

2 November 2015

Mr Michel Prada
Chairman of the Trustees
IFRS Foundation
30 Cannon Street
London, EC4M 6XH
United Kingdom

Submitted to: commentletters@ifrs.org

Dear Michel

Request for Views: Trustees' Review of Structure and Effectiveness: Issues for the Review

The External Reporting Board (XRB) of New Zealand is pleased to have the opportunity to comment on the *Request for Views: Trustees' Review of Structure and Effectiveness: Issues for the Review*.

The XRB is an independent Crown Entity responsible for financial reporting strategy and the development and issue of accounting and auditing & assurance standards in New Zealand.

Specific Comments

We agree and support the four primary strategic goals the Trustees have identified for the organisation for the period 2015-2017.

We recommend the Foundation and the International Accounting Standards Board (IASB) continue to focus their strategic goals on developing high quality standards that improve reporting by for-profit entities to ensure the relevance and quality of International Financial Reporting Standards (IFRS) are maintained globally for for-profit entities. We consider this is where the Foundation and IASB can add the greatest value given its history, experience and structure.

We do not support the IASB undertaking work on its own at this time to cover the development of standards for the private, not-for-profit sector. Instead, we recommend the Foundation liaises with the International Federation of Accountants (IFAC) with the objective of undertaking further research into the matter. We consider there is a need to more clearly determine what problem needs to be solved from an international perspective in the private, not-for-profit sector before work on a solution, including who is the appropriate standard-setting body to undertake this work, can begin. In addition, we consider fundamental changes would be needed to the current structure and composition of the Foundation and its Boards if the IASB were to extend its remit to set standards for not-for-profit entities. This is likely to put further pressure on the Foundation's current limited resources and finances.

We recommend the Foundation and the IASB play a leadership role in the wider corporate performance reporting area for for-profit entities. In this regard, we also recommend the Trustees provide a strategic capacity/resource within the Foundation to consider, from a strategic (and holistic) perspective, the possible future direction of corporate reporting and the implications for IFRS in meeting the needs of key users. This is to ensure the Foundation, the IASB and IFRS remain relevant globally, and continue to do so in the future.

We recommend the criteria and class of entities that the IASB has in mind for which IFRS are intended, be clearly articulated within the scope of the *Preface to International Financial Reporting Standards*. This will help ensure the relevance of IFRS is maintained and IFRS are applied by the appropriate for-profit entities globally.

We elaborate further on the above under the Specific Matters for Comment that follow.

If you have any queries or require clarification of any matters in this submission, please contact Lay Wee Ng (laywee.ng@xrb.govt.nz) or me.

Yours sincerely



Graeme R Mitchell
Chairman
External Reporting Board

Specific Matters for Comment

Q1

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 do not support the IASB undertaking work on its own, or extending its remit, at this time to cover the development of standards for the private, not-for-profit sector. We recommend the Foundation and the IASB continue to focus their strategic goals on developing high quality standards that improve reporting by for-profit entities to ensure the relevance and quality of IFRS are maintained globally for these entities. We consider this is where the Foundation and IASB can add the greatest value given its history, experience and structure.

Instead, we recommend the IASB liaises with IFAC with the objective of undertaking further research into the matter. We consider there is a need to more clearly determine what problem needs to be solved from an international perspective before work on a solution, including the appropriate standard-setting body to set those standards, can begin. For example, among other matters, in determining whether there is a need for international not-for-profit standards, it is necessary to first determine the types of not-for-profit entities to which such standards would be designed to apply, the users of financial reports of those types of private, not-for-profit entities, and their respect information needs.

We consider substantial additional technical resources and funding would be required if the IASB were to expand its remit at this point in time. This is likely to put further pressure on the Foundation's current limited resources and finances. If the IASB were to develop standards for the private, not-for profit entities, the composition of each of its boards within the wider IFRS organisation would also need to be reconstituted to ensure they included members with the relevant skill, experience and interest in private, not-for-profit standards.

Q2

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?

While we agree it is important for the Foundation and the IASB to play an active role through cooperation with other organisations, we recommend the Foundation and the IASB extend this to a leadership role in the wider corporate performance reporting area for for-profit entities. It is important for the Foundation and the IASB to increase the extent of their work relating to a broader concept of corporate performance reporting to ensure the Foundation, the IASB and IFRS remain relevant globally, and continue to do so in the future.

We recommend the Trustees provide a strategic capacity/resource within the Foundation to consider, from a strategic (and holistic) perspective, the possible future direction of corporate performance reporting and the implications for IFRS in meeting the needs of key users.

The debates around issues such as disclosure overload, the complexity of financial statements, non-IFRS performance measures and "missing" intangible assets are indications that financial statements presented in their current form may not be meeting the information needs of key

users. Other questions include the boundary between information contained in general purpose financial statements and information found in other forms of corporate reporting, such as management commentary. We recommend the Foundation and the IASB consider these matters from a strategic perspective, including not only the implications for IFRS, but also how the Foundation and the IASB can play a leadership role in the work on improving other financial and non-financial/narrative information in corporate performance reports.

As part of this work, we encourage the Foundation and the IASB to closely monitor the development of Integrated Reporting under the International Integrated Reporting Council's (IIRC) Framework, for example, to ensure where the capitals under the IIRC's Framework have a direct relationship to financial or the wider corporate reporting, these are taken into account when developing accounting standards.

Q3

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

Q4

How can the IASB best support regulators in their efforts to improve digital access to general purpose financial reports to investors and other users?

Q5

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?

We agree the IASB should keep updated on technological and digital reporting developments. We support the Foundation establishing a network of experts to help and provide advice. We also support the IASB undertaking research on how the technology is changing and how the IASB's development of the IFRS Taxonomy and its work on filing should respond to those changes.

Users, especially the expert users/analysts, increasingly rely on digital sources of data (and other more up-to-date information rather than on published financial statements) as their primary data source for their respective models. It is important the IASB is able to respond promptly to any major shifts or advances in this area, including considering the implications for IFRS, which is primarily focused on annual financial statements. It is also important that users who rely on digital sources of data do so based on a common taxonomy.

The advances in digital technology means it is even more important for the IASB to consider the target audience of published financial statements and how the presentation of published financial statements should be refocused as a communication tool.

Q6

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 consider the IASB issuing clear, understandable and enforceable standards that are principles-based and drafted in a consistent manner across the suite of IFRS will go a long way

towards ensuring the consistent application of IFRS by preparers. We have no other comment beyond what the IASB proposes to do as set out in the Review.

Q7

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 consider the three-tier structure of the governance of the Foundation is working well, given the regular reviews and improvements that continue to be made.

Q8

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?

The current geographical distribution of Trustees is designed to be representative of the world's capital markets and to ensure a broad international base. Trustees may also wish to consider whether the distribution should also ensure it gives due representation to those jurisdictions that have already adopted, or are committed to adopting, IFRS, over those who have not adopted IFRS.

We agree with the proposal to increase the number of "at large" Trustee appointments from two to five, if this gives the Trustees more flexibility to modify the representation and distribution of Trustees.

Q9

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 the specification in the Constitution that normally two of the Trustees shall be senior partners of prominent international accounting firms may be unduly restrictive.

We support the Trustees having the flexibility to determine the appropriate balance of background and to ensure the Trustees, as a group, have the appropriate technical expertise to carry out their responsibilities. The appropriate balance of background and technical expertise of Trustees should also take into account the scope of the Foundation's activities at a particular point in time.

Q10

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 focus and frequency of reviews of strategy and effectiveness of the organisation to commence, at the latest, five years after the previous review has been completed to allow the organisation to have some stability and continuity.

Q11

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 agree with the proposal to reduce the size of the IASB as set out in the Constitution from 16 members to 13 and the revised geographical distribution, provided the reduction in size and the continued focus on geographical distribution does not affect the combined conceptual and technical skills, professional competence, practical experience and independence of the IASB members.

We note that the ASAF is now assisting with consultation, liaison and communications with stakeholders. However, its role is advisory and its membership is representational of their particular organisations or regional grouping. It is important that, regardless of its size and geographical distribution, IASB members continue to have the necessary conceptual and technical skills, professional competence, practical experience and independence to be able to assess the work of the ASAF and to fulfil the IASB's role as an independent international standard setter.

Q12

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 agree with the proposal to delete the seemingly more restrictive limitation on the professional backgrounds of IASB members in Section 27 and to amend the wording of Section 25 of the Constitution on the balance of backgrounds on the IASB members. This will give the Foundation some flexibility in ensuring the best available combination of technical expertise and diversity of international business and market experience.

Q13

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 agree with the proposal to amend Section 31 of the Constitution on the terms of reappointment of IASB members to make the terms renewable once for a further term of up to five years (instead of for up to three years) to give Trustees some flexibility on the term of reappointments, and taking into account the long life cycles of a major projects, as necessary.

Q14

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 agree with the Foundation's funding model. We support the Foundation investigating ways to "enforce" the funding model from publicly-sponsored contributions made by jurisdictions and to increase self-generated income as a means of helping the organisation to become more financially independent. We consider it important the Trustees continue to reiterate funding is

not contingent on fulfilling any conditions that would compromise the independence of the standard-setting process.

Q15

Should the Trustees consider any other issues as part of this review of the structure and effectiveness of the Foundation? If so, what?

Public accountability

We recommend the IASB articulates the criteria and the class of entities it has in mind for which IFRS are intended, and locate the material in the appropriate section within the Scope and Authority of International Financial Reporting Standards in the *Preface to International Financial Reporting Standards*¹.

Currently, a definition of “public accountability” is located in the *IFRS for SMEs* and the IASB uses the definition to describe the class of entities for which *IFRS for SMEs* is not intended. We do not consider it appropriate that the basis upon which the IASB uses to determine whether it is appropriate for an entity to use IFRS should be located in the *IFRS for SMEs*.

Articulating the criteria the IASB uses to determine “public accountability” directly for the entities is important because over 100 countries have now adopted IFRS. Well-articulated and clear criteria will assist the jurisdictions to ensure the appropriate entities are applying IFRS and this is based on a set of common, global criteria. We consider this will contribute to ensuring the relevance and high quality of IFRS are maintained and applied by the appropriate for-profit entities globally.

¹ We note that IPSASB has recently issued Exposure Draft (ED) 56 *The Applicability of IPSASs* which proposes to, among other matters, revise the Preface to International Public Sector Accounting Standards to provide the characteristics of public sector entities for which IPSAS are intended.