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30 Cannon Street  
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22<sup>nd</sup> July 2011

Dear Tom,

Thank you for the opportunity to respond to the IFRS Foundation Trustees Strategy Review.

The Chartered Financial Analyst Society of the UK (CFA UK) represents more than 9,000 investment professionals working across the financial sector. For advocacy purposes in the field of financial reporting, these members are represented by the Financial Reporting and Analysis Committee.

#### About CFA UK and CFA Institute

The CFA Society of the UK (CFA UK) represents the interests of more than 9,000 leading members of the UK investment profession. The society, which was founded in 1955, is one of the largest member societies of CFA Institute and is committed to leading the development of the investment profession through the promotion of the highest ethical standards and through the provision of continuing education, advocacy, information and career support on behalf of its members. Most CFA UK members have earned the Chartered Financial Analyst® (CFA®) designation, or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

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

#### **IFRS Foundation: Trustees Strategy Review**

##### CFA UK response

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

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

Response: It is important to note that producing standards which deliver on users' needs is the source of legitimacy for IFRS. Public accountability is one thing, legitimacy another.

## **Purpose of financial reporting standards**

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

Response: This is too broad and lacking in distinction between the needs of investors and others. For instance, prudential regulators have their own powers and can get additional information. Investors rely solely on public material and so need to remain as the predominant focus for standard-setting. Perhaps some more of the following could be worked in:

..."in setting out the above principle, the Trustees are reaffirming the current constitutional focus on the development of financial reporting standards aimed at capital allocation decisions."

## **Adoption of IFRSs**

A2 As the body tasked with achieving a single set of improved high quality global accounting standards, the IFRS Foundation must remain committed to the long-term goal of the global adoption, in their entirety and without modification, of IFRSs as developed by the IASB. Convergence 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, they should enable relevant entities to have an audit opinion stating full compliance with IFRSs as issued by the IASB.

Response: The convergence timetable (between IFRS and US GAAP) has led to concern that not enough time has been devoted to getting the standards right. Also the sheer weight of proposals has made it difficult for users to respond in a timely and considered way to all the potential changes, including significant revisions during the process.

A3 With co-operation from national and international market and audit regulators, the IFRS Foundation should seek full disclosure where adoption of IFRSs is incomplete or 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.

Response: yes this is a crucial point to enhance the credibility and authority of IFRS.

## **Scope of standards and IFRS activities**

A4 In the near term, the primary focus of the IFRS Foundation and the IASB should remain on developing standards for private sector entities (ie both publicly traded entities and 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.

Response: IASB resources are already stretched because of the heavy agenda of new standards, the importance of reviewing the way existing standards are working and issues to do with consistent application of standards across the globe. Also, standards written for public bodies would not have providers of capital as their prime focus. So there is a danger of both over-stretch and dilution of purpose in thinking about

“developing standards for other entities and for other purposes”.

### **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. All application guidance and examples must be necessary to understand the principles.
- The IASB will work with a network of securities regulators, audit regulators, standard-setters and other stakeholders to identify divergence in practice. 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 encourage transparent reporting of such divergence.
- The IFRS Foundation will seek the assistance of the relevant public authorities to achieve this objective.

Response: we agree with all of this. A few more specific comments:

(1) probably transparency about divergences from IFRS is the most that the IASB can appropriately do in terms of enhancing consistent implementation;

(2) guidance needs to be rare, limited and only created to fulfill genuine requirements; it should not be a route to rules-based standards. Principles-based standards remain what is required, and this should reduce complexity;

(3) EDs are easier to assess if, in addition to the conceptual underpinning, there are examples that compare current reporting with what would be reported under the proposed standard. An explanation of which entities would be affected, and by how much, would also be useful ie an initial impact assessment.

We also believe that the relationship with the IAASB needs to be built up as auditability is a key issue for investor confidence.

### **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.

B2 The current three-tier structure (Monitoring Board, Trustees, 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.

Response: We now understand that the Monitoring Board will focus on the architecture of the organisation, and the Trustees on practicalities. We assume that all are committed to the IFRS Foundation's mission, which stands above all the bodies.

We note the vital importance to users of the trustees as a buffer to political pressure on the IASB. This is required in order for the IASB to retain its independence and legitimacy, and to deliver on users' needs.

**C. Process: ensuring that its standards are of 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 is and should continue to be reviewed and further enhanced regularly, benefiting from regular benchmarking against other organisations and from stakeholder advice.

Response: Due Process should focus on investor needs.

C2 The framework for the Trustees in their oversight of the IASB's due process should be clarified. The Trustees' Due Process Oversight Committee 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.

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

- 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. This will assist in demonstrating how the IASB's priorities are set.

Response: Reform proposals should be driven by market need and state what market failure or gap in essential information is being addressed.

- 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).

Response: Field-testing of ideas is important so that users and preparers can understand what the changes would mean in practice.

- Integration of XBRL into the standard-setting process and the development of relevant XBRL taxonomy extensions: In order to take into account the impact of technology, the development of the IFRS XBRL taxonomy should be integrated into the IASB's due process. In addition, the IFRS XBRL taxonomy should be expanded to include a relevant number of extensions to the existing base taxonomy.

Response: XBRL obviously has its uses. But the crisis showed that the main thing markets need is more intelligent analysis.

C4 To support the IFRS Foundation's interest in consistent application of IFRSs and within 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.

Response: Post implementation reviews are vital part of process, including attention paid to cost-benefit analysis and opportunities to simplify requirements.

- 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.

Response: see above on important role of relationship with IAASB and the reliance investors place on standards being auditable in a consistent way.

- refine the scope of the IFRS Interpretations Committee's activities to ensure consistency of interpretation, without undermining the commitment to a principle-based approach to standard-setting.

Response: we welcome the review of the role of the Interpretations Committee.

C5 The IFRS Foundation and the IASB should encourage the maintenance of a network of national and other accounting standard-setting bodies as an integral part of the global standard-setting process. In addition to performing functions within their mandates, national and other accounting standard-setting bodies 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 thought leadership in the field of financial reporting, the IASB should establish, or facilitate the establishment of, a dedicated research capacity.

Response: C5 and C6 are related. The question is to what extent the IASB does research in-house and to what extent it makes use of national standard-setters to do part of this work.

In addition, we would welcome stronger references to role of Advisory Council in the strategy paper. The trustees should be aware of, and address, frustrations among its membership. To enhance the AC's legitimacy and effectiveness, we strongly endorse paragraph 6 of AC note on its self review and recommendation for improvements. This paragraph highlights the need for the Advisory Council to be consulted before the IASB issues a proposed agenda for action, and to be consulted again after the consultation period has closed and before the IASB issues its conclusions following that consultation. Only in this way will the Advisory Council be able to fulfill its remit of providing advice and input on the IASB's agenda and activities. We believe that the make-up of the Advisory Council, while it can always be enhanced, provides the IASB with a good perspective as to users' views at any given time.

#### **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, funding should be proposed by the Trustees to 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 (consistent with the principle of proportionality) and provide sufficient organisational accountability.

Response: CFA UK has indicated in previous submissions that it thinks a more secure and independent source of funding is essential. "Public sponsorship" as in backing from governments and public sector bodies is obviously one source, although it is limited in practice because of a lack of public sector funds and in principle by the need to minimise political influence. A small addition to listing fees would be another way.

We hope that these comments have been useful and would be pleased to provide additional feedback in future.

Yours,

Jane Fuller, Chair, Financial Reporting and Analysis Committee

Will Goodhart, Chief Executive