



Australian Government

**Australian Accounting
Standards Board**

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IFRS Foundation Trustees
30 Cannon Street
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Dear Trustees

**IFRS Foundation Trustees' Review of Structure and Effectiveness:
Issues for the Review – July 2015**

The Australian Accounting Standards Board is pleased to have the opportunity to respond to the Request for Views on the IFRS Foundation Trustees' Review.

At the strategic level, the AASB believes the IASB's work should include addressing entities beyond the current focus on for-profit private sector entities at the earliest opportunity. In dealing with all sectors over many years, the AASB has concluded that the financial statements of entities from each sector are primarily aimed at facilitating economic decision-making. Even though circumstances differ between the for-profit, private not-for-profit and public sectors, fundamentally the economics are not sector-specific. The AASB considers that the thinking about global capital markets should not be confined to one sector because the interests of stakeholders in both private sector and public sector entities are intertwined.

The AASB strongly agrees with the proposal that the IASB should play an active role in developments in wider corporate reporting, including Integrated Reporting and believes the IASB should develop a strategy regarding its involvement. Ideally, the IASB will receive feedback through its agenda consultation process about the importance of wider corporate reporting relative to the existing program of 'conventional' financial reporting projects.

The AASB's responses to the questions in the Request for Views are included in the attached Appendix.

If you require further information on the AASB's responses to the Request for Views, please contact me or Angus Thomson (athomson@asb.gov.au).

Yours sincerely

A handwritten signature in blue ink that reads "K. E. Peach".

Kris Peach
Chair & CEO

* Appendix

Appendix

Response to Trustees' Review of Structure and Effectiveness

Development of a single set of standards

Question 1

Considering the consequences referred to above, what are your views on whether the IASB should extend its remit beyond the current focus of the organisation to develop Standards; in particular for entities in the private, not-for-profit sector?

The AASB agrees that the IASB's remit should include addressing entities beyond the current focus of private sector, for-profit entities. The AASB notes that the current IFRS Foundation *Constitution* does not specifically limit the remit of the IASB to setting standards for private, for-profit entities.

The AASB's view is founded on the understanding that financial statements are primarily aimed at facilitating economic decision-making and, even though circumstances differ between the for-profit, private not-for-profit and public sectors, fundamentally the economics are not sector-specific. Consistent with this view, the AASB uses (up-to-date) IFRS as the foundation for standards applying across all sectors and finds that testing new concepts across all the sectors can result in better quality standards and decisions for the for-profit sector.¹

The AASB acknowledges the Trustees' decision to not consider, at this stage, possible expansion of the IASB's scope of activities to encompass financial reporting standards for the public sector due to the recent IPSASB Governance Review. However, the AASB continues to support extending the scope of the IFRS Foundation's Monitoring Board and Trustee activities to incorporate public sector accounting standard-setting.²

The AASB encourages the IASB and the IPSASB to work closely together on common projects. The AASB does not wish to see the seeds sown for future costly convergence programs simply because the two organisations might presently take an insufficiently broad view of the role of financial reporting. The AASB believes it is artificial to think about global capital markets only in the context of one sector because the interests of stakeholders in both the private and public sector entities are intertwined.

Although the AASB's preference is for the IASB's scope of activities to be extended to both public and private sector entities, AASB would welcome any extension of activities into the not-for-profit sphere.

1 The AASB standards, which incorporate IFRS, apply to all types of entities and include only very few modifications to cater for the specific needs of not-for-profit and public sector entities:

<http://www.aasb.gov.au/Pronouncements/Current-standards.aspx>

2 AASB's submission to the IPSASB Governance Review Group:

http://www.aasb.gov.au/admin/file/content106/c2/AASB_Letter_Governance_Review_Group_IPSASB_Jan_2014.pdf (accessed 5 October 2015)

Question 2

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

The AASB strongly agrees with the proposal that the IASB should play an active role in developments in wider corporate reporting, including Integrated Reporting.

The IASB should develop a strategy regarding its involvement in these areas that includes information on how actively the IASB would be involved in each relevant area and the resources, such as staff time, that the IASB plans to devote to them. Ideally, the IASB will receive feedback through its agenda consultation process about the importance of the area relative to the existing program of ‘conventional’ financial reporting projects.

The AASB is investigating an expansion of its scope of activities to cover areas of external reporting beyond conventional financial reporting.³ Such investigations, and the experiences of national standard setters generally, may help to inform the Trustees about the future direction for the IFRS Foundation and the IASB in respect of wider corporate reporting.

Question 3

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

The AASB strongly agrees with the manner in which the role of IFRS is explained in the Review [paragraph 29] and that IFRS should be developed on the basis that the resulting information might be presented and used in many different ways [paragraph 30]. In addition, the AASB notes stakeholders should be aware (through IAS 1 *Presentation of Financial Statements* and more generally) that, to meet the objective of general purpose financial reporting, regard needs to be had to a complete set of IFRS-compliant financial statements.

The AASB agrees with the shift in strategy to focus more on the Taxonomy, rather than the development of XBRL as a language. The Australian taxonomy (which is updated each year) is based on the relevant IFRS taxonomy, as well as incorporating some local reporting requirements, including company legislation requirements. The quality of the Australian taxonomy, and other local taxonomies, therefore depends on the quality of the IFRS taxonomy.

Question 4

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

The AASB supports the objective of improving digital access to general purpose financial reports to investors and other users. For the reasons noted in respect of Question 3, the AASB considers that a well-resourced IFRS Taxonomy team is important to producing a quality product that can be relied upon by custodians of the various domestic taxonomies and therefore contributes to improving digital access to general purpose financial statements.

3 AASB ITC 34 *AASB Agenda Consultation*: http://www.aasb.gov.au/admin/file/content105/c9/ITC34_11-15.pdf

Question 5

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

The AASB supports the Foundation's plans to undertake research about how technology is changing and how the IASB's development of the IFRS Taxonomy and its work on filing should respond to those changes. The AASB regards this work as being important because there may be increasing demand from users to be provided with information in electronic form and there is evidence that technological innovations can be a factor in helping to resolve the concerns of some users in managing complexity of financial statements.⁴

Given the ongoing changes to the ways in which people access information, IFRS should be 'technology-neutral' to the extent feasible. That is, IFRS should be developed in a way that does not presume information will be presented in any particular manner or form, unless, for example, this is necessary to achieve an intended prominence for some information relative to other information. In the medium to long term, hard copy financial statements may no longer be produced, and consideration should be given to identifying the implications of this when developing standards now.

The IASB should continue to consider the technology available to gather and process information in developing its standards in relation to the relative costs, benefits and overall feasibility of its requirements.

Consistency of application and implementation

Question 6

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

The AASB supports the Foundation's efforts to encourage consistent application of IFRS; however, the AASB is concerned about the operation and effectiveness of:

- Transition Resource Groups; and
- the IFRS Interpretations Committee, particularly in relation to the Committee's issuance of narrow-scope amendments.

Transition Resource Groups

The AASB is concerned that the existence of the Transition Resource Groups, which do not have the rigour associated with the standard-setting and interpretations processes, can encourage a rule-based mind-set. They discourage users from exercising judgement and progressing with implementation. They are also likely to impact upon the credibility of a

⁴ The Australian Financial Reporting Council has published a report *Managing Complexity in Financial Reporting* (2012), which identifies harnessing technological innovation as an aide to managing complexity: <http://www.frc.gov.au/files/2013/12/Paper-managing-complexity-2012.pdf>

newly-effective standard. The AASB notes, for example, that the stated overall purpose of the Transition Resource Group for Impairment of Financial Instruments is to: (a) solicit, analyse and discuss stakeholder issues arising from implementation; (b) inform the IASB and help it determine what, if any, action is needed; and (c) provide a public forum for stakeholders to learn about the impairment requirements.⁵ The AASB considers that stakeholders will highlight issues in the TRG forum that are essentially matters of professional judgement. The AASB understands that the Groups' activities might be intended to help prevent issues from becoming magnified, but consider that this would be best addressed through education initiatives. Whilst there is a need for any fatal flaws identified with a new standard to be rectified, our expectation is that the rigour of the current standard-setting process should ensure that any issues with a new standard are minor in nature, and do not warrant such a group.

IFRS Interpretations Committee

The IFRS Interpretations Committee has recently been issuing narrow-scope amendments that each generate considerable work for some jurisdictions (such as Australia) to incorporate in local law. It would help to enable limited standard-setting resources to be directed towards more productive uses if the Committee and the IASB were to prepare batches of narrow-scope amendments (perhaps once or twice a year) to minimise the number and frequency of changes that need to be made at the local level. It would also reduce the workload of constituents who choose to provide feedback on these standards.

Other comments

Clear English expression needs to be used in IFRS to help achieve greater consistency of application. This includes trying to ensure that the terminology used is unambiguous and readily translatable (with the same meaning) into languages other than English (at least in respect of the main 'global' languages). This should also help users of the IFRS understand the relevant principles in each standard.

The AASB supports the IASB's thorough standard-setting process and the extensive outreach that is done; however, the AASB also considers that the development of major new and revised IFRS takes too long. The key to shortening the time taken would appear to be having done sufficient thinking on a project to avoid the need for more than one Exposure Draft. The AASB understands that the research program is intended to help address the length of the standard-setting process by enabling the IASB to better scope its projects and prepare the groundwork for promulgating an IFRS without needing to expose several sets of proposals at the standard-setting stage. The AASB supports that line of thinking.

The AASB appreciates that many of the issues presented to the IFRS Interpretations Committee are symptoms of underlying problems and there are often pressures to address those symptoms. The AASB is concerned that this process can raise more questions than it resolves and believes the Committee should be considering issues with a view to determining whether it can help clarify the relevant principle(s) in the IFRS. In cases when the Committee determines it cannot address the principle(s), the issues should be referred to the IASB.

⁵ <http://www.ifrs.org/About-us/IASB/Advisory-bodies/ITG-Impairment-Financial-Instrument/Pages/home.aspx>

IFRS Foundation as an organisation

Question 7

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

The AASB supports the current three-tier structure of the governance of the Foundation. The AASB also continues to support the IASB being an independent body of the Foundation. The AASB does not recommend any change to the current structure or due process. The AASB supports the current due process steps and due process oversight procedures.

Question 8

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

The AASB considers that the overall geographical distribution of Trustees should take into consideration representation from the world’s major capital markets and the commitment to IFRS as demonstrated by IFRS adoption. In the current circumstances, in terms of the constitutionally-specified distribution, the AASB considers this would, for example, reduce the number of Trustees from North America. This is on the basis that, since the distribution was originally determined, in relative terms there has been a growing application of IFRS in other parts of the world.

The AASB also notes that circumstances can change, even in the short to medium term, in regard to capital market significance and IFRS adoption. Accordingly, the AASB supports the proposal to have a further three ‘at large’ Trustees. The AASB recommends that these positions be created from positions reallocated from North America.

The AASB supports the Trustees’ efforts to improve its gender balance by recruiting more female members as opportunities arise.

Question 9

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

Given the current role of the IFRS Foundation and the IASB, the AASB considers the mix of professional member backgrounds outlined in the *Constitution* (paragraph 7) is relevant and appropriate. On the basis that each Trustee is appointed as an individual, the Trustees should consider having the references to professional background in the *Constitution* focus more on career experience, rather than necessarily focusing on the individual’s current role.

Question 10

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

The AASB supports the Trustees' proposal to amend the *Constitution* to specify that a review of the entire strategy and effectiveness of the organisation should commence, at the latest, five years after the previous review has been completed.

Question 11

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

The AASB agrees with the proposal to reduce the size of the IASB; however, the AASB considers that 13 members should be a ceiling, and the *Constitution* should allow for the number of members to fall further. The AASB considers the number of members at any particular time would depend on whether all the key areas of expertise are covered.

The AASB does not agree with the revised geographical distribution.

Consistent with the AASB's response to Question 8 above, the AASB considers the number of members proposed from North America is disproportionately high. The AASB recommends that the number of members specifically sought from North America be further reduced. The AASB further recommends that the additional members be appointed from any area, subject to maintaining overall geographic balance.

Question 12

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

The AASB supports the proposed amendments to the *Constitution*. The AASB also supports the Trustees' efforts to improve the IASB's gender balance, and also supports the view that no particular quota be provided, although the AASB would support the introduction of a target number of female Board members.

Question 13

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

The AASB supports the proposal that flexibility in relation to reappointments be introduced into the *Constitution*. The AASB further supports the proposal that the reappointment term be a maximum of five years.

Question 14

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

In the Australian context, the Financial Reporting Council (the AASB's oversight body) is responsible for advising the Australian government on its monetary contribution to the IFRS Foundation.

Since 2013, the Asian-Oceanian Standard-Setters Group (AOSSG) has had a Working Party on Developing Centres of Excellence in IFRS in Developing Countries, which the AASB has led. To date, work has been done on one pilot COE (in Nepal), and the Working Party been approached by a number of other jurisdictions about being a beneficiary of its work.

In the course of conducting the Working Party's activities, it has become clear that a lack of funding is hampering efforts to progress IFRS adoption in a number of less developed jurisdictions. The AASB suggests the Trustees should consider having a greater role in advocating that international and regional aid organisations directly fund programs in developing countries that would facilitate IFRS adoption in those jurisdictions. The AASB considers IFRS adoption can be promoted as a worthwhile pursuit to those aid organisations on the basis that it can play an important part in helping create the 'soft' infrastructure necessary for a functioning capital market that, in turn, can assist in economic development.

Question 15

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

The IASB and the IFRS Foundation should work closely with other standard-setters in fields that are important to supporting the successful implementation of IFRS, in particular, in the area of measurement/valuation. The AASB notes that the International Valuation Standards Committee⁶ and International Actuarial Association⁷ have been involved in contributing on a number of IASB projects, and consider that the need for such cooperation will become increasingly important due to the number of valuation matters being addressed in IFRS.

6 The IFRS Foundation and the IVSC announced in 2013 that they would coordinate efforts on implementing fair value measures under IFRS 13 *Fair Value Measurement*.

7 See the 2012 Memorandum of Understanding between the IASB and IAA relating to collaboration on areas of common interest.