Comment Letters
IASB
30 Cannon Street
London EC4M 6XH
United Kingdom

Paris, 1 December 2015


Dear Mr Prada,


We agree that the IFRS Foundation has evolved very positively and has achieved a lot in a number of areas.

However, we think that it is still a young organisation and that it cannot, at this stage, embrace other areas of financial reporting such as not-for-profit and public sector financial reporting. Beyond the content and expertise needed for such work, this would entail significant governance changes with repercussions in terms of financing, the stability of which is still not assured.

On the scope of its work, we agree with the IASB’s current implication in the context of corporate reporting to make sure that these streams are congruent, as well as in the development of an IFRS Taxonomy, under the proviso that this does not unduly influence the IASB’s principle-based standard-setting process nor its outcome. Regarding the Taxonomy, we consider that it is not for the IASB to gather information as to the filing formats in the various jurisdictions and that the IASB’s role should focus on the Taxonomy, having regard that it should be constructed so that other systems than XBRL may also use it.

Regarding the membership of either the Monitoring Board, the Trustees or the IASB, we consider that the geographical membership needs to be adjusted to reflect the use of IFRS by jurisdictions’ domestic listed entities (and the standstill situation of the United States vis-à-vis adoption of IFRS) as well as the funding of the organisation. We feel that as it is currently, it does not support nor incentivise jurisdictions to either adopt the standards or fund the organisation.

We disagree with proposals to change either the periodicity of review of the Constitution, of the Agenda Consultation or with the length of Board member’s membership.
Finally, as regards financing, we note that the IFRS Foundation is engaged in a number of activities and that both the Constitution Review and the Agenda Consultation ask questions regarding respectively strategy and how the IASB should best allocate its resources. In order for constituents to provide fully informed comments, we would have liked for the Foundation and the IASB to have provided information on resources and costs allocated to the various work streams they request comments upon.

Our detailed comments to the questions raised in the Request for views are set out in the Appendix.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,

Michel Barbet-Massin
Head of Financial Reporting Technical Support
Appendix

**Question 1 – Scope**

*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?*

Whilst we consider it would make sense for, in the long run, the accounting framework developed by the IASB to be used by every entity, including not-for-profit entities and entities acting in the public sector, we still consider the current limitation of the IASB’s work to private sector entities to be pragmatic, given the current workload of the IASB, its limited resources and the as of yet non-stabilised/finalised state of its financing arrangements.

In addition, any expansion of the IASB’s remit would necessarily have to come with a change to the governance arrangements to include constituents of that broadened scope, as well as substantial additional resources with the relevant knowledge and expertise. We do not think that such change to the organisation is desirable at this stage as it is not without risks for the IASB’s current work.

**Question 2 – Scope**

*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 consider that it is important that the IASB participates in the developments in wider corporate reporting by way of cooperation.

Financial reporting cannot be standardised or considered as operating in a vacuum: the story that is told by financial reporting should be congruent with that told by wider corporate reporting, in as much as it is a subset of or complement to corporate reporting. This, in our view, is achieved by a two-way working-stream:

- by the IASB influencing wider corporate reporting by its knowledge of accounting and of transactions and how they could be represented,
- but also by the IASB taking into consideration in its work aspects that are developed in the context of wider corporate reporting.

On the latter, we note with interest the development of the notion of business model in the context of corporate reporting and, as much as the IASB is starting to take business activities into account, mainly for measurement considerations, we consider, as mentioned in our response to the IASB’s ED on the Conceptual Framework, that such a concept should permeate financial reporting on a wider scale.
Question 3 – Digital reporting

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

We note that there has been a shift in focus regarding the IFRS Foundation’s XBRL-related activities with less of a focus on the technology and the development of the IFRS Taxonomy being integrated with the IASB’s project teams.

Whilst we agree with the Trustees that it is important that the organisation develops and maintains an IFRS Taxonomy in support of its mission, having specific regard to aspects of consistency and comparability, we are still concerned that the development of the Taxonomy could be at odds with the notion of principle-based standards and welcome the Trustees’ recommendation that Taxonomy considerations should not dictate the standard-setting process.

We have participated in the trial run on the IAS 7 Exposure Draft earlier this year: this was the first time a proposed change to the Taxonomy was consulted upon alongside the proposed requirements of a standard. From our point of view, such consultation would be better placed after the standard has been finalised. However, in order to better answer the question, it would have been useful to have provided some feedback from the comments provided to the IASB and drawn out the key points of this trial run in the RFV. In addition, we note that the IASB is currently consulting on the IFRS Taxonomy Due Process until February 2016. Our answer therefore is subject to having the opportunity to fully consider this additional consultation.

On the topic of resources and costs, we think the Foundation should be more transparent on those devoted to the development of the IFRS Taxonomy as this would help its constituents put its answers in the overall perspective of the Foundation’s resources and costs.

Question 4 – Digital reporting

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

The work performed by the IASB as to gathering information per jurisdiction as to filing requirements will certainly be useful. We however do not consider that it is for the IASB to conduct such a review but for IOSCO to do so and are concerned of the resources and costs engaged in such process. Similar to other reporting, the IASB should consider co-operation to monitor developments in digital access and should only be advisers to regulators in this regard where needed.

Question 5 – Developments in technology

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 note that currently the focus is on XBRL but that technology evolves rapidly and that sooner or later another better solution could emerge to replace XBRL.
We therefore consider that in the long run it would be counterproductive for the IFRS Foundation to focus its resources and “bet on just one horse” (see also our response to Question 3).

In this respect, we regret that the Trustees mention “the newer tools and methods for both structured and unstructured data” without mentioning the names of such tools and methods to help us be in a fully informed position to assess whether they would be capable of supporting the standard-setting process.

Whilst we understand the need for the IFRS Foundation to understand how technology is evolving and changing how information is used, we would recommend that the IFRS Taxonomy be considered on a “technology-free” basis, in other words that it is defined with a structure, logic and characteristics that any technological solution would be able to incorporate.

**Question 6 – Consistent application of IFRS**

*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?*

**Quality Control**

We note that more recently issued standards have generated a number of implementation and interpretation requests. We acknowledge that the IFRS Foundation has been responsive and flexible in how these should be addressed with the establishment of Transition Resource Groups or through the usual IFRS Interpretations’ Committee route.

We consider however that there is a quality control issue in the finalisation process of these standards. This issue could be addressed through more thorough field testing, effects analyses and impact assessments. We note that the IASB is in the process of implementing the work it has carried out on an effects analysis methodology and hope this process is able to limit the quality issue.

Another way of addressing the quality control issue would be to analyse the issues raised during the non-public fatal flaw reviews on those above-mentioned recent standards, including the upcoming standard on Leases, with regard to the issues raised post finalisation.

We think the DPOC should review these issues.

**Post Implementation Reviews**

We welcome the process of post-implementation reviews and have participated with interest in the first two that the IASB has performed.

We consider that 2 years of implementation may be a little short to capture the full effects of the new standards and think that such period could be extended to 3 years.

In addition, we note that an increasing number of requests are made regarding older standards (see our answer to the IASB’s Agenda Consultation dated December 2011) and that the IASB and the IFRS IC should be able to step back and consider whether a PIR should be undertaken for those standards, and potentially propose that in the IASB’s next Agenda Consultation (see also our upcoming comments to the IASB’s Agenda Consultation).
Education initiative

Whilst we understand that the IASB’s Education Initiative is important in the context of fostering consistent understanding, interpretation and implementation of its standards, to our knowledge, no other standard-setting organisation engages in such activities. In addition, it would be helpful to understand how many resources are allocated to these activities and for what costs.

**Question 7 – Structure**

*Do you have any suggestions as to how the functioning of the three-tier structure of the governance of the Foundation might be improved?*

As mentioned in our answers to previous consultations, we support the three-tier structure of the governance of the Foundation, as we consider that this link enhances the public accountability of the IFRS Foundation, the IASB and the IFRS Interpretations Committee and increases the legitimacy of their work.

Having said this, we can only note that there is not much communication on the work performed and discussions held by the Monitoring Board and would encourage the Monitoring Board to more transparently and effectively communicate. This would help constituents understand better and provide appropriate feedback on how it operates. In particular, it would be useful to understand the types of topics discussed within the context of public interest.

Regarding the composition of the Monitoring Board, we note that the membership criteria are sufficiently loose to allow equal prominence of:

- jurisdictions for which IFRS are mandatory vs. authorised (either for domestic companies or for only for foreign private issuers) or even forbidden for domestic listed companies;
- jurisdictions which provide stable financing of the IFRS Foundation vs. jurisdictions which do not.

Without wanting to fully exclude some jurisdictions and having specifically in mind the standstill situation of the United States vis-à-vis IFRS, similarly to our position regarding the composition of the IFRS Foundation Trustees and of the IASB (see our answers respectively to Questions 8 and 11) we consider that a more balanced geographical representation taking account of the above factors should be put in place.

**Question 8 – Trustee composition**

*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?*

As mentioned in our 2011 letter in response to the IFRS Foundation’s Strategy review, paragraph 6 of the Constitution provides rules to ensure the geographical diversity of Trustees. As for the IASB members, we consider that a more flexible approach enabling the Monitoring Board to choose high calibre individuals would be appropriate.
This objective could for instance be achieved by defining ranges rather than fixed numbers for each geographic allocation. However, in defining such ranges, and as mentioned in our response to Question 7, the appointment of the Trustees should give priority to members coming from regions or countries that already require or authorise IFRSs for their domestic listed entities or that have committed themselves to require or authorise IFRSs for their domestic listed entities, in addition to contributing to stable financing of the organisation.

Therefore, as regards the specific question on increasing the number of ‘at large’, we note that the proposals do not state where those three additional ‘at large’ seats would come from. We would disagree if that meant that Europe would have to “give up” one of its six seats. We think, that if the Foundation seeks to reflect the context of its Jurisdiction’s profile project and its findings, the Trustees should draw the full implications of the situation regarding the use of IFRS as per the above as well as funding, which in practice would probably mean to significantly reduce the number of seats from North America (without necessarily excluding the United States) despite their weight in the capital markets, whilst increasing that of South America and possibly Africa with its diversity, emerging economies and developing countries.

As the current geographical composition stands, we are concerned that it does not appropriately either support or provide sufficient incentive for jurisdictions to take further steps in either adopting IFRS for domestic use or in funding the IFRS Foundation.

**Question 9 – Trustee composition**

*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?*

In view of our response to Questions 1 and 2, we do not think any change in the current specification of an appropriate balance of professional backgrounds is required.

**Question 10 – Strategy and effectiveness reviews**

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

We disagree with changing the periodicity of the strategy and effectiveness reviews of the organisation. In addition, it is unclear whether the proposed changes would affect paragraphs 17(c) or 17(d) or the constitution:

- under the provisions of paragraph 17(c), an entire review of the Constitution is launched three years after the coming into force of the Constitution and the ensuing changes should occur within a maximum of five years from that coming into force;
- under the provisions of paragraph 17(d), the Trustees are to undertake a similar review subsequently every five years.

We note that it generally takes a year between initiating such a review and finalising it. Depending on the breadth of issues consulted and/or commented upon, this timespan could also be longer.
Therefore, depending on the provisions that the Trustees are considering amending, changes to the Constitution could now move from 4-6 years to 6-8 years from the coming into force of the previous changes.

Given the significant changes that may take place within such periods, we consider that the existing processes are appropriate. If the Trustees did end up increasing the period between reviews, we consider that they would have to put in place remedial processes should issues arise and need to be dealt with urgently. Such issues most probably would require some interaction with the Monitoring Board.

**Question 11 – IASB composition**

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?

Similar to our responses to previous questions, we disagree with the proposal to reduce the number of Board members to 13. We consider that with the current number of 14 (which was the original number), the IASB operates reasonably well, although we would consider that better geographical balance, with reference to use of IFRS and funding, could be achieved with:
- four members from Asia/Oceania and Europe (unchanged);
- two members from North America (down from four);
- two members from South America (up from one);
- one member from Africa (unchanged); and
- one “at large” member (down from two).

**Question 12 – IASB composition**

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?

As mentioned in one of our previous responses, regarding the IASB membership professional diversity, we strongly believe that practical experience is the key criteria for choosing Board members. We recommend paying attention to the diversity of Board members regarding their professional profile and the length of their operational experience (from 20 to 45 years). We consider that a recent practical experience on financial and accounting matters is key to avoid setting standards that would not meet the daily concerns of all Stakeholders.


**Question 13 – Terms of IASB appointments**

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 consider that the existing length of membership, including renewal, is appropriate and disagree with changing the renewal for a further term of up to five years. We are concerned that this would create some unduly form of competition amongst Board members or the consideration of other aspects which ought not be taken into account in such decision, or even some form of automatic renewal for 5 years.

**Question 14 – Financing**

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?

**Transparency on the allocation of the IFRS Foundation’s resources and funds**

In our answers to Questions 2, 3 and 6, we have mentioned that it is difficult for us to assess to what extent the Foundation’s resources are appropriately and proportionately allocated to activities such as integrated reporting, the IFRS Taxonomy and the IFRS Education initiative. We note the transparency efforts of the Foundation in its 2014 Financial report but consider that these do not go far enough to help constituents provide fully informed comments to some of the Trustee’s questions in this Consultation, nor to some of those asked in the concomitant IASB’s Agenda Consultation.

**Funding model**

We have always considered that the independence principle at the heart of the IFRS Foundation organisation is to produce high quality standards and to prevent the creation of standards from being beholden to national, regional, industry or other special interests. Given this principle, we believe that the IASB and the IFRS Foundation need to find stable, long-term and diversified sources of financing. We think a sustainable funding could be reached through a capital-markets based levy-mechanism which would be less uncertain than private-based funding and would avoid the risk of the IASB being accused of undue influence of certain stakeholders.

We therefore recommend that the Monitoring Board and the Trustees pursue their work on these organisations' financing to ensure more automaticity of financing.
Question 15 – Other issues
Should the Trustees consider any other issues as part of this review of the structure and effectiveness of the Foundation? If so, what?

Periodicity of the IASB’s Agenda Consultation
We note that in its Agenda Consultation, the IASB has included a question on extending the periodicity of such review. We will provide in our comments to that consultation our views on this proposal. However, such question being a due process question, we consider that it ought to have been asked by the Trustees themselves.