European Accounting Association

Response to the IFRS Foundation’s request for views regarding Trustee’s Review of Structure and Effectiveness: Issues for the Review

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?

1. We support the standpoint presented in p. 17 to not expand the scope of IFRS for SMEs.

2. We believe the arguments in p. 21 against taking on responsibility for IPSASB and financial reporting standard setting for the public sector, are plausible. We support the proposal to maintain liaison arrangements. It seems important to monitor the future development in this area in order to protect the use of the IFRS trademark and the application of IFRS concepts and principles in the public sector.

3. With regard to the not-for-profit sector, we perceive that neither the character of public accountability of preparers nor the financial information needs of stakeholders are well understood. For example, not-for-profit organisations may be part of governance structures which include listed companies that apply IFRS. On the other hand the question also remains whether or not there is currently a need for international comparability of not-for-profit organisations’ financial reports. Most stakeholders of these organisations are nationals from the same jurisdiction as the not-for-profit organization, except for a few number of large not-for-profit organisations like WWF, Doctors without Borders, or Greenpeace. At the current stage, it would seem an extending of the remit to comprise the not-for-profit-sector is associated with too much uncertainty about both costs and outcome. We suggest that the Foundation further investigates the area of not-for-profit entities as regards public accountability and governance aspects.

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This comment letter has been developed by a working group within the European Accounting Association, including Niclas Hellman (chair), Begoña Giner, Ann Jorissen, Alberto Quagli, and Mohamed Amine Taleb.
Question 2 — Do you agree with the proposal that the IASB should play an active role in developments in wider corporate reporting through the cooperation outlined above?

4. The IASB’s primary focus is financial reporting, however, as this is a part of a wider context of corporate reporting, we believe it is essential to follow and interact with other bodies involved in the developments in this wider area, i.e. reporting related to environmental, social, and governance factors, including industry-related requirements (e.g., banks, extractive industries) and integrated reporting.

5. The environment for professional users of financial information is changing, and we believe that continuous efforts are needed in order to ensure that IFRS-based information is perceived as the most relevant and reliable type of financial information, in comparison with various alternative performance measures (APM) and the large amounts of data made available through technological developments (big data).

6. As a part of the Disclosure Initiative, we believe that it is important for the IASB to further address the issues of financial statement presentation and disclosures in relation to what is currently presented by preparers as non-IFRS information and APMs. Recent surveys made by European academics, supported by ICAS and EFRAG, emphasise the importance of APMs among analysts and there is also both archival and experimental research pointing at problems arising from the use of APMs and non-GAAP information. One area of high importance in this context concerns the varying practices among preparers as regards the presentation of income statements.

Question 3 — Do you agree with the Foundation’s strategy with regard to the IFRS Taxonomy?

7. We support the reasoning presented under points 29-34, where a trade-off is presented between, on the one hand, leaving the development of computer language to others and not letting Taxonomy considerations dictate the standard-setting process, and, on the other hand, developing and maintaining an IFRS Taxonomy in support of its mission in a digital world. We believe that it will be important for the IASB to follow closely the practical application of the IFRS Taxonomy around the world, because: (i) it is difficult to forecast how people will access data in the future, and there is a need to avoid Taxonomy developments that might restrict the use of new technical solutions for accessing data; (ii) There is a lot of competition among providers of financial information to analysts. The total information set is extensive and IFRS information comprises a subset. The Taxonomy is likely to influence the role of IFRS information in relation to other information provided; (iii) as put forward in p. 21, local adoptions of the IFRS Taxonomy might develop which would reduce comparability and undermine the IFRS brand.

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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?

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?

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?

8. We comment here on the question concerning if the Foundation is doing the right things to support the consistent application of IFRS (p. 8)? This relates to Primary Strategic Goal 3: Consistency of application and implementation and two secondary strategic goals: (a) develop a timely and responsive interpretations process, while considering the principle-based nature of IFRS, and (b) provide implementation support to IFRS adopters.

9. First, we acknowledge the relevant efforts so far made by the Foundation in supporting more consistent application of IFRS. A further step in that direction, as a general strategy, could be to solicit the participation of third parties, different from public authorities, to increase the consistency of application and interpretations of IFRS. We strongly believe in the possibility of the jointly efforts of a wide community of primary users and other interested parties (e.g. academy, research institutions). Under this perspective, the Foundation could act as catalyster of interests and coordinator of shared initiatives.

10. In more detail, we comment below on some of the topics presented in points 43-65.

A. Enforceable standards. There is a considerable amount of research where the quality of accounting information is positively correlated with higher quality of enforcement. Evaluations of enforcement regulation and practices across jurisdictions suggest significant variation across jurisdictions. As more time passes since IFRS became part of the accounting legislation of the EU (and in other jurisdictions), we can also expect an increasing amount of legal disputes involving interpretations of IFRS to be settled in local courts. Finally, the new audit reports under International Standards on Auditing (ISA), with more company-adapted reporting, may influence the interpretation of what represents compliant applications of IFRS. In sum, the increasing, and

potentially quite varying, outcomes of the work of different enforcement bodies are likely to influence preparer behavior. We believe more cooperation with local and regional enforcement bodies may be needed in order to avoid negative such negative effects.

B. Translation. The large number of languages used in the various jurisdictions where IFRS is applied imposes problems. First, there is academic literature showing that translations of IFRS result in different connotations of principles and concepts across jurisdictions and preparers often comply with the translated version since this is the version that will be enforced in their jurisdiction by the local courts. This results in inconsistent applications of IFRS across language areas. Second, as regards languages not yet covered by an official IFRS translation, local translations will develop. A possible way forward here might be for the Foundation to participate in, or in other ways support, reviews of voluntary translations proposed by the countries in question. In this way, cost savings and quality improvements could be obtained. The possibility of making such translation reviews might be promoted on the IFRS website. Another initiative might be to develop a translation of a glossary of the defined concepts of the standards for languages where official IFRS translations do not exist.

C. Guidance consistent with a principles-based approach to standard-setting. Several recent academic studies have demonstrated how IFRS is applied in different ways, depending mainly country-related factors and different information environments. One approach towards more consistent application of IFRS is to increase the amount of official guidance from the IASB, however, this will add complexity and increase costs. Another, less costly and more innovative approach, might be to develop a database of application cases (best practice, worst practice). This database could include cases extracted from financial reports of listed companies adopting IFRS, including auditor opinions. The new International Standard on Auditing (ISA) requiring more informative audit reports may provide useful information in this context. The submissions of cases could be made by, users, the academic community, associations of professionals, and other interested parties. The database could be organised with a taxonomy based on the standards involved and the kind of business operation represented. The IASB (and especially the IFRS IC) and the Foundation could decide to play a role of facilitator (with a link from its website to the database, and clear disclaimers of responsibility), or to do a

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check and a review for each submission. Regardless the technical details, what seems decisive is the choice of a strategy admitting the contributions for a consistent application of IFRS to an open community, the IFRS-involved users, whose number in the world would guarantee an impressive amount of materials and propositions of relevant problems. The database may also be linked to the IASB’s education activities.

D. Co-operation with others. In general, but particularly with regard to the evidence-based approach to standard-setting, we believe the IASB would benefit from cooperating even more with the academic community during all the steps of the due process. The academic community is aware of academic studies conducted in different jurisdictions around the globe on IFRS.

E. IFRS Interpretations Committee. We believe a possible improvement could come from disclosing the issues submitted to the IFRS IC. The IFRS IC mainly focuses on questions of general interest, but we can suppose that many more country- or industry-specific questions remain unsolved. Increased disclosure of received questions may help the general understanding of problems still on the table (cf. point C concerning a database with application cases) and lead to more consistent application of IFRS among preparers.

F. Education activities in support of consistent application. In support of more open access, the IFRS website could host a list of university courses concerning IFRS. Providing links to available teaching materials from different providers may also be considered.

G. Post-implementation Reviews. We believe academic research can play a more important role in this field in the future, providing analytical contributions and empirical evidence concerning implementation choices by companies and the effects on financial markets⁶. In order to learn more from post-implementation reviews the IASB may want to consider a more differentiated approach during the review process, i.e. addressing different issues for different groups (preparers, primary users, advisers).

11. As declared in the Summary of the Trustees Review, “the Foundation faces a dilemma in that although the primary responsibility for consistent application rests elsewhere, in particular with preparers, auditors and regulators, it is the IASB that bears a risk if IFRS is not consistently implemented. IFRS is positioned as a single set of global standards, and the important benefits that IFRS bring are based on their being a single set of standards applied globally”. We think this dilemma will remain for the future, as an unavoidable consequence of the private standard setting approach. We trust in the open contribution by the several categories of IFRS-involved subjects, as a form of sharing the aforementioned responsibility, in the primary direction to search for the general acceptance of the IFRS.

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?

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?

12. Because IFRS and IFRS for SMEs is adopted by an increasing number of jurisdictions worldwide, it is important for the legitimacy of the standard setter to engage with stakeholders in these different jurisdictions and to be aware of the role of accounting standards in their countries and the economic consequences of the IFRSs for those countries. Since the number of Board members and IFRIC members is limited, we support the increase of the number of ‘at large’ Trustee appointments from two to five as this will allow a wider geographical engagement with stakeholders.

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?

Question 10 — Do you agree with the proposal to change the focus and frequency of reviews of strategy and effectiveness, as set out above?

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?

13. The IASB has a strong interest in making IFRS universal and therefore actively seeking to increase its geographical converge will be necessary in the future. The IASB needs to avoid that the board is largely composed by experts with Anglo-American background like in the first decade of its existence (Nölke, 2015, p. 113; Walton, 2015). According to Nölke, it will be difficult for the IASB to establish a prominent voice in the particular setting of transnational private governance if board composition is primarily based on professional expertise (Nölke, 2015, p. 114). So in response to question 11 we suggest opening the membership for more persons with non-Anglo-American background on the Board.

14. An overview of elements of concern raised in prior literature (e.g., Crawford et al., 2014) on the composition of the IASB Board is summarised by Palea (2015). There are concerns with respect to the IASB’s composition which is largely limited to

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members from the financial industry, as well as from big auditing firms (ibid. p. 10). Furthermore, the composition of the IASB is dominated by representatives from Anglo-Saxon countries and from international organizations whose priorities conform to Anglo-Saxon preferences (ibid. p. 11). Other types of actors, including companies from the manufacturing sector and labor unions, are not in the picture. For this reason, doubts raise regarding the IASB’s composition and independence (ibid., p. 11).

15. Based on the research reviewed by Palea, we suggest that solutions are sought in order to ensure that stakeholders who do not have a lot of financial resources are also able to express their opinions in the IASB due process, such as labor representatives and stakeholders in less developed countries. We would suggest the IASB to increase the outreach activities in the different regions of the world in order to further ensure awareness of the economic consequences of IFRS before a news standard is issued.

**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?

**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?

**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?

16. In these recent years, the IFRS Foundation has accomplished a lot of progress when it comes to more diversified funding, receiving more financial resources from outside the private sector. This contributes to more independent, credible and proper functioning of the organisation. We would welcome the IFRS Foundation to continue on this path and to ensure that countries, especially developed countries, using IFRS contribute more to the funding of the Foundation.

**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?

30 November 2015

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