Tel: +44 20 7893 3300
Fax: +44 20 7487 3686
@: abuchanan@bdoifra.com
www.bdointernational.com

BDO IFR Advisory Limited
Contact:
55 Baker Street
London W1U 7EU
United Kingdom

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XG

30 November 2015

Dear Sir

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

We are pleased to comment on the above Request for Views (the RfV). Following consultation with the BDO network[1], this letter summarises views of member firms that provided comments on the RfV.

Clear, understandable and enforceable standards

A key part of ensuring that standards can be applied consistently and adequately enforced is ensuring that the standards themselves are constructed on the basis of well articulated and robust principles, and are clearly written. Without this, implementation questions are likely to arise which cannot be addressed easily, and numerous issues are likely to be raised with the IFRS Interpretations Committee.

This links to the development of new and amended standards. Although this involves extensive due process, in some respects this would appear to be somewhat 'process driven'. We would encourage greater focus on ensuring that the underlying objective of each due process step has been met.

One of the most critical parts of the development of a new or amended standard is the articulation of the IASB's decisions and conclusions into a final standard in response to comments received in response to an exposure draft, including (at a late stage in the process) a 'fatal flaw' review of the a relatively final draft standard. We believe it would be helpful and appropriate for there to be more transparency about the private 'fatal flaw' review process in order that constituents understand more clearly how the review is carried out and by whom. However, we would not support a public fatal flaw review. A public review would have the risk of becoming a *de facto* additional exposure draft, rather than reviews being focussed on whether the way in which the IASB's conclusions have been articulated in the final standard are understandable and operational.

[1] Service provision within the international BDO network of independent member firms ('the BDO network') in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium. Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and/or the member firms of the BDO network.

Transition Resource Groups (TRGs)

We strongly support the TRGs which have been set up for revenue recognition and the impairment of financial instruments. In our view, there has been significant benefit from enabling a public discussion of new and emerging issues arising from these new standards with the involvement of key interested parties (for revenue, the FASB and for impairment, the regulatory community).

The discussions at the revenue TRG have resulted in both the IASB and FASB revisiting certain aspects of the new standard. Although there can be drawbacks that arise from amending a recently issued new standard, we believe that the swift action taken by the IASB and FASB has been the right approach, and is superior to the approach that was ultimately followed in dealing with implementation issues arising from IFRS 11 *Joint Arrangements*.

However, we believe that it is not appropriate to view the formation of a TRG as automatically giving rise to standard setting activities. Instead, the focus should be on the opportunity for issues arising from new and complex new standards to be subject to public discussion by subject matter experts. Consequently, we believe that consideration should be given to forming TRGs in future where a relatively complex new or amended standard brings significant changes in practice (whether to a particular major industry sector or more widely).

Size and composition of the IASB

We understand reasons why a reduction in membership might be proposed, but are not convinced that it is appropriate. Resource constraints mean that there are significant restrictions around the extent to which the IASB can take on new projects, and there is a risk that this would be emphasised if Board numbers were reduced. In addition, at a time when the global adoption of IFRS continues to expand, a smaller number of Board members could make it difficult for there to be adequate liaison with constituents.

Our responses to the questions in the RfV are set out in the attached Appendix.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)20 7893 3300 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan

Andrew Buchanan

Global Head of IFRS

Appendix

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 do not believe that it would be appropriate for the IASB to extend its remit to develop Standards for entities in the private, not-for-profit sector. Given its resource constraints, which are acknowledged in the current agenda consultation, the IASB should continue to focus solely on its current scope of activities. In addition, the number of private, not-for-profit entities that operate on a multinational basis is limited.

We would also not support a move by the IASB to develop public sector, as well as private sector, accounting standards. Apart from the resource constraints noted above which make this an unrealistic objective, while public sector entities share many financial reporting issues that are similar to those in the private sector, there are elements of knowledge and expertise that are specific to the development of public sector accounting standards which the current IASB Board and Staff do not have.

Consequently, we consider that the development of accounting standards for the public sector should remain with the IPSASB. However, in the longer term, it may be appropriate for consideration to be given to whether the IPSASB should be brought within the governance of the IFRS Foundation as a public sector standard setter, which would be separate and independent from the IASB which would continue to set accounting standards for the private sector.

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 agree, and welcome the steps which have been taken as summarised in paragraphs 27 and 28 of the RfV.

However, we would support a shift in emphasis. Although we believe that the IASB's primary focus should remain on financial reporting, we encourage the IASB to be a more proactive contributor to the wider corporate reporting debate. Without this, there is a risk that developments in wider corporate reporting might not fully be taken into account in the development of accounting standards.

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?

In general, we agree with the strategy, in particular that the standard-setting process should not be dictated by Taxonomy considerations; the standard-setting process needs to remain the primary focus with the Taxonomy being a secondary consideration. We also agree that the IFRS Foundation should continue to develop and maintain the IFRS Taxonomy, as this enables control over both the quality of the Taxonomy and the use of the 'IFRS' brand name.

We note that the primary users of the IFRS Taxonomy and XBRL are regulators and market authorities. We suggest that the IFRS Foundation should engage with those parties, in particular those which are being tasked with electronic reporting. For example, the European Securities and Markets Authority has recently issued a consultation paper on the European Single Electronic Format, which covers a number of options in respect of digital reporting.

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??

We do not have any specific actions that we consider the IASB should take at this point. However, we welcome the suggestion in paragraph 38 of the RfV that a network of experts might be established to assist the Foundation and IASB in monitoring and assessing changes in technology, and encourage the formation of this group in the near future.

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?

Clear, understandable and enforceable standards

A key part of ensuring the consistent application of IFRSs, and the enforceability of them, is to ensure that the Standards themselves are constructed on clearly articulated and robust principles, with the guidance being written in a clear and understandable way. A lack of clarity results in numerous implementation questions being raised which cannot easily be addressed through the guidance in the Standards, and can result in numerous questions being raised with the IFRS Interpretations Committee. A lack of clarity can also result in Standards that are difficult to translate into other languages and, consequently, that cannot easily be implemented in jurisdictions that follow the translated text.

We acknowledge that there is an extensive and detailed approach to due process. However, in certain respects this would appear to be somewhat 'process driven', with the focus being on whether certain tasks have been carried out. We believe that further emphasis could usefully be given to focussing more clearly on what each step is designed to achieve, and ensuring that the underlying objective of each due process step has been met.

We are aware that some parties would support an extension of public consultation in the late stages of completion of (major) projects, including a public fatal flaw review. We are not supportive of this approach, although the Foundation might consider whether there might be more transparency about the current private 'fatal flaw' review process which is already followed. This might assist in addressing concerns that some parties have raised about the finalisation process. We also consider that greater emphasis on what each step of the existing due process is designed to achieve, as suggested in the previous paragraph, would significantly reduce any need for additional steps at the finalisation stage.

Transition Resource Groups

The formation of and output from Transition Resource Groups (TRGs) for revenue recognition, and for the impairment of financial instruments have, in our view, been very helpful in enabling a public discussion of emerging issues from new and complex accounting standards. These groups have also enabled continuing discussions to take place that (in the case of revenue recognition) involve both the IASB and the FASB and (in the case of impairment) involve the regulatory community.

We note that discussions at the TRG for revenue recognition have contributed to the IASB and the FASB revisiting certain aspects of the new standard. While we acknowledge the drawbacks that can arise when amendments are made to a recently issued Standard, as noted by the IASB in the Basis for Conclusions to its Exposure Draft of Clarifications to IFRS 15, we believe that the approach that has been followed for IFRS 15 is superior to the outcome for IFRS 11 Joint Arrangements. For that latter Standard, issues raised by stakeholders ultimately resulted in the issue by the IFRS Interpretations Committee of a series of agenda decisions; a better approach might have been swift standard setting action by the IASB.

However, although we support the IASB having taken action to propose amendments to IFRS 15, we do not consider that a TRG should be viewed as automatically giving rise to standard setting activities. Instead, a TRG should be viewed as an opportunity for issues arising from new and complex new accounting requirements to be subject to debate by subject matter experts who will be involved in dealing with practical implementation issues.

Consequently, we believe that it may be appropriate for TRGs to be formed for other complex topics in future; however, this should only be done where there is a compelling reason. This might be where a new or revised accounting standard brings major changes to accounting for a particular sector, or where there are accounting requirements that will or may bring significant changes in practice.

Co-operation with others

We note and welcome the Foundation's work in its co-operation with securities regulators. However, the IASB engages with many parties on a bilateral basis, and there may be benefits (both in terms of quality of input and efficiencies) in considering whether multilateral meetings would be appropriate.

IFRS Interpretations Committee

We note that, during the period since the IASB's 2011-12 Agenda Consultation, the IFRS Interpretations Committee has issued 54 agenda decisions (ie decisions not to take an issue onto its work plan), with many of these having included educational guidance. Although the IASB has issued 14 annual improvements and narrow scope amendments during that period, only one IFRIC Interpretation has been issued (IFRIC 21: *Levies*). Prior to the issue of IFRIC 21, IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* was issued in October 2011 and IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* was issued in November 2009.

While we do not propose an approach under which the IFRS Interpretations Committee produces IFRIC Interpretations on a very frequent basis, the amount of authoritative guidance that has been issued over the past six years is very small, and we question whether there really were no issues among the 54 that were not taken onto the agenda that might have warranted an IFRIC Interpretation. Consequently, while we believe that a high hurdle should remain before an issue is added to the IFRS Interpretations Committee's work plan with a view to developing an IFRIC Interpretation, the current level might be revisited in order to determine whether it is too high.

Post-implementation Reviews (PIRs)

With regard to the question of whether two years of full implementation of a new Standard is sufficient for an effective PIR to be carried out, we believe that the answer will vary depending on the complexity and extent of change that a particular new or amended Standard brings. It may be appropriate for the Due Process Handbook to be amended such that, rather than giving the IASB an option to defer a PIR, a review will be carried out between two and four years after the full implementation of a new Standard.

However, although the IASB's due process in the development of new and amended Standards should contribute to the issue of requirements for which significant issues do not arise during the implementation stage, we suggest that the IASB should be ready and willing to undertake standard-setting activities before a PIR is carried out, if issues are identified that justify that approach.

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 do not believe that significant changes are required.

Question 8

What are your views on the overall geographic 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 agree that there needs to be an appropriate geographic representation among the Trustees. However, it is not clear how the corresponding decrease in specified regional representation will be split following the proposed increase in 'at large' appointments.

We acknowledge that there is a balance to be drawn, and that it is likely to be necessary to (continue to) have at least some representation from major jurisdictions that have not yet adopted IFRS. Without this, there is a risk that the potential for those jurisdictions ultimately to require or permit the use of IFRS by domestic listed companies would be significantly reduced.

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?

It is necessary for the Trustees as a whole to include an adequate balance and range of professional backgrounds. This includes a need for individuals with recent practical experience of financial and corporate reporting, which links to the need for the Trustees to include audit and accounting practitioners. While we agree that additional quota requirements should not be introduced, it should be ensured that there is an adequate representation of a range of relevant backgrounds.

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. Changes introduced as a result of a review of strategy and effectiveness can take some time to be implemented. A period of five years between reviews would appear to achieve an appropriate balance between frequency of reviews and the need to allow sufficient time for experience to be obtained of the effects of changes implemented as a result of the previous review.

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 geographic distribution?

While we understand the reasons why a reduction might be proposed, we are not convinced that this is appropriate. As noted in the current Agenda Consultation, there are significant constraints around the extent to which the IASB can take on new projects, and we are concerned that a reduction in the size of the Board would exacerbate this. We are also concerned that, at a time when global use of IFRS is still expanding, a reduction in the size of the Board would make it difficult for members to have adequate time to liaise satisfactorily with constituents in their geographic regions.

Linked to this last point, if the size of the IASB is to be reduced, we suggest that careful consideration if given to the geographic distribution of Board members to ensure that appropriate liaison can be maintained.

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 do not agree, and consider that the current provisions do not need substantive change. In our view, the IASB does not need to (and should not) include members whose professional backgrounds are those of market and/or financial regulators, and note that those organisations are already appropriately represented within the IFRS Foundation, such as on the Monitoring Board.

We also believe that a key attribute of prospective Board members should continue to be recent practical experience in financial and corporate reporting.

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?

Linked to our comments about recent practical experience in our response to question 12, we consider that a second term of three years is likely normally to be an appropriate period. However, in some cases where the IASB has been engaged on a long term and complex project, it might be desirable for IASB members who have been closely involved with that project to be retained for a longer period. Consequently, we suggest that the current 'five plus three years' approach is retained, with an option being added for the period to be extended for a further period, normally of no more than two years, if this is considered appropriate.

Appropriate criteria would need to be developed for this additional period, including how the duration would be determined. As suggested above, this might incorporate some flexibility and be linked to the likely completion date(s) of particular project(s), in order that key expertise is not lost during the final stages of completion of significant new and amended standards. This also links to our comments about the need for robust and substantive due process in our response to question 6.

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 account the limitations on funding?

We acknowledge that from a practical perspective, it is necessary to retain the current three pillar system of funding. However, we would encourage the Foundation, to the extent possible, to take substantive steps towards a levy based funding model as described at the start of paragraph 96.

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?

There are no other issues that we consider need to be addressed.