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**Re: *Request for Views Trustees' Review of structure and Effectiveness: Issues for the Review***

Dear Michel,

We are pleased to have the opportunity to provide our comments on the *Request for Views Trustees' Review of structure and Effectiveness: Issues for the Review (RFV)*.

Our main considerations are summarized below as follows:

- IFRS Foundation/IASB should not extend its remit beyond the current focus to encompass standards for not-for-profit bodies and for the public sector;
- we agree that it is important that the IFRS Foundation itself continues to develop and to maintain an IFRS Taxonomy in order to ensure its quality and to protect the IFRS brand. However, we do not believe that the Taxonomy should be integrated in the IASB standard-setting process because we see the risk that this may take the IASB away from a principle-based approach when it develops accounting standards, in particular in the area of disclosures. Therefore, we fully support the Trustees' statement that Taxonomy considerations should not dictate the standard-setting process;
- we support the three-tier structure of governance, and we think that in these years it has functioned well. However, we have some concerns about the membership of the IFRS Foundation. In our view, the focus should be the needs of jurisdictions that have already adopted IFRSs or are clearly committed to adopting them. Without excluding anybody

from the membership of the bodies of the IFRS foundation, we think that financial contribution and use of IFRSs are priority for the membership of governing body, while with regard to the technical bodies, relevant experience in the application of IFRSs should be the most important factor to be considered;

- we observe that Europe is one of the main jurisdictions that applies IFRSs, if we consider its market capitalisation and number of IFRSs adopters, as well as being the main contributor. Therefore, we do not agree with the proposals to reduce the number of European seats (neither in the Trustee nor in the IASB), that in our view is already under-represented. Moreover, we have concerns that the proposal to reduce the size of the IASB from 16 to 13 could compromise the need to have a balanced composition in terms of nationality, professional background and experience as well as having a possible negative impact on the activities carried out by Board members'. However, if the Trustees decide to go on with these proposals, this should be without detriment to jurisdictions which apply IFRSs and, in particular to Europe, but it should regard the jurisdictions which do not apply IFRSs.

Our detailed comments and responses are set out below.

### ***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?**

We agree with the Trustees that the IASB should not take responsibility for financial reporting standards for the public sector, because a standard setter already exists, the IPSASB, and the needs of the sector are well served by it.

With regard to standards for the private, not-for-profit sector, we note that the number of entities operating cross-border on an international scale is not significant enough to justify the need to have a single set of standards.

We think that the IASB's activities should focus mainly on standards for entities that have public accountability. However, if in the future, the need for standards for the private, not-for-profit sector should rise, the IASB could evaluate the possibility to extend its mandate, after having taken into account the impact that this new activity would have on its agenda and the resources available, in terms of staff and budget.

### ***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?**

We believe that the IASB should concentrate on the development of IFRSs, as already recommended in the past. However, monitoring the developments in the area of corporate reporting and continuing with the existing forms of cooperation with other organizations is essential to the work of the IASB. By doing so, it remains fully aware of developments across the whole range of corporate reporting and can take steps, if and when appropriate, to maintain the relevance of IFRS within that range.

Finally, we welcome the fact that the IASB is addressing the theme of non-IFRS information, in particular, alternative performance measures as part of the Disclosure Initiative project, trusting that the project be rapidly completed.

### ***Question 3***

**Do you agree with the Foundation's strategy with regard to 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?**

We agree that it is important that the IFRS Foundation itself continues to develop and to maintain an IFRS Taxonomy in order to ensure its quality and to protect the IFRS brand.

However, we do not believe that the Taxonomy should be integrated in the IASB standard-setting process because we see the risk that this may take the IASB away from a principle-based approach when it develops accounting standards, in particular in the area of disclosures. Therefore, we fully support the Trustees' statement that Taxonomy considerations should not dictate the standard-setting process.

Having said that, we are in favour of the IASB having a role in the approval of the Taxonomy in order to avoid the IFRS Taxonomy unintentionally interpreting the standards and to ensure its quality.

Finally, we welcome the shift in the IFRS Foundation strategy to focus more on the Taxonomy itself, leaving the development of the computer language to others with more expertise. The regulators could then decide which computer language should be followed in their jurisdictions.

#### **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?**

Technology is changing continuously, and we agree with the Trustees that it is important to consider how technology might affect how financial information is shared and accessed more generally. Therefore, we suggest the idea that the Trustees should have an open-minded approach and monitor technological developments. In this regard, consulting some experts when necessary could be enough instead of establishing a network of experts, as proposed by Trustees.

#### **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?**

We acknowledge that the IFRS Foundation has a strong strategic interest in the consistent application of the IFRSs, even if it is not directly and formally responsible for this because, as stated in the RfV, carve-outs and inconsistent application of the Standards undermine their purpose, prevent comparability and damage the brand.

The initiatives that the Foundation is carrying out to encourage the consistent application are appreciated. In particular, we refer to the work of the Interpretation Committee and the post-implementation reviews, which could be extended to encompass old standards when many implementation issues are raised by constituents.

Efforts should be directed to developing Standards containing clear principles and these should be written in a manner that makes their application easy in order to avoid many implementation issues and the need to provide interpretations/guidance. In this regard, we highlight the importance of having a strong system of quality control in the finalisation of standards to reduce the risk of subsequent amendments and clarification. Field tests and impact assessments are essential steps in the due process in order to reach this objective.

Moreover, we observe that developing interactions, in particular with national standard setters and other accounting bodies, could improve consistent application since they are well positioned to be informed about implementation issues.

We acknowledge that the IASB already has extensive due process procedures, whose compliance is reviewed by the Due Process Oversight Committee. As observed in the past, in our opinion, *“it is essential that the oversight is not limited to reviewing compliance with the procedures required but goes beyond, including a review of the reasons for the technical*

*decisions taken and the evidence supporting such decisions*". This would help to overcome the criticism that the IASB does not always take stakeholders' opinions sufficiently into account and it would give additional credibility to the standard setting process.

### **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?**

We continue to support the three-tier structure of governance, and we think that in these years it has functioned well. However, we have some concerns about the membership of the bodies of the IFRS Foundation.

In our view, the focus should be the needs of jurisdictions that have already adopted IFRSs or are clearly committed to adopting them. In particular, we refer to the needs of those jurisdictions that have delegated standard-setting to the IASB and therefore adopt the IFRSs without amendments. Involving those jurisdictions in the standard-setting process would favour consistent application and implementation on a global basis.

Therefore, they should play a more significant role than others that do not apply IFRSs. This should be reflected in the membership of the governing and technical bodies of the IFRS Foundation. This does not mean excluding members from countries that do not apply IFRSs, whose technical contribution is important, but reducing their presence in favour of countries applying IFRSs.

Furthermore, we think that the governing body needs to be composed mainly by individuals representing jurisdictions that not only, as said above, use IFRSs but also provide a permanent financial contribution.

Moreover, we believe that in the definition of the composition of these bodies, two aspects should be taken into account:

- ensuring that the representation, within a region, is the largest possible in terms of geographical distribution and professional background, avoiding over-representations of individual countries.
- considering, in the nomination process, any support that could be granted - according rules and procedures to be defined - by accounting bodies representative of the region.

### **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?**

We understand that the Trustees', as required by the Constitution, review their geographical distribution to adapt it to the changes in the global economic conditions in order to ensure a broad international base. In their view, the proposed increase in the number of 'at large' appointments will give them more flexibility in the determination of the composition.

However, in the light of our above consideration (see reply to question 7), we observe that Europe is one of the main jurisdictions that applies IFRSs, if we consider its market capitalisation and number of IFRSs adopters, as well as the main contributor. Therefore, reducing the number of European seats would send a wrong signal to Europe, that in our view is already under-represented. However, if the Trustees decide to increase the number

of 'at large' appointments, this should not result in a reduction of European seats but it should regard jurisdictions which do not apply IFRSs.

#### ***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?**

We agree with the Trustees that there is no need to introduce a specific quota for professional background but that the composition should provide an appropriate balance of professional background and experience.

#### ***Question 10***

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

We agree with the proposal to change the frequency of reviews of strategy and effectiveness (including its structure) that therefore should commence, at most, five years after the previous review has been completed. The Monitoring Board should call on the Trustees for an earlier review if the need arises.

#### ***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?**

We do not agree with the proposal to reduce the size of the IASB from 16 to 13.

We are not convinced about the reasons for the proposed reduction (such as, easier interactions, greater participation) except that the reduction would result in cost savings. Moreover, we are concerned that reducing the number of Board members below the current composition and the size fixed in the Constitution could impact on:

- the determination of a balanced composition in terms of nationality, professional background and experience, and
- the others Board members' responsibilities, such as participation in outreach activities, conferences and the liaison role with their jurisdiction.

Furthermore, we reiterate the same considerations expressed for the Trustees' membership about the role of Europe. In case the Trustees would nevertheless decide to reduce the number of IASB members, this should be without detriment to jurisdictions which apply IFRSs and, in particular to Europe, since the mandatory application of IFRSs and its contribution to the standard-setting process.

#### ***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?**

We are not convinced that the removal of the reference to recent practical experience is appropriate, because it is an important factor to take into account at the time of the first appointment.

Regarding the inclusion of the financial regulator background in the mix of professional backgrounds, we agree with the proposed integration since already now some Board members have a market or financial regulatory background. However, we think that there is no need to further increase their number.

Instead, we suggest including the possibility that members can have also a standard-setting background.

***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?**

We think that the maximum length of service should be eight years for Board members and not be extended up to ten years, with the exceptions provided for the Chairman and the two Vice-Chairmen. The length of the first appointment should remain a fixed term of five years in order to be more appealing for candidates with the best profile, renewable once for a term of up to three 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?**

We observe that a funding model that guarantees that the financing is stable, on a long term basis, and shared among jurisdictions on the basis of an agree formula, such as GDP, would be the ideal model to pursue in order to permit the IFRS Foundation to operate efficiently and independently.

We acknowledge that the financing is a serious issue for an organization, like the IFRS Foundation, that has to operate in the public interest, free of undue influence. We observe that the model described above could also lead up to constitutional changes or changes in the legal form of the IFRS Foundation, in order to achieve a better link between contributions (both financial and technical) and role in the governance of the participants, converting a mere role of adopter in an effective membership.

However, until the desirable funding system is not realized, the current three pillar model needs to continue.

If you have any queries concerning our comments, please do not hesitate to contact us.

Yours sincerely,  
Angelo Casò  
(OIC Chairman)