



The Corporate Reporting Users' Forum

By email to: strategyreview-comm@ifrs.org

Response to the IFRS Foundation Trustees' future strategy review

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?

As the CRUF has indicated in our previous dialogues, both with the IFRS Foundation and the IASB, we are firmly of the view that the purpose of IFRS standards must be to generate information of use to investors. While it may be important to win the goodwill and support of other users of accounts as well, the standards must be designed to generate the information which investors need. In a similar way, while the input of preparers is important, this cannot be determinative of the information which is disclosed.

We have gone further, and argue that standards should focus on the needs of equity providers. As owners of businesses, equity providers share in the marginal returns of the enterprise as they are generally the most subordinate class of stakeholder. Because of this subordination, we believe that financial reporting which serves the needs of equity holders will also serve the needs of all other stakeholders; we also believe that the clarity and simplicity which will come from designating the perspective of current shareholders alone as primary would be extremely valuable in the future development of Financial Reporting Standards. We firmly believe that this perspective should be integrated into the IFRS Conceptual Framework. This would lead to Standards requiring a high baseline of information which would serve the needs of all stakeholders.

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?

Prudential regulators have much greater access to information than that available to investors in the public markets; unlike investors, they are not reliant on publicly available data and information produced according to IFRS standards. We therefore believe that while there is likely to be value gained from ongoing dialogue between the IFRS Board and prudential regulators, the needs of such regulators should not influence the information which the public markets receive. We are therefore clear that IFRS standards should not be written with the needs of regulators in mind; they must be written for the benefit of investors. There has been much criticism of the pro-



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cyclical nature of fair value accounting; we believe that this is much better addressed by proactive and effective regulatory intervention than by obscuring the information revealed to the markets.

One issue which the crisis has highlighted is the need to join up accounting and auditing standards. It has become apparent that too many accounting standards are written with little attention paid to how the reporting by companies can be effectively audited. We therefore believe that accounting standard-setting needs to incorporate some concept of the need for the auditability of reporting under those standards such that users can have greater confidence in the information with which they are presented.

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?

We are comfortable with the 3-tier structure. In particular, we believe that it is important to have a buffer between the IASB and the political influence which the Monitoring Board can represent, so that the IASB can be seen to operate fully independently from political pressures. We believe that this independence is vital to maintaining the confidence of the markets. This need for clear IASB independence argues for an effective IFRS Foundation to provide the necessary buffer.

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)?

We believe that the structure is appropriate and that the legitimate parties are represented on the Monitoring Board, which has appropriate and sufficient political legitimacy. We believe that those regulatory bodies with a close interest in the appropriate functioning of financial markets are more legitimate members of the Monitoring Board than parties with a more political approach.



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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?

We believe there should be much more field-testing of ideas in the market before they are proposed, such that the proposals are practical and effectively carry through the IASB's intent. Staff should prepare descriptions of the impacts of proposals in practical cases, so that users can consider concretely whether the proposals assist them in their work, rather than needing to interpret the implications of abstract concepts. This effort to focus on the practical as well as the theoretical may be assisted by the IASB maintaining its current efforts to hire more staff with practical experience of investing and of preparing accounts.

We also believe that the IASB must continue with its efforts to engage the user community. It should develop a bank of users such that it has specialists from particular sectors available to provide input on sector-specific issues. We recognise that this is a difficult undertaking as the user community is not always ready to engage, but we do believe that this is necessary in order to generate standards of the highest quality. The engagement of such individuals will be markedly facilitated by IASB staff producing the outlines of the practical impact of proposals discussed above. These discussions could then be reflected in the published deliberations of the IASB staff.

In a similar way, we believe that the Board should more actively consider input from the market about standards which currently include problematic areas and that should form part of the agenda priorities. There should not be change for its own sake, only where there is an actual need. We believe the shift of focus away from a convergence agenda will assist a move to focus the agenda on issues which need to be addressed, not just those required to deliver convergence.

Implementation reviews need to be active processes which are considered and seek to uncover practical problems with standards and the implementation of standards. There may be aspects of standards which can and should be dropped altogether as well as others which need amendment.

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?

As suggested above, we would welcome the Board considering such practical issues more actively in its work going forwards, and believe that IFRIC may be of assistance to the Board in this regard. We believe that standards need to be not only high quality but also auditable and capable of application in practice without excessive additional



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work. These two requirements are likely to lead to greater consistency in the adoption and implementation of standards.

One simple route to moving towards greater consistency might be for the IASB to consider whether the application guidance developed by the major auditing firms accurately reflects IFRS standards; where it does not, this could then be improved. Of course we recognise that this does not in itself ensure that this guidance will be applied consistently.

A further route to more consistent application and implementation must be for the IASB to work more closely with national regulators to encourage consistency of understanding and application of the standards. Rather than creating a new structure and mechanism it makes most sense first to use the existing mechanisms.

It is important to note that poor adoption and implementation may be evidence of a poor standard, not just problems on the part of those attempting to implement that standard

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?

We believe that there must be some system whereby those markets which apply IFRS provide the consistency of funding which the IASB requires in order to deliver high quality standards. The most natural route towards this would be for a small levy to be raised from every public company in markets where IFRS is compulsory and also from those public companies applying IFRS on a voluntary basis.

Other issues

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

We continue to be of the view that once a satisfactory geographic spread has been achieved, membership of the IASB should be determined by quality and skills rather than by a strict quota system based on geographical origin. We would note that the current size of the Board should not be increased as we believe it is probably at the limit of scale in order to function effectively.

We believe that the Trustees will need to consider over time how to bring the governance of the IAASB together with that of the IASB because we do not believe that the IAASB being part of IFAC is sustainable for much longer. Such a move is also likely to assist efforts to ensure that accounting standards are auditable.



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About the Corporate Reporting Users' Forum (CRUF)

The CRUF came together in 2005 as a discussion forum to help its participants in their approach to the debate on current and future corporate reporting requirements. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters such as the IASB and FASB.

CRUF participants come from all around the world, including individuals from both buy- and sell-side institutions, and from both equity and fixed income markets.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. It does not seek to achieve consensus views, though at times some or all of its participants will agree to make joint representations to standard setters or to the media. It would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative.

We sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum (www.CRUF.com) and not as representatives of our respective organizations. The views expressed are those of individual CRUF participants and do not necessarily reflect the views of the respective organizations where we are employed. The participants in the Forum that have specifically endorsed this response are listed below.

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