IFRS Developments

IFRS Foundation announces changes to its governance

Overview

The IFRS Foundation published two reports on 9 February 2012: Final Report on the Review of the IFRS Foundation’s Governance (Governance Report) and Report of the Trustees’ Strategy Review 2011, IFRSs as the Global Standards: Setting a Strategy for the Foundation’s Second Decade (Strategy Report). These reports represent the completion of separate reviews, initiated in 2010, by the Monitoring Board and Trustees of the IFRS Foundation that focused on the organisation’s governance and strategy.

The principal highlights of the reports are the proposals made on the composition and structure of the International Accounting Standards Board (IASB), Trustees and Monitoring Board of the IFRS Foundation. These include recommendations to limit the membership of the Monitoring Board to only those jurisdictions which commit to domestic use of IFRS in the jurisdiction’s capital market and participate in the funding of the IFRS Foundation. The reports also include the decision not to open membership of the Monitoring Board to stakeholders outside of capital market authorities.

How we see it

Changing the criteria for members on the Monitoring Board is a signal to jurisdictions that they need to provide a clearer commitment to IFRS in order to continue to maintain representation. However, the criteria for determining the meaning of “domestic use” is yet to be determined in order to provide more time to impacted jurisdictions to make their decisions. Reassessment of the current membership is expected to occur in early 2013 and it is likely that impacted jurisdictions will provide some public indication of their intentions before then.

Importantly, at the same time, the Trustees have given a strong commitment to ensuring high quality, clear and understandable standards and to their consistent application and implementation. This is a message that the concerns about the quality and consistent application of IFRS have been heard.
Background on the reports
The governance and strategy reviews are in response to a number of challenges the IFRS Foundation faces in the areas of convergence and adoption, the quality and implementation of the standards, and governance and accountability. In recent years, the IFRS Foundation has moved closer to its objective of a single set of global standards as many countries are converging with, considering converting to or adopting IFRS.

The governance and strategy reviews are aimed at ensuring the IFRS Foundation’s governance balances independence and accountability appropriately to facilitate the development of the goal of a single high quality set of global standards.

The Monitoring Board’s review focused primarily on institutional aspects of governance, such as composition and roles of the Monitoring Board, IASB and Trustees. The Trustees’ review placed more emphasis on the operational aspects of governance, such as the standard setter’s due process.

Key aspects of the reports
The decisions made surrounding the Monitoring Board’s composition are a significant aspect of the reports. This includes restricting membership to only those jurisdictions which commit to domestic use of IFRS and participate in the funding of the IFRS Foundation, as set out in the Governance Report. Monitoring Board membership will also be confined to the capital markets authorities responsible for setting the form and content of financial reporting, which would exclude a wider range of stakeholders (such as prudential regulators). However, the Basel Committee on Banking Supervision will continue to serve as an observer. In addition, the Monitoring Board membership will also be expanded to include additional members from emerging markets and will also allocate rotating seats through consultation with the International Organization of Securities Commissions (IOSCO).

The Strategy Report emphasises the IFRS Foundation’s commitment to the long-term goal of the global adoption, in their entirety and without modification, of IFRS as developed by the IASB. Although the report acknowledges that convergence may facilitate adoption over a short-term transitional period, it makes clear that convergence should not be a substitute for adoption.

The primary qualifications for members of the IASB will continue to be professional competence and experience. Accordingly, the decision was made not to restrict the IASB or Trustee membership to individuals from jurisdictions using IFRS, despite calls from some constituents on this. However, the continued need for a commitment from jurisdictions that are considering the adoption of IFRS for their domestic economies was again emphasised. The Strategy Report indicates that its drafting is based on the assumption that these jurisdictions will make commitments, in some form, on the adoption of global standards.

Strategy Report, page 4
“Failure to make such commitments would lead to the reconsideration of some elements of this strategy review document [Strategy Report] and could lead to modifications in the suggested geographical distribution of the membership of the IFRS Foundation Trustees and the IASB.”

A number of other recommendations are also made in the reports that would improve transparency and visibility over the IFRS Foundation’s governance process. These include increased reporting to the public, as well as regular reporting by the Trustees’ Due Process Oversight Committee on operational aspects of due process (e.g., public consultation, outreach activities, field testing, and impact assessments). Also, the role of Chair and CEO of the IASB will be separated. The Monitoring Board will not be able to set the IASB’s agenda, but will continue to be able to refer issues to the Trustees and the IASB Chair for their consideration.
How we see it

Most of the decisions in these reports, such as recommendations that emphasise the need for sufficient technical expertise of IASB members and continuing to focus the Monitoring Board membership on capital market regulators, were broadly supported by respondents and should not be controversial. The recommendations, as a whole, are important in striking the appropriate balance between independence and accountability.

The likely most controversial aspect of the reports is the new criterion for membership of the Monitoring Board. The requirement for a commitment to domestic use of IFRS is balanced by allowing more time to evaluate the “use of IFRS” in jurisdictions, more time to review existing Monitoring Board membership against the criteria and a commitment to ensure the quality and consistent application of IFRS across the globe.

Next steps

The Monitoring Board and Trustees’ decisions will be implemented in various ways. Some decisions will potentially be included in the IFRS Foundation’s Constitution, whilst others will be reflected in other governance documents (such as the Memorandum of Understanding between the Trustees and the Monitoring Board and the Monitoring Board’s Charter).

The Monitoring Board has developed an action plan for implementation of the decisions, which is summarised below:

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<thead>
<tr>
<th>2012</th>
<th>Early 2013</th>
<th>End of 2015</th>
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<tbody>
<tr>
<td>◢ Draft and complete amendments to</td>
<td>◢ Review existing Monitoring Board</td>
<td>◢ Complete the second governance review in</td>
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<tr>
<td>governance documents (including criteria</td>
<td>members against revised membership criteria</td>
<td>coordination with Trustees Constitution</td>
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<td>for Monitoring Board membership)</td>
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<td>review)</td>
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<td>◢ Develop criteria for selecting rotating</td>
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<td>members of the Monitoring Board with</td>
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<td>IOSCO</td>
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<tr>
<td>◢ Determine candidates for new Monitoring</td>
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<td>Board membership seats</td>
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