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Mr Michel Prada  
IFRS Foundation  
30 Cannon Street  
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Our ref **MV/28**  
Contact **Mark Vaessen**

26 November 2015

Dear Mr Prada

**Comment letter on the Trustees Review of Structure and Effectiveness: Issues for the Review**

We appreciate the opportunity to comment on the IFRS Foundation's request for views on the Trustees' review of structure and effectiveness: Issues for Review ("the Trustees' Review"). We have consulted with, and this letter represents the views of, the KPMG network.

We would like to highlight that, as a global network, we remain committed to a single set of high quality global accounting standards and believe that this should be achieved by the promotion of the global adoption of IFRS, either directly or via endorsement. We note that the IFRS Foundation has made significant progress in some jurisdictions in making IFRS either the local standard or promoting it through voluntary adoption, e.g. in Japan. However we also noted that in some jurisdictions the process of adoption has been slow and in others has stalled completely. We would therefore encourage the Trustees to continue to work with the regulators and national standards setters, as well as preparers and auditors to understand and address the challenges that countries face when adopting IFRS.

In our view, it is important for the IFRS Foundation and the IASB to continue to focus on inclusiveness and collaboration, e.g. through platforms such as the Accounting Standards Advisory Forum (ASAF), so that all those who are committed to IFRS have a genuine sense of ownership in the development of the standards and the ultimate IASB product. Such a collaborative model for standards development is in our view preferable to convergence with national standards.

We understand that there are three main areas that the Trustees are seeking input in this consultation document:

- a) Relevance of IFRS;
- b) Consistent application of IFRS; and

- c) Governance and financing of the IFRS foundation

### ***Relevance of IFRS***

We have previously commented on the fact that we do not believe that the scope of the IASB should be extended to public entities or private entities in the not-for-profit sector and remain of that view.

However, we believe that in order for IFRS to remain relevant in a rapidly changing environment, the IASB should take on a more proactive role in the area of corporate reporting beyond its current level of engagement, thus using its global standing and strong voice in the global capital markets to drive improvements in the future corporate reporting model.

We encourage the IASB, in dialogue with the G20, IOSCO and its partners in the Corporate Reporting Dialogue, to develop a clear strategy for its involvement in this area which should extend further than the current co-operation based approach.

We agree with the Trustees that the corporate reporting model of the future will be impacted significantly by the rapid, and potentially disruptive, developments in information technology, both in the way that information is produced by companies and accessed and consumed by market participants. We therefore appreciate the proposals of the Trustees to set up a network of experts to help them understand and anticipate changes and developments in technology and their impacts on reporting.

### ***Consistent application of IFRS***

We welcome the progress that the IASB has made in establishing a regular dialogue with IOSCO on implementation issues and strongly encourage the Board to continue with this dialogue. However we also encourage the Foundation to establish a three-way dialogue with the IASB, IOSCO and the audit profession as we believe that as a profession, we can support both the IASB and IOSCO by sharing our experience with IFRS implementation across industries and geographies, including issues of inconsistency seen in practice and potential concerns around inconsistencies in emerging interpretations of IFRS.

Furthermore, we believe that the best way to ensure a consistent application of IFRS is for the IASB to issue clear and concise principle-based standards, which are understandable and enforceable. Based on the experiences from recently issued standards and amendments, for example with respect to IFRS 11, IFRS 15 or the recently withdrawn amendment to IFRS 10/IAS 28, we believe that the IASB's quality control processes with respect to the drafting of final standards should be improved.

We would therefore encourage the IASB to perform a root cause analysis of what aspects in the standard-setting process caused the above mentioned issues including a detailed review of the effectiveness of the process of developing and drafting a standard.

In the short term, we specifically believe the quality control just prior to release of a final standard should be enhanced. The main area of improvement would be, in our view, to formalise a process for a fatal flaw review of a near final standard. While we do not advocate a full consultation process that might de-facto become another exposure draft, we would recommend a formalised and transparent process which includes reviewers from all stakeholder groups of the Foundation and a transparent process to demonstrate how fatal flaw comments received have been dealt with in the final drafting

### ***Governance***

As outlined in our previous responses to consultations on the governance of the IFRS Foundation, we support the three-tiered structure comprising the IASB, the Trustees and the Monitoring Board.

We believe that with the global expansion of IFRS, the role of the IASB members relating to outreach and communication with stakeholders is as essential as their technical expertise. A reduction of the IASB members to less than the current membership seems to be at odds with these increased demands. However, we are aware that there might be practical considerations which might make a reduction of the IASB membership inevitable.

In case of a reduction, we disagree with the suggested voting requirement of 9 approving votes. We believe that the decision to publish a standard should be made with at least 11 member votes. As highlighted in the consistency section, we believe that clear, understandable and enforceable standards are the key to ensure a consistent and high quality application of IFRS. We consider that to issue a standard or amendment against the wishes of three or even four Board Members undermines the credibility of IFRSs as it is a reasonable expectation of stakeholders that all Board Members are fully supportive of the goal of high quality global standards and none would express a dissenting view without careful and well-informed deliberation.

The Appendix to this letter contains our detailed responses to the questions on the Trustees' Review.

Please contact Mark Vaessen, at +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

*KPMG IFRG Limited*

KPMG IFRG Limited

**Appendix – Responses to the questions in the Trustees' Review**  
**Relevance of IFRS**

*Q1 – Considering the consequences referred to in the Trustees' Review, 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?*

In our letters to the IFRS Foundation on 26 July 2011 and 24 February 2014, we commented that we do not believe that the scope of the IASB should be extended to public sector entities or private entities in the not-for-profit sector and remain of that view.

The IASB is operating in an environment of constrained resources and we believe that there are other areas in which the global markets would benefit from further IASB involvement, rather than the private not-for-profit sector or the public sector.

*Q2 – Do you agree with the proposals that the IASB should play an active role in developments in wider corporate reporting through the co-operation outlined in the Trustees' Review?*

We encourage the IASB to be more active in the area of corporate reporting.

We believe that in order for IFRS to remain relevant in a rapidly changing environment, the IASB should take on a more pro-active role in this area, thus using its global standing and strong voice in the global capital markets to drive towards a globally consistent standard for corporate reporting.

We would therefore ask the IASB, in dialogue with other stakeholders, and in particular the G20, IOSCO and its partners in the Corporate Reporting Dialogue, to develop a clear strategy for its involvement in this area which should extend further than the current co-operation based approach.

*Q3 – Do you agree with the Foundation's strategy with regard to the IFRS Taxonomy?*

We remain supportive of the development of an IFRS XBRL taxonomy. However considering the resource constraints that the IFRS Foundation faces, we encourage the IASB's efforts to assess the demand for its taxonomy before committing additional resources to the project.

We therefore welcome the review of each jurisdiction including the requirements of the national regulators to assess demand globally.

*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?*

As highlighted in question 3, we support a jurisdictional review of the requirements that national regulators have for the taxonomy before dedicating further resources to the project.

*Q5 – Do you have any views of 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 with the Trustees that the dynamic environment of technical developments represents a significant change in how financial information will be accessed and used by market participants.

The review highlights that the dynamic environment of technological change is not a core competency of the IFRS Foundation. We strongly agree that the IASB needs to engage with experts in the field of technology in order to understand in particular the behavioural aspects that technology may impact, both with respect to how information is being produced and consumed.

We therefore appreciate the proposals of the Trustees to engage with experts to help them closely follow and adapt to changes and developments in technology.

#### ***Consistent application of IFRS***

*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 welcome the progress that the IASB has made in establishing a regular dialogue with IOSCO on implementation issues and strongly encourage the Board to continue with this dialogue. However we also encourage the Foundation to establish a three-way dialogue with the IASB, IOSCO and the audit profession as we believe that as a profession, we can support both the IASB and IOSCO by sharing our experience with IFRS implementation across industries and geographies, including issues of inconsistency seen in practice and potential concerns around inconsistencies in emerging interpretations of IFRS.

Furthermore, we believe that the best way to ensure a consistent application of IFRS is for the IASB to issue clear and concise principle-based standards, which are understandable and enforceable. Based on the experiences from recently issued standards and amendments, for example with respect to IFRS 11, IFRS 15 or the recently withdrawn amendment to IFRS 10/ IAS 28, we believe that the IASB's quality control processes should be improved.

We would therefore encourage the IASB to perform a root cause analysis of what aspects in the standard-setting process caused the above mentioned issues including a detailed review of the effectiveness of the process of developing and drafting a standard.

In the short term, we specifically believe the quality control just prior to release of a final standard should be enhanced. The main area of improvement would be in our view to formalise a process for a fatal flaw review of a near final standard. While we do not advocate a full consultation process that might de-facto become another exposure draft, we would recommend a formalised and transparent process which includes reviewers from all stakeholder groups of the foundation

and a transparent process to demonstrate how fatal flaw comments received have been dealt with in the final drafting.

The selection of reviewers should be transparent and public and should focus on stakeholders that can support the clarity and understandability of drafting rather than those seeking to provide further feedback on technical decisions of the Board.

We support the establishment of Transition Resource Groups (TRG), if there is a specific need and would point to the TRG on IFRS 15 and the Impairment Transition Group (ITG). Both standards represent specific challenges on implementation, with IFRS 15 being a converged standard with the US and the capital markets expecting a converged implementation, whereas, with respect to IFRS 9, the ITG serves as an effective forum to bring together the various stakeholders, including financial services regulators, who have a common interest in a high quality and industry-wide consistent application of the new loan-loss impairment model. We believe that once established for the right reasons, these TRGs should be kept in place and be ready to discuss implementation issues for the duration of the transition period in order to ensure that all preparers, users and other stakeholders have a chance to contribute, in recognition of the fact that the pace of implementation of new standards may differ across geographies and industry sectors.

However we also believe that the TRGs should not be used as a means to fix initial quality issues with the standards that may be prevented by an improved pre-issuance quality control process, as discussed above.

### ***Governance***

*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?*

As outlined in our previous responses to consultations on the governance of the IFRS Foundation, we support the three-tiered structure comprising the IASB, the Trustees and the Monitoring Board.

However, we believe that the ASAF should be acknowledged and given an enhanced role.

We believe that one of the barriers to the adoption of IFRS globally is the concern that national standard setters have about a loss of sovereignty. Enhancing the role of the ASAF might alleviate some of the concerns as the national standard setters would have a stronger role to provide input into the agenda and standard setting, including the research projects and quality control process within the Foundation.

We would also encourage the Foundation to look at other ways to work with national standard setters either through collaborations on specific projects or through targeted outreach. This might

relieve some pressure on the Foundation's resources while at the same time giving the national standard setters a stronger participation.

National standard setters might have identified similar areas of improvements, as the IASB has in its agenda consultation. We would encourage the IASB to consider using the work of such research projects and thus leveraging the work performed by National Standard Setters. The same may apply to other organisations involved in financial reporting standards, including regional bodies. This could help the IASB focus its own resources in a more targeted way to use them more efficiently.

*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 “at large” Trustee appointments from two to five?*

While we do not have any specific comments on the geographical distribution of the Trustees, we have supported the Trustees' aim to achieve a diversity in membership that reflects the mix of stakeholders of the IFRS Foundation.

However, we believe that the Trustees should be perceived as representative of a specific background, be that geographical or related to stakeholders, and have therefore some concerns that the move to more 'at large' Trustees will hinder this perception. In our letter dated 8 April 2011 we asked for the Monitoring Board to be more transparent over how it provides oversight over the Trustees.

While the transparency has been increased, we still believe that more clarity is needed on the accountability of the Trustees especially with regard to their representation.

*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 strongly believe that an appropriate balance is important to ensure that all stakeholder views are represented at the Trustee level. We do not have any further comments on the current specification on the provision of an appropriate balance of professional backgrounds for the Trustees.

*Q10 – Do you agree with the proposal to change the focus and frequency of the reviews of strategy and effectiveness, as set out in the Trustees' Review?*

We agree with the proposals from the Trustees.

We believe that a longer cycle between reviews reflects the state of the IFRS Foundation as a mature organisation and while more frequent reviews were welcome as the Foundation was still in its set up process, now in a more steady-state we agree that a longer cycle is appropriate.

*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 believe that with the global expansion of IFRS, the role of the IASB members relating to outreach and communication with stakeholders is as essential as their technical expertise. A reduction of the IASB members to less than the current membership seems to be at odds with these increased demands. However, we are aware that there might be practical considerations which might make a reduction of the IASB membership inevitable.

In case of a reduction, we disagree with the suggested voting requirement of 9 approving votes. We believe that the decision to publish a standard should be made with at least 11 member votes. As highlighted in the consistency section, we believe that clear, understandable and enforceable standards are the key to ensure a consistent and high quality application of IFRS.

A voting requirement of 9 approving votes represents less than 70% of member votes. We consider that to issue a standard or amendment against the wishes of three or even four Board Members undermines the credibility of IFRSs as it is a reasonable expectation of stakeholders that all Board Members are fully supportive of the goal of high quality global standards and none would express a dissenting view without careful and well-informed deliberation.

*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 of the IASB?*

In our previous responses to the IFRS Foundation (letter dated 8 April 2011), we agreed with the proposal to deepen the pool of candidates for IASB membership and asked the Trustees not to focus on like-for-like replacements. Therefore we agree with the proposed changes.

We would like to highlight that having a good balance of all stakeholders included in the membership of the IASB will enhance the quality of the standards as potential implementation issues and considerations will be brought up at the deliberation stage instead of post-issuance.

*Q13 – Do you agree with the proposal to amend Section 31 of the Constitution on the terms of reappointment of IASB members as outlined in the Trustees' Review?*

We do not agree with the proposed extension of the reappointment terms for an IASB member.

We have significant concerns as we believe that it is important that an IASB member has sufficient current practical experience to adequately address concerns and queries from all stakeholders of the IASB. We believe 10 years is too long to remain current in regards to recent practice.

*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 believe that the set-up of a more stable and independent funding model for the IFRS Foundation should be a priority. We have previously commented on the funding models in our letters dated 24 February 2011 and 8 April 2011. In those responses we stated:

- The current financing of the IFRS Foundation has four main aspects being (i) a levy-based system in certain countries organised by either capital markets authorities, accountancy bodies or national standard-setters; (ii) donations from private/public companies; (iii) voluntary contributions from the major accounting firms; and (iv) income generated through the sale of its publications and royalties received.
- In order for the IFRS Foundation to have a more stable income basis we believe that it should move to the position under which all or a substantial majority of its income is generated through a levy system.
- We believe that the Monitoring Board should be responsible for working with the capital market regulators e.g. through IOSCO to establish a levy to allow the Foundation to fund its operations. The work of the IFRS Foundation is an important element of the infrastructure supporting effective capital markets which IOSCO members are responsible for regulating. Financial support of the IFRS Foundation should reflect this fact.
- We recommend that the Trustees work with the Monitoring Board to propose putting such a levy system into place.

We continue to believe that the Trustees should look for a stable and sustainable funding model.

*Q15 – Should the Trustees consider any other issues as part of this review of the structure and effectiveness of the Foundation? If so, what?*

We have no other issues we believe the Trustees should consider.