24 February 2011

The Trustees
IFRS Foundation
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Email: strategyreview-comm@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON *PAPER FOR PUBLIC CONSULTATION: STATUS OF TRUSTEES' STRATEGY REVIEW*

In response to your request for comments on the IFRS Foundation's *Paper for Public Consultation: Status of Trustee's Strategy Review*, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA). Please note that SAICA is not only a professional body, but also secretariat for the Accounting Practices Board (APB), the official standard-setting body in South Africa. The SAICA comment letter results from deliberations of the Accounting Practices Committee (APC), which is the technical advisory body to the APB.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director – Accounting

cc: Moses Kgosana (Chairman of the Accounting Practices Board)
Prof Alex Watson (Chairman of the Accounting Practices Committee)

SAICA SUBMISSION ON EXPOSURE DRAFT *PAPER FOR PUBLIC CONSULTATION: STATUS OF TRUSTEES' STRATEGY REVIEW*

GENERAL COMMENTS

We generally support the current strategy of the Trustees. However, as noted below, in some areas we believe there is scope to reconsider and improve some of their strategy and structures.

Our responses to the specific questions are set out below.

SPECIFIC COMMENTS

Mission: How should the organisation best define the public interest to which it is committed?

Question 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?

We continue to be supportive of this objective as we believe it remains relevant.

Question 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?

Seeing that the Constitution states that financial statements should be prepared for "*investors, other participants in the world's capital markets and other users of financial information*", this means that there are a number of parties interested in financial statements. In order to achieve comparability, we believe that the same accounting standards should be used around the world. Accordingly, we do not believe that financial statements should be adjusted to meet the needs of policymakers and stakeholders if those adjustments would not be in accordance with IFRSs.

However, in some cases adjustments required by policymakers and stakeholders could be accommodated in the financial statements without these adjustments being contrary to IFRSs. For example, if a regulator were to specify the details of the accounting policies to be used for the determination of profits for a rate regulated industry, then these might not be in accordance with IFRS; but if a regulator were to specify the minimum capital required by an entity, then the statement of changes in equity could be used to show whether this requirement is met, without contravening the IFRS' requirements.

As regulators from different countries are likely to have differing requirements for similar industries, as well as some industries possibly having no regulators, comparability across a number of countries will not be achieved if the requirements of regulators and other stakeholders were to be included in financial statements. Accordingly, we do not believe that there is a need for the two perspectives to be reconciled, even though, as noted above, this could be achieved in some cases. Where this cannot be achieved there would often be other ways to deal with the perspective of regulators and other stakeholders. For example, their requirements could be dealt with in an annual report, but in a section outside the financial statement section. Alternatively, a separate statutory return could be prepared as this could also accommodate other information required by a regulator, which is not required by other users.

Governance: how should the organisation best balance independence with accountability?

Question 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 believe that the current three tier structure remains appropriate as it helps to balance the views of various interested parties, such as the quality of the accounting standard setting process, governance issues and obtaining views of those interested in accounting standards. There is, however, the risk that one of these three tiers could have more influence than it should have, which could be to the detriment of the overall objective of producing high quality standards. For example, while the IASB should be able to determine their own agenda, they could make decisions without sufficient consideration of the needs of users, and so they should also justify to the Trustees if certain projects are not added to their agenda that the Trustees believe should be on the agenda. In addition, the Trustees should shield the IASB from unwarranted interference by the Monitoring Board or others in efforts to influence the standard setting process. Furthermore, there needs to be assurance that one of these tiers is not starting to take on responsibilities more appropriate to the responsibility of another tier.

Thus, while there might be a necessary tension between the roles and responsibilities of the three tiers, this tension should be retained. For this purpose, while the IASB might be accountable to the Trustees who in turn are accountable to the Monitoring Board, there should also be an opportunity for the IASB and the Trustees to consider whether the Trustees and Monitoring Board respectively are going beyond their mandate and interfering unnecessarily in their responsibilities.

Question 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?

While there may be valid concerns about the lack of political endorsement, this may be a difficult area to deal with. It could be argued that the Trustees could include those proposed by political representatives and thus there could be some political endorsement in a different form. Further, some of the members of the Monitoring Board are themselves political appointees, albeit to the position that enables them to be members of the Monitoring Board, and thus there is sufficient political involvement in the governance processes.

If there was to be further political endorsement, it is likely to be difficult to agree on those representatives as various countries might object if another country was proposed to represent their interest. If this were the case, ideally a global political body should appoint a limited number of representatives (e.g. 2 or 3), meaning that bodies such as the United Nations, the International Monetary Fund or the G20 Group are likely to be the only bodies to be recognised globally as having sufficient credibility to appoint additional representatives to the Monitoring Board.

Although the Trustee body is a private sector body, we believe the introduction of the Monitoring Board is sufficient to ensure this body has sufficient public accountability.

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?

Question 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 are generally supportive of the current standard-setting process. While there may be different interest groups who may have differing views on what the IASB's priorities should be, we believe the priority areas should be decided on by the IASB with input from and feedback to the Trustees. In order to achieve high quality standards, there also needs to be an acceptance of the proposed standards. Accordingly, consensus building regarding proposals should be an important aspect of the IASB's duties and, as consensus takes time to achieve, the IASB needs to ensure this is taken into account in developing timetables for the various projects.

In addition, because of the need for the IASB to develop consensus among its members, as opposed to a broader consensus, the size of the IASB should not be increased in order to deal with its various projects as it might be more difficult be achieve consensus with a larger IASB.

Thus the IASB needs to ensure that sufficient time is devoted to its projects and should ensure quality is more important than meeting self imposed deadlines.

Question 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?

While it is possible that greater attention may need to be given to these issues, this may not necessarily be the case. Firstly, issues are likely to arise in the early years of applying standards and thus, if fewer major changes are made to standards, there might be less need for attention in this area. Secondly, some of these issues are already being appropriately dealt with through revisions to standards and the issuing of interpretations. Thirdly, the major accounting firms produce books that provide guidance to assist with application and implementation issues, as well as to aid in consistent application.

However, if various countries issue their own interpretations, then these issues may have to be addressed by the IASB. It is believed that challenges could also arise from the translation of the IASB into various languages, where certain words or phrases are not easily translated, or nuances in English are difficult to deal with in various languages. Another issue that can arise is where countries apply IFRS placing strong reliance on their countries' previous GAAP in how to apply IFRS.

Financing: how should the organisation best ensure forms of financing that permit it to operate effectively and efficiently?

Question 7:
Is there a way, possibly as part of a governance reform, to ensure more automaticity of financing?

While there may well be scope to ensure more automaticity of financing, we believe the IASB should be able to operate independently from those who provide the necessary finance. This means that the providers of finance should not regard this as a right to unduly expect the IASB to accommodate their views. As the focus on IFRS is on capital markets, this market should be a major contributor to financing. In addition, parties involved in proposing Trustees and members of the Monitoring Board should be expected to be part of the financing in order to participate in the structures. Thus, for example, IOSCO should contribute to the financing by requiring its member bodies to contribute to the financing, with these member bodies in return requiring entities listed on their stock exchanges to contribute to the financing; alternatively, for those trading on the various stock exchanges to contribute to the financing.

A draft of this comments letter was circulated to members of the Eastern Central and Southern African Federation of Accountants and the only additional comment received was that developing countries should be exempt from the suggested financing proposal where the local market capital markets are in their infancy as, in these circumstances, it would place a burdensome financial obligation on the few companies listed in these markets.

Other issues

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

We believe the Trustees should be clarifying the scope of activities of the IASB. For example, the IASB has recently issued an IFRS Practice Statement on Management Commentary. While this Practice Statement is a non-binding framework for the presentation of management commentary, it does require management commentary to be clearly identified and to be distinguished from other information. At the same time, the International Integrated Reporting Committee (IIRC) is looking to produce guidance for an international framework for an integrated report. Thus there is a possibility that there will be considerable overlap between integrated reports and management commentary, and it might be difficult to comply with the requirement for the management commentary to be clearly identified and distinguished from other information. Therefore, the Trustees should ensure that efforts will be made so that entities are not hindered from complying with both the Practice Statement on management commentary and integrated reporting guidance based on their requirements, particularly as the IASB is a member of the IIRC.

Another area where the boundaries of the IASB's activities should be considered is in relation to the types of entities covered by standards issued by the IASB. While paragraph 5 of IAS 1 – *Presentation on Financial Statements* acknowledges that not-for-profit and public sector business entities could apply that Standard, and paragraph 8 of the *Framework for the Preparation and Presentation of Financial Statements* states that it applies to commercial, industrial and business reporting entities in the public sector, it is not clear whether this has actually been achieved. The reason for this comment is that the International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB) issues its own accounting standards, which can apply to both business and non-business entities in the public sector, and thus there is scope for business entities in the public sector in different countries to be subject to different standards depending on the requirements of their legal jurisdiction. Accordingly, it is suggested that the Trustees can play a role in ensuring there is no overlap in the scope of the IASB's activities and those of the IPSASB as to which types of entities are covered by their standards.

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