



Grant Thornton

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The Trustees
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Submitted electronically through the IFRS Foundation website (www.ifrs.org)

Dear Trustees,

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

Grant Thornton International Ltd is pleased to comment on the IFRS Foundation Trustees' Request for Views - *Trustees' Review of Structure and Effectiveness: Issues for the Review* (the Request for Views).

We generally agree with the Trustees' proposals and recommendations set out in the request for Views. We see no need for substantial changes to the organisation's remit, structure or governance at this time.

We do have some suggestions on enhancing the organisation's activities in the area of consistent application, and on the focus of the organisation's future efforts to maintain the relevance of IFRS. These are set out in our responses to the applicable questions in the Request for Views.

Our responses to the questions raised in the Request for Views are set out in the Appendix.

If you have any questions on our response, or wish us to amplify our comments, please contact our Global Head of IFRS, Andrew Watchman (andrew.watchman@gti.gt.com or telephone + 44 207 391 9510).

Yours sincerely,

Kenneth C Sharp
Global Leader - Assurance Services
Grant Thornton International Ltd

Responses to Invitation to Comment questions

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 think the IASB should, for the time being, continue to focus on developing standards for private sector for-profit entities, including SMEs.

We acknowledge that there are some demands for internationally-consistent standards for the not-for-profit sector. However, we assume that responsibility for developing such standards would be a very significant expansion of the IASB's role. We believe this would be appropriate only if the organisation has compelling evidence that:

- the resulting standards would be widely adopted by the applicable regulators or other authorities around the world that prescribe the accounting framework to be used by NFPs; and
- the Foundation would be able to secure sufficient funding from appropriate sources to support the increased scope of activity without negatively impacting resources currently dedicated to serving the for-profit sector.

Regarding the public sector, we agree with the analysis and recommendations in paragraph 21 of the Request for Views. We also welcome the statement that the IASB will continue its current liaison arrangements with the IPSASB.

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 that it is important for the Foundation and the IASB to participate in developments such as Integrated Reporting. We therefore support the approach outlined in paragraph 28 of the Request for Views.

Question 3 - Do you agree with the Foundation's strategy with regard to the IFRS Taxonomy?

We agree that the IASB should continue to produce and maintain an IFRS Taxonomy only if the organisation has evidence that it is widely used around the world, or is reasonably expected to become so.

With this in mind we welcome the initiative to undertake an IFRS filing profile project. Information on the extent to which the IFRS Taxonomy is used around the world should enable the Trustees to better evaluate the appropriate level of investment in this area.

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 suggest that regulators are probably best placed to advise on this.

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 think it is necessary to acknowledge that IFRS, as set of standards developed for the preparation of periodic, general purpose financial reports, will remain relevant only if (or as long as) general purpose financial reports remain relevant. We do not expect technological or other changes to result in general purpose financial reports becoming irrelevant any time soon. However, the existing model may become obsolete at some point in time. We doubt it is possible or even desirable for a public-interest organisation such as the IFRS Foundation to attempt to 'future-proof' itself against all such possible eventualities. Instead we suggest that the focus should be on the continuing relevance of IFRS as a set of global standards for general purpose financial reporting within the context of the existing model.

Within that context, we welcome the statement that the Foundation plans to undertake additional research on changes in technology and how this might affect the IASB's work on the IFRS Taxonomy and filing. We suggest that the findings of the UK Financial Reporting Lab's project 'Corporate reporting in a digital world' should serve as a useful input to the Foundation's research.

We do believe that changes in the way information is shared and accessed more generally could affect how the IASB writes standards. Specifically, we suggest the following matters merit consideration:

- in assessing relevance, the relative importance accorded to 'predictive' and 'confirmatory' value. The objective of financial statements is described in the IASB's 'Conceptual Framework for Financial Reporting' in terms of usefulness in assessing the prospects for future net cash inflows. This objective seems to focus on predictive value. However, as ever more information is communicated outside the financial reporting process, users may make increased use of other communications for predictive purposes and less use of periodic financial statements. The usefulness of periodic financial reports could then shift more towards confirmatory value
- in developing principles of presentation and disclosure, the pros and cons of greater flexibility and management judgement. We anticipate that financial statements and the related notes are likely to work better in conjunction with XBRL or successor technologies if they remain a comprehensive source of information in a reasonably standardised form. In responding to current concerns about 'disclosure overload', there is perhaps a risk of placing too much onus on management to determine what to disclose and how to present financial information.

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 suggest that by far the most important driver of consistent application is the clarity and quality of the principles and supporting guidance in the IASB's standards. In making this observation, we stress that we think that recent standards are of high quality. However, we also believe there remains room for improvement in some areas. Relatively small investments in pre-issuance quality control processes, such as the 'fatal flaw' review process, could reduce the need for post-issuance implementation support.

We also think it is important to be as clear as possible on what is achievable, or even desirable, in the area of consistent application. It seems to be widely agreed that consistent application is important, but also widely acknowledged that absolute consistency is an impossibility. There are several reasons for this, including that:

- IFRS is a principles-based set of standards whose application will always require some use of judgement
- many standards include explicit accounting policy choices
- IFRSs do not, and in our view should not, aim to provide guidance on every specific type of transaction
- even if standards are interpreted fully consistently, the resulting outcomes in the financial statements are to a large extent based on estimates that are inherently subjective.

Many constituents also agree that there is a trade-off between pursuing consistency and maintaining a principles-based approach (and avoiding a proliferation of detailed guidance). Inevitably, however, views differ on how to strike that balance.

This of course begs questions about the level of consistency to pursue, and the extent to which any 'inconsistency' is acceptable or unavoidable. These questions are not new but we think that it remains important to continue to manage expectations and build a common understanding among stakeholders. This requires a continued dialogue about the trade-offs and limitations discussed above. Although specifying an objective target for consistency may be unrealistic, we think it is important to avoid becoming committed to an ever-growing range of activities in pursuit of an excessively vague objective.

Turning to the Foundation's activities in this area, our overall view is that the organisation has established an appropriate set of 'tools' to support consistency. We also think these are generally working effectively. We particularly welcome:

- the establishment of transition resource groups for revenue recognition and financial asset impairments
- the extension of the IFRS Interpretations Committee's role and responsibilities
- developing the IASB's interactions with securities regulators and others to provide an 'early warning' of emerging implementation issues on a timely basis
- enhancements to the Foundation's education activities.

The following comments on specific activities are therefore in the nature of detailed suggestions rather than major concerns.

Transition Resource Groups (TRGs)

We think that the early experience of the two TRGs has been positive overall. The deliberations of both TRGs have served a valuable educational purpose. The revenue TRG has identified issues that have led to some proposed clarifications to the standard.

We also fully understand that TRGs may not be appropriate for all new standards and that TRG's should have a limited life. When a major new standard is issued, we believe it is essential that some process is in place that can help identify and address any major implementation issues. At the same time it is also necessary to manage the risk of repeated changes and the resulting uncertainty for constituents. As ever, a balance needs to be struck.

That said, we are aware of suggestions that both TRGs may be discontinued in the fairly near future, despite the fact that the standards in question will be effective only in 2018. We question whether it is appropriate to close TRGs down so far ahead of the effective dates, and at a time when many companies' preparations are at an early stage. The mode of operation of the TRGs could instead be adapted depending on the flow of issues.

Finally, we suggest that the Trustees should consider amending the Constitution to formalise the remit of TRGs. We believe that TRGs should act primarily in an educational capacity, while also having the ability to recommend selected issues to the IC or for consideration in the post-implementation review group. We do not think TRGs should recommend amendments to an IFRS before its effective date, or should do so only in accordance with tightly-defined criteria that set a 'high bar'.

IFRS Interpretations Committee (IC)

We welcome the previous extension of the IC's role and responsibilities and believe the IC is generally working well. In particular we believe that the IC's agenda criteria and the way they are applied in practice provide a balance between providing helpful guidance and avoiding a proliferation of excessive detail.

We are aware of suggestions that the frequency of IC meetings has been under review. We understand the need to manage resources efficiently, and that the agenda for many recent meetings has not been full. We nonetheless urge caution in taking any steps that might be perceived as downgrading the role of the IC. We therefore welcome the decision to continue to schedule six meetings in 2016 (albeit two by web-meeting). Meetings could of course be cancelled if there are too few agenda items.

We also note that the IC's work is largely reactive. Its work is determined by the issues submitted to it, almost all of which are from external constituents. Although this seems appropriate, the IASB Board members and staff also become aware of various interpretative and application issues in the course of their work. We think it could be helpful for some of these to be referred to the IC (we are not aware of any constitutional barrier to this course of action).

Finally, we note that some significant issues are not added to the IC's agenda on the (legitimate) grounds that they may be addressed in an IASB research or other longer-term project. This can result in a long passage of time before the issue is addressed. Issues that have been 'rejected' on these grounds are sometimes not then addressed at all because the IASB's project is suspended or its scope changes. We think it is important that such issues are tracked in a manner that is transparent to constituents. If it becomes apparent that the

IASB project in question will not address the issue, it should perhaps be referred back to the IC.

Local interpretations

The existence of local or national-level interpretations is also relevant to a discussion of consistent application. We note that many local and national standard-setting, enforcement and other professional bodies continue to issue such guidance.

We are aware of concerns that this activity reduces international consistency and damages the 'IFRS brand'. In our view, however, some local interpretations serve a useful purpose - in particular when they address issues that are specific to the jurisdiction in question. By contrast, local interpretations on issues of international applicability may be problematic. We therefore suggest that the Foundation should consider undertaking a project or ongoing activity to gain a better understanding of the issue. This could assess the extent of local interpretative activity, the reasons it takes place and its effects on international consistency. A better understanding of the root cause of local interpretations will help the Foundation assess the effectiveness of its own activities.

In addition, we encourage the Foundation and the IASB to continue to develop their liaison with regional and international organisations such as IOSCO and ESMA. These organisations are in a position to promote consistent views among their respective national authority members.

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?

The existing three-tier structure appears to be working well and to have gained broad acceptance. We therefore see no need for major changes to it.

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?

While we acknowledge the need to maintain a geographic balance, and to specify requirements in the Constitution, we suggest that the main criteria for Trustee appointments should be skills, experience and commitment to the Foundation's public interest mission. We therefore welcome the proposal to increase flexibility by increasing the number of 'at large' Trustee appointments.

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 see no particular need to change the current specification. We agree that Trustees should be drawn from an appropriate range of professional backgrounds. Again, however, we believe that skills and experience should be the primary criteria for selecting Trustees. We would therefore oppose any move to introduce a quota system as this coupled with the existing geographical requirements would make it ever harder to appoint individuals with the appropriate skills and experience.

We welcome the statement in paragraph 84 regarding the Trustees' efforts to improve gender balance.

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.

As noted in the Request for Views, a number of reviews have been completed and various reforms implemented as a result. The organisation is now better established and more mature than was the case when the current three-year cycle was implemented. A balance needs to be struck between giving stakeholders sufficiently frequent opportunities to provide formal input on the organisation's strategy and effectiveness and the need for stability and continuity. It seems appropriate to revisit this balance.

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 have no objection to reducing the maximum size of the IASB to 13 members, or to the proposed geographic distribution. We believe it should be possible to assemble a Board of 13 members with an appropriate blend of skills, experience and geographic balance.

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 agree.

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 agree that there should be flexibility to reappoint Board members for a second term of up to five years. In particular, we share the view that continuity is important in the context of the lifecycle of major projects.

If this change is made we think it is also important that two five-year terms does not become the default or norm. The additional flexibility should be used to achieve the best possible balance between continuity and recent practical experience for the Board as a whole.

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 support the Trustee's goals of achieving a funding model that is:

- broad and sustainable
- secured on a long-term basis
- publicly sponsored, and shared among jurisdictions in a proportionate manner.

However, the full realisation of these goals remains challenging and, as acknowledged in the Request for Views, is yet to be achieved. We therefore understand that the Trustees will need to continue to operate a hybrid funding model for the time being, while taking steps to ensure that resources are managed efficiently.

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?

No, we are not aware of any other issues that should be considered as part of this review.