

**Joint Update Note from the IASB and FASB on
Accounting Convergence**

Note from IASB on Governance Enhancements

April 2012

IASB-FASB Update Report to the FSB Plenary on Accounting Convergence

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Summary

1. In 2006 the IASB and the FASB (the boards) agreed on a Memorandum of Understanding (MoU) that identified the short-term and longer-term convergence projects that would bring the most significant improvements to IFRSs and US GAAP. The MoU was updated in 2008.
2. The boards are close to completing the MoU programme:
 - Most of the short-term projects identified for action have been completed or are close to completion and one has been determined to be a lower priority.
 - Of the longer-term projects, several have been completed and there are three of the originally identified projects for which the boards have yet to finalise the technical decisions—leases, revenue recognition and financial instruments.
3. In our previous report we indicated that neither board would issue a new standard until it had first considered whether re-exposure was necessary; secondly, that it had considered the feedback on the proposed final standard; and thirdly, that it was satisfied that the standards were operational. In mid-2011, the boards jointly announced that they had decided to re-expose both the revenue recognition and leases proposals. This decision was made in response to feedback from a broad range of global constituents who raised concerns about the significant impact these standards would have on financial reporting. While formal decisions have not been made by the boards on classification and measurement and impairment of financial instruments, taking into consideration the significance of the changes that these projects propose, we expect that they will also be re-exposed.
4. The IASB and the FASB are continuing to work expeditiously on reaching converged

solutions on our financial instruments, leases, and insurance projects. However, that work is being undertaken at a pace that enables thorough consultation to be undertaken with a particular focus on ensuring that potential solutions are operational. We expect that we will begin redeliberations of our joint project on revenue in the second quarter of 2012 and that we will re-expose our projects on classification and measurement, impairment, leases and insurance in the second half of 2012. We expect to issue final standards on these projects by mid- 2013.

5. Delays in completing these much-needed improvements to financial reporting are unfortunate, but necessary to ensure that any changes are operational and will bring about an improvement to financial reporting in these important areas. It is incumbent on the boards to ensure that changes made to our accounting requirements are appropriate, that our stakeholders have had the opportunity to fully participate in the process, and that the boards have been responsive in considering stakeholder feedback in the process. Re-exposure, in this case, is part of that process.

Update

6. The boards are continuing their efforts to achieve a single set of high quality, global accounting standards, within the context of an independent standard-setting process.
7. The MoU identified the short-term and longer-term projects that the boards agreed would bring the most significant improvements to IFRSs and US GAAP.
8. In 2010, with the support of the international community, the boards set priorities for the projects that would make the most significant improvements to IFRSs and US GAAP.

Short-term projects

9. Most of the short-term projects required one of the boards to revise its requirements to better align them with those of the other board—eg the IASB revised segment reporting to align it with US GAAP. Other projects, such as share-based payments, required both boards to issue revised standards.

Project	Status	Milestone
Share-based payments	Completed	Converged standards issued in 2004.
Segment reporting	Completed	IFRS 8 <i>Segment Reporting</i> issued in 2006.
Non-monetary assets	Completed	The FASB converged the treatment of certain nonmonetary exchanges to require recognition at fair value unless the transaction lacks commercial substance in FAS 153, <i>Nonmonetary Assets</i> issued in 2004.
Inventory accounting	Completed	The FASB converged the treatment of excess freight and spoilage in FAS 151, <i>Inventory Costs</i> issued in 2004.
Accounting changes	Completed	The FASB converged the treatment of voluntary changes in accounting policy by requiring retrospective application in FAS 150, <i>Accounting Changes and Error Corrections</i> issued in 2005.
Fair value option	Completed	Fair value option for financial instruments introduced into US GAAP in 2007.
Borrowing costs	Completed	Revised IAS 23 <i>Borrowing Costs</i> in 2007.
Research and development	Completed	US GAAP amended for acquired R&D, as part of business combinations, in 2008.
Non-controlling interests	Completed	Mezzanine presentation eliminated from US GAAP, as part of business combinations, in 2008.
Joint ventures	Completed	IFRS 11 <i>Joint Arrangements</i> issued in May 2011. Establishes principles for the financial reporting by parties to a joint arrangement.
Income tax	Reassessed as a lower priority project. No immediate action.	Joint exposure draft published in 2009. The IASB may consider a fundamental review of the accounting for income taxes at a later date.
Investment property entities	In process	The FASB issued a proposal to require investment property entities to measure their investment properties at fair value.

Long-term projects

10. The MoU was updated in 2008, at which time the boards narrowed down the programme to focus on ten longer-term projects. The boards have worked successfully to complete most of the projects in the updated 2008 MoU:

Project		Status	Milestone
1	Business combinations	Completed	Joint requirements for business combination accounting and non-controlling interests issued in 2008.
2	Derecognition	Completed	Each board has introduced reforms substantially aligning the disclosure requirements and bringing US GAAP accounting requirements closer to IFRSs.
3	Consolidated financial statements (including disclosure about off balance sheet risks)	Completed	IFRS 10 <i>Consolidated Financial Statements</i> and IFRS 12 <i>Disclosure of Interests in Other Entities</i> issued in May 2011. The FASB issued proposed clarification relating to principals vs. agents in 2011.
4	Fair value measurement	Completed	FASB Statement No. 157 <i>Fair Value Measurements</i> issued in 2006. IFRS 13 <i>Fair Value Measurement</i> issued in May 2011.
5	Post-employment benefits	Completed	Amendments to IAS 19 <i>Employee Benefits</i> issued in 2011.
6	Financial statement presentation—other comprehensive income	Completed	Amendments to IFRSs and US GAAP for presentation of other comprehensive income issued in 2011.
7	Financial instruments with the characteristics of equity	Reassessed as a lower priority project.	Joint discussion paper published in 2008.
8	Investment entities	IASB and FASB published proposals in August and October 2011, respectively.	The IASB's proposal would exempt a class of entities whose substantive activity is investing for capital appreciation, investment income, or both from consolidating entities they control. Instead, these investment entities would measure controlled investees at fair value, with any changes in fair value recognised in profit or loss. The FASB's proposal would amend the existing guidance in US GAAP for investment companies to develop converged criteria for assessing whether an entity is an investment company.

11. Today there are only three longer-term priority MoU projects for which the boards have yet to finalise all of the technical decisions—**Financial instruments**, **Revenue recognition** and **Leases**. The timelines on revenue recognition and leases were extended at the request of many stakeholders to ensure that their interests could be given full consideration. Although the MoU projects have been

given priority, the boards have also been working together on much-needed improvements to the accounting for **Insurance contracts**.

	Project	Status	Milestone
1	Leases	In process	Having exposed joint proposals in August 2010, the boards plan to publish revised proposals in the second half of 2012 that respond to the extensive consultation undertaken.
2	Revenue recognition	In process	The boards exposed joint proposals in June 2010. The comment period for the revised proposals that respond to the extensive consultation undertaken closed in March 2012. The boards expect to complete their discussions in 2012.
3	Financial instruments	In process	Described in the financial instruments section of this document.
4	Insurance contracts	In process	The boards are working towards their next publications for the second half of 2012. The IASB is considering whether it should publish another exposure draft (ED). Doing so would align the boards' consultative processes because the FASB has yet to publish an ED.

Status of the work plan

12. The IASB and FASB remain committed to completing the remaining three MoU projects—financial instruments, revenue recognition and leases—as well as insurance contracts, as expeditiously as possible.
13. The next sections of this report describe in more detail the status of the individual projects and the steps that the boards plan to take to complete the MoU programme.

Financial instruments

Classification and measurement

IASB

14. The IASB completed the classification and measurement chapters of IFRS 9 *Financial Instruments* in 2009 for financial assets and in 2010 for financial liabilities. IFRS 9 has resulted in simplifying the classification and measurement model for financial assets to two categories (amortised cost and fair value) with a single impairment model. Tainting rules are eliminated and embedded derivatives are no longer required to be separated from their financial asset host contract.
15. The volatility in profit or loss resulting from fair value measurement of a company's own debt is addressed by requiring such gains and losses to be recorded within Other Comprehensive Income (OCI).
16. In December 2011, consistently with its commitment to ensure that entities are able to apply all phases of IFRS 9 simultaneously, the IASB deferred the mandatory date of IFRS 9 from 2013 to 2015. Early adoption is still permitted.

FASB

17. In 2010 the FASB published an exposure draft addressing the classification and measurement of financial instruments, impairment accounting and hedge accounting. The FASB's exposure draft proposed a much greater use of fair value measurement than does IFRS 9, with almost all financial instruments on the balance sheet at fair value. The proposal included an amortised cost option for certain financial liabilities.
18. Responding to the feedback received on the exposure draft, the FASB tentatively decided that at least some assets should qualify for amortised cost accounting, based on the business activity the entity uses to manage those financial assets. The FASB has tentatively decided that three different business strategies are relevant to the classification of financial assets and have tentatively decided that bifurcation of financial instruments should be retained. The FASB also tentatively decided that financial liabilities would be measured at amortised cost

unless the business strategy for the financial liability at acquisition, issuance, or inception is to subsequently transact at fair value, or to sell in a short sale. Those financial liabilities would be classified at fair value through net income.

NEXT STEPS

19. As noted above, the boards have reached different answers on matters such as the number of classification categories, which assets should be measured at fair value, where fair value changes should be recognised and the bifurcation of embedded derivatives. In addition, there are important legacy differences, such as whether items measured through other comprehensive income should be recycled to net income when they are sold.
20. The IASB and the FASB have consistently received feedback from stakeholders to the effect that every effort should be made to make their respective financial instruments accounting standards converge. In November 2011 the IASB agreed to consider modifying IFRS 9, particularly in view of convergence and the insurance contracts project. The IASB noted that any changes should be made in a manner that minimises disruption for those who have already started to apply or were close to applying IFRS 9.
21. At the January 2012 joint meeting, the IASB and the FASB agreed to jointly consider ways in which their models could be better aligned. The boards are planning to discuss key areas of differences over a series of public board meetings through the second quarter 2012.
22. The boards will focus on discussing: which instruments are eligible for amortised cost (ie contractual cash flow characteristics and business model criteria); the need for bifurcation of financial assets, and, if pursued, the basis for bifurcation; the basis for and scope of a possible third classification category (debt instruments measured at fair value through other comprehensive income); and any knock-on effects (for example, disclosures or the model for financial liabilities given the financial asset decisions).

23. At the February 2012 meeting the boards tentatively agreed to the same contractual cash flows test, which removed a significant difference between their models.
24. The boards are continuing their deliberations and expect to be in a position to issue exposure drafts in the second half of 2012, and to finalise new standards in the first half of 2013. Owing to the different stages of development, the boards propose that any exposure drafts should be separate but achieve as converged an outcome as possible.
25. In addition, in response to significant investor feedback, the FASB has proposed several new disclosures requirements: sensitivity analysis, information about liquidity, asset/liability mismatches, etc. These requirements are based on IFRS 7 *Financial Instruments: Disclosures*, but are more expansive, and would require standardised formats. The FASB plans to expose them separately in the second quarter of 2012, before the classification and measurement changes.

Impairment

26. The IASB and the FASB are continuing to address the main criticism of an incurred loss impairment model that was highlighted during the financial crisis. The boards are jointly developing a more forward-looking ‘expected loss’ approach to impairment (also known as loan loss provisioning). The IASB published an initial exposure draft of proposals in 2009. The FASB’s 2010 exposure draft on financial instruments proposed a different expected loss model. Stakeholders responded that reaching a common impairment solution is very important. The IASB and the FASB subsequently published supplementary joint proposals in 2011 and continue to jointly develop a common impairment model.
27. The boards are pursuing a model with an overall objective of reflecting the deterioration in the credit quality of financial assets. The boards have focused on an approach that places financial assets into three categories (or ‘buckets’) for the purpose of assessing the timing of recognition of expected losses. The impairment loss recognised would vary depending on which category an asset is allocated to. Generally, 12 months of expected losses are recognised on initial

recognition. If an asset deteriorates in credit quality and the credit quality is below a certain level, the asset would be reclassified to another category and a lifetime loss allowance would be recognised. Disclosures will be critical to support the principle-based impairment model and ensure comparability between entities.

28. The boards and staff continue to perform extensive joint outreach to determine whether the proposed approach is operational. The boards are discussing how the proposed model would apply to certain financial instruments and what disclosures should be required. The boards have been consulting widely with, among others, prudential supervisors and members of the IASB's Expert Advisory Panel of credit risk experts who provide guidance on the operational considerations of the proposals.
29. Reaching a converged solution is of the utmost importance. The boards have had to balance the urgency of the project with the need to ensure that any new requirements are operational, will be applied consistently and will produce high quality information. The broad consultation has shown that current practices diverge widely and that any solution will cause significant changes for at least some major participants in the financial sector.
30. The current plan is to complete joint deliberations and issue converged exposure drafts in the second half of 2012. On the basis of that timetable, we would target finalisation of the new impairment requirements to be achieved in the first half of 2013.

Hedge accounting

General hedge accounting

31. The boards had differences in scope in their original hedge accounting projects. The IASB proposed a fundamental overhaul of hedge accounting to tie in with risk management and make hedge accounting more accessible for corporates (non-financial institutions). The FASB had a more focused approach dealing with narrower practice issues in their hedge accounting requirements. Because of the scope differences, the boards originally decided to work separately, with the

FASB inviting its constituents to comment on the IASB's document as well as its own.

32. The IASB published its exposure draft in 2010. In 2011, the IASB completed its redeliberations on its exposure draft. A review draft will be posted on the IASB's website for 90 days in the first half of 2012, during which time the IASB will undertake an extended fatal flaw review and outreach activities. The IASB is targeting a final standard to be issued in the second half of 2012.
33. The FASB plans to consider whether to expand its evaluation of hedge accounting issues. The FASB will begin redeliberations on the hedge accounting model once the deliberations on classification and measurement are complete, to ensure that the interaction of these decisions on a potential hedge accounting model is clear. As part of this process, the FASB will continue to evaluate the feedback received on the FASB's 2010 exposure of its hedge accounting proposals and the feedback and decisions reached on the IASB's general hedge model.

Macro hedge accounting

34. The IASB is currently developing proposals to address risk management strategies involving open portfolios (macro hedging) that are not dealt with by the general hedge accounting model. The IASB's deliberations consider the feedback received on the general hedge accounting model. The IASB expects to publish a discussion paper or an exposure draft of proposals in the second half of 2012.

Offsetting (netting) derivatives and other financial instruments

35. In response to stakeholders' concerns (including those of the Basel Committee on Banking Supervision and the Financial Stability Board) regarding the comparability of entities using IFRSs and US GAAP, the IASB and FASB decided to expand the scope of the joint project on financial instruments to address netting or offsetting financial assets and financial liabilities on the statement of financial position (balance sheet). Offsetting (or netting) requirements are the source of significant differences between the balance sheets

of financial institutions using US GAAP and those using IFRSs. A common solution would be of great assistance to regulators and other users of financial statements.

36. In early 2011, the boards published proposals to align their requirements for when financial assets and financial liabilities are set off, or netted, in the statement of financial position. The proposed model focused on netting on the basis of the ability and intention to offset payments in the normal course of business and in times of stress. This was closer to the requirements in IFRSs than to US GAAP, which, for derivatives, gives primacy to the ability to offset in bankruptcy.
37. In June 2011 the IASB and FASB reached different conclusions. The FASB decided not to proceed as proposed based on the feedback that they received on the proposals. The IASB initially reaffirmed the proposals in the exposure draft but ultimately decided to maintain its existing offsetting requirements. However, to assist users of financial statements, the boards agreed on common disclosure requirements. These disclosures will provide users with comparable information on amounts that are offset and subject to offsetting arrangements for financial statements prepared in accordance with IFRSs and US GAAP.
38. The boards issued final requirements in December 2011. These requirements are effective for periods beginning 1 January 2013.
39. In addition, in December 2011 the IASB issued additional application guidance to IAS 32 *Financial Instruments: Presentation*, to clarify inconsistencies in offsetting practice that were identified during the comment period.

Accounting for Repurchase Agreements (FASB)

40. In March 2012, the FASB formally announced a project to address the accounting for repurchase agreements. Among the issues that the new project will consider is whether repo-to-maturity transactions should be reflected on the balance sheet as financings instead of being treated as off-balance sheet sales and whether enhanced disclosures are necessary. Under IFRS 9, repo-to-maturity transactions are generally accounted for as secured borrowings.

Revenue recognition

41. As we previously stated in our report to you in October 2011, after considering the feedback they had received on the exposure draft, the boards decided to re-expose their revised proposals. It was the unanimous view of the boards that, while there was no formal due process requirement to re-expose the proposals, it was appropriate to go beyond established due process, given the importance of the revenue number to all companies and the need to take all possible steps to avoid unintended consequences. Consequently, the boards have now issued three due process documents: a discussion paper in December 2008, an exposure draft in June 2010 and a revised exposure draft in November 2011.
42. The project is critical to both the FASB and the IASB. US GAAP has a wide range of industry-specific requirements that are acknowledged to be inconsistent. The IASB's standard does not have any application guidance and preparers often look to US GAAP for specific guidance. The project is intended to reduce the FASB's detailed guidance to consistent principles and to remove the need for IFRS users to refer to US GAAP.
43. In November 2011 the boards issued a revised exposure draft with a comprehensive principle and application guidance for when and how to recognise revenue. The revised exposure draft reaffirms the principle for revenue recognition from the first exposure draft (issued June 2010) but, in response to the feedback received, amends the proposals to reduce complexity and add clarity to the basic concepts. The 120-day comment period ended in March 2012.
44. The boards have taken a number of steps to inform stakeholders about the revised proposals. The IASB's and the FASB's websites contain a webcast explaining the major provisions, a webcast answering frequently asked questions, and a reference tool comparing current requirements with the proposed requirements and highlighting the industries that would be affected. Extensive outreach has been undertaken with stakeholders around the globe to help them understand the proposal and formulate their views. Round-table meetings and discussion forums will take place in the second quarter of 2012 in Europe, North America, Asia and South America.

45. The boards expect to begin joint redeliberations in the second quarter of 2012. Substantive deliberations are expected to be completed in 2012 with a final standard expected to be issued in early 2013.

Leases

46. Lease obligations are widely considered to be a significant source of off balance sheet financing. The objective of this project is to improve financial reporting by ensuring that all assets and liabilities arising from lease contracts are recognised in the statement of financial position.
47. In August 2010, the boards issued an exposure draft proposing that the rights and obligations relating to leases should be reported on a lessee's balance sheet. The proposed accounting for lessors was designed to ensure that an entity that retains significant risks or benefits of the leased asset would recognise that asset and an associated obligation to allow the lessee to use the asset. In other cases, ie when the significant risks or benefits of the leased asset are transferred to the lessee, the lessor would derecognise the portion of the asset that is transferred by the lease agreement.
48. During 2011 and 2012 the IASB and FASB have been considering the comments received on the exposure draft. In July 2011 the boards decided that, although they had not completed all of their deliberations, they had sufficient information to be able to conclude that they should re-expose the leases proposals.
49. Although the boards have addressed many of the issues raised by respondents to the exposure draft, we are aware of some remaining concerns about whether all leases should be accounted for in the same way. For example, some have questioned whether the profit and loss profile for lessees, which tends to be 'front loaded', is appropriate for all leases. While the redeliberations are substantially complete, the boards are reconsidering the appropriate profit and loss profile for lessees in light of feedback already received (ie before publishing the new exposure draft). The more fundamental issue of the

recognition of assets and liabilities on the balance sheet is not being reconsidered.

50. In January 2012 the leases working group was convened to discuss this issue. At the February 2012 meeting, the boards used the input received from the working group to further discuss lessee accounting and, in particular, different methods of amortising the so-called right-of-use asset recognised by lessees. The boards asked the staff to perform further outreach on those different methods to assess their operationality and usefulness for users of financial statements. The staff will report back to the boards in the second quarter of 2012.
51. The boards are targeting completing deliberations and issuing exposure drafts in the second half of 2012. During the comment period, the boards plan to conduct additional outreach with users of financial statements and entities that undertake lease activities. We expect a final standard in mid-2013.

Other projects

Insurance contracts

52. 'Insurance contracts' has been an active project for the IASB since the IASB was formed in 2001. It is an important project because IFRSs currently lack specific accounting requirements for insurance contracts. In 2007 the IASB published a discussion paper, *Preliminary Views on Insurance Contracts*. In October 2008 the FASB added a project on insurance contracts to its agenda and the boards agreed to undertake it jointly. The FASB and the IASB are at different points in the process on the insurance contracts project. The IASB issued an exposure draft, *Insurance Contracts*, in July 2010. The FASB published a discussion document of its own, which included alternative views, in September 2010.
53. In 2011, the boards began considering together the feedback received on the IASB's exposure draft and the FASB Discussion Paper. In general, the boards are developing a model that would reflect current estimates of the amount necessary to fulfil an insurance obligation. However, the boards have not reached consistent

conclusions about several elements of the model. There is a strong desire for a global standard on insurance, and the boards are undertaking an effort to gain a deeper understanding of the decisions taken by each Board to identify potential opportunities to resolve differences. The boards currently estimate that they will conclude the major technical discussions in the second quarter of 2012, with a FASB exposure draft in the second half of 2012. The IASB is considering whether it should publish another exposure draft or proceed to a final IFRS. Issuing an exposure draft would align the boards' consultative processes. On the basis of this plan, final standards could be issued in 2013.

Consolidation

54. The boards have completed their respective consolidation projects, which included addressing issues about the consolidation of special purpose entities and enhanced disclosures about off balance sheet risks. The new IFRS requirements will also bring into force new disclosure requirements relating to structured entities (special purpose entities), making IFRS and US GAAP disclosure requirements similar.
55. Differences remain, however, in relation to what US GAAP refers to as voting interest entities; US GAAP has a legalistic approach to defining control, whereas the new IFRS has a broader definition of control, including effective control. On the basis of feedback received, the FASB also decided to expose the principal-agent sections of the IFRS model.

Investment entities

56. The boards are also seeking to align the criteria for determining whether an entity is an investment company or investment entity whose substantive activity is investing for capital appreciation, investment income, or both.
57. The project objective is to define an investment entity and to require that an investment entity should not consolidate investments in operating entities that it

controls, but should measure those investments at fair value, with changes in fair value recognised in profit or loss.

58. The IASB published its proposals, which were developed with the FASB, in August 2011. The IASB's proposal provides an exception to the consolidation principle and equity method guidance for a particular class of entities—investment entities (which would result in measuring controlled investees and investments over which the entity can exercise significant influence at fair value through profit or loss).
59. The FASB exposure draft was issued in November 2011. The FASB's proposal would largely converge the criteria to determine whether an entity is an investment company with the IASB's proposal. Current US GAAP provides complete accounting and reporting guidance for investment companies. Under current US GAAP, an entity that meets the criteria to be an investment company would be required to measure all of its investments at fair value with all changes in fair value recognised in net income.
60. The boards plan to commence joint redeliberations of their proposals in the second quarter of 2012. On the basis of this timing, a final standard is targeted for the end of 2012.

Agenda consultation (IASB)

61. In addition to finalising the MoU projects, the IASB is working on topics for its future technical agenda. On 26 July 2011 the IASB launched its first formal public agenda consultation on its future work plan. Comments were requested by 30 November 2011. Through the agenda consultation, the IASB is seeking input from all interested parties on the strategic direction and the broad overall balance of the work plan. The agenda consultation will provide the IASB with important input when considering possible agenda items.
62. In January 2012 the IASB discussed the staff's summary of feedback received on the agenda consultation. The staff did not make any recommendations and the IASB was not asked to make any technical decisions. The IASB requested

that the staff should do further research to clarify some matters raised in the comment letters and suggested further ways in which the priorities for standards-level projects could be assessed. The IASB expects to discuss a development plan in the second quarter of 2012.

IFRS Foundation strategy review

Summary and planned actions

Briefing note for the Financial Stability Board

April 2012

1. Background

In 2010 the Trustees initiated the strategy review following the completion of their second constitution review. IFRSs are required or permitted for use by companies in more than 100 countries and two-thirds of G20 members now require the use of IFRSs, a vast increase from when the IASB began work in 2001.

The strategy review sought to review these achievements and to establish objectives for a second decade of success by considering the mission, governance, standard-setting process and financing of the organisation.

The IFRS Foundation Monitoring Board simultaneously began its governance review. The two interrelated reviews were conducted independently but at the same time. The Monitoring Board and the Trustees strongly shared the view that the two projects should result in an integrated package of measures.

Both the Monitoring Board and the Trustees consulted widely with external parties during this process. The Trustees held several rounds of public consultations and round-table meetings around the world.

In February 2012 the Monitoring Board and Trustees announced jointly the conclusions of their respective reviews.

2. Main conclusions of the Trustees' strategy review

International Financial Reporting Standards (IFRSs) should continue to serve the needs of investors and other market participants. Transparency should remain of primary importance along with sensitivity towards the needs of others with responsibility for financial stability.

The focus should continue to be on worldwide adoption of IFRSs, with recognition that although convergence may in some cases be an appropriate short-term strategy it is not a substitute for adoption.

The IASB should play a more active role in ongoing work to improve consistency of application and implementation.

The IASB should further develop 'enhanced technical dialogue' with prudential supervisors and other international organisations, including IOSCO, the Basel Committee on Banking Supervision, the Financial Stability Board, the International Monetary Fund and the International Association of Insurance Supervisors.

The IASB should formalise and strengthen relationships with national and regional standard-setting bodies, audit and securities regulators, the accountancy profession and

others, including those from emerging market economies, to co-operate more closely and in a more proactive way, thereby:

When developing standards

Consulting with other organisations and interested parties more closely and at an earlier stage in the standard-setting process.

Increasing the global resources available for developing research, field testing, post-implementation reviews and undertaking outreach activities.

When implementing standards

Providing a mechanism for standard-setting bodies, securities and audit regulators and the IASB to work together to encourage greater consistency in the implementation of IFRSs.

The Trustees have asked the Chair and Vice-Chair of the IASB to develop a strategy, by September, for the Trustees to consider on how to develop a more formal network of national and regional standard-setting bodies, audit and securities regulators, the accountancy profession and others. The IFRS Foundation Trustees have already established an *Emerging Economies Group*, with the aim of enhancing the participation of emerging economies in the development of IFRSs. The Trustees expect to use this group increasingly more as it builds its network. This broad topic is being discussed by the IFRS Advisory Council in June.

The revised Due Process Procedures Handbook, see next section, will include more formal acknowledgement of the responsibility the IASB has to communicate with securities and prudential regulators. This gives formal recognition to the regular meetings already taking place.

The Trustees have completed a review of the IFRS Interpretations Committee and plan to release their report in April 2012. The Trustees have overseen changes to the way the Interpretations Committee operates, including changes to the criteria used to assess interpretation requests, which will ensure that the interpretations processes are more responsive than they have been historically. The steps being taken include more formal and enhanced communication with securities regulators and national and regional accounting standard-setters.

The Trustees are establishing a working group from the international community, chaired by the IASB, to develop an agreed methodology for field work and effect analyses.

The Trustees have asked the Chair and Vice-Chair of the IASB to develop a strategy, by the end of 2012, for the Trustees to consider on how to develop a research capability that is consistent with more evidence based standard setting and will provide leadership in thinking in the field of financial reporting.

The IASB has reorganised its technical team to bring the Education Initiative and XBRL within the responsibility of the Senior Technical Directors.

3. Enhancing governance arrangements to strengthen public accountability and independence

In its strategy review the Trustees stated:

The independence of the IASB in its standard-setting decision-making process, within a framework of public accountability, must be maintained. A primary role of the Trustees is to advocate for, and to preserve, the independence of, the standard-setting process.

The current three-tier structure (Monitoring Board, Trustees and IASB) is appropriate for the organisation's mission. Within that governance structure, the Monitoring Board, the IFRS Foundation and the IASB should enhance their interaction and procedures where appropriate to reinforce the principles of transparency, public accountability and independence. In doing so, the roles and responsibilities of each element of the organisation's governance should be clearly defined.

The Chairman of the IASB no longer uses the additional title of Foundation CEO. The Trustees plan to amend the Constitution to formalise this change, which ensures that the IASB Chair can concentrate on standard-setting, both in substance and appearance. The revisions to the Constitution will be exposed for public comment in the second quarter of 2012.

The Trustees have also enhanced the activities of its Due Process oversight Committee (DPOC). Among the changes already taken are the establishment of:

- a defined staff resource to support the management of their due process oversight responsibilities by appointing a Director of Trustee Activities.
- protocols for monitoring how the IASB is meeting its due process requirements, including the public reporting of how the IASB is discharging its responsibilities;
- protocols for dealing, in a transparent manner, with complaints about possible breaches of due process by the IASB; and
- a full and open reporting mechanism by the DPOC of its oversight activities.

The DPOC has asked the IASB to update, in consultation with the DPOC, its Due Process Procedures Handbook. The revised handbook will include sections that set out the DPOC's protocols. The handbook will also include sections outlining:

- the DPOC's responsibility to report to the Monitoring Board;
- the responsibility of the IASB to report to the Trustees on how it has responded to matters referred to the IASB by the Trustees; and
- a feedback mechanism to ensure that, if the Monitoring Board refers an agenda item to the IASB, in response to the Monitoring Board's referral and in the event that the IASB determines not to take up the referred issue, the IASB will demonstrate to the Trustees and the Monitoring Board that adding the matter to the IASB agenda would be inconsistent with the standard-setting responsibilities established in the Constitution.

The Trustees will develop the mechanisms for reporting by the DPOC to the Monitoring Board, and in relation to agenda referrals from the Monitoring Board, in conjunction with

the Monitoring Board. The revised Due Process Procedures Handbook will be issued for public comment, in the second quarter of 2012.

4. Financing

The Trustees will work to expand the existing base of financing—in particular, to ensure that funding is provided on a longer-term basis (3-5 years), to be publicly sponsored and publicly accountability.

5. Conclusion

The review sets out a clear vision and strategy for the IFRS Foundation and the IASB going forward.

The Trustees will work in close co-operation with the Monitoring Board to co-ordinate the actions of the two reviews.

Many of the recommendations are already being actioned, while others—such as the development of a network of standard-setters and regulators—will need further careful consideration.

The Trustees will initiate the process of considering changes to the Constitution during their April 2012 meeting.

February 2012

IFRS Foundation

Report of the Trustees' Strategy Review 2011

IFRSs as the Global Standards: Setting a Strategy for the Foundation's Second Decade



**IFRSs as the Global Standards:
Setting a Strategy
for the Foundation's Second Decade**

Report of the IFRS Foundation
Trustees' Strategy Review 2011

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1. Summary

In the ten years since its founding, the IFRS Foundation, through its independent standard-setting body, the International Accounting Standards Board (IASB), has succeeded in establishing International Financial Reporting Standards (IFRSs) as the accepted set of financial reporting standards in more than 100 countries. In countries where IFRSs are not the locally accepted standard, adoption of IFRSs is under active consideration. As the organisation's second decade begins, the goal of a single high quality globally accepted set of accounting standards is now within reach. The next 18 months will be critical in determining whether this goal is achieved.

As a result of their second five-yearly review of the Constitution, and because of the critical nature of the coming months, the Trustees launched a comprehensive review of the IFRS Foundation's strategy. This paper sets out a strategy and vision for the IFRS Foundation and the IASB as they evolve into the global accounting standard-setter.

In this paper, the Trustees set out a series of recommendations for the organisation's second decade. These recommendations address four areas: (1) the IFRS Foundation's mission, specifically the public interest served by the Foundation's work; (2) governance; (3) the process and procedures used by the Foundation and the IASB; and (4) the organisation's financing.

In making the recommendations contained in the strategy review paper, the Trustees have put forward proposals that affect the different components of the IFRS Foundation. These include actions for (1) the Trustees specifically as the non-executive body responsible for the oversight of the entire range of the IFRS Foundation's activities; (2) the Foundation in general (which includes the standard-setting function, an education programme, publication and content-related services, IFRS XBRL development, and general operations); and (3) the operations, procedures and strategy of the IASB, but not its technical activities. Consistently with their constitutional responsibilities, the Trustees set out in this document a vision related to all three organisational components and identify where specific action is required, where appropriate. The Trustees do not comment on the technical content of IFRSs or possible technical items for the IASB's agenda.

The Trustees acknowledge that they are making these recommendations at a time when a number of major economies have made the decision to adopt, or are considering the adoption of, IFRSs for their domestic economies (including Japan and the United States). For the purpose of the review, the Trustees assume that commitments, in some form, on the adoption of global standards are made. Failure to make such commitments would lead to the reconsideration of some elements of this strategy review document and could lead to modifications in the suggested geographical distribution of the membership of the IFRS Foundation Trustees and the IASB.

In making these recommendations, the Trustees also note that the IFRS Foundation Monitoring Board has undertaken its own review of the Foundation's governance arrangements. The Monitoring Board's review focuses primarily on institutional aspects of governance, particularly the composition and the respective roles and responsibilities of the Monitoring Board, Trustees and the IASB. While addressing the issue of governance (in a manner consistent with the Monitoring Board's proposals), this paper addresses broader issues of the IFRS Foundation's mission and operations, the Trustees' activities, the IASB's due process, and financing.

A summary of the principles and recommendations follow:

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

Purpose of financial reporting standards

- A1** In carrying out the IFRS Foundation's mission as its standard-setting body, the IASB should develop financial reporting standards that provide a faithful portrayal of an entity's financial position and performance in its financial statements. Those standards should serve investors and other market participants in making informed resource allocation and other economic decisions. The confidence of all users of financial statements in the transparency and integrity of these statements is critically important for the effective functioning of capital markets, efficient capital allocation, global financial stability and sound economic growth.

Adoption of IFRSs

- A2** As the body tasked with achieving a single set of improved and globally accepted high quality accounting standards, the IFRS Foundation must remain committed to the long-term goal of the global adoption of IFRSs as developed by the IASB, in their entirety and without modification. Convergence may be an appropriate short-term strategy for a particular jurisdiction and may facilitate adoption over a transitional period. Convergence, however, is not a substitute for adoption. Adoption mechanisms may differ among countries and may require an appropriate period of time to implement but, whatever the mechanism, it should enable and require relevant entities to state that their financial statements are in full compliance with IFRSs as issued by the IASB.
- A3** With co-operation from national and international market and audit regulators, accounting standard-setters, regional bodies involved with accounting standard-setting and accountancy bodies, the IFRS Foundation should seek full disclosure where adoption of IFRSs is incomplete or where there is divergence from the full set of IFRSs as issued by the IASB. The Foundation should seek a mechanism to highlight instances where jurisdictions are asserting compliance with IFRSs without adopting IFRSs fully.

Scope of standards and IFRS activities

- A4** In the short term, the primary focus of the IFRS Foundation and the IASB should remain on developing standards for for-profit corporate entities (ie publicly traded entities, other publicly accountable entities and SMEs). Taking into account the necessary resource requirements, the Foundation and the IASB will consider developing standards for other entities and other purposes at a later date.

Consistency of application and implementation

- A5** In pursuing its mission, the IFRS Foundation has a vested interest in helping to ensure the consistent application of IFRSs internationally. The Foundation should pursue that objective in the following ways:
- The IASB, as the standard-setter, should issue standards that are clear, understandable and enforceable.
 - The IASB will provide guidance on its standards that is consistent with a principle-based approach to standard-setting. Application guidance and examples should be provided when it is necessary to understand and implement the principles in a consistent manner.

- The IASB will work with a network of securities regulators, audit regulators, standard-setters, regional bodies involved with accounting standard-setting, accounting bodies and other stakeholders to identify where divergence in practice occurs across borders. Where divergence in practice could be resolved through an improvement in the standard or an Interpretation, the IASB or the IFRS Interpretations Committee will act accordingly.
- The IFRS Foundation, through its education and content services, should undertake activities aimed at promoting consistent application.
- The IASB, in partnership with relevant authorities, will identify jurisdictions where IFRSs are being modified and, in these circumstances, encourage transparent reporting of such divergences at the jurisdictional level.
- The IFRS Foundation will seek the assistance of the relevant public authorities to achieve this objective.

B. Governance: independent and publicly accountable

- B1** The independence of the IASB in its standard-setting decision-making process, within a framework of public accountability, must be maintained. A primary role of the Trustees is to advocate for, and to preserve, the independence of, the standard-setting process.
- B2** The current three-tier structure (Monitoring Board, Trustees and IASB) is appropriate for the organisation's mission. Within that governance structure, the Monitoring Board, the IFRS Foundation and the IASB should enhance their interaction and procedures where appropriate to reinforce the principles of transparency, public accountability and independence. In doing so, the roles and responsibilities of each element of the organisation's governance should be clearly defined.
- B3** Consistently with point B2, the Trustees should further clarify how they discharge their oversight responsibilities.
- B4** Elements of the governance structure should provide regular public reports to demonstrate their effectiveness.

C. Process: ensuring that its standards are of a high quality, meet the requirements of a well-functioning capital market and are implemented consistently across the world

- C1** A thorough and transparent due process is essential to developing high quality, globally accepted accounting standards. The IASB's due process should continue to be reviewed and regularly enhanced, benefiting from regular benchmarking against other organisations and from stakeholder advice.
- C2** The framework for the Trustees in their oversight of the IASB's due process should be clarified. The Trustees' Due Process Oversight Committee, with appropriate and independent staff resource, should review and discuss due process compliance regularly throughout the standard-setting process and at the end of the process before a standard is finalised. The Committee should report regularly on these activities to the Trustees and in its annual report. The Committee should develop a procedure for handling instances of potential non-compliance.

- C3** Building on the existing due process framework and in an effort to improve the usability of financial information, the IASB should undertake:
- Clear demonstration of how priorities on its agenda are set: in the agenda-setting process and after the required public consultation, the IASB should provide full feedback to the public, including a demonstration of how the input of the IFRS Advisory Council was taken into account. This will foster confidence in the IASB's agenda-setting process and reinforce support for its independence.
 - Agreed methodology for field visits/tests and effect analyses: the IASB should work with relevant parties to develop an agreed methodology for field visits/tests and effect analyses (more often referred to as cost-benefit analyses or impact assessments).
 - Consideration of the impact of standard-setting decisions on XBRL: while XBRL considerations should not dictate the substance of the standard-setting process, the Trustees recognise the growing use of XBRL requirements. The IFRS XBRL taxonomy is growing in importance and deserves encouragement. Consequently, in drafting new standards, the IASB should take into account the need for language that is easily translatable into foreign languages and into a consistent XBRL taxonomy.
 - Consideration of the impact of standard-setting decisions on the translation of IFRSs: the IASB should be conscious that many end users require translations of the English-language IFRSs.
- C4** To support the IFRS Foundation's interest in consistent application of IFRSs and to comply with the IASB's standard-setting mandate, the Foundation and the IASB should undertake the following actions:
- Using an agreed methodology, undertake post-implementation reviews to help identify implementation issues.
 - Establish formal co-operation arrangements with securities regulators, audit regulators and national standard-setters to receive feedback on how IFRSs are being implemented and to encourage actions aimed at addressing divergence.
 - Refine the scope of the IFRS Interpretations Committee's activities to ensure consistency of Interpretations, without undermining the commitment of a principle-based approach to standard-setting.
- C5** The IFRS Foundation and the IASB should encourage the maintenance of a network of national accounting standard-setting bodies and regional bodies involved with accounting standard-setting as an integral part of the global standard-setting process. In addition to performing functions within their mandates, national accounting standard-setting bodies and regional bodies involved with accounting standard-setting should continue to undertake research, provide guidance on the IASB's priorities, encourage stakeholder input from their own jurisdiction into the IASB's due process and identify emerging issues.
- C6** To provide leadership in thinking in the field of financial reporting, the IASB should establish, or facilitate the establishment of, a dedicated research capacity.

D. Financing: ensuring the organisation is financed in a manner that permits it to operate effectively, efficiently and independently

- D1** The funding system must maintain the independence of the standard-setting process, while providing organisational accountability.
- D2** The existing base of financing should be expanded to enable the IFRS Foundation to serve the global community better and to fulfil the strategy described above. Specifically, the Trustees should propose that funding should be on a long-term basis (at least three to five years), be publicly sponsored, be flexible to permit the use of differing mechanisms and to adjust to budgetary needs, be shared among jurisdictions on the basis of an agreed formula (that would be consistent with the principle of proportionality) and provide sufficient organisational accountability.

* * *

In the report that follows, the Trustees first provide broader context for the strategy review and the challenges facing the IFRS Foundation. The Trustees then provide a fuller explanation of each of the recommendations above.

2. Background: the first decade (2001—2010): success and tensions

Much of the success of the IFRS Foundation to date is a result of three factors:

- 1 the IASB's strength as an organisation and the quality of IFRSs;
- 2 the European Union's decision to designate the IASB as its standard-setting body, which served as a catalyst for the adoption of IFRSs elsewhere internationally; and
- 3 the willingness of the United States to engage in convergence, to accept IFRSs for non-US companies and to consider possible adoption for US companies.

The new Foundation was established in 2000 as a non-governmental and independent body, blessed by, but not formally connected to, public institutions. The Foundation inherited a constitution that established its governance arrangements. The Constitution declared that the new IASB would be focused on creating standards aimed at investor protection. An independent and professional IASB, not beholden to national or special parochial interests, endowed the standards with credibility.

The European Union (EU) soon became the catalyst for IFRS adoption worldwide, making IFRSs an alternative to US GAAP for raising international capital. In 2002 the EU decided to adopt IFRSs for its publicly traded companies as part of the effort to create a common European capital market. Since 2005, the European decision has spurred the advance of IFRSs across Asia-Oceania, Africa and the Americas.

Lastly, beginning with the 2002 Norwalk Agreement, an intensive and joint convergence programme has been a dominant feature of the IASB's agenda. Importantly, the convergence process has led to improvements to the inherited standards, has reduced differences with US GAAP, and has led to the removal of the reconciliation requirement by the US Securities and Exchange Commission (SEC). The G20 has formally identified the need for a single set of global standards. The United States is in the process of considering the adoption of IFRSs. SEC pronouncements indicate that the SEC expects to make a determination shortly on the use of IFRSs. Other major economies (including China, India and Japan) are in the process of converging with IFRSs or are considering whether to implement IFRSs as their chosen accounting standards.

While these factors have spurred the organisation's success, a number of challenges remain for the organisation:

- **convergence and adoption:** in an effort to facilitate adoption of its standards, the IASB has devoted considerable energy to convergence. But convergence alone will not produce a single set of global standards. A number of countries still need to make decisions to adopt IFRSs for domestic use.
- **quality and implementation of the standards:** two tensions have arisen in this area. First, the IASB must continue to demonstrate the quality and relevance of its standards to ensure global acceptance, including a need to reflect the lessons learned from the financial crisis. Second, even as the standards are being adopted universally, there is a risk that practices related to implementation and adoption will diverge.
- **governance and accountability:** as adoption of IFRSs has extended to more and more countries, public authorities around the world have paid increasing attention to the accountability and governance of the institution. While the IASB's independence has been a source of strength, it is widely understood that those arrangements may need to evolve further in order to enhance the IFRS Foundation's public accountability.

3. The IFRS Foundation's mission: serving the public interest through financial reporting standards

The IFRS Foundation's Constitution states that the objectives of the 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.

The Constitution makes a direct reference to the 'public interest' without providing a specific definition of the public interest. To address the challenges outlined above, the Trustees believe that it is important to define what the public interest means in relation to the IFRS Foundation's activities. In reviewing the Foundation's mission, the Trustees have identified the following areas of public interest:

- the purpose of financial reporting standards and standard-setting activities;
- global adoption of IFRSs;
- the scope of the IASB's work; and
- the Foundation's role in helping to ensure the consistent application of IFRSs.

Purpose of financial reporting standards and standard-setting activities

The Constitution implies a strong investor perspective, while indicating that there are other users of financial information. The financial crisis has raised questions regarding the interaction between financial reporting standards aimed primarily at investors for capital allocation decisions and other reporting requirements for, and their impact upon, other public policy objectives (eg prudential regulation, sustainability, anti-corruption measures and others). The question is how, and to what extent, these perspectives can be reconciled. While these tensions are not new, the financial crisis has served to bring them to the surface again. In order to meet the challenges of the next decade, the Trustees believe that it is important to define how the IASB intends to address these tensions.

The Trustees believe that tensions among the varying objectives are overstated, and that the various public policy objectives are all served by transparency in financial reporting. At the same time, the Trustees believe that a clear statement of the Foundation's commitment to providers of capital as the primary, but not exclusive, users of financial information is essential. Consequently, the Trustees have set out the following principle, which is consistent with the IASB's *Conceptual Framework*, to guide the IFRS Foundation and the IASB's work in their second decade:

- A1 In carrying out the IFRS Foundation's mission as its standard-setting body, the IASB should develop financial reporting standards that provide a faithful portrayal of an entity's financial position and performance in its financial statements. Those standards should serve investors and other market participants in making informed resource allocation and other economic decisions. The confidence of all users of financial statements in the transparency and integrity of these statements is critically important for the effective functioning of capital markets, efficient capital allocation, global financial stability and sound economic growth.**

Indeed, in setting out the above principle, the Trustees are reaffirming the current constitutional focus on the development of financial reporting standards aimed at making informed resource allocation decisions. The Trustees also believe that the text of paragraph A1 is consistent with the language in the IASB *Conceptual Framework*, including maintaining the principle of stewardship.

At the same time, the Trustees believe that transparency in financial reporting is an essential component of addressing the varying public policy perspectives. These perspectives can often be reconciled transparently within a single set of accounting standards. As the global standard-setter and without sacrificing the objective above, the IASB accounts for these perspectives appropriately in the development of high quality accounting standards.

The Trustees believe that the IASB can best account for differing perspectives, including the needs of a range of sizes and types of entities in diverse economic settings, through effective stakeholder engagement with a broad range of parties as part of the IASB's due process. Such a due process is essential to understanding diverse needs and the impact of standards (including their potential cost) and to minimising the need to have multiple reporting requirements. For example, when it comes to issues concerning the interaction of financial reporting and prudential concerns, the IASB should seek to build upon its 'enhanced technical dialogue'

established with prudential supervisors and other stakeholders. One possibility would be to formalise existing informal arrangements in a manner that includes regular and joint meetings with specifically designated organisations (such as IOSCO, the Basel Committee on Banking Supervision, the Financial Stability Board, the IMF and the IAIS).*

At the same time, the Trustees recognise that general purpose financial reporting cannot, by itself, fulfil all public policy objectives that require financial information. In fulfilling its mission, the IASB should emphasise the needs of investors and other financial market participants in their resource allocation decisions. The IASB should work with regulators and other stakeholders, to the maximum extent possible, to enable other authorities to require the display of financial information outside the general purpose financial reports in a way that meets other public policy objectives without compromising transparency.

Global adoption of IFRSs

The IFRS Foundation Constitution states that the organisation's primary objective is to develop 'a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles'. The Trustees remain committed to the belief that a single set of standards is in the best interests of the global economy, and that any divergence from a single set of standards, once transition to IFRSs is complete, can undermine confidence in financial reporting.

A2 As the body tasked with achieving a single set of improved and globally accepted high quality accounting standards, the IFRS Foundation must remain committed to the long-term goal of the global adoption of IFRSs as developed by the IASB, in their entirety and without modification. Convergence may be an appropriate short-term strategy for a particular jurisdiction and may facilitate adoption over a transitional period. Convergence, however, is not a substitute for adoption. Adoption mechanisms may differ among countries and may require an appropriate period of time to implement but, whatever the mechanism, it should enable and require relevant entities to state that their financial statements are in full compliance with IFRSs as issued by the IASB.

A3 With co-operation from national and international market and audit regulators, accounting standard-setters, regional bodies involved with accounting standard-setting, and accountancy bodies, the IFRS Foundation should seek full disclosure where adoption of IFRSs is incomplete or where there is divergence from the full set of IFRSs as issued by the IASB. The Foundation should seek a mechanism to highlight instances where jurisdictions are asserting compliance with IFRSs without adopting IFRSs fully.

As described above, companies in more than 100 countries use or are in the process of adopting IFRSs as developed by the IASB. Other countries are in the process of considering the adoption of IFRSs for domestic companies. A number of countries are still focused on bringing about convergence of national standards with IFRSs.

The Trustees recognise that countries will need to establish their own mechanisms for bringing IFRSs formally into national law and are unlikely to cede sovereignty in this area. Regardless of the mechanics of IFRS adoption, the end result should be the same—full adoption of IFRSs as issued by the IASB. Countries may also require some transitional period when in

* In addition to the existing enhanced technical dialogue, the IASB meets these groups regularly, most often on a bilateral basis. In a number of jurisdictions, a range of regulatory authorities, including standard-setters (as appropriate), meet regularly. Such a system could be set up on an international basis.

the process of fully implementing IFRSs. National authorities will need to assess these transitional requirements against their national circumstances. However, even recognising that transitional periods will vary, the Trustees strongly support the need to maintain the long-term goal of full adoption of IFRSs.

There is a natural temptation for countries (and stakeholders within those countries) to argue against full adoption of IFRSs, to call for convergence of national standards and IFRSs rather than adoption, or to introduce national exceptions to IFRS rules. The temptation to pursue convergence rather than adoption should be resisted. Full adoption of IFRSs must be the end goal.

Convergence will not, by definition, lead to a common set of global standards, because convergence is not identical to adoption. Convergence has been, is, and will likely remain a useful process to facilitate adoption by narrowing differences. Convergence, however, will not produce identical results because each set of standards has a different starting point and convergence will not address all of the details. Having once achieved convergence, standards could well diverge again.

Furthermore, in a world where standards have only been made to converge but are not identical, issues of mutual recognition are raised. Countries will seek acceptance of their 'equivalent' but different standards for access to capital markets. The benefits of IFRS adoption, particularly in relation to comparability for investors, are partially lost in favouring convergence rather than adoption.

Countries choosing to adopt IFRSs should also avoid creating national or regional variants of IFRSs. Understandably, different interest groups will cite special circumstances as justification for national and regional exceptions. However, national and regional exceptions have a cost, and these long-term costs should be weighed against the perceived immediate benefits.

The Trustees should seek the assistance of relevant public authorities in identifying divergence from full IFRSs. The goal should be twofold. First, disclosure should be made where adoption of IFRSs is incomplete or there is divergence from the full set of IFRSs as issued by the IASB. Second, there should be a mechanism to highlight instances where jurisdictions are asserting compliance with IFRSs without adopting IFRSs fully. By engaging relevant parties the IFRS Foundation and IASB will work towards developing such a mechanism in the coming year.

The scope of the IASB's work

The IASB has focused its work on developing standards for private sector (ie non-governmental) for-profit entities. At the same time, there is a demand for internationally consistent standards for the public sector and not-for-profit sectors. Furthermore, stakeholder groups are increasingly asking the IASB to consider issues not directly related to financial reporting for the purposes of making capital allocation decisions (one such example is sustainability reporting).

- A4 In the short term, the primary focus of the IFRS Foundation and the IASB should remain on developing standards for for-profit corporate entities (ie publicly traded entities, other public interest entities, SMEs). Taking into account the necessary resource requirements, the Foundation and the IASB will consider developing standards for other entities and for other purposes at a later date.**

The Trustees strongly support the need for transparent financial reporting requirements for not-for-profit and public sector bodies. The Trustees also understand the strong public policy interest of other stakeholders in the financial reporting process. Indeed, the Trustees believe that they should consider the expansion of the organisation's mandate at some point in the future.

At the same time, in reaching conclusion A4, the Trustees took into consideration the unsettled status of IFRS global adoption and the limited resources facing the IFRS Foundation. The time horizon for full global adoption of IFRSs is likely to require work over the next several years. At present, there is a need to provide stability to the organisation and the financial reporting environment.

Recognising the importance of financial reporting to other sectors and that its mandate may be broadened in the future, the IASB should develop standards in such a way as not to encourage 'regulatory arbitrage' by enabling entities to opt out of the IFRS regime by changing their category (ie from those covered by IFRSs to those not required to use IFRSs) in order to evade transparency requirements.

The Trustees will actively consider other areas related to financial reporting (eg not-for-profit, public sector, sustainability and others) as the system stabilises and as resources permit. The Trustees believe that the next Constitution Review commencing in less than three years' time will provide a timely opportunity to consider any expansion of scope.

The Trustees note that other standard-setting organisations produce standards on matters outside the current scope of the IASB's work. The IFRS Foundation should continue its co-operation, as appropriate, with these organisations. In addition, also as appropriate, the IASB should agree to memoranda of understanding with these standard-setting organisations to formalise co-operation.

Consistent application of IFRSs

The IFRS Constitution states that the IFRS Foundation should 'promote the use and rigorous application of those standards [IFRSs]'. This constitutional provision is an explicit acknowledgement that the success of IFRSs (and the objective of global standards) requires consistency and faithfulness in the application of IFRSs.

In this regard, the Trustees have concluded that:

A5 In pursuing its mission, the IFRS Foundation has a vested interest in helping to ensure the consistent application of IFRSs internationally. The Foundation should pursue that objective in the following ways:

- **The IASB, as the standard-setter, should issue standards that are clear, understandable and enforceable.**
- **The IASB will provide guidance on its standards that is consistent with a principle-based approach to standard-setting. Application guidance and examples should be provided when it is necessary to understand and implement the principles in a consistent manner.**
- **The IASB will work with a network of securities regulators, audit regulators, standard-setters, regional bodies involved with accounting standard-setting, accounting bodies and other stakeholders to identify where divergence in practice occurs across borders. Where divergence in practice could be resolved through an improvement in the standard or an Interpretation, the IASB or the IFRS Interpretations Committee will act accordingly.**

- **The IFRS Foundation, through its education and content services, should undertake activities aimed at promoting consistent application.**
- **The IASB, in partnership with relevant authorities, will identify jurisdictions where IFRSs are being modified and, in these circumstances, encourage transparent reporting of such divergences at the jurisdictional level.**
- **The IFRS Foundation will seek the assistance of the relevant public authorities to achieve this objective.**

Among the tools available to the IFRS Foundation in its efforts to ensure consistent application are:

- **The IASB's standard-setting process**, to ensure that standards are clear and, if they are not, to amend them.
- **The IFRS Interpretations Committee**, to identify emerging areas of divergence across borders before they become entrenched practice, to refer issues to the IASB when standards require improvement, and to issue Interpretations within a principle-based environment. In the second decade, the Interpretations Committee will probably play a more active role, in close co-ordination with the IASB.
- **The IFRS XBRL taxonomy**, to maintain a high quality IFRS XBRL taxonomy to help ensure comparability of financial data for end users.
- **IASB education and IFRS Foundation content service activities**, to undertake and serve as a catalyst for educational activities and information that will improve the consistency of application.

The Trustees also note the limitations of the IFRS Foundation in this field. Consistency of application depends upon enforcement and regulatory activities, rigorous audits and sound corporate financial reporting and governance, which are areas that are outside the mandate of the Foundation.

Lastly, the Trustees believe that transparency regarding IFRS adoption practices will encourage convergence of adoption practices and enforcement activities and discourage deviations. The IFRS Foundation does not have the mandate or the resources to monitor adoption practices, but a number of international and national institutions have significant experience in this area. The Foundation will therefore work with other organisations, including securities regulators, standard-setters and international financial institutions, to monitor the consistency of the application of IFRSs.

4. Enhancing governance arrangements to strengthen public accountability and independence

The IFRS Foundation is a unique example of international co-operation in the financial arena. Unlike other bodies that establish international rules, the IASB is composed of full-time professionals who do not serve as representatives of particular jurisdictions and interests. The IFRS Foundation's Constitution establishes an independent standard-setting process, subject to extensive due process requirements, but protected from special and parochial interests. This independence has been a fundamental strength of the IFRS Foundation and the IASB, and gives credibility to the standards.

Independence is a prized asset for the IFRS Foundation, but independence comes with the requirement of public accountability. A form of public accountability was provided from the outset insofar as the binding character of IFRSs depended on their validation by local authorities. Subsequently, following two formal reviews of the Constitution, the Trustees have enhanced their oversight function, increased the transparency of their operations and made a number of institutional reforms to expand representation. In 2009 a Monitoring Board was created and a Memorandum of Understanding linking it to the Trustees provided a formal public component to the governance structure for the first time. The creation of the Monitoring Board and the emergence of publicly sanctioned financing regimes for the IFRS Foundation anchored the organisation more formally with those responsible for serving the public interest.

The IFRS Foundation now has a three-tier system of governance: the Monitoring Board acting on behalf of public authorities, the Trustees as overseers, and the IASB, with the IFRS Foundation secretariat, as the standard-setting body. There is a sense that within the three-tier structure a further evolution is required to assure public trust as IFRSs become the global standard.

The Monitoring Board has agreed to further enhancements to elements of the three-tier governance structure. Consistently with their own independent responsibilities the Trustees have agreed on principles and actions on Trustee, IASB, and IFRS Foundation activities that are relevant to issues of independence and public accountability.

The Trustees acknowledge that broad participation from a range of professional and geographical backgrounds in the IFRS Foundation and IASB structures is also an important aspect of governance and public accountability concerns. As stated above, for the purposes of the strategy review, the Trustees are assuming that major jurisdictions considering the adoption of IFRSs for domestic purposes in the coming 18 months will make a positive commitment on a time frame for adopting IFRSs within their own jurisdictions. The Trustees believe that in the long term the governance and membership of the IASB and of the IFRS Foundation Trustees are likely to reflect the global coverage of IFRS adoption.

The Trustees propose that:

- B1 The independence of the IASB in its standard-setting decision-making process, within a framework of public accountability, must be maintained. A primary role of the Trustees is to advocate for, and to preserve the independence of, the standard-setting process.**
- B2 The existing three-tier structure (Monitoring Board, Trustees and IASB) is appropriate for the organisation's mission. Within that governance structure, the Monitoring Board, the IFRS Foundation and the IASB should enhance their interaction and procedures where appropriate to reinforce the principles of transparency, public accountability and independence. In doing so, the roles and responsibilities of each element of the organisation's governance should be clearly defined.**

The Trustees believe that the three-tier structure, established through the creation of the Monitoring Board in 2009, is serving the organisation well and balances the needs of public accountability and the independence of the standard-setting process. Under these arrangements, the independence of the IASB's standard-setting process is protected and is overseen through an active and internationally diverse group of Trustees.

Public accountability is assured through a formal reporting line from the IFRS Foundation Trustees to the Monitoring Board. Specifically, the responsibilities of the Monitoring Board, as the public capital market authorities, are:

- 1 to participate in the Trustee nominations process and to approve Trustee nominees;
- 2 to review the adequacy and appropriateness of Trustee arrangements for financing the IASB;
- 3 to review the Trustees' oversight of the IASB's standard-setting process, in particular with respect to its due process arrangements;
- 4 to confer with the Trustees regarding their responsibilities, particularly in relation to the regulatory, legal and policy developments that are pertinent to the IFRS Foundation's oversight of the IASB; and
- 5 through the IFRS Foundation Trustees, to refer for consideration by the IASB matters of broad public interest related to financial reporting. The IASB has an obligation to explain their decision following such a referral.

The Trustees support the conclusions in the Monitoring Board's governance review aimed at further enhancements of the three-tier structure

B3 Consistently with point B2, the Trustees should further clarify how they discharge their oversight responsibilities.

The Trustees support the continuation of this basic construct and believe that it has supported the primary objective of maintaining the IASB's independence, within the context of public accountability. However, many commentators have sought a more visible and clearer role for the Trustees. The Trustees are also recommending steps aimed at the clarification of their oversight responsibility and their relationship with the Monitoring Board.

In terms of enhancements in the Trustees' oversight role, the Trustees are recommending the following actions:

- The Trustees will undertake activities that highlight the importance of the independence of the standard-setting process, including meeting with relevant public authorities and stakeholder groups in public and private settings.
- The Trustees will enhance the role of their Due Process Oversight Committee to ensure that the Committee periodically reviews the status of the IASB's due process on major projects against an agreed framework that is regularly benchmarked against best practice.
- The Due Process Oversight Committee will intensify its interactions with the IFRS Advisory Council and the IFRS Interpretations Committee as a means for receiving feedback that is better informed on the functioning of the IASB.
- The Trustees will develop a defined staff resource to support the management of their due process oversight responsibilities. This dedicated resource will better enable the Trustees to carry out their oversight of the IASB's due process and remove any perceived conflict of interest for staff in serving both the Trustees and the IASB.

The Trustees support further steps that would enhance the relationship with the Monitoring Board, including the following measures:

- The Trustees will enhance their discussions with the Monitoring Board on matters related to strategic priorities.

- Consistently with the Monitoring Board's proposals, the Trustees will work with the Monitoring Board in the development of enhanced procedures and clearer criteria for the nomination of Trustee candidates.

B4 Elements of the governance structure should provide regular public reports to demonstrate their effectiveness.

The Trustees believe that increased transparency and public reporting regarding the work of the Monitoring Board and the Trustees will improve the legitimacy of the organisation. In this regard, the Trustees have reached the following conclusions:

- The Trustees support the Monitoring Board's recommendations regarding increased communications related to the Monitoring Board's activities.
- As part of their regular reports to the Monitoring Board, the Trustees will describe how they are discharging their oversight responsibilities.
- The Trustees should regularly report on their oversight activities, in order to make their activities more visible to the general public.

5. Strengthening the process and procedures of the IFRS Foundation and the IASB

The standard-setting process is highly structured and has at its core the principles of multi-staged stakeholder consultation and transparency. This due process is described in full in the IASB's *Due Process Handbook*. The IASB meets and makes decisions in public. Issues are added to the IASB's work agenda only after consultation with the IFRS Advisory Council and the Trustees. The IASB also consults other groups, such as national accounting standard-setters, on its agenda and work programme. The IASB must publish exposure drafts (and often preliminary discussion papers) with the opportunity for public comment before reaching final conclusions. On major projects, the IASB establishes working (or advisory) groups reflecting the different stakeholders.

By making all of the decisions in the public domain and by sharing IASB documents on the IASB's website, the IASB has established a process that is recognised as one of the most transparent among international organisations. At the same time, the process is not without its critics.

Critics have often argued that the IASB does not account adequately for the views expressed by stakeholders and nor does it sufficiently explain how it reconciles differing viewpoints, both in the setting of its agenda and strategy and in the resolution of technical issues, and on the effects of the standards. The Trustees and the IASB have taken a number of steps to address these concerns. First, the IASB makes greater use of working groups, publishes feedback statements and effect analyses, and has greatly expanded its outreach efforts. Second, the Trustees have expanded their oversight function and have reformed the IFRS Advisory Council to reflect better the views of stakeholder groups. Third, the recently revised Constitution requires a three-yearly public consultation on the IASB's work programme.

In the areas of working procedures and process, the Trustees are recommending the following principles, guidelines, and steps to ensure that the IFRS Foundation and the IASB fulfil their commitment to best practice:

Due process and benchmarking

- C1 **A thorough and transparent due process is essential to developing high quality, globally accepted accounting standards. The IASB's due process should continue to be reviewed and regularly enhanced, benefiting from regular benchmarking against other organisations and from stakeholder advice.**

The IFRS Foundation and the IASB will maintain a transparent due process. There should be a commitment to continued improvement in the due process, based upon regular and systematic benchmarking against other standard-setting and regulatory organisations. Such a benchmarking exercise is currently under way. Furthermore, as is current practice, the Trustees will consult stakeholders on proposed changes to the IASB's *Due Process Handbook*.

Trustee oversight of the IASB's due process

In 2006 the Trustees established their Due Process Oversight Committee to play a more active and visible role in the oversight of the IASB's due process. This Committee meets the IASB regularly to monitor its compliance with due process procedures, to review complaints regarding the IASB's due process and to assess other areas of concern related to the IASB's due process activities. Nevertheless, stakeholders regularly express concern regarding the effectiveness of the Trustees' oversight over the IASB's procedures.

- C2 **The framework for the Trustees in their oversight of the IASB's due process should be clarified. The Trustees' Due Process Oversight Committee, with appropriate and independent staff resource, should review and discuss due process compliance regularly throughout the standard-setting process, and at the end of the process, before a standard is finalised. The Committee should report regularly on these activities to the Trustees and in its annual report. The Committee should develop a procedure for handling instances of potential non-compliance.**

The Trustees believe that stakeholders' confidence in the standard-setting process will improve if the regular interaction between the Trustees' Due Process Oversight Committee and the IASB includes a focused, regular and systematic review of the due process of current projects. While this occurs already, the Committee is enhancing its interaction with the IASB and is working to develop a Committee protocol to govern its oversight work. This protocol will serve as a basis for the IASB to manage its due process commitment and to provide evidence of compliance to the Due Process Oversight Committee. The Committee intends to publish this protocol for public comment.

This protocol is intended to provide a framework for continuous oversight of the IASB's work throughout all stages of a project's development. The protocol aims to provide definable and transparent steps to assess the effectiveness of the oversight function.

As part of its work, the Due Process Oversight Committee will meet regularly with the IASB and periodically with the IFRS Advisory Council to help ensure the effectiveness of the due process. The Due Process Oversight Committee will also meet periodically with the IFRS Interpretations Committee to review the effectiveness of the interpretations process.

At the same time, the Trustees recognise the need to balance enhanced due process oversight against the continuing need for efficiency in the standard-setting process.

Stakeholder feedback and enhancements in the agenda-setting and standard-setting processes

C3 Building on the existing due process framework and in an effort to improve the usability of financial information, the IASB should undertake:

- **Clear demonstration of how priorities on its agenda are set:** in the agenda-setting process and after the required public consultation, the IASB should provide full feedback to the public, including a demonstration of how the input of the IFRS Advisory Council was taken into account. This will foster confidence in the IASB's agenda-setting process and reinforce support for its independence.
- **Agreed methodology for field visits/tests and effect analyses:** the IASB should work with relevant parties to develop an agreed methodology for field visits/tests and effect analyses (more often referred to as cost-benefit analyses or impact assessments).
- **Consideration of the impact of standard-setting decisions on XBRL:** while XBRL considerations should not dictate the substance of the standard-setting process, the Trustees recognise the growing use of XBRL requirements. The IFRS XBRL taxonomy is growing in importance and deserves encouragement. Consequently, in drafting new standards, the IASB should take into account the need for language that is easily translatable into foreign languages and into a consistent XBRL taxonomy.
- **Consideration of the impact of standard-setting decisions on the translation of IFRSs and XBRL:** the IASB should be conscious that many end users require translations of the English-language IFRSs.

Agenda-setting: the Trustees recently introduced a requirement to have three-yearly public consultations on the IASB's agenda and priorities. The first such review is occurring now. In undertaking the public consultation, the IASB should actively engage the IFRS Advisory Council and other stakeholders. The Trustees believe that engaging stakeholders in the development of agenda priorities will enable the IASB to address the most pressing financial reporting issues. Furthermore, it will strengthen public confidence in the standard-setting process.

As part of the agenda-setting process and following the public consultation, the IASB should provide a feedback statement explaining how it accounted for the views of the Trustees, the IFRS Advisory Council, the Monitoring Board and stakeholders. As with other elements of the IASB's due process, the IASB will review progress on its agenda-setting process with the Trustees' Due Process Oversight Committee.

Field visits/tests and effect analyses: field visits/tests and effect analyses (or impact assessments) are now considered best practice in the establishment of regulations. They are now regular parts of the IASB's due process (field visits and tests as part of a 'comply or explain' approach and effect analyses as a requirement for major projects). Nevertheless, there is a sense among stakeholders that the IASB should further clarify the role of these elements of the IASB's due process.

The Trustees believe that the organisation could benefit from receiving guidance in developing an agreed methodology for field testing and effect analyses. Consequently, the Trustees are recommending the establishment of a working group from the international community, chaired by the IASB, to develop an agreed methodology for field testing and effect analyses.

Consideration of XBRL issues and quality control over the XBRL taxonomy development process: the IFRS Foundation is already actively engaged in the development of an IFRS XBRL taxonomy. Until now, the XBRL taxonomy process has occurred after the development of standards by the IASB. In this manner, the development of the XBRL taxonomy is similar to a translation of IFRSs from English into another language. There is no formal link between the technical aspect of standard-setting and its potential impact on XBRL-driven data.

While XBRL considerations should not dictate the substance of the standard-setting process, the Trustees recognise the growing use of XBRL requirements. For this reason, the Trustees believe that the IASB has a strong interest in the development of the IFRS XBRL taxonomy. The Trustees are therefore recommending that the IFRS taxonomy development team that is already in place should come under the direct supervision of the technical directors at the IASB. This would be analogous to the situation at the US national standard-setter, the Financial Accounting Standards Board (FASB). This reporting structure would ensure some level of IASB involvement in the quality assurance process and interaction between IASB project managers and the XBRL team at the staff level during the standards development stage.

In addition, the Trustees are committed to providing an IFRS XBRL taxonomy that serves investors and other users of financial information. In this light, the XBRL team should develop an agreed methodology to develop a relevant number of extensions to the existing base taxonomy in order to reflect common IFRS practice.

Actions aimed at consistency of IFRS implementation

The Trustees have earlier emphasised that the IFRS Foundation has a vested interest in helping to ensure the consistent application of IFRSs internationally. The Trustees have borne that interest in mind through their approach on XBRL, education activities and publication. But in addition there are procedural steps that can support consistent application.

C4 To support the IFRS Foundation's interest in consistent application of IFRSs and to comply with the IASB's standard-setting mandate, the Foundation and the IASB should undertake the following actions:

- **Using an agreed methodology, undertake post-implementation reviews to help identify implementation issues.**
- **Establish formalised co-operation arrangements with securities regulators, audit regulators and national standard-setters to receive feedback on how IFRSs are being implemented and to encourage actions aimed at addressing divergence.**
- **Review and possibly enhance the scope of the IFRS Interpretations Committee's activities to ensure consistency of Interpretations, without undermining the commitment of a principle-based approach to standard-setting**

Post-implementation reviews: the IASB can play an important role through its post-implementation review and, using the IFRS Interpretations Committee, through the interpretations process. The IASB is required to undertake post-implementation reviews of new IFRSs, as well as major amendments to IFRSs and major Interpretations after at least two full years of implementation, to be completed within three years of the pronouncement's effective date. These reviews were designed to be limited to important issues that had been identified as contentious during the development of the pronouncement and would include any unexpected costs or implementation problems encountered.

The IASB is now about to consider the first standards subject to such a review. The IASB is developing a clear and transparent methodology for undertaking these reviews.

Co-operation with securities regulators, audit regulators, national accounting bodies and national standard-setters: securities regulators, audit regulators, national accounting bodies and national standard-setters are best positioned to identify inconsistency in the application of IFRSs. The IASB should use existing or new formal networks with securities regulators, audit regulators and national standard-setters to identify issues and then develop an action plan with these parties.

IFRS Interpretations Committee: the IFRS Interpretations Committee should help to ensure consistency in Interpretations, without undermining the commitment to a principle-based approach to standard-setting. The Trustees expect the IFRS Interpretations Committee to play a more active role in its second decade. The Committee will probably play this role by:

- Identifying emerging areas of divergence across borders, before they become entrenched practice, by consulting auditors, audit regulators and securities regulators.
- Having timely public discussions and resolution of requests for an Interpretation or improvement.
- Developing authoritative guidance to clarify accounting principles and their application to a (narrow) range of circumstances.
- Communicating persuasive explanations and reasons for not issuing further authoritative guidance than is already contained in the standards.
- Correcting and clarifying the wording of IFRSs for matters that are relatively minor and that do not justify a separate IASB project.
- Reaching out to all stakeholders to explain the interpretation and implementation processes (conferences, standard-setter engagements, fact books, podcasts) and regularly reassessing the operational efficiency and effectiveness of the Committee in conjunction with the Trustees' Due Process Oversight Committee.

Importance of national and other accounting standard-setters

- C5 The IFRS Foundation and the IASB should encourage the maintenance of a network of national accounting standard-setting bodies and regional bodies involved with accounting standard-setting as an integral part of the global standard-setting process. In addition to performing functions within their mandates, national accounting standard-setting bodies and regional bodies involved with accounting standard-setting should continue to undertake research, provide guidance on the IASB's priorities, encourage stakeholder input from their own jurisdiction into the IASB's due process and identify emerging issues.**

The IFRS Foundation and the IASB should encourage the maintenance of a network of national accounting standard-setting bodies and regional bodies involved with accounting standard-setting (reflecting the relevance of regional organisations in the endorsement of IFRSs and the growing development of regional groupings of standard-setters) as an integral part of the global standard-setting process. These bodies that are concerned with standard-setting have important, specified and independent roles within their own national and regional context. They should also continue to undertake research activities with the IASB, provide guidance on the IASB's priorities, encourage stakeholder input from their own jurisdiction into the IASB's due process and identify emerging issues. The IASB should seek to enlist national and other accounting standard-setters in the identification and disclosure of deviations of national standards from IFRSs.

Dedicated research capacity

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

The IFRS technical staff have no dedicated resource for accounting research to understand how existing standards are operating, to analyse trends of financial reporting and to identify future issues. This is the consequence of limitations on financial resources and the focus on completing the present work programme. The Trustees recommend establishing, or facilitating the establishment of, a research capacity that could draw upon some combination of internal and external intellectual resources, including a more active engagement of the academic community. The Trustees would necessarily seek dedicated, separate financing to support such a research capacity. The Chairman and the Vice-Chairman of the IASB should present a proposal by the end of 2012 on implementing this conclusion, which assumes funding will be available.

6. Financing: ensuring that the IFRS Foundation has a broad and sustainable source of funding

At the outset, the Foundation was financed through voluntary contributions by some 200 organisations. Occasionally, this partial dependence on voluntary contributions raised two concerns by a few observers. One was a possible lack of objectivity because of the temptation to provide special consideration in the standard-setting process to important financial supporters. Conversely, there were suggestions that supporters, dissatisfied with the outcome of a rigorous standard-setting process, might withdraw funding and disrupt the IASB's work. While neither of these concerns materialised in practice, there was a sense that dependence on voluntary contributions from largely private sources was inappropriate for an organisation acting in the public interest and could deprive the organisation of necessary resources in the future.

Since 2006 the Trustees have sought to establish national financing regimes, proportionate to a country's relative GDP, which would establish a levy on companies or provide an element of publicly supported financing. Now the great majority of the Foundation's finances are based on such regimes, and this approach has been particularly successful in Asia-Oceania and Europe. However, voluntary systems remain in place in some jurisdictions; some countries contribute less than their fair share or not at all; budget deficits are currently projected if new financing is not found; and the Trustees do not have the authority to mandate financing.

The Trustees believe that further progress on financing is essential to safeguard the IFRS Foundation's position as the world's independent accounting standard-setter.

- D1 The funding system must maintain the independence of the standard-setting process, while providing organisational accountability.**
- D2 The existing base of financing should be expanded to enable the IFRS Foundation to serve the global community better and to fulfil the strategy described above. Specifically, the Trustees should propose that funding should be on a long-term basis (at least three to five years), be publicly sponsored, be flexible to permit the use of differing mechanisms and to adjust to budgetary needs, be shared among jurisdictions on the basis of an agreed formula (that would be consistent with the principle of proportionality), and to provide sufficient organisational accountability.**

The 2011 budget for the IFRS Foundation (for all activities) is £26 million. This budget is relatively small compared with those of other international organisations with global reach and influence. Furthermore, the budgetary increases since the advent of the IASB in 2001 have failed to keep pace with the growing demands placed on the organisation.

To 'adjust' for the global spread and to implement the strategy contained in this report, the Trustees believe that the budget may need to grow to approximately £40–45 million (at current sterling amounts, ie excluding future inflation) annually over a period of time. This would still be a relatively small amount when compared with other international financial institutions. Furthermore, it would mark significant savings when compared with the sum of resource requirements for all national accounting standard-setting before global adoption of IFRSs.

Achieving that new funding target will require a robust financing system that builds upon, and significantly advances, efforts already under way.

The Trustees recognise that individual sovereign jurisdictions will have different methodologies for providing the necessary financing. In addition, because the IFRS Foundation would receive publicly supported financing, requirements for organisational accountability regarding resource expenditures will grow. To address these two issues consistently with principle D1 in the IFRS Foundation's mission, the Trustees seek a global funding system that has the following features:

- It will provide a long-term commitment. Funding should not be dependent on annual appropriations and not contingent on fulfilling any conditions that would compromise the independence of the standard-setting process.
- It should have public sponsorship (either direct or implicit governmental or regulatory support). This 'public' element will remove any perception of undue interference by private sector interest groups through the financing process.
- It should be flexible so as to take into account (1) agreed increases in the budget and (2) that national jurisdictions are likely to arrange the financing regimes to suit their legal frameworks and cultural background. However, the Trustees could indicate that a sensible formula would be a levy on users and beneficiaries of IFRSs (ie listed companies, investment companies). There should be a designated institution with which the IFRS Foundation should liaise in each funding jurisdiction.
- It should be allocated proportionally so that the funding is shared by the major economies of the world (including, but not exclusively, the G20) on a proportionate basis, using GDP as the primary determining measure. Targets could be adjusted to reflect levels of economic development. Each country or jurisdiction should meet its designated target in a manner consistent with the principles above and should indicate which agency should serve as the interlocutor with the IASB.
- It should provide public accountability in the budget process. The Trustees should publish annually how they seek to use the funds raised by national and international financing mechanisms. The final approval of the annual budget should include a review of the budget with the IFRS Foundation Monitoring Board.

In achieving the financing objectives, the Trustees are committed to working with the Monitoring Board to ensure that their collective responsibility to support the IASB is fulfilled.

Final Report on the Review of the IFRS Foundation's Governance

IFRS Foundation Monitoring Board

9 February 2012

EXECUTIVE SUMMARY

The Monitoring Board of the IFRS Foundation (Foundation) in 2010 undertook a review of the Foundation's current governance arrangements to assess whether they promote the primary mission of the International Accounting Standards Board (IASB) of developing high quality, understandable, enforceable and globally accepted accounting standards, and provide for both the accountability and independence of the IASB. In February 2011, the Monitoring Board published and sought public comment on proposed governance improvements set forth in a consultative report¹. The Monitoring Board also held four regional roundtables to provide for interactive and thorough engagement with stakeholders on the contents of the consultative report².

While the Monitoring Board's consultation elicited a range of views with respect to each element of its proposals, certain aspects regarding the governance framework emerged as being fundamental to the key stakeholders that are critical to the acceptance of International Financial Reporting Standards (IFRSs) as global accounting standards.

IASB Independence, with Accountability to the Foundation's Objectives

Stakeholders share the Monitoring Board's view that the independence of the IASB is critical to the credibility of IFRSs. The governance structure should provide for a standard-setting environment that is independent of vested interests. At the same time, the long-term viability of IFRSs as global accounting standards depends on the IASB exercising its independence in a manner that serves the public interest by remaining accountable to investors, markets, and other market participants.

In striking a balance between independence and accountability, the Monitoring Board proposed that its membership continue to be confined to authorities responsible for setting the form and content of financial reporting standards used in their respective jurisdictions' capital markets. Commenters agreed that the Foundation's mission with respect to financial reporting standards aligns with the mandate of authorities who serve as the guardians of investors' interests and the integrity of capital formation and, accordingly, most expressed support for the Monitoring Board's proposal.

¹ The consultative report is available at:
https://www.iosco.org/monitoring_board/pdf/Review_of_the_IFRS_Foundation_Governance_Report.pdf.

² Summaries of the roundtable discussions and comment letters received are available on the Monitoring Board website (http://www.iosco.org/monitoring_board/).

In addition to improved diversity of capital markets authorities, some commenters believed that the Monitoring Board should provide for more direct representation of a broader range of constituencies, for example, by opening membership to investors and other stakeholders in IFRSs. However, the Monitoring Board did not pursue this recommendation from commenters, as it reflected misunderstanding regarding the Monitoring Board's purpose. The purpose and *raison d'être* of the Monitoring Board is to create a link between the Foundation and those public authorities responsible for determining the form and content of financial reporting standards for use in capital markets. Via this link, public authorities are more readily able to discharge their responsibilities by monitoring the functioning of the standard-setting process, thereby promoting the confidence required by these bodies to authorize the use of IFRSs in global capital markets.

In order to better reflect the global nature of today's capital markets, the Monitoring Board proposed to expand its membership. Commenters broadly supported the expansion.

The Monitoring Board shares commenters' views that the diversity of stakeholders in IFRSs should be represented in standard-setting deliberations and oversight. In this regard, the Monitoring Board supports the Trustees' intentions to strive continually for improvements in, and vigilant oversight of, due process as set forth in the Trustees' strategy review, and will monitor this objective through its dealings with the Trustees. Further, the Monitoring Board believes that nomination procedures for Trustees and IASB members should continue to ensure diversity in representation of IFRSs' stakeholders.

Monitoring Board for Oversight, not Operations

Commenters and roundtable participants emphasized their support for the Monitoring Board—consistent with its name—acting as a monitor of the Trustees' oversight of the IASB's operations, in particular with the aim of ensuring that they serve the public interest and remain accountable to investors, markets, and other market participants. These stakeholders cautioned that the Monitoring Board's role remains that of a monitor. Commenters regard the Monitoring Board to be a guardian of public interests and buffer against vested interests; at the same time, they expressed concern that its direct role in the Trustees' oversight or IASB operations could serve to undermine the independence of standard-setting and introduce certain regional, cultural and political biases.

In terms of Trustee oversight and IASB operations, the Monitoring Board's consultative report, while not setting forth any proposals, solicited input as to whether the Monitoring Board should have an increased role with respect to the IASB's agenda or IASB Chair selection. While some commenters thought the Monitoring Board could take a more explicit role in these functions, most observed that IASB Chair selection appropriately fell within the

remit of the Trustees and that agenda-setting is an operational matter reserved solely for the IASB, after appropriate consultation and subject to procedural oversight by the Trustees. While the Monitoring Board agrees with these constituents, it also believes that capital markets authorities must be confident that the processes for IASB Chair selection and agenda-setting make it possible for the IASB to fulfill capital markets' demands for high quality standards. The Monitoring Board sees opportunity for improved communications and procedures in relation to the IASB agenda and chairmanship, without infringing on the IASB's independence.

Increased Transparency and Understanding of Governance Functions

Responses to the review highlighted a degree of miscomprehension about the Monitoring Board's and Trustees' purposes and activities. To increase understanding and introduce greater clarity, stakeholders' needs for further transparency of Monitoring Board and Trustee operations emerged as an area for improvement.

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After considering stakeholder feedback, the Monitoring Board intends to proceed with the following enhancements to the governance framework, grouped below by applicable level within the Foundation's governance structure (with parenthetical references to the related discussion in this report).

Decisions in Relation to the Monitoring Board

1. Monitoring Board Membership. (M-1) In evaluating expansion of its membership, Monitoring Board members reaffirmed that the purpose of the Monitoring Board is to provide the link between the Foundation and authorities that are responsible for setting the form and content of financial reporting for use in their jurisdictions' capital markets. This link enables these authorities to monitor the functioning of the governance structure, facilitating fulfillment by the authorities of their mandates with respect to financial reporting standards used in capital markets. To improve the effective utilization of the Monitoring Board in this regard, the Monitoring Board decided to:

- 1) Continue to confine membership to capital markets authorities responsible for setting the form and content of financial reporting;

- 2) Expand membership to include additional authorities primarily from major emerging markets and also establish a mechanism to allocate rotating seats in consultation with the International Organization of Securities Commissions (IOSCO); and
- 3) Refine the existing membership criterion regarding a strong commitment to “supporting the development of high quality international accounting standards” to call for demonstration of this commitment through domestic use of IFRSs in the jurisdiction’s capital market and participation by the jurisdiction in Foundation funding. To become and/or remain a member, all permanent members must meet that criterion, and will be assessed for their eligibility on a regular basis.

2. Consensus-based Decision-making. (M-2) Noting its positive experience to date with the existing decision-making system, the Monitoring Board concluded that it would continue to operate by consensus.

3. Involvement of Other Public Authorities and International Organizations. (M-3) Recognizing the importance placed by other authorities on the strength of the Foundation’s governance framework, the Monitoring Board decided that the Basel Committee on Banking Supervision (BCBS) will continue to serve as an observer, with a clearer definition of the role and nature of an observer. In future, the Monitoring Board may re-assess whether improved interaction with other authorities with an interest in the Foundation’s governance is called for and, if so, what options could provide for such improvement without compromising the Trustees’ and IASB’s independence, their accountability or the Foundation’s primary mission.

4. IASB Agenda Referrals. (M-5) The current provisions of the Memorandum of Understanding (MoU)³ between the Foundation and the Monitoring Board will be maintained, allowing the Monitoring Board to refer issues to the Trustees and IASB Chair for their consideration. The Monitoring Board and Trustees will agree upon an appropriate feedback mechanism to ensure that all levels of the governance framework are fully aware of each other’s concerns and reactions. An improved understanding of the appropriate feedback mechanism should assure constituents that the Monitoring Board does not intend to infringe upon IASB independence.

At the same time, such a mechanism will assist capital markets authorities and the Trustees in holding the IASB accountable to the Foundation’s mission. This is because the Monitoring Board believes that any technical financial reporting matter referred to the IASB under the Monitoring Board’s consensus operating model would necessarily represent an urgent matter

³ The MoU is available at: http://www.iosco.org/monitoring_board/pdf/Monitoring_Board_Mou.pdf.

that, left unaddressed, would be detrimental to investors and therefore unresponsive to the Foundation's primary mission. In all cases, it is understood that the Monitoring Board will neither influence the decision-making process nor challenge the decisions made by the IASB with regard to substantive standard-setting.

Finally, recognizing recent changes to improve the IASB's agenda consultations, the Monitoring Board, in consultation with the Trustees' Due Process Oversight Committee, intends to assess implementation and outcomes under the revised agenda-setting process.

5. IASB Chair Selection. *(M-7)* Consistent with the current MoU provisions on consultation regarding major Trustee functions, the Monitoring Board will agree with the Trustees on the criteria and process for IASB Chair selections. Agreement on the criteria and process will provide capital markets authorities confidence that IASB Chair selections will position the IASB to fulfill capital markets' demands for high quality standards.

To improve public understanding, the documented criteria and process will be made public.

The IASB Chair selection process will provide explicitly for Trustee consultation with the Monitoring Board on the Trustees' short list of candidates against the pre-established criteria. The final selection, following consultation with the Monitoring Board, remains the province of the Trustees.

6. Framework for IASB Composition. *(M-8)* Consistent with the current MoU provisions on consultation regarding major Trustee functions, the Trustees will consult the Monitoring Board when they develop the framework to ensure diversity of the IASB. The Trustees will retain sole discretion as to selection of IASB members under that framework.

7. Transparency of Monitoring Board Functions. *(M-4)* To improve public awareness and understanding of its functions, the Monitoring Board will publish more timely written records of its public meetings and communicate its activities to a wider audience.

8. Foundation Funding. *(M-6)* Recognizing the importance of stable, sufficient funding to independence, the Monitoring Board and Trustees will continue to consult with regard to funding arrangements, with the Trustees retaining primary responsibility for funding and the Monitoring Board encouraging efforts in jurisdictions to meet funding contributions.

9. Monitoring Board Secretariat. *(M-9)* Noting the sufficiency of such arrangements to date, the member serving as Monitoring Board Chair will continue to provide all secretariat functions.

10. Periodic Governance Reviews. *(O-1)* In coordination with the Foundation’s five-yearly Constitution⁴ reviews, the Monitoring Board will conduct periodic reviews of the governance structure. The Monitoring Board believes that alignment and coordination of its reviews with the Trustees’ Constitution reviews will provide an efficient means to ensure continuing relevance of and improvements in the governance framework.

Decisions in Relation to the Trustees

1. Trustee Composition. *(T-1)* Through the existing process for approval of Trustee appointments, the Monitoring Board will continue to monitor the diversity of geographical and professional backgrounds of the Trustees collectively.

2. Trustee Selection Process. *(T-2)* Documentation of the criteria and process for Trustee nominations and appointments will be improved and made publicly available, to improve public understanding of the Trustees’ and Monitoring Board’s roles and activities.

Decisions in Relation to the IASB

1. IASB Composition. *(I-1)* The Monitoring Board will encourage the Trustees to ensure that its search for IASB candidates is sufficiently robust to identify IASB members with diverse geographical and professional backgrounds, while retaining professional competence and experience as the primary qualification.

2. IASB Management Structure and Segregation of Staff Functions. *(I-2 and I-3)* The Monitoring Board will encourage the Trustees to ensure clear division of responsibilities and reporting lines between staff supporting the IASB’s standard-setting functions and those assisting the Trustees in oversight functions.

Additionally, the Monitoring Board recommends that the Trustees consider changes to the Constitution to remove the title of Foundation Chief Executive Officer (CEO) from the IASB Chair.

The IASB Chair should retain full responsibility for all standard-setting matters, including resources. The Trustees should assess the functions currently allocated to the Foundation CEO and reassign functions to ensure segregation of responsibilities for IASB operations from any oversight or funding matters which may create an actual or perceived conflict of interest in standard-setting.

⁴ The Constitution is available at: http://www.iosco.org/monitoring_board/pdf/Constitutionfinal.pdf.

3. Stakeholder Involvement in Standard-Setting. (O-2) To continually monitor the Trustees' oversight of appropriate consultation during the IASB's standard-setting process, the Monitoring Board will receive regular reports on the activities and findings of the Trustees' Due Process Oversight Committee.

INTRODUCTION

The past several years have seen a rapid increase in the number of jurisdictions using IFRSs around the world, and more jurisdictions are expected to make similar decisions in the coming few years. Prompted by the growing interest among stakeholders, the Monitoring Board decided in April 2010 to commence a project to review the governance structure supporting IFRSs as a set of high quality, globally accepted accounting standards. The Monitoring Board, through its working group created for this task⁵, conducted an assessment of the current three-tier governance structure, whereby the standard-setter, the IASB, is overseen by the Foundation, and the Foundation, in turn, is subject to public oversight by the Monitoring Board.

The fundamental question for the review was whether the current governance structure effectively promotes the standard-setter's primary mission of setting high quality, understandable, enforceable and globally accepted standards as set forth in the Constitution of the Foundation, and whether the standard-setter is appropriately independent yet accountable. As a matter of coordination with the concurrent strategy review by the Trustees of the Foundation, the Monitoring Board's review focused primarily on institutional aspects of governance, particularly the composition and the respective roles and responsibilities of the Monitoring Board, Trustees and IASB; by contrast, the Trustees' review placed emphasis on the operational aspects of governance, particularly the standard-setter's due process.

On 8 February 2011, the Monitoring Board published a "Consultative Report on the Review of the IFRS Foundation's Governance"⁶ for a two-month public consultation until 7 April 2011. The report set forth a series of proposals as well as alternatives under consideration, and provided specific questions to invite focused responses from the public. With the view to reaching out to a wide range of stakeholders, the Monitoring Board also conducted in March 2011 public stakeholder meetings at four venues (Brussels, Tokyo, Kuala Lumpur, and Palo Alto), each of which was attended by stakeholders with diverse national and professional backgrounds.

In response to the consultation, the Monitoring Board received a total of 80 comment letters from a variety of constituents including accounting professionals, industry associations, investors, national standard-setters and regulators around the world. Original comment letters received are accessible on the Monitoring Board website⁷, while an overview of all the

⁵ Chaired by Masamichi Kono from the Financial Services Agency of Japan (see Annex for the list of members).

⁶ See *supra* footnote 1.

⁷ https://www.iosco.org/monitoring_board/ (except for one comment letter which reached the secretariat after its announcement on 13 May that the letters received thereafter would not be posted on the website).

comments can be found in a summary of comments published on 9 September 2011⁸.

The Monitoring Board has gone through extensive deliberations taking into account both the comments received through the public consultation process and the views expressed at various other occasions, aiming at developing a set of recommendations to help improve the governance of the Foundation. In this document, the Monitoring Board puts forward its decisions resulting from such deliberations, accompanied by brief descriptions of how the Monitoring Board reached its conclusions, which serve as feedback to the comments received on the respective topics.

The Monitoring Board's decisions will be implemented in various ways. Some decisions are referred to the Trustees for consideration and, if implemented, will be reflected in the Foundation's Constitution. Others will be reflected in the MoU between the Trustees and the Monitoring Board or in the Monitoring Board's Charter⁹. Some decisions are intended to deliver operational improvements that do not require changes to the governing documents. Still other decisions will require further development by the Monitoring Board in order to make them operational. One such example is the definition of the "use of IFRSs," a criterion for assessing eligibility to become and/or remain a permanent member of the Monitoring Board. The Monitoring Board has developed an action plan for implementation of the decisions reached; the action plan can be found in the Appendix to this document.

The Monitoring Board and the Trustees of the Foundation have communicated closely with each other in carrying out their respective review projects. This document constitutes an integral part of the joint package of the decisions taken by respective bodies to improve various aspects of the Foundation's governance. The coordination between the two bodies will continue as the Monitoring Board and the Trustees proceed with implementation of these measures in the next phase.

⁸ "Summary of Comments to the Consultative Report on the Review of the IFRS Foundation's Governance" (https://www.iosco.org/monitoring_board/pdf/20110908%20Final%20Draft%20Summary%20of%20Comments.pdf).

⁹ The Charter is available at: http://www.iosco.org/monitoring_board/pdf/Monitoring_Board_Charter.pdf.

DECISIONS ON RECOMMENDATIONS

A. IASB

I-1. IASB composition

- (a) In preparation for the selection of IASB members, make the pool of candidates as broad-based as possible to ensure IASB membership from diverse geographical and professional backgrounds.
- (b) While diversity in geographical and professional backgrounds is important, in selecting IASB board members, priority will be placed on the nominees' professional competence and experience in dealing with IFRSs.
- (c) Where appropriate, consider making flexible use of part-time IASB board members, as provided for in the Constitution.

There were many strong arguments that while it was important to ensure diversity in geographical and professional backgrounds, priority should be placed on nominees' professional competence and experience in dealing with IFRSs. Many respondents also supported the idea of deepening the pool of candidates at the time of the selection, so that appropriate diversity could be achieved without losing the primary objective of selecting individuals with the highest level of technical competence. The Monitoring Board decided to maintain the original proposals to reflect these views. Although there were many suggestions to limit IASB board members to individuals from jurisdictions using IFRSs, the Monitoring Board found such an approach in conflict with the above intention to focus on the individuals' merits, and also contrary to the Constitution's intentions with regard to IASB composition. The Monitoring Board decided to reiterate that the Trustees and IASB Chair had the power to consider part-time board members where appropriate. The Monitoring Board also observed that there are benefits of ensuring diversity at the staff member level.

I-2. Reorganization of the IASB's management structure

- (a) The IASB Chair also having the title of Foundation CEO appears to create misunderstanding, and should be reconsidered. In order to preserve the IASB's independence on standard-setting and managing its own technical agenda, the Trustees should reorganize the management structure so that the IASB Chair could concentrate on standard-setting, both in substance and appearance.

- (b) The organization structure should also clearly segregate the standard-setting responsibilities of the IASB Chair and the oversight functions of the Foundation Chair.

Many respondents agreed that the dual role of the IASB Chair and Foundation CEO created concerns about conflict of interest, whether in substance or appearance, and also that the expansion of the use of IFRSs around the world had made it physically difficult for one person to assume these two roles. Meanwhile, some stakeholders shared the view that the current system worked well without causing any problems. The Monitoring Board concluded that the source of concerns was the title “CEO”, and would request that the Trustees reconsider it, and also consider whether the management structure should be organized to ensure that the IASB Chair concentrates on standard-setting and is given no role with respect to the Trustees’ oversight activities. However, the Monitoring Board decided that the specific measures to implement such a move should be left for the Trustees to consider, consistent with the division of responsibilities under the current three-tier governance structure.

I-3. Separation of staff responsible for standard-setting and other functions

- (a) Clarify reporting lines of the staff in accordance with the segregation of responsibilities between standard-setting and oversight functions.
 - (b) When clear division of responsibilities is not practical for specific areas, certain safeguard measures should be put in place (in a transparent manner) to alleviate any concerns that may arise from any perceived conflict in responsibilities.

Many respondents supported the separation of staff with responsibilities for standard-setting from those participating in oversight functions. A smaller number, while not disagreeing conceptually, were of the view that the record to date raised no issues. Some respondents opposed the change for fear of it inviting higher cost and inefficiency to an organization that was not large enough to adopt a governance model suitable for large companies. The Monitoring Board nevertheless decided to recommend that the reporting lines of the staff should provide for separation of standard-setting and oversight staff.

B. Trustees

T-1. Trustee composition

- (a) Maintain the current system of review of the Trustees' composition and, through the Monitoring Board's participation in the nomination and appointment process, review how this process is put into practice and continue to monitor the diversity of geographical and professional backgrounds of the Trustees.

While acknowledging the recent improvements in the Foundation's Constitution with regard to the Trustees' diversity, views regarding their sufficiency differed among the respondents. Some respondents highlighted that geographical balance was more important with respect to Trustees than IASB board members. The Monitoring Board decided to continue monitoring recent improvements in diversity via its participation in Trustee appointments, including consultation on the nomination process and approval of final appointments. Some respondents also suggested that the Trustees should represent jurisdictions using IFRSs, but the Monitoring Board decided not to link a Trustee's selection to the use of IFRSs in the candidate's home jurisdiction following the same rationale with respect to IASB board members.

T-2. Trustee selection process

- (a) The process and criteria for the selection of the Trustees will be documented and made public.
- (b) Due consideration will be given to changes that may be required to the criteria from time to time.
- (c) The Monitoring Board will continue to participate in the process, including by agreeing with the Trustees on a set of criteria, and approving Trustee candidates.

Many respondents thought that the selection process for the Trustees was not visible enough for those not involved in the process and more transparency was needed to increase stakeholders' confidence in the process and the selected Trustees. On the other hand, some respondents argued that there was no need for further transparency and expressed concern about the impact on a candidate's privacy and possible disincentive against becoming a candidate. The view of the Monitoring Board was that an appropriate level of transparency of the selection process could be achieved without violating an individual candidate's privacy.

On a similar note, a large majority of respondents agreed that further clarification was needed about the criteria for selection, while some suggested that the criteria remain sufficiently flexible to reflect changing circumstances. Considering the responses from stakeholders, the Monitoring Board decided to recommend that the selection process, as well as the criteria, should be made more transparent through documentation and publication.

With regard to the Monitoring Board's participation in the selection process, many respondents supported the current arrangements provided for in the MoU, while other views ranged from supporting a more pivotal Monitoring Board role on the one hand to less involvement on the other. Considering the broad spectrum of views expressed by different respondents, the Monitoring Board decided to maintain the current model of participation in the selection process, whereby it engages in the development of the criteria and approves Trustee candidates.

C. Monitoring Board

M-1. Monitoring Board membership

- (a) Full membership of the Monitoring Board will continue to be confined to capital markets authorities, defined as those authorities responsible for setting the form and content of financial reporting for use in the capital markets in respective jurisdictions.

(Note) Involvement of prudential authorities in the Foundation's governance is addressed at M-3.

- (b) New members (a maximum of four and not necessarily all added immediately) will be chosen, primarily from major emerging markets, against a set of criteria, which will include objective indicators such as market capitalization and those set out in (c) below.
- (c) To become a member of the Monitoring Board will require domestic use of IFRSs in the relevant jurisdiction and financial contribution by the jurisdiction to the setting of IFRSs. A description of the criteria for evaluating the use of IFRSs in a jurisdiction will be developed and documented.
- (d) Eligibility of all permanent members will be assessed on a regular basis. To remain a member, all permanent members must meet the criteria set out in (a), (b) and (c) above. The Monitoring Board will start its first assessment of existing members'

eligibility to remain members in early 2013.

- (e) The specifics regarding the transition to expanded membership and the regular review for all permanent members will be developed and documented, together with the criteria for assessing the use of IFRSs.
- (f) Two rotating seats will be created and filled following a selection process and criteria developed by the Monitoring Board in consultation with IOSCO.

A large majority of respondents agreed with limiting the Monitoring Board membership to “capital markets authorities” defined as those authorities responsible for setting the form and content of financial reporting in the capital markets in respective jurisdictions. The respondents frequently cited the consistency of this criterion with the primary mission of the Foundation as expressed in the Constitution. Some respondents suggested that this qualification should be implemented with flexibility in identifying the appropriate authority to represent a given jurisdiction; the Monitoring Board notes that this notion is already implicitly incorporated in the current Charter. Meanwhile, some respondents strongly disagreed with the limitation and argued that the Monitoring Board should be represented by a broader range of public policy interests in IFRSs, or, even further, by all the stakeholders with interests in IFRSs. The Monitoring Board, while paying due attention to the calls for easing the limits, in particular to include prudential and other authorities, decided to confine membership to “capital markets authorities”, one reason being the difficulty in drawing any plausible line to identify those authorities eligible for membership other than the one currently used.

Most respondents agreed with the direction to expand the Monitoring Board membership, and there was no clear opposition with regard to introducing permanent seats and rotating seats. Some respondents considered objective factors such as capital market size as appropriate criteria and, while many respondents called for an increased diversity to be achieved through selecting new members primarily from emerging markets, some argued for the inclusion of additional non-emerging markets, as well. Of those who commented on the proposal to include the use of IFRSs and funding contribution in the set of membership considerations, most respondents were supportive of the idea. Some cautioned that the link between membership and funding should not undermine governance but rather should be viewed as an indicator of the jurisdiction’s support for the Foundation’s stable, independent financing. Some respondents suggested future reevaluation of the Monitoring Board members.

The Monitoring Board decided to maintain its initial proposals regarding expansion of membership and to include domestic use of IFRSs and participation in funding as membership criteria. It further decided that all permanent members must meet the criteria to

remain a member and be reviewed regularly to assess their eligibility. The first assessment of eligibility will start in early 2013. During early 2012, the Monitoring Board intends to develop and document in its Charter a definition for the criterion “use of IFRSs.” The Monitoring Board also will put in place a process for expansion of its membership. This process will include identification of candidates for membership, admission of new members meeting the membership criteria, and consideration of arrangements for involvement as transitional participants by certain candidates. Finally, the Monitoring Board will develop the modalities of regular reviews of all members against the membership criteria, including the consequences of not meeting them.

Most of those respondents who commented on the introduction of rotating seats supported the selection of such members through IOSCO. The smaller number of opposing views generally corresponded to those calling for the Monitoring Board membership to extend beyond capital markets authorities. The Monitoring Board decided to maintain the original proposal and will consult with IOSCO to develop the process and criteria for selecting rotating members.

M-2. Consensus-based decision-making

- (a) Maintain the current consensus-based decision-making system.
- (b) The system may be subject to review as the Monitoring Board’s composition and roles and responsibilities change in the future.

The comments received from stakeholders generally favored keeping the current model of decision-making by consensus, as opposed to introducing alternative models such as qualified majority voting. The size of the Monitoring Board, even after the proposed expansion up to eleven members, would seem relatively small compared to other international organizations operating on the basis of consensus. Further, this review would not result in a drastic change in the roles and responsibilities of the Monitoring Board. Considering such factors and noting its positive experiences to date, the Monitoring Board concluded that it should maintain the current consensus-based decision-making system, unless further expansion of the size as well as the roles and responsibilities required a change in the future from a practical point of view.

M-3. Involvement of other public authorities and international organizations

- (a) Maintain the current observer status of Basel Committee on Banking Supervision.
- (b) The role and nature of an observer will be clearly defined.

- (c) The Monitoring Board will continue to explore the most appropriate and expedient means to engage prudential and other authorities in the governance of the Foundation.

Most respondents broadly supported the Monitoring Board's increased interaction with other parties with a stake in IFRSs, but views varied significantly as to the scope and the mechanism to achieve it. While there were some strong calls for the involvement of prudential authorities in the monitoring process, a larger number of respondents cautioned that financial stability should not be regarded as a primary objective of financial reporting, and that inputs from such standpoint should be made to the standard-setter through other existing channels. Considering the diversity of views and also the possible undesirable effect any changes to the current set-up would have on stakeholders' perceptions, the Monitoring Board concluded that the status quo should be maintained. Meanwhile, the Monitoring Board would continue to explore in the future whether improved interaction with prudential and other authorities on governance issues is called for and, if so, what options would provide for such improvement.

M-4. Enhancing transparency of the Monitoring Board

- (a) Enhance visibility and transparency of the Monitoring Board, including by improving timeliness of the publication of transcripts of public meetings and increasing the use of press releases.

There was broad-based, strong support for enhancing transparency of the Monitoring Board's activities in the context of ensuring public accountability of the Foundation. While there could be a variety of means to improve its visibility, the Monitoring Board decided to start with some of the typical methods of communication with stakeholders at large.

M-5. IASB agenda referrals

- (a) Maintain the current set-up where the Monitoring Board may refer issues to the Trustees and IASB Chair, who together will ensure that these issues are addressed in a timely manner.

(b) Develop with the Trustees a feedback mechanism to ensure that, if the Monitoring Board refers an agenda item to the IASB, in response to the Monitoring Board's referral and in the event that the IASB determines not to take up the referred issue,

the IASB will demonstrate to the Trustees and the Monitoring Board that adding the matter to the IASB agenda would be inconsistent with the standard-setting responsibilities established in the Constitution.

- (c) In all cases, it is understood that the Monitoring Board will neither influence the decision-making process nor challenge the decisions made by the IASB with regard to its standard-setting.
- (d) The Monitoring Board will continue to carefully observe the outcome of the ongoing improvements in the IASB's agenda-setting process and will take due account of such improvements in its periodic reviews.

A large majority of respondents opposed the Monitoring Board's direct involvement in the IASB agenda-setting, primarily due to concerns about the possible damage it would incur on the standard-setter's independence. They argued that the current set-up allowed the Monitoring Board to refer matters to the IASB for consideration while requiring the standard-setter to give clear feedback to the Monitoring Board, which as a whole had already given the Monitoring Board sufficient power to require the IASB's serious consideration of particular issues without introducing compulsory power. On the other hand, some respondents expressed strong support for the Monitoring Board's more direct involvement in the IASB's agenda-setting to reflect public interest perspectives. However, these respondents shared the view that ensuring the standard-setter's independence was critically important, and would only be in favor of such intervention in very rare cases with high levels of urgency.

Based on the understanding that the IASB had recently improved its agenda-setting process in order to take into consideration a wide range of stakeholders' views and that it was undergoing public consultation on the next working agenda, the Monitoring Board decided that the current set-up should be maintained, and the actual implementation of the improved agenda-setting process should continue to be overseen in consultation with the Due Process Oversight Committee. Apart from the routine agenda-setting process, the Monitoring Board also decided to incorporate improved feedback provisions, as a safeguard for unforeseen contingencies, to enable the Monitoring Board and Trustees to ensure responsiveness of the IASB to urgent matters relating to standard-setting attention. This will better position all parties to serve their assigned role in supporting the Foundation's objective of developing high quality, globally accepted standards that are helpful for investors and other market participants to make economic decisions. The Monitoring Board's consensus-based decision-making limits the invocation of enhanced feedback to extremely rare and urgent cases where all Monitoring Board members agree an item warrants referral. The Monitoring Board will continue to follow the principle that it will not undermine the independence of the

IASB's decisions with respect to agenda- and standard-setting.

M-6. Foundation funding

- (a) Clarify that the Trustees are primarily responsible for this issue, with the Monitoring Board overseeing the Trustees' performance in this regard.
- (b) Greater clarity should be provided by the Trustees in consultation with the Monitoring Board on the criteria for funding contributions by jurisdictions to the Foundation.
- (c) Jurisdictions using IFRSs are strongly encouraged to make their utmost efforts to meet expected contributions based on a certain allocation mechanism, depending on their situations.
- (d) The Monitoring Board may reach out to relevant public authorities to encourage their contributions.

There was full agreement on establishing a more stable and independent funding model, and most respondents argued that the Trustees were primarily responsible for improving the funding model. Respondents generally did not provide guidance as to the design of the improved funding model. The Monitoring Board decided to follow the overwhelming support to hold the Trustees responsible for the improvement, and placed itself in the position to oversee their performance. The Monitoring Board also decided to refrain from recommending certain models, and to encourage respective jurisdictions using IFRSs to make their utmost efforts for the collection of funds, while leaving the specifics of the actual mechanisms for them to decide. The Monitoring Board also called for greater clarity in the calculation of expected funding contributions for respective jurisdictions.

M-7. IASB Chair selection

- (a) Maintain the current set-up whereby the Trustees have the ultimate responsibility for selecting the IASB Chair.
- (b) The Monitoring Board will agree with the Trustees on a set of criteria for selecting potential candidates, which will be documented and made public.
- (c) The Monitoring Board will submit to the Trustees its assessment of a short list of candidates against the criteria, for the Trustees' reference.

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| (d) The Monitoring Board and the Trustees will document and publish the general arrangement for the selection process. |
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Most respondents expressed strong objections against the Monitoring Board having a more prominent role in the selection of the IASB Chair based on concerns that it might undermine the IASB's independence. On the other hand, there were some strong calls for enabling the Monitoring Board to be involved in the selection process at an early stage. Considering the majority views opposing the Monitoring Board's prominent involvement in the selection process for the IASB Chair, and the stakeholders' broad support for the current three-tier governance structure underlying such views, the Monitoring Board decided to maintain the current structure where the Trustees have the ultimate responsibility in selecting the IASB Chair. Meanwhile, the Monitoring Board also decided to respond to calls for it to have some involvement in the selection process at an early stage by requiring its agreement on the criteria and allowing it to submit to the Trustees its assessment of a short list of candidates against such criteria. The Monitoring Board places a high level of importance on the independence of the standard-setter, and thus decided to explicitly require documentation and publication of both the criteria and the general arrangements for the process, so as to address stakeholders' concerns through improved transparency.

M-8. Framework for IASB composition

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| (a) Require that the Trustees consult the Monitoring Board when they develop a framework to ensure diversity of the IASB reflecting IASB composition as set forth in the Constitution. |
| (b) The consultation will cover the development of a general framework and does not extend to the Monitoring Board's involvement in the ongoing selection process itself. |

A large majority of the respondents thought that the Monitoring Board should consult with the Trustees when the Trustees develop a framework to ensure appropriate balance in the composition of the IASB. However, they opposed the Monitoring Board's direct involvement in the appointment of individual IASB board members given the need to maintain the IASB's independence. The Monitoring Board decided to follow such views and will not be involved in the selection process for individual board members.

M-9. Monitoring Board secretariat

- (a) Secretariat functions will continue to be provided by the jurisdiction chairing the Monitoring Board.
- (b) The use of existing alternatives (*e.g.*, relying on the IOSCO secretariat) may be pursued if practical difficulties arise from future changes in the Monitoring Board's composition and roles and responsibilities.

Most of the respondents did not see the need for a permanent secretariat at this stage, claiming that the size and expected roles and responsibilities of the Monitoring Board, even after this review, would not justify the possible increase in cost anticipated from establishment of a new secretariat. Many comments instead suggested relying, where necessary, on existing alternatives, such as the IOSCO secretariat. The Monitoring Board decided to maintain the current system where the Chair jurisdiction provides the secretariat functions with support from other members as necessary.

D. Other

O-1. Periodic governance review

- (a) Conduct a formal review of the features of the governance structure perceived to be in need of improvement, with an interval of five years to coincide with the Foundation's periodic review of its Constitution.
- (b) The regular reviews do not necessarily preclude ad-hoc, interim reviews in response to imminent needs.
- (c) Eligibility of permanent members will be reviewed every five years against the membership criteria as indicated earlier under "M-1. Monitoring Board membership, (d)".

There was broad support for periodic review of the governance structure, preferably at the same time as the Trustees' Constitution reviews. Some comments called for flexibility in the timing as well as the scope of such reviews. The Monitoring Board decided to accept these suggestions as a means of including some flexibility into the review system. The Monitoring Board also decided to introduce a periodic review specifically focusing on the eligibility of all

permanent members to maintain fair representation as described earlier in connection with the expansion of the Monitoring Board membership. The first review will start in early 2013.

O-2. Stakeholders' involvement in standard-setting

- (a) The Monitoring Board will receive regular reports on the activities of the Trustees' Due Process Oversight Committee, including the committee's consideration of the IASB's efforts to ensure appropriate compliance with due process in standard-setting.

While not many comments were received on this subject, the views of the respondents varied from those agreeing that the voices of stakeholders were sufficiently heard to those calling for further engagement with relevant stakeholders. A few respondents also mentioned the need to take into account relevant public policy objectives. Considering that the suggestions focused on operational aspects, in particular proper implementation of due process (*e.g.*, public consultation, outreach activities, field testing, and impact assessments), the Monitoring Board decided to focus on how to ensure proper oversight of due process and decided to call for regular reporting by the Trustees' Due Process Oversight Committee.

Annex: List of Working Group Members (as of December 2011)

Zarinah Anwar	Securities Commission Malaysia (representing IOSCO Emerging Markets Committee)
Pierre Delsaux/Jeroen Hooijer	European Commission
Masamichi Kono (Chair)	Financial Services Agency of Japan
Eduardo Manso Ponte	Comisión Nacional del Mercado de Valores of Spain (representing IOSCO Technical Committee)
Ethiopis Tafara	US Securities and Exchange Commission

Secretariat:

Takashi Nagaoka	Financial Services Agency of Japan
Makoto Sonoda	Financial Services Agency of Japan

Appendix: Action Plan for Implementing the Decisions

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|--------------------|---|
| By mid-2012 | <ul style="list-style-type: none">- Consider details of Monitoring Board decisions and develop text for inclusion in governing documents on:<ul style="list-style-type: none">• criteria for permanent membership, including the definition for the “use of IFRSs”;• specifics of transitional membership, including eligibility assessment; and• specifics of regular review for all permanent members, including consequences of not meeting the criteria.- Finalize development, in consultation with IOSCO, of the specific criteria and process for selecting rotating members. (To be implemented as soon as practicable.) |
| By end-2012 | <ul style="list-style-type: none">- Complete any amendments to governing documents (<i>i.e.</i>, Charter, Memorandum of Understanding, and Constitution).- Determine candidates against the membership criteria for new permanent membership seats. |
| Early 2013 | <ul style="list-style-type: none">- Start the first assessment of existing members’ eligibility to remain members. |
| By end-2015 | <ul style="list-style-type: none">- Complete the second governance review, in coordination with the Trustees’ third regular review of the Constitution. |