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Tom Seidenstein
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Berlin, 25 July 2011

Dear Mr Seidenstein,

IFRS-Foundation – Report of the Trustees’ Strategy Review: IFRSs as the Global Standard: Setting a Strategy for the Foundation’s Second Decade

On behalf of the German Accounting Standards Board (GASB) I am writing to respond to the Report of the Trustees’ Strategy Review for public consultation: IFRSs as the Global Standard: Setting a Strategy for the Foundation’s Second Decade.

The GASB welcomes the review of the Trustees’ strategy to reflect the recent developments. We appreciate the opportunity to comment on the Trustees’ report.

The report of the Trustees’ Strategy Review proposes a comprehensive and coherent strategy to address the current and expected future issues of the IFRS Foundation. In general we support the Trustees’ views as laid out in the report. In particular we agree with the need to shift the focus of the work of the IFRS Foundation from convergence of accounting standards to adoption of IFRSs as issued by the IASB. Furthermore, we support the Trustees’ view on the importance of the IASB’s due process and the work of the respective Trustees’ Due Process Oversight Committee (DPOC). We believe it to be crucial for the acceptance of the work of the IASB to extensively integrate constituents in the standard-setting process.

However, we would like to emphasise the need for the Trustees and the Monitoring Board to co-ordinate their efforts in order to deliver an integrated package of reforms to further improve the Foundation’s organisation and processes. We nevertheless agree with the Trustees on the appropriateness of the existing structure (Monitoring



Board and IFRS Foundation with Board of Trustees and IASB). In particular we deem the current role and function of the Monitoring Board appropriate and do not support any extensions respectively (as laid out in more detail in our comment letter to the Monitoring Board dated 11 April 2011).

Please find our detailed comments on the Trustees' report in the appendix to this letter. If you would like to discuss any aspect of our comments further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President



Appendix

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

The GASB supports the focus of the Trustees' strategy on adoption rather than on convergence (A2-A3, p. 9-10). We agree with the Trustees' reasoning that convergence will only narrow the differences in global accounting, but will not lead to the needed common set of global accounting standards. Therefore, we concur with the Trustees' mission statement to seek adoption of the IFRSs as issued by the IASB instead of mere convergence introducing national exceptions to IFRS requirements. We also believe the described means to achieve a single set of improved high quality global accounting standards are appropriate and will be effective. The same is true for the steps outlined, which ought to ensure consistent application of IFRSs internationally (A5, p. 11 et seq.).

Furthermore, we support the scope as defined in the Trustees' report, namely to focus on private sector entities and thereby aiming at providing stability to the organisation and the financial reporting environment (A4, p. 11). We agree with the IASB currently focusing on financial reporting requirements. To our understanding this includes consideration of issues such as corporate social responsibility reporting (CSR), sustainability reporting and the integration of such reporting with financial reporting (integrated reporting). As a result, the scope of the IASB's work is not limited to standards on financial statements, but needs to reflect on all aspects of corporate reporting.

While we agree with the Trustees' focus regarding the work of the IASB, we do not agree with the Trustees' conclusion that "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" (A4, p. 11). It is up to the national jurisdictions to require or allow preparing financial statements in accordance with IFRS.

The IASB does neither have the mandate nor the possibility to restrict opting out of the IFRS if the legal environment allows for such a change. We understand and support the underlying objective to increase transparency. However, it is only by developing high quality, globally accepted accounting standards that the IASB can contrib-



ute and thereby encourage national jurisdictions to require the application of IFRS. Therefore, we also deem the example provided for A4 (p. 11) as inappropriate: “For example, companies should not establish a particular legal structure merely to avoid accountability using IFRSs.” Again, to influence the entities’ choice of legal structure is not within the scope of the IASB’s work.

We agree that the IASB should issue standards that are clear, understandable and enforceable (A5). In addition, standards need to be understandable and applicable on their own, i.e. without further explanations as for example laid out in the Basis for Conclusions or appendices. This aspect could be included in the Trustees’ strategy in order to emphasize the importance of clear accounting standards.

Regarding the purpose of financial reporting standards (A1), we suggest including a reference to the stewardship function of financial reporting. In line with the wording in the framework (OB4) paragraph A1 (here: “Those standards should serve investors and other market participants in their economic and resource allocation decisions”) should be extended by “, *and result in information about management’s discharge of its responsibilities*”.

In A3 the Trustees’ report suggests that the Foundation seeks a mechanism to highlight instances where jurisdictions are asserting compliance with IFRSs without adopting IFRSs fully. The GASB supports establishing a formal mechanism to detect cases of non-compliance with IFRSs as issued by the IASB. We agree with the Trustees’ proposal (p. 10) to “seek the assistance of the relevant public authorities”. In our view relevant and suitable public authorities – with whom the IASB or the IFRS Foundation could regularly discuss such issues – would again be independent national standard-setters. However, if such cases are known to the IFRS Foundation, the IASB itself will need to take a stand regarding the inappropriate compliance assertion. Furthermore, in addition to IFRS dialects introduced by jurisdictions there are likely to be cases of entities asserting compliance without fully complying to IFRS as issued by the IASB. For more information on the nature and on the background of these cases of non-compliance the IFRS Foundation could seek assistance from national enforcement panels.



Furthermore, we wonder why A2 refers to entities being able to have an “audit opinion” stating full compliance with IFRS. We believe it is the entity’s responsibility to prepare financial statements in full compliance with IFRS. Furthermore, possibly in some jurisdictions not all financial statements prepared in accordance with IFRS have to be audited. Therefore, the reference to the audit opinion should be eliminated.

Similarly, while we welcome the IFRS Foundation seeking co-operations, we do not believe “audit regulators” to be particularly fitting co-operation partners. Audit regulators usually have the auditor oversight function (including dealing with malpractice of auditors etc.) and are therefore less familiar with issues regarding the compliance with IFRSs.

Ad B. Governance: enhancing governance arrangements to strengthen public accountability and independence

The GASB strongly supports the Trustees’ view that the existing structure (Monitoring Board and IFRS Foundation with Board of Trustees and IASB) is appropriate for the organisation’s mission (B2, p. 13). It serves the organisation well and balances the needs of public accountability and the independence of the IASB’s standard-setting process, even more so, if the necessary steps as proposed in this report on the Trustees’ strategy review will be implemented.

Particularly the role and function of the Monitoring Board (MB) has – based on the consultative report of the MB – recently been explicitly discussed. In line with the Trustees’ view on the current structure the GASB takes the general view that the MB’s role and functions are appropriate as they are at the moment and should therefore remain unchanged. Its functions do not need and should not have any extension. We have also laid out this view in our response to the consultative report of the MB (of 11 April 2011).

However, we hope that the Trustees and the MB will align and co-ordinate their efforts to further improve the Foundation’s organisation and processes. Even though the Trustees note that their proposals (as laid out in the report) “are meant to com-



plement the MB's proposals" there is no reference in the Trustees' report to the numerous comments received on the MB's proposals. We believe that there is further need to integrate the different proposals and provide constituents with an integrated package of recommendations.

We support the Trustees' proposal to further clarify how they discharge their oversight responsibility (B3, p. 14). Especially the enhancement of the role of the Due Process Oversight Committee, enhanced discussions with the MB on strategic priorities as well as clear procedures and criteria for the nomination of Trustees will be helpful.

We disagree, however, with the Trustees' proposal to develop their own staff resources, who report directly to the Trustees about the IASB's due process (B3, p. 14, second bullet point). We do not find separate staff beneficial, but rather believe that an organisation this size would benefit from a certain degree of interaction and additional administration efforts should be avoided. We wonder if the past experience had led anyone to believe that there are conflicts of interest for staff working for both the IASB and the Trustees.

Regarding the views on the necessity of transparency and regular public reporting to the MB and to the public we agree with the Trustees' report stating that these reports will improve the legitimacy of the organisation. Regular reporting on the Trustees' oversight activities will be helpful for the constituents to develop a better understanding of the processes and decisions of the IFRS Foundation. The Trustees should include a specific interval (e.g. quarterly or following each Trustees' meeting) for their regular reports to the public and to the MB.

Furthermore, we generally agree with the Trustees' assumption that "the IASB is composed of full-time professionals" (p. 12 of the Trustees' report). Due to the work programme of the IASB and the immense responsibility of each IASB member to contribute to the projects part-time members should remain the exception.

Ad C. Process: strengthening the process and procedures of the IFRS Foundation and the IASB

The GASB welcomes the principle in C1 to regularly review and further enhance the IASB's due process and the Trustees' commitment to continued improvement in the due process (C1-C3, p. 15 et seq.); e.g. through the Due Process Oversight Committee.

We welcome the Trustees' Report addressing the agenda-setting process and the work programme of the IASB. The Trustees propose a stronger engagement of the IFRS Advisory Council and other stakeholders as well as feedback statements by the IASB explaining their agenda decisions (in addition to the recently introduced three-yearly public consultations). We agree that this will strengthen the public confidence in the standard-setting process. In addition, while we do not believe that the IASB's work programme should be subject to a Trustees' formal approval, we see some benefits in the IASB consulting the Trustees' on their work programme. This consultation should focus on the proposed extent of the work programme in light of the (staff and/or discussion time) resources of the IASB. This would preclude the IASB from addressing too many issues at the same time.

The GASB agrees with the objective of the Trustees' report regarding a thorough and transparent due process (C1). The report should, however, put an even stronger emphasis on this aspect. C1 touches on the core of the work of the IASB which – in the past – has been subject to some criticism. As a result the Trustees' report should include their views on how they expect the IASB to react to this criticism. For example, in the past – for example regarding the project IAS 37 *Liabilities* – the IASB has not always adequately accounted for the views of their stakeholders. Therefore, we believe the due process oversight needs to include a review of (some of) the standard-setting decisions made e.g. on agenda setting and technical issues. I.e. the due process oversight should not only focus on the formal steps of the due process but also on the content of the different elements of the due process. One way forward could be for the Due Process Oversight Committee to closely review those discussion papers, projects or exposure drafts etc. which have been subject to major criticism or rejection by a majority or a significant minority of the constituents.



Regarding the integration of XBRL into the standard-setting process the GASB generally shares the Trustees' view on the importance of XBRL and that XBRL requirements will become the norm in the near future. However, XBRL-needs could significantly deviate from the principles on which accounting standards are based. While XBRL should be considered in the standard-setting process, it should not dictate the accounting requirements. Therefore, aiming at the "integration of XBRL into the standard-setting process" might convey the wrong idea about accounting and XBRL-issues being equally important in the standard-setting process. The Trustees' report should be clear on the predominance of high quality accounting standards.

We support the Trustees' focus on a consistent application of IFRSs and the proposed actions of the IFRS Foundation to achieve this objective (C4, p. 18). The proposed or formalised co-operations with securities regulators and national standard-setters seem like appropriate and effective means to achieve the objective. Again, as in regards to A3 of the report, we do not believe "audit regulators" to be the appropriate co-operation partners as their objective is the auditors' oversight.

The GASB welcomes the Trustees encouraging the maintenance of a network of national and other accounting standard-setting bodies as an integral part of the global standard-setting process (C5, p.19). Due to their independence and the specific knowledge of their jurisdictions national standard-setters are useful partners for the IFRS Foundation. We will gladly contribute to a continuous and prosperous co-operation between the IASB Foundation, the IASB and national standard-setters.

We also see great benefit in a co-operation between the IFRS IC and national standard-setters and recommend, adding such co-operations to the list of steps to be taken by the IFRS IC in order to ensure consistency of interpretation (p. 18 of the report). In that list the Trustees' report suggests that the IFRS IC is responsible for "correcting and clarifying the wording of IFRSs for matters that are relatively minor and do not justify a separate IASB project. We believe the IFRS IC to have the experience and knowledge to propose such corrections and clarifications to the IASB. However, we further believe that the final approval of any changes to the IFRSs, how minor they might be, should lie with the IASB.

The Trustees' Report (C6, p. 19) recommends "establishing, or facilitating the establishment of, a research capacity". We believe academic research results to be an im-



portant source of information within the standard-setting process. We wonder, however, if it is appropriate to establish research capacity within this organisation. There does not seem to be a lack of academic resource capacity, but rather a problem with appropriately including this knowledge in the standard-setting process. Regular round-tables with academics, where arising accounting issues are discussed before agenda decisions are made, could be one way forward. Also, co-operations with academics (funded by the IFRS Foundations) in order to conduct research on specific accounting issues could result in decision-useful information. Furthermore, an Academic Panel, with whom the IASB could meet on a regular basis, could provide valuable input. We doubt however whether the IFRS Foundation needs its own academic research resources.

In its report (p. 15) the Trustees refer to the revised Constitution and that it requires a three-yearly public consultation of the IASB's work programme. We believe this is an appropriate frequency for public consultation on the IASB's work programme. This does not contradict the IASB reacting to urgent matters of financial reporting that arise after a consultation is completed. The IASB will need to be able to address certain urgent matters without a time and resource consuming consultation process.

Ad D. Financing

The GASB agrees with the Trustees' statement that the funding system must maintain the independence of the standard-setting process, while providing organisational accountability (D2, pp. 6 and 20 et seq.). We agree with the need for a stable and independent funding model. The GDP could be one adequate indicator to derive a formula sensible to users and beneficiaries of IFRSs. However, we do not currently have any specific suggestions on how to achieve a more stable and independent funding model.