, ASAF roles are to (i) support the Foundation in its objectives and contribute towards the development of IFRS, (ii) formalise and streamline the IASB's engagement to ensure a broad range of national and regional input is taken into consideration when major technical issues are discussed, (iii) facilitate effective technical discussions (work plan and other major issues).

Amongst other reasons, the existence of the ASAF justifies in the Trustees' view the potential reduction of IASB Board members. ANC believes ASAF's goals differ from the mission granted to IASB members. Actually, IASB members rely on ASAF discussions to obtain information from national standard setters and to identify specific and local practices. ASAF members are not part of the decision making process as they have no voting rights and are not part of the three tier structure. Hence, ANC considers that if ASAF is a major improvement in the standard setting process it should not be considered a substitute to IASB Board members.

As regards operational matters, such as interpretations, ANC considers that members originating from IFRS-compliant jurisdictions should have a pivotal role and that their number should not be reduced.

Q12 – 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?

Q13 – Do you agree with the proposal to amend Section 31 of the Constitution on the terms of reappointment of IASB members as outlined below?

Q12. ANC agrees with the proposal aiming at amending the Constitution to ensure there is a right balance of backgrounds of IASB Board members and to widen professional backgrounds even though ANC reinforces the need to appoint IASB Board members with a comprehensive and strong experience in accounting and finance. Board members' ability to efficiently liaise with the jurisdiction / geographical area they originate from is also a key criterion when appointing IASB members.

Q13. ANC considers the term of reappointments should not be increased from 3 to 5 years based on the belief that the main qualification required for a Board member is a recent experience as auditor, preparer, user, regulator or academic. Thus, the length of the contract should not be too long in order for Board Members to stay close to the field.

Q14 – 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?

The Trustees deplore the fact that they have no mean of action to ensure the funding model is functioning. ANC disagrees with this point of view as it considers that countries that do not finance in full the Foundation should not have the same status and the same rights (different / restricted voting rights) in the IFRS Foundation governance bodies as those who pay the planned contribution.

The current funding principle based on countries' GDP is in ANC's view a reasonable approach to determine the contribution level.

Changing the governance structure to reflect funding contributions would encourage jurisdictions wishing to participate to the debates and to the decision making process within the Foundation's governance structure to increase their funding and indicate a clear commitment.

Q15 – Should the Trustees consider any other issues as part of this review of the structure and effectiveness of the Foundation? If so what?

ANC presents below additional issues that may need to be considered in relation with the review of the structure and effectiveness of the Foundation.

Mission Statement vs Constitution

A Mission Statement⁹ has been issued in April 2015 mostly focusing on the first sentence of the first objective of the Constitution¹⁰. It is worth noting that the Constitution does not specifically and exclusively refer to “financial markets around the world” and lists three other objectives without giving prominence to any of them.

In ANC’s view all objectives stated in the Constitution should be fully taken into account when defining the mission statement, unless the Constitution itself is modified. ANC believes that the Mission Statement should be reviewed in regards to the exact objectives of the Constitution and if appropriate accordingly amended.

Definition of Public Interest

The Constitution refers to Public Interest without defining clearly how it should be understood in the IFRS Foundation environment. Public interest is a concept widely used by Governments and Public Authorities, but depending on the context the definition given differs.

Public interest as perceived by the IFRS Foundation has mostly been described in the April 2015 “Mission statement” and reinforced in Hans HOOGERVORST and Michel PRADA’s paper “Working in the Public Interest: the IFRS Foundation and the IASB” of September

⁹ Financial reporting standard for the world economy

Our mission is to develop International Financial Reporting Standards (IFRS) that bring transparency, accountability and efficiency to financial markets around the world. Our work serves the public interest by fostering trust, growth and long-term financial stability in the global economy.

- IFRS brings transparency by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions.
- IFRS strengthens accountability by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. Our Standards provide information that is needed to hold management to account. As a source of globally comparable information, IFRS is also of vital importance to regulators around the world.
- IFRS contributes to economic efficiency by helping investors to identify opportunities and risks across the world, thus improving capital allocation. For businesses, the use of a single, trusted accounting language lowers the cost of capital and reduces international reporting costs.

We are a not-for-profit, public interest organisation with oversight by a Monitoring Board of public authorities. Our governance and due process are designed to keep our standard-setting independent from special interests while ensuring accountability to our stakeholders around the world.

¹⁰ The Constitution revised in 2013 states (par. 2):

The objectives of the IFRS Foundation are:

- (a) to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. These standards 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.
- (b) to promote the use and rigorous application of those standards.
- (c) in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the needs of a range of sizes and types of entities in diverse economic settings.
- (d) to promote and facilitate adoption of International Financial Reporting Standards (IFRSs), being the standards and interpretations issued by the IASB, through the convergence of national accounting standards and IFRSs.”

2015. This paper seems to encapsulate the public interest dimension of IFRS in their goals which are to “impose rigour and discipline on the capital markets, thus promoting trust, economic growth and long-term financial stability”.

ANC perceives IFRS Foundation’s public interest definition as relatively restrictive, whereas the European or FASB’s visions seem to retain a more open approach including other criteria participating to the Public Good.

In ANC’s view it could of interest to step back and review the Constitution in a way that would clearly define the notion of public interest in order to ensure all jurisdictions and in particular IFRS-compliant jurisdictions agree on it.

Constitution and internal rules modifications

ANC believes that the limits between the Constitution and internal rules / policies are not clearly articulated and could be improved in a useful manner. It means for instance that it is sometimes difficult to identify where the aforementioned ANC proposals, if taken into account, would be implemented; i.e. whether they would modify internal rules or would require changing the Constitution.

In addition, the Constitution and Due Process Handbook revised by the Trustees (2013) do not seem to be specific enough on post-publication procedures and maintenance. ANC understands that relying on the general duties described in the Constitution, the IASB members and Trustees did their best efforts to propose solutions designed to fix implementation issues arising on new standards or existing standards amendments.

The Constitution indeed provides the IASB with full discretion in developing and pursuing its technical program and in organizing the conduct of the work before the publication of a new standard or amendment. However, the Constitution includes an implicit optimistic bias and does not clearly indicates how the IASB should deal with urgent matters arising after the publication of a new standard or amendment, or when IFRS-compliant jurisdictions identify during the transition process that the standard is not fully understandable and immediately enforceable and presents unexpected adverse effects as worded.

For instance, IFRS 15 and IFRS 9 have evidenced unanticipated implementation issues that are currently reviewed and potentially fixed by Transition Resource Groups. Such Groups are a new type of working group set-up after the publication of those two standards. The aim and due process of a Transition Resource Group have not been clearly specified and detailed so far in the Due Process Handbook.

In ANC’s view, the Due Process Handbook, and the Constitution if required, should be reviewed by the Trustees and more specifically by the Due Process Oversight Committee to ensure an adequate level of segregation of duties is in place between who prepares the standard, who decides to set-up a Transition Group/Post-implementation review/any other new technical group, who performs the gap analysis and who decides if and which an action plan is required.

Being more specific in the responsibilities should in ANC's view help increasing the Due Process efficiency through a better segregation of duties and ensuring on-going vigilance on the post-publication effects of new standards / amendments over IFRS-compliant jurisdictions.

ANC believes that the increasing role of post-publication and maintenance activities shall also be balanced by an enhanced process relating to effect analysis assessments before the final publication of the new standards (already described in the Due Process Handbook).

Status and content of Conceptual Framework

The Constitution states that IFRS shall be "based upon clearly articulated principles" (Par. 2.a). Such an approach is key for standards to be implemented by numerous and different jurisdictions. However it must be noted that it creates a paradox since this clear statement is not fully supported by the status and content given to the Conceptual Framework. The status and content of the Conceptual Framework are inspired by a "common law" approach giving "aspirational" value to the principles.

ANC believes such a point should be clarified.

IFRS Interpretation Committee

ANC believes that IFRS Interpretation Committee should have similar nomination and voting processes as the IASB. Moreover, as the IFRS Interpretation Committee is dealing with operational implementation issues, members should exclusively be originating from IFRS-compliant jurisdictions with a background close to field.

ANC expects that increasing the number of IFRS-compliant jurisdictions' members would help the IFRS IC in being aware of the implementation issues raised, being more efficient and prompter to answer to the constituents' requests, and being able to articulate their position taking into account their own experience and clearly stated IFRS principles.

Appendix B

Review of the IFRS Foundation Governance Issues identified in the Report from the Commission to the European Parliament and the Council - Evaluation of the regulation on the application of International Accounting Standards¹

This Appendix intends to summarise the European Commission positions on the review of the IFRS Foundation Governance published in its June 2015 report evaluating the application of IFRS in Europe.

As a preliminary comment, it is worth noting that the Commission clearly reinforces the fact that it supports IFRS as a global set of accounting standards. Nevertheless, it also states that having a better representation of IFRS in the world implies to have that set of accounting standards being adopted by the SEC.

"The Commission supports IFRS as global standards and continues to urge the US SEC to adopt IFRS for use by its domestic companies. Convergence is not seen as an end in itself because IFRS should be of high quality and appropriate for European markets, and hence for other jurisdictions in the world. The Commission considers that commitment to IFRS should be evidenced by establishing permanent financial contributions to fund the IFRS Foundation, proportionate to a contributor country's GDP. The Commission therefore urges the IFRS Foundation 2015 Governance review to ensure that the use of IFRS and the existence of a permanent financial contribution are conditions for membership of the governing and monitoring bodies of the IFRS Foundation and of the IASB."

(Source – 4" Conclusions and next steps – Functioning of the IAS regulation" - Report of the European Commission²).

Q7 – Do you have any suggestions as to how the functioning of the three-tier structure of the governance of the Foundation might be improved?

7.1. The role of Monitoring Board

The European Commission considers that the review of the IFRS Foundation governance should be an opportunity to review the role of the Monitoring Board. The Commission thinks that the Monitoring Board should extend its role and focus on strategic issues (identification of key topics such as (i) Long term investors reporting needs, (ii) Foundation double registration in the US and in the UK...). However, Board members still consider that their role should be limited to the IFRS Foundation oversight.

The Commission considers the role of the Monitoring Board should be concisely redefined in the next governance review, taking notably the opportunity of the 2015 review of the IFRS Foundation governance.

¹ Sources: « Report from the Commission to the European Parliament and the Council » - 06.18.2015 accompanied by the « Commission staff working document »

² The Commission report refers to the summary of the work performed to assess the 10 years of IFRS in Europe.

« The Commission acknowledges improvements in the IFRS Foundation governance. However, as member of the Monitoring Board, the Commission calls on that body to refocus its attention from issues of internal organisation to discussing matters of public interest that could be referred to the IFRS Foundation. »

(Source – “4.Conclusions and next steps – Governance arrangements for the relevant organisations” Report of the European Commission).

“The IFRS Foundation is bound by its Constitution to review its organisational structure every five years. Past reviews significantly improved its governance. The next review will present an opportunity to tackle the issue of the Foundation’s funding and decision-making process, including the role of the Monitoring Board.”

(Source – “3.3.Governance / 3.3.1.IFRS Foundation”)

« The Commission has always argued for the Monitoring Board to be more active and focus on strategic issues. In 2014, for instance, the Commission initiated several Board discussions on a number of important topics, such as the reporting needs of long-term investors or the Foundation’s dual registration in the USA and the UK. However, most Board members have argued that the Board’s role should be limited to overseeing the Foundation. Its future role remains to be determined, therefore.”

(Source – “3.7.Governance of Bodies involved in standard-setting with European impact – 3.7.1. IFRS Foundation – Work in progress” from the Commission’s staff working document)

As regards the nomination of the Monitoring Board members, the Commission considers these nominations should be linked to the use of IFRS and to the Foundation funding (nomination based on geographical criteria).

(Source - “4.Conclusions and next steps” from the report of the Commission)

7.2. Defining key concepts in order to ensure consistency with the European principles (in order to facilitate the endorsement process)

IFRS standards are expected to be high quality standards, fitting the needs of the European financial markets, as well as other countries needs all around the world.

IFRS have to be consistent with the requirements stated in the Accounting Directive before being endorsed in Europe.

7.2.1. IFRS shall be compliant with the General Public Good (consistency between the **European Public Good** and the public interest mentioned in the IFRS Foundation).

The Maystadt report specifies it is crucial that IFRS standards endorsed do not endanger the financial stability and the economic development of the European Union.

« As noted, international organisations support IFRS as global standards. The crisis evidenced the need to understand the effects of regulations on financial markets and on economies. The IAS Regulation specifies that as a condition to being brought into EU, international standards must be conducive to the European public good. The term “public good” is not defined but may be understood to encompass broad financial stability and economic considerations. In particular, it is necessary to assess whether accounting standards could be detrimental to the economy or to particular stakeholders, such as long-term investors. There is also a growing call for regulations to be considered holistically in terms of cumulative effects”

(Source - “1.2.Findings on evaluation criteria – 1.2.3.Relevance » from the Commission’s staff working document)

- Several stakeholders in Europe would like EFRAG to influence the standard setting process more efficiently in order to ensure standards developed comply with European technical criteria and European Public Good.

« The inclusion in the IASB's work program of issues raised by the EU was identified as a significant factor in maintaining a high level of acceptance of IFRS in the EU. The crucial need for EU institutions, Member States and stakeholders to become involved in the standard-setting process as early as possible was highlighted; as were the careful monitoring of future IASB impact assessments and the assessment of IASB governance and funding »

(Source - "2.2.Main provisions of the IAS Regulation - 2.2.6.2008 review of the operation of the IAS regulation")

« The Maystadt Report recommended strengthening the EU's contribution to achieving global and high-quality accounting standards by enhancing the role of EFRAG »

(Source - "3.7.2.EFRAG from the Commission's staff working document").

"... stakeholders expect that EFRAG will be able to influence the IASB's development of standards more effectively in order to ensure that they not only satisfy technical criteria but also respect European public interest." "... so that there would be fewer questions in the endorsement process as to whether standards were in the European public interest. This in itself should help make the process quicker and more efficient"

(Source - "3.4.1.Endorsement mechanism - process" from the Commission's staff working document)

- Several stakeholders in Europe also call for more flexibility in the adoption of IFRS (possibility to « carve-in », « carve-out » for instance) in order to influence the IASB (without clearly planning to use all these possibilities). The Commission does not support this approach, but mentions it in its staff working paper.

« The Maystadt Report noted that the endorsement mechanism does not allow much flexibility when it comes to adopting standards developed by the IASB. In practice, the options are:

- *To adopt IASB standards*
- *Not to adopt them, or*
- *To exercise the limited scope for not adopting certain provisions ("carve-out")*

The IAS Regulation does not, at least explicitly, empower the Commission to otherwise change the IASB text ("carve-in").

The Maystadt Report found that several EU stakeholders would support greater flexibility, particularly as they thought this would give the EU more influence over the IASB even if there was no real appetite for using the flexibility in practice. However, not everyone agreed with this line or argument. Similarly, members of the expert group and respondents to the public consultation expressed conflicting views on this point".

(Source - "3.4.2.Endorsement mechanism - flexibility" from the Commission's staff working document)

"Very few members of the expert group supported the idea of giving the Commission a power of "carve-in" and raised similar points to those made to Mr Maystadt and by the respondents to the consultation. They highlighted organizational challenges and the difficulty of achieving agreement on "carve-in" texts. However, a small number of members supported the idea of carve-ins in some instances"

(Source - "3.4.2.Endorsement mechanism - flexibility" from the Commission's staff working document)

“The Maystadt report stated that caution is necessary in this area and most stakeholders supported maintaining the status quo”

(Source – “3.2.2. Endorsement mechanism – flexibility” from the Commission Report)

7.2.2. IASB and the European Union need to join their efforts in order to publish accounting standards consistent with the European principles. IFRS should not be contrary to the « **True and fair view** » principle presented in the Accounting Directive. « True and fair view » is not precisely defined and some stakeholders link this concept to the concept of prudence.

➤ For this reason, the Commission reinforces the decision published by the European Court of Justice which defines the « True and Fair View ». The definition used by the Court is based on the general principals presented in Par.31 of the IV Accounting Directive. The IV Accounting Directive specifies that a transaction should be recognized and assessed based upon prudent assumptions. Art. 6 and more specifically 6(1)(c) of the new Accounting Directive (2013/34/EU) maintain the IV Accounting Directive approach and do not define the concept of prudence. However, these articles provide indications on the meaning of what are « prudent assumptions » (reinforcing the fact that the principle of prudence is not contradictory to the use of fair value (Art.8 of the Accounting Directive)).

“The IAS Regulation sets out a number of criteria that must be met in order for a standard to be endorsed in the EU. The standard should not be contrary to the “true and fair” view principle set out in the Accounting Directive, should be conducive to the European public good in Europe and should meet basic criteria related to the quality of information required for financial statements. The Maystadt report noted that two criteria could be added as components of public good: that the standards should not endanger financial stability and must not hinder the economic development of the Union. “

(Source – “1.3.3. Endorsement criteria” - from the Commission’s staff working document).

“Notwithstanding these discussions in the context of the endorsement criteria, the debate in Europe on the IASB’s Conceptual Framework project and feedback during the evaluation of the Regulation have shown that many European stakeholders believe that the concept of prudence has a role of fundamental importance in financial reporting.”

(Source – “3.4.3.1. Discussion on possible new endorsement criteria - Prudence” from the Commission’s staff working document)

“The Commission welcomes the IASB’s intention to re-introduce the principle of prudence in the Conceptual Framework.”

(Source – “4. Conclusions and next steps “ from the Report of the Commission)

“Over the years, established European Court of Justice (ECJ) case-law on the Accounting Directives has systematically stated that « the application of the principle that a true and fair view must be given must, as far as possible, be guided by the general principles contained in Articles 31 of the Fourth Directive, where the principle of recognition and measurement on a prudent basis is of particular importance. Article 6 and in particular 6(1)(c) of the new Accounting Directive (2013/34/EU) maintain the approach of the Fourth Accounting Directive in that they do not define prudence but highlight some aspects of ‘a prudent basis’.

One of the IAS Regulation criteria for adopting international accounting standards is that they should not be contrary to the “true and fair view” principle as set out in the Accounting Directive. Therefore, in the light of the ECJ case-law, the conclusion could be drawn that the need to respect prudence is implicitly required by the IAS Regulation. However, the principle of

prudence does not prevent the use of fair value, as the Accounting Directive (Article 8) requires Member States at least to permit companies to measure financial instruments at fair value in their consolidated financial statements.”

(Source –“ 3.4.3.1.Discussion on possible new endorsement criteria - Prudence” du Commission’s staff working document)

7.2.3. IFRS need to comply with the criteria established in Europe. IFRS should contribute to the preparation of high quality financial information (understandable, reliable, relevant and useful to take economic decisions and assess Management Stewardship). The Commission points out the fact that overlaps exist between IFRS, Accounting Directives and national standards that need to be considered (information to be disclosed, deferred tax, valuation models, scope of consolidation ...).

7.3. High quality standards – Who obtains the benefits?

IFRS are now widely accepted and considered to be of good quality. The Commission considers the process in place is able to publish complex and high quality new standards. According to the Commission, the complexity of the standards is justified by the nature of the transactions to be accounted for.

« The Commission’s consultations show that most stakeholders are of the view that the IAS Regulation has significantly increased the credibility and acceptance of IFRS worldwide and hence furthered the move towards a single set of globally accepted high-quality standards »

(Source “3.2.2.IFRS as a single set of global standards - 3.2.2.1.International use of IFRS” from the Commission’s staff working document)

Moreover, current standards are not « ad hoc » standard (designed for a specific sector for instance) but are flexible enough to be applied to most business models (mentioned in the staff working paper evidencing mixed views).

“ Collected evidence suggested that the quality of financial statements prepared under IFRS is good, which implied that the standards are of good quality. Nevertheless, there were criticisms of their complexity. Findings suggested most complexity is unavoidable as it arises from the underlying complexity of business, although standards are not industry specific, they were considered flexible enough to accommodate most business models but there were some concerns about their suitability for long-term investors and about the volume of disclosures”

(Source - « 1.2.1.Effectiveness – Transparency and comparability » 3.4.3.1.“Discussion on potential new endorsement criteria – Business model” from the Commission’s Staff Working Document).

“Many stakeholders consider IFRS sufficiently flexible to reflect different business models as they are principle-based. However, others expressed concerns, particularly as regards insurance accounting”

(Source - 3.2.3. Quality of IFRS financial statements” from the Commission’s Staff working document)

According to the Commission, the main limits of the current standards relate to:

- (1) the use of financial information prepared in compliance with IFRS by long-term investors
- (2) the volume of information to be disclosed

“... some complexity could be avoided. Many experts and respondents to the public consultation believe that there is still room for improvement, most notably with respect to the scale and appropriateness of disclosures”

(Source - 3.2.3. Quality of IFRS financial statements” from the Commission’s Staff working document)

Some experts note that aligning IFRS framework to the US GAAP framework prevent IASB from taking into consideration the needs of long-term investors (as they do not comply with the principles used to establish US GAAPs).

« Another expert commented that it would not be realistic to include the needs of long-term or other investors in the endorsement process, because the IASB is closely aligned with the USA and long-term considerations do not form part of the US approach. However, this makes IFRS less relevant to capital markets and it is important to ask how to deal with factors such as long-term investment. Another disagreed with this view, arguing that IFRS meet the needs of long-term investors who want confirmation of past events; this gives them information about management’s stewardship. Volatility and risks would be evident from financial reporting.”

(Source “3.4.3. Endorsement criteria” from the Commission’s staff working document)

7.4. Accountability of the IFRS Foundation

In Europe where IFRS are included in the European Law, the IFRS Foundation accountability towards public has a particular meaning. Thus, the IFRS Foundation accountability is a particularly significant matter.

“ The IFRS Foundation is an independent private organisation that acts as accounting standard-setter for more than 100 countries. In Europe, where IFRS have the status of EU law, the question of the Foundation’s public accountability has particular resonance for many stakeholders”

(Source “3.7. Governance of Bodies involved in standard-setting with European impact - 3.7.1. IFRS Foundation – Introduction” du Commission’s staff working document)

7.5. Composition of governing and Monitoring Bodies

As last and foremost, the Commission considers that the 2015 Governance review of the IFRS Foundation should take into account the use of IFRS by IFRS-compliant jurisdictions and the existence of a permanent financial contribution.

“The Commission considers that commitment to IFRS should be evidenced by establishing permanent financial contributions to fund the IFRS Foundation, proportionate to a contributor country’s GDP. The Commission therefore urges the IFRS Foundation 2015 Governance review to ensure that the use of IFRS and the existence of a permanent financial contribution are conditions for membership of the governing and monitoring bodies of the IFRS Foundation and of the IASB.”

(Source - « 4. Conclusions and next steps – Functioning of IAS regulation» - Report from the Commission)

Q8 – 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?

Q9 – 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?

Q8. Trustees’ geographical origin

The comment presented in paragraph 7.5 also applies to the IASB’s governing and monitoring bodies, the 2015 review of Governance should take into consideration the use of IFRS and the existence of a permanent financial contribution.

(Source - « 4.Conclusions and next steps – Functioning of IAS regulation» - Report from the Commission)

Q9. Involvement of other stakeholders and prudential regulators (bank, insurance)

Even though IFRS are the starting point for several prudential legislations (notably for banks and insurance entities) IASB does not include in its users’ list prudential regulators or international bodies in charge of the oversight.

« The list of users excludes prudential regulators. However, in the case of (particularly large, listed) banks, the IFRS-based financial information is the starting point for most prudential regulation. This would imply a need to ensure that financial information is fit for that purpose, while recognizing that prudential regulators may demand other information and even, if necessary, make capital adjustments to take into account the starting point provided by financial statements provided under IFRS”

(Source- « 3.6.1.2.Link between IAS Regulation and prudential requirements” from the Commission’s staff working document)

Consistency should be reviewed between the different reporting documents required (IFRS, prudential regulation, tax rolls...) in order to avoid duplication. For instance, the prudential regulator’s objectives differ from the IFRS standard setter’s objectives but should nevertheless rely on financial statements prepared based upon IFRS.

Finally, as IFRS are based upon principles they do not fit the needs of all types of industries, banks have a low level of flexibility when applying IFRS, leading to a misuse of IFRS (it is worth noting that this comment from the Commission is inconsistent with the comment in Par. 7.3)

“Some respondents explained that, as IFRS are principle-based and not industry specific, banks have significant flexibility and this may lead to inconsistent application of IFRS principles”

(Source: “3.6.1.2.Link between IAS Regulation and prudential requirements” from the Commission’s staff working document)

Q10 - Do you agree with the proposal to change the focus and frequency of reviews of strategy, as set out?

As IFRS are used in more than 100 countries it is crucial that the IFRS Foundation rely on strong governance that would enhance the Foundation accountability towards IFRS-compliant jurisdictions.

« The IFRS Foundation is an independent organisation setting accounting standards for more than 100 countries. Hence, it needs strong governance arrangements to ensure public accountability »

(Source – “1.4.Governance – 1.4.1.IFRS Foundation “ from the Commission’s staff working document)

The Commission considers the IFRS Foundation governance has been improved. Nevertheless, as a member of this Body, the Commission invites the Monitoring Board to focus on issues relating to public interest (and not on organizational issues).

« The next review will present an opportunity to tackle the issue of the Foundation’s funding and decision-making process, including the role of the Monitoring Board »

(Source: “1.4.Governance – 1.4.1.IFRS Foundation” from the Commission’s staff working document)

Q11 – 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?

The fact that the IASB includes in its work program the issues raised by the European Union participates to the acceptance of IFRS within Europe. The Commission welcomes the EFRAG reform where its role is reinforced within Europe and in the IFRS standard setting process.

« ... stakeholders expect that EFRAG will be able to influence the IASB’s development of standards more effectively to ensure that they not only satisfy technical criteria but also respect the European Public interest. »

(Source - “3.4.1.Endorsement mechanism” – from the Commission’s staff working document)

ANC understanding is that the Commission expects geographic criteria to become more prevalent in the nomination process; and that the membership in the IASB and IFRS Foundation decision or monitoring bodies is linked to the use of IFRS and to the Foundation funding.

“The Commission considers that commitment to IFRS should be evidenced by establishing permanent financial contributions to fund the IFRS Foundation, proportionate to a contributor country’s GDP.”

(Source - « 4.Conclusions and next steps » from the report of the Commission).

Q12 – 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?

Q13 – Do you agree with the proposal to amend Section 31 of the Constitution on the terms of reappointment of IASB members as outlined below?

No specific comment has been identified in the report from the Commission on these two questions.

It is worth noting that the Commission would welcome prudential regulators’ participation to the debates.

“Although IFRS-based financial information is the starting point for much prudential regulation, the IASB does not include prudential supervisors or regulators on its list of users. Nevertheless, there is a need to ensure that financial information is fit for that purpose whilst

recognizing that prudential regulators can demand other information to meet their different objectives”

(Source - “1.Executive summary -1.2.Findings on evaluation criteria – 1.2.4.Coherence” from the Commission’s staff working document)

“The IASB’s Conceptual Framework states that the objective of general-purpose financial reporting is to provide information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. The list of users excludes prudential regulators. However, in the case of (particularly large, listed) banks, the IFRS-based financial information is the starting point for most prudential regulation. This would imply a need to ensure that financial information is fit for that purpose, while recognizing that prudential regulators may demand other information and even, if necessary, make capital adjustments to take into account the starting point provided by financial statements provided under IFRS”

(Source - “3.6.1.2.Link between IAS Regulation and prudential requirements” from the Commission’s staff working document)

Q14 – 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?

In regards to funding, the Commission reminds that:

- (1) Some countries do not pay their defined contribution (it must be noted that several countries do not fund the IFRS Foundation up to the planned contribution (for instance United States finance less than their expected contribution)
- (2) If the funding relies for a significant part of the funding on the private sector, the risk is that the IFRS Foundation may become less independent
- (3) IFRS Foundation is funded for a large portion by the European Union

« However, not all countries have established national funding arrangements in proportion to their GDP. The United States, for instance, a country declaring strong support for IFRS and holding many key positions in the Foundation, continues to contribute on an ad-hoc basis, usually far less than its fair share”

(Source - 3.7.1.IFRS Foundation – Funding” from the Commission’s staff working document)

In its report, the Commission considers that:

« ... The commitment to IFRS should be evidenced by establishing permanent financial contributions to fund the IFRS Foundation, proportionate to a contributor country's GDP. »³

(Source – « 4.Conclusion and next steps » from the Report of the Commission)

³ Source - « 4.Conclusion and next steps » from the Report of the Commission.

« The Commission considers that commitment to IFRS should be evidenced by establishing permanent financial contributions to fund the IFRS Foundation, proportionate to a contributor country’s GDP. The Commission therefore urges the IFRS Foundation 2015 Governance review to ensure that the use of IFRS and the existence of a permanent financial contribution are conditions for membership of the governing and monitoring bodies of the IFRS Foundation and the IASB”.

The Commission also insists on:

« The Commission therefore urges the IFRS Foundation 2015 Governance review to ensure that the use of IFRS and the existence of a permanent financial contribution are conditions for membership of the governing and monitoring bodies of the IFRS Foundation and of the IASB. »³.

(Source – « 4. Conclusion and next steps » from the Report of the Commission)

The Commission considers the current review of Governance should be an opportunity for the IFRS Foundation to review its framework as well as its decision making process:

“The IFRS Foundation is bound by its Constitution to review its organisational structure every five years. Past reviews significantly improved its governance. The next review will present an opportunity to tackle the issue of the Foundation's funding and decision-making process, including the role of the Monitoring Board.”

(Source - « 3.3. Governance – 3.3.1. IFRS Foundation » from the Report of the Commission).

Q15 – Should the Trustees consider any other issues as part of this review of the structure and effectiveness of the Foundation? If so what?

15.1. Cooperation with the IFRS IC

The Commission welcomes the cooperation between ESMA and the IFRS IC – It is crucial that ESMA and the national regulators set up a close cooperation with the IFRS IC in order to ensure IFRS are consistently implemented.

“It is very important that enforcers work closely with the IFRS IC to ensure consistent application of IFRS. While not an official observer to the IFRS IC, ESMA regularly identifies, in its coordinating work, areas where interpretations of accounting standards vary or there is a lack of guidance and, where appropriate, it refers such matters to the IFRS IC. Respondents to the public consultation appreciated ESMA's greater role interacting with the IFRS IC in this way. ESMA also takes part in IFRS IC outreach activities”

(Source – “3.5.2. Interaction with the IFRS Interpretation Committee” from the Commission's staff working document)

15.2. Equivalence between IFRS and US GAAP

The US does not authorize its domestic SEC registrants to file Financial Statement under IFRS.

This situation introduces a strong limitation to the IFRS objective to be an international set of accounting standards, even though the United States considers IFRS are equivalent to US GAAP for their foreign registrants.

- Since 2008 : Reconciliation is not required for US entities filing their Financial Statements in Europe
- Since 2007 : IFRS are considered equivalent to US GAAP for foreign entities listed in the United States (for IFRS as published by the IASB) (about 90 European entities are concerned)

- Some stakeholders consider there is a risk for European entities to be impacted by deviations that may arise between the IFRS as published by the IASB and the IFRS as adopted by the European Union.

« The United States does not currently allow its domestic issuers to use IFRS. In July 2012, a SEC report concluded that additional analysis and consideration were necessary before any decision could be taken. Since then, nothing has been finalized, but there are indications that the SEC is considering the matter again. Stakeholders commented in the consultations on the fact that the USA has not adopted IFRS for its own use. In general, this was a source of regret, because it limits the global application of the standards. It acknowledged, however, that differences between the US and EU litigation environments might have implications for the accounting framework »

(Source - "3.2.2.Convergence between IFRS and US accounting standards" from the Commission's staff working document)

"The aim is to have high-quality standards appropriate for European markets; if they converge with US GAAP that is an added advantage"

(Source "3.2.2.Convergence between IFRS and US accounting standards" from the Commission's staff working document)

"Many dual-listed companies, however, perceived IFRS and US GAAP as equivalent in terms of providing a true and fair view"

(Source "3.2.2.Convergence between IFRS and US accounting standards" from the Commission staff working document)

"Some members of the expert group highlighted that the USA's acceptance of IFRS financial statements as published by the IASB for EU companies brought huge benefits for preparers of financial statements, who do not have to prepare onerous IFRS-US GAAP reconciliation statements for their financial statements."

Source – "3.2.2.3.Convergence between IFRS and US accounting standards" from the Commission's staff working document)

"Respondents to the public consultation emphasized the risk for dual-listed companies of any departures in Europe from IFRS as published by the IASB e.g. in terms of the scope for introducing changes to IFRS under the IAS Regulation or as regards the time required for the endorsement process"

(Source – "3.2.2.3.Convergence between IFRS and US accounting standards" from the Commission staff working document)

" However, one member of the expert group stated that convergence between IFRS and US accounting standard was not necessarily synonymous with the European public good"

(Source 3.4.3.1.Discussion on possible endorsement criteria – Economic development and long-term finance)

15.3. Cost/benefit ratio

Cost/Benefit approach: It is difficult to measure the cost of a new standard. It is worth noting that costs are mostly born by entities whereas the positive effects are benefitting to users, investors... However, most entities support IFRS (with mixed views depending on the entities concerned and where they originate from).

Accounting standards remain complex and several improvement areas to be considered (e.g. volume of financial information published).

« Adequate analysis of the impact of IFRS adoption is further complicated by the paucity of available data, even on relatively easily quantifiable consequences. It is difficult to compare cost estimates directly with the benefits. None of the respondents to the public consultation produced hard figures on the costs and benefits of IFRS

In addition, some experts argued that the cost/benefit analysis of the application of IFRS should acknowledge the parallel development of local GAAPs to take account of the increased complexity of businesses, the fact that some local GAAPs are converging on IFRS and the implementation costs of alternative standards.»

(Source – “3.3.Cost/benefit analysis of the adoption of IFRS in the EU – 3.3.1.Limitations” from the Commission’s staff working document)

“The consultation highlights some issues which continue to be debated (e.g. the high level of disclosures, the complexity of some standards, the frequency of changes to standards, the need to have common enforcement, the role of prudence in the development of standards, the use of fair values, and the impact of new standards in terms of costs)”

(Source - “3.3.Cost/benefit analysis of the adoption of IFRS in the EU – 3.3.2.Mandatory adoption of IFRS” from the Commission’s staff working document)

15.4. Improvement of the IASB Due Process – Impact analyses

The Commission mentions the Nov. 2014 report published by the IFRS Foundation where Trustees propose solutions referring to impact analyses (how to perform impact analyses) and how to publish the results obtained. At this stage, the Commission considers the IASB does not provide full impact analyses (jurisdiction / jurisdiction) and considers the scope of these studies to be too limited. The Commission considers the IASB needs to strengthen its impact analyses and should take into consideration the specific needs of long-term investors and should propose specific solutions when elaborating the new standards.

“The Commission urges the IASB to strengthen their impact analyses, to consider the specific needs of investors with different investment time horizons and to provide specific solutions, in particular to long-term investors, when developing their standards.”

(Source - « 4.Conclusion and next steps – Governance arrangements for the relevant organisations » from the Report of the Commission)

« The Trustees welcomed the report⁴ and undertook to work with the IASB to further embed effect analyses in its due process, from an early stage and in a fully transparent way. The Commission also welcomed this, as Europe was calling for such analysis to be conducted before publication of any new standard.

In a nutshell, the Report recommends that future IASB effects analyses should explain in an open and transparent manner and throughout the project cycle why changes will improve the quality of general purpose financial reports and why the IASB considers those changes to be justifiable.”

(Source - « 3.4.4 - Effect analysis » from the Commission’s staff working document)

“Recent attempts from the IASB to improve impact analysis should be encouraged. ...the IASB does not provide full effects analysis on a jurisdictional basis and this is still too limited in scope.”

(Source - « 3.4.4 - Effect analysis » from the Commission’s staff working document)

⁴ November 2014 – Report of the effects analysis consultative group to the Trustees of the IFRS Foundation.