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PAPER FOR PUBLIC CONSULTATION
STATUS OF TRUSTEES' STRATEGY REVIEW

5 November 2010

(revised on 26 November 2010 to reflect new deadline for comments)

1. Background

As a result of the second Constitution Review process, the Trustees agreed to launch a comprehensive review of the organisation's strategy. The Trustees initiated this review at their July 2010 Trustees' meeting and asked the Trustees' Executive Committee, chaired by Tommaso Padoa-Schioppa, to manage the process. The Executive Committee has now met twice (on 13 September and 27 October.) The Trustees as a whole had a preliminary discussion on the subject at their Seoul meeting on 12 October. To date, the Trustees have not reached any conclusions and are at a very preliminary stage of their work.

In undertaking their review, the Trustees are aware of the international stakeholder community's interest of the ongoing strategy review. In the spirit of transparency and with a desire to seek the advice of the stakeholder community, the Trustees are now seeking comment from the general public. The issues for comment are outlined in section 4 of this paper.

The IFRS Foundation Trustees welcome the views of all interested stakeholders and will consider written views received on or before the closing date, 24 February 2011 (extended from 31 December 2010). Responses should be e-mailed to the Trustees at the following address: strategyreview-comm@ifrs.org.

The Trustees have set a tentative timeline with their developing conclusions by the March 2011 Trustees' meeting. The Trustees are developing a process that includes this consultation and will continue to seek the views of relevant public authorities and stakeholders. A draft timeline is attached as an appendix.

2. Context for the review—The first decade: success and tensions

The Foundation was established in 2000 as a private-sector and privately-financed body, blessed by, but not formally connected to, public institutions. The Constitution stated 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.

In the ten years since its founding, the Foundation has succeeded in establishing IFRSs as the accepted set of financial reporting standards in more than 100 countries and active near-term consideration in a dozen more. As the organisation's second decade begins, the goal of a single set of high-quality globally accepted accounting standards is within reach. The next 18 months will be critical in determining whether this goal is achieved.

Much of the success of IFRSs to date is a result of three factors: 1) the IASB's ability to produce a full set of standards of high quality; 2) the European Union's decision to elect the IASB as its standard setting body, and the substantial progress made across Asia-Oceania, Africa, and the Americas spurred by the EU decision; and 3) the willingness of the United States to engage in convergence, accept IFRSs for non-US companies and consider adoption for US companies.

In 2002, after decades of failed attempts to set common standards through EU primary legislation (specific directives), the European Union decided to adopt IFRSs for its publicly traded companies as part of the effort to create a common European capital market. This decision made the European Union the catalyst for IFRS adoption worldwide and spurred the advancement of IFRS across Asia-Oceania, Africa, and the Americas. IFRSs became an alternative to US GAAP for international capital raising.

Also, the financial scandals of 2001 and 2002 following the collapse of Enron opened the door to international standards in the United States. 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 of the inherited standards, reduced differences with US GAAP, and led to the US Securities and Exchange Commission (SEC) removal of the reconciliation requirement. At the same time, the United States has yet to make a final decision on IFRS adoption for US companies. In a recent work plan the SEC indicates that it expects to make a decision on IFRS adoption in 2011. This decision will have an impact on the consideration by other major economies (e.g. China, Japan, and India).

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. However, convergence alone will not produce a single set of global standards. A number of key countries still need to make decisions to adopt IFRS 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 adopted universally, there is a risk that practices related to implementation and adoption will diverge;
- **governance and accountability:** As adoption of the standards extended to more and more countries, public authorities around the world paid greater attention to the accountability and governance of the institution. While the IASB's independence has been a key source of strength, the fact that the Monitoring Board is engaging in a review of its own governance arrangements reflects an understanding that those arrangements may need to evolve further.

3. The next decade: challenges and scenarios

The next few years will determine whether the organisation will be able to achieve its ultimate objective of single set of global standards. The challenge facing the Foundation is to

maintain momentum towards global IFRS adoption in order to bring the remaining major economies into the IFRS world. To answer this challenge, the IFRS Foundation will need to resolve in a satisfactory way the three major sources of tensions described above.

There are multiple scenarios that could play out and the ultimate outcome is uncertain. The first IFRS decade is a remarkable success story. What is now needed is to build on this success to address the challenges of the new decade.

4. Four strategic fronts and questions

Against this background, the Trustees have identified four areas for examination (mission, governance, process, and financing) as part of the strategy review.

The Trustees request comment on the questions on the four areas listed below:

Mission: How should the organisation best define the public interest to which it is committed?

1. The current Constitution states, “These standards [IFRSs] 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.” Should this objective be subject to revision?
2. The financial crisis has raised questions among policymakers and other stakeholders regarding the interaction between financial reporting standards and other public policy concerns, particularly financial stability requirements. To what extent can and should the two perspectives be reconciled?

Governance: how should the organisation best balance independence with accountability?

3. The current governance of the IFRS Foundation is organised into three major tiers: the Monitoring Board, IFRS Foundation Trustees, and the IASB (and IFRS Foundation Secretariat). Does this three-tier structure remain appropriate?
4. Some stakeholders have raised concerns about the lack of formal political endorsement of the Monitoring Board arrangement and about continued insufficient public accountability associated with a private-sector Trustee body being the primary governance body. Are further steps required to bolster the legitimacy of the governance arrangements (including in the areas of representation of and linkages to public authorities)?

Process: how should the organisation best ensure that its standards are high quality, meet the requirements of a well functioning capital market and are implemented consistently across the world?

5. Is the standard-setting process currently in place structured in such a way to ensure the quality of the standards and appropriate priorities for the IASB work programme?
6. Will the IASB need to pay greater attention to issues related to the consistent application and implementation issues as the standards are adopted and implemented on a global basis?

Financing: how should the organisation best ensure forms of financing that permit it to operate effectively and efficiently?

7. Is there a way, possibly as part of a governance reform, to ensure more automaticity of financing?

Other issues

8. Are there any other issues that the Trustees should consider?

APPENDIX—Preliminary Timeline for IFRS Foundation Strategy Review

January 2010	Second five-yearly Constitution Review is completed. The Trustees agree to initiate a strategy review.
July 2010	The Trustees agree to scope and process for the strategy review. The Trustees' Executive Committee, chaired by Tommaso Padoa-Schioppa, will manage the review on behalf of the Trustees.
September 2010	The Executive Committee holds a preliminary discussion on strategy review topics.
October 2010	<p>The Trustees hold first plenary discussion on the strategy review at their Seoul meeting.</p> <p>The Executive Committee agrees to seek stakeholder advice at early stages of the strategy review.</p> <p>The Trustees discuss the strategy review with the IFRS Foundation Monitoring Board.</p>
November 2010	The Trustees publish consultation document, with comment deadline of 24 February 2011 (extended from 31 December 2010).
January 2011	The Executive Committee will meet to consider possible conclusions to be adapted after consideration of public comment.
February 2011	The Executive Committee will develop preliminary conclusions to discuss with full Trustees at their Tokyo meeting, which will later be considered against public comment received.
February/March 2011	The Trustees will analyse public comments, meet with the IFRS Advisory Council and consider holding public round table discussions before reaching final conclusions.
March 2011	The Trustees will seek to conclude the Strategy Review at their London meeting.
After March 2011	The Trustees will conduct required due process to adopt changes in the IFRS Foundation Constitution, if appropriate.