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Chairman

PDC N° 63

Paris, September 15th, 2016

Mr Michel PRADA
Chairman of the Trustees
IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Re : ED – Trustees’ Review of Structure and Effectiveness: Proposed Amendments to the IFRS Foundation Constitution

Dear Mr. Prada, *Cher Michel,*

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned Exposure Draft issued in June 2016 “*Review of Structure and Effectiveness: Proposed Amendments to the IFRS Foundation Constitution*”, pursuant to the July 2015 “*Request for Views – Trustees’ Review of Structure and Effectiveness: Issues for the Review*”. This letter sets out the comments raised by all interested stakeholders involved in ANC’s due process. Our Board has reviewed and approved this letter on September 9th 2016.

As a preliminary comment and as regards the IASB’s remit (SME, not-for-profit, non-GAAP measures, corporate reporting, taxonomy, IT...), ANC supports Trustees’ comments and decisions as presented in the feedback statement and 2016 Exposure Draft. However, Trustees’ June 2016 proposed amendments raise, in ANC’s view, several concerns, notably as regards governance and financing issues.

We first provide detailed comments on the Trustees’ proposals, in line with our previous letter dated December 3rd, 2015 and with the letter issued by the European Commission dated December 1st, 2015. We then provide broader comments summarizing ANC’s view on certain key governance aspects as well as on consistent application of IFRS.

1. Detailed comments on the Trustees' proposals

Proposal 1 – Geographical distribution of the Trustees

Proposals about the Geographical distribution of Trustees raise in ANC's view comments on the combination of the Americas and, more generally, on the appointment principles.

Combining North and South Americas

The proposed change is a minor evolution as compared to the expected one. However, on this specific issue, ANC agrees with the proposal conveyed in the Exposure Draft suggesting combining North and South Americas into a single geographical category and reducing by one the number of members appointed for this zone, as long as the emphasis is put on jurisdictions committed to IFRS and to IFRS Foundation's funding.

Trustees appointed "from any area"

ANC wants to underline the fact that appointing Trustees "from any area, subject to maintaining overall geographical balance" is an ambiguous principle needing to be clarified in the next Constitution. Clarifying this principle will enhance the transparency of the appointment process.

ANC does not support in principle the "at-large" criterion and consequently does not support the increase in the number of "at-large" Trustees from two to three. Trustees should be individuals able to have a strong input in the fundraising process, in the IASB's work programs definition, as well as a capacity to liaise with IFRS compliant or converging countries.

In addition, it must be noted that the objective of "maintaining overall geographical balance" may imply that the "at-large" Trustees be in fact coming from the three core geographic areas. This requires clarification in ANC's view. If the "at-large" concept is to be retained, it would be better to go beyond geography and to put the emphasis on commitment to IFRS and funding.

Linking the Trustees' appointment to economic influence, IFRS commitment and IFRS Foundation funding of each jurisdiction

As a general comment, ANC highlights the fact that the commitment to IFRS, the funding efforts and the economic and financial importance of jurisdictions are key criteria to be considered in order to promote a balanced organisation. The European Union is the largest economic area with the highest number of IFRS reporting entities, as well as the main financial contributor to the IFRS Foundation. With 6 trustees (amongst 19, +3 "at-large"), the European Union's representation has not improved and therefore remains understated.

Proposal 2 – Professional background of the Trustees

ANC agrees with the Trustees' proposal to remove the sentence referring to senior partners of prominent international accounting firms.

Proposal 3 – Remuneration of the Trustees

In ANC's view, this proposal is an "ancillary" organisational matter, as long as Trustees ensure expenditures remain under control and that individual proactive contribution is encouraged. However, ANC underlines the fact that this proposal has already been implemented, before modifying the Constitution.

Proposal 4 – Focus and frequency of reviews of structure and effectiveness of the IFRS Foundation

ANC supports the broadening/enhancement of focus in order to implement a more strategic and wider review.

As regards the frequency of review, ANC also supports the Trustees' proposal considering the Constitution's modification will clarify when a review shall take place "at the latest". However, ANC underlines the fact that reviewing the Constitution five years after the completion of the previous review is only adequate in a stable environment, and that the current international environment has to face frequent economic and accounting changes (US GAAP convergence slowdown, increase in the number of countries applying in full the IFRS, due process enhancements (e.g. IFRS IC/ASAF...)) and that more frequent reviews will most certainly be appropriate. Hence, ANC highlights the need to maintain under the currently prevailing circumstances a regular follow-up of the evolution of the geopolitical context and of the adjustments of governance required as a consequence of this evolution.

Proposal 5 – Size of the Board

ANC does not support the reduction in the number of Board members from sixteen to thirteen (or fourteen). There is no evidence that sixteen members are less efficient than thirteen Board members. Decreasing the number of Board members does not appear consistent with the increase of the number of countries adopting IFRS and with the "Better communication" strategy advocated by the IASB. A reduction of the IASB's size would increase the burden (time and travel) for each of the remaining board members and may be detrimental to their mission. In ANC's view, it means that the Board should encompass 16 members. ANC also believes that the right balance between primary users and secondary users (such as regulators) should be found, ensuring the latter not to be over-represented.

In addition, ANC believes that the appointment process of the fourteenth member needs to be clarified as the Constitution does not specify under which circumstances and for what reasons the appointment of an additional Board member may be deemed "appropriate".

Proposal 6 – Professional background of the Board

ANC is not in favour of substituting "practical experience" with "recent relevant professional experience». The "relevance" criteria may be vaguer than the "practical" experience, which emphasises the role of users and preparers.

In addition, Board members should not only have a comprehensive and strong experience in accounting and finance, but also have the ability to efficiently liaise with the jurisdiction / geographical area they originate from.

Proposal 7 – Geographical distribution of the Board

Proposals about the Geographical distribution of Board members raise in ANC's view comments on the combination of the Americas and, more generally, on the appointment process.

Combining North and South Americas

This proposed change is a minor evolution as compared to the expected one. However, on this specific issue, ANC agrees with the proposal to combine North and South Americas as long as the emphasis is put on Board members coming from jurisdictions committed to apply the IFRS and to the funding of the IFRS Foundation.

Appointment "from any area" – Appointment of the fourteenth member

ANC supports the proposal to reduce the number of "at-large" Board members (to none or one in practice), and considers this approach to be a positive signal towards stakeholders. However, the possibility to appoint a fourteenth Board member remains ambiguous as it does not clearly appear why and when Trustees may decide to appoint this additional Board member "from any area".

ANC also notes that unless there are fourteen Board Members, the Chair will have to be considered as coming from one specific region. ANC does not support this implicit consequence of the proposal and considers that the envisaged Constitution's amendment needs to be reconsidered in this respect, together with the number of Board members (see above).

Linking the Board members appointment to economic influence, IFRS commitment and IFRS Foundation funding of each jurisdiction

Similar to the position expressed above with regards to the Trustees' appointment (proposal 1), ANC highlights the fact that the commitment to IFRS, the funding efforts and the economic and financial importance of jurisdictions are key criteria to be considered in order to promote a balanced organisation. The European Union is the largest economic area with the highest number of IFRS reporting entities, as well as the main financial contributor to the IFRS Foundation. With 4 Board members (amongst 13 or 14), the European Union's representation has not improved and therefore remains understated.

Should the composition of the Board not be revisited, ANC also believes that such balance could potentially be reached through amended voting processes (see 2 - General comments).

Proposal 8 – Terms of reappointment of the Board

ANC does not support the Trustees' proposal as regards Board members reappointments.

The reappointment should not be perceived automatic but rather subject to a transparent and reasoned assessment process by Trustees. In this respect we suggest that Trustees publish the procedural guidelines they intend to apply. As a general comment, in ANC's view, reappointments should not exceed 8 years for Board members and 10 years for the Chairman and Vice-Chairman, in order for them to remain close to the field.

Proposal 9 – Voting requirements for the Board

ANC acknowledges that the majority requirements need to be reviewed due to the envisaged reduction of the size of the Board. However, ANC disagrees with the proposed amendment since it increases majority provisions, as presented in the chart below:

	Board Members	Majority	%
B e f o r e	< 15	9 Min	60,00%
	=13 (current size of the Board)	9	69,23%
	=16	10	62,50%
	Board Members	Majority	%
A f t e r	<13	8 Min	66,67%
	=13 or 14	9	69,23% or 64,29%

The existing Constitution specifies that, under normal circumstances (with a Board encompassing sixteen members), majority is reached when 62.5% of the voting rights are obtained. The amended Constitution specifies that under normal circumstances (with a Board encompassing thirteen members) majority is reached when 69.23% of the voting rights are obtained (64.29% if a fourteenth member is appointed). ANC disagrees with this major modification aiming at increasing the majority threshold.

The current size of the Board (thirteen members) with a majority reached with 9 Board members is not “normal” circumstances. ANC consequently believes that such an approach should not become permanent.

ANC believes it would be more appropriate retaining a majority of **8 Board members** when the size of the Board is thirteen or fourteen (61.54% or 57.14%). Hence, ANC’s proposal would remain in line with the current principles.

In addition, ANC considers that majority thresholds should be designed in percentage terms instead of being defined in absolute number of voting rights (specifying how to round up).

Proposal 10 – Meetings of the IFRS Advisory Council

ANC does not support the Trustees’ proposal to reduce (without cause) the number of Advisory Council meetings. The Council, as defined in the Constitution, offers to the IASB and Trustees a large panel of representatives of various jurisdictions and professional backgrounds providing therefore substantiated advice. ANC believes the Advisory Council should be an active key player in the IFRS development process. In ANC’s views, Advisory Council meetings need to focus on technical discussions and should not be limited to informative sessions. Such meetings could become an efficient mean of exchanging views between stakeholders originating from different jurisdictions and representing all the existing diversity of backgrounds.

ANC reminds that, in its view, the Advisory Council is a place where all groups affected by or interested in the IASB’s work participate (investors, financial analysts and other users of financial statements, preparers, academics, auditors, regulators, professional accounting bodies and standard-setters; 43 organisations from across the world being represented). Therefore, the diversity in Advisory Council members’ background would permit all sensitivities to be taken into consideration, experiences to be shared and accounting philosophies to cross-fertilize. As a consequence, the Advisory Council should be the place where all significant cultures, views, economic constraints... identified worldwide are shared and used as an input to the IFRS development.

2. General comments

In addition to the previous detailed comments on Trustees' proposed amendments of the Constitution, ANC underlines below three major issues as regards certain aspects of governance and consistency. These comments are of a more strategic nature and were already present in substance in our initial response dated December 3rd, 2015.

A geographical distribution based on commitment to IFRS

Concurring with the European Commission and the main European accounting standard setters, ANC reinforces its December 2015 comment considering key that the participation and level of involvement in the three-tier IFRS Governance Bodies be subject, or at least be proportionate, to the level of commitment to IFRS standards and compliance with the funding principles (based on GDP).

In ANC's view, it means that even if countries less committed or not committed to IFRS should participate as much as possible in the building of the consensus, the ultimate decision process should put the emphasis on jurisdictions committed to IFRS, shall the consensus be difficult to reach. Hence, the geographical balance of governance bodies (especially Board members) should reflect that commitment. This balance could alternatively be reached through the implementation of different voting principles as presented below.

In addition, ANC considers that since the allocation of Board seats takes into consideration geographical origins as one of the key criteria, the local/regional jurisdictions concerned could also be involved in the IASB members' appointment process (for members originating from the geographical area concerned) also in order to enhance the liaison member's role and reflect more effectively the local culture of each appointee¹.

Decision making process: amended voting processes

Should the IASB Foundation decide not to revisit the geographical distribution in line with ANC's suggestion (which is in ANC's view the preferred option), then ANC considers that alternative voting processes could be put in place in order to reach the right balance between the different jurisdictions represented in the IFRS Governance Bodies (jurisdictions committed to IFRS versus the rest of the world). The ANC's proposal means that even if Board members do not "represent" stakeholders or economic areas and if their ultimate independence must not be impaired, they may, under certain circumstances, be recognised as expressing the culture of, and being accountable to, their jurisdiction of origin. Accordingly, beyond processes geared towards consensus decisions in most cases, the level of commitment of the jurisdiction of origin should be taken into account in case of potential controversial decisions. Once appropriately designed, such solutions would have to be introduced at the right level of the Constitution and/or the internal rules.

¹ In its December 2015 letter, ANC has suggested establishing an appropriate protocol to involve jurisdictions in the appointment process of Board members. In ANC's view, this involvement could take the form of a consultative right (with or without veto), or any other mechanism providing accountability (e.g. regular assessment).

As a consequence, ANC suggests considering granting Board members originating from countries complying with IFRS and financing the Foundation (in full) with a specific responsibility when consensus cannot be reached².

Consistent application of IFRS

ANC welcomes the Trustees' support to Board objectives as regards due process continuing enhancements (TRG, PIR, quality-control procedures, education material, translations...) in order to produce high-quality, easily understandable and well-drafted standards. ANC concurs with the Trustees and believes that developing a high quality set of accounting standards requires implementing and monitoring robust, reliable and independent quality processes, relying on an efficient process encompassing both pre-issuance activities and subsequent technical vigilance over the existing set of accounting standards.

However, in ANC's view the status and functioning of some IASB bodies (e.g. IFRS IC, ASAF) can still be enhanced as well as the impact analyses and field testing processes performed by the IASB.

IFRS Interpretation Committee

In the June 2016 Feedback Statement, Trustees agreed that the Board will continue to develop its relationships with National Standard Setters to foster consistent application of IFRS standards. Trustees also indicate that the Board "has taken steps to improve the interaction between the IFRIC and the Board, and continues to look at other ways to improve the efficiency of the process of responding to implementation questions". The Board also notes that "the types of questions the IFRIC ought to be addressing requires thorough research and analysis and that the work of the IFRIC is subject to rigorous due process". Finally, the "IFRS Foundation Strategic Plan includes coordinating with the FASB on interpretation discussions and post implementation reviews, and considering convergence in amendments and interpretations".

In order to participate in the enhancement of the IFRS IC functioning, ANC proposes to develop a strong coordination between national/regional standard setters and the IASB/IC. The aim of such an approach would be to rely on national or regional task forces composed of local stakeholders having the adequate level of expertise and technical background in order to identify and perform a preliminary detailed analysis of local cases (identification and description of the issue, summary of the underlying IFRS principles, presentation of possible solutions and preferred view, if any).

² As explained in ANC's December 2015 letter, IFRS-compliant countries should be given weighted influence under critical circumstances in accordance with their degree of commitment. Those Board members might, for instance:

- benefit from an enhanced (weighted ?) voting right for all decisions ; or,
- be in a position to ask for a second vote where they would be the only voters or benefit from an enhanced (weighted?) voting right ; or,
- be the ones to vote for certain key decisions, the members from non-compliant IFRS countries and/or countries which do not fund in full the Foundation having then an observer role only, but having full rights to participate in the debates, working groups and experts commissions.

As an alternative to the three above options, a formal consultative right could be given to IFRS compliant jurisdictions on key decisions (with or without a veto right).

The above proposals are only examples since other solutions may exist and all sensitivities must be respected. The right balance will need to be found between geographical origin and the way Board members' view are taken into consideration in the decision making process. ANC considers that both criteria aim at reaching the same objective and are commutable.

If such a process was to be developed, the IASB/IC would be able to benefit from skilled local technical resources and would also be provided with all technical material permitting to discuss the different views proposed. The IASB/IC could therefore focus on the international aspects of the issue before taking any decision (identification of similar fact patterns in order to avoid diversity and local variations of the standards).

In addition, ANC considers appropriate that IFRS IC's members come from jurisdictions committed to IFRS and to IFRS Foundation's funding. ANC's position relies on the fact that jurisdictions facing implementation issues are limited to those who effectively apply IFRS. Therefore, they appear to be the most suitable jurisdictions to analyse arising issues.

ANC also believes that the interpretation process should be enhanced and the time required to publish an interpretation or a rejection be reduced. Hence, in terms of nomination process, ANC believes that IFRS IC's members should have sufficient flexibility to dedicate themselves to a highly demanding interpretation process, both in terms of skills and availabilities.

ASAF

As the ASAF is given a growing role in the global dialogue over the development of IFRS standard and due process, ANC regrets that no proposal has been made to amend the Constitution in order to define its missions, role and nomination process.

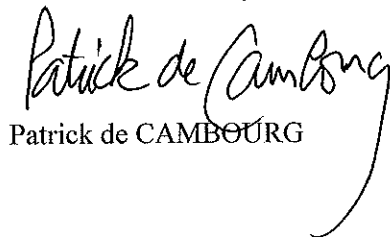
As the number of jurisdictions partially or fully applying the IFRS significantly increases, ANC believes the ASAF objectives and functioning should be discussed and clearly stated in the next Constitution.

Impact analyses and field testing

ANC also shares the European Commission's recommendation for the IASB to strengthen its field testing and impact analyses. Such tools should help to better assess the real needs for amending or supplementing standards. It would also provide input for cost-benefits analysis in order to measure how the standard setting process actually meets the public interest criteria.

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

Yours sincerely, *Très amicalement.*


Patrick de CAMBOURG