ASC
ACCOUNTING STANDARDS COUNCIL

24 February 2011

IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

(By online submission)

Dear Sirs,

RESPONSE TO PAPER FOR PUBLIC CONSULTATION ON STATUS OF TRUSTEES' STRATEGY REVIEW

The Singapore Accounting Standards Council (ASC) appreciates the opportunity to comment on the Public Consultation Paper on *Status of Trustees' Strategy Review* issued by the International Financial Reporting Standards (IFRS) Foundation in November 2010.

General

In the last decade the IFRS Foundation has made significant progress towards achieving its goal of developing a single set of high-quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. More than 100 jurisdictions around the world already adopt or permit IFRS reporting, and the other remaining major economies have established timelines to converge with or adopt IFRSs in the near future. In addition, the US Financial Accounting Standards Board (FASB) and the IASB have pledged the convergence of the IFRS and the US GAAP. This clearly demonstrates that the IFRS is being globally recognized as the international standard.

When all the jurisdictions have followed through with full adoption and rigorous implementation of the IFRS, there will be better comparability of financial statements across jurisdictions, which will help investors and other users of financial information make sound economic decisions. In addition, this will help companies operating in more than one jurisdiction reduce their financial reporting costs.

Therefore, we are of the view that the objectives of the IFRS Foundation are still relevant and appropriate. However, the approach for adoption of the standards differs between jurisdictions, as many jurisdictions are still struggling with application of the standards in their marketplace. This could result in a situation where the convergence towards IFRS is more in "form" rather than in "substance", as is already evident in some countries with carve-outs in their implementation.

In addition, there have been too many changes to the IFRSs over these two years, and stakeholders are finding it hard to keep up with the amendments proposed by the IASB. Instead of continuing to review and amend the standards, we believe that there should a moratorium on further changes to these or other standards, and the Foundation should focus more on ensuring the consistent implementation of standards in the various jurisdictions. During the moratorium, critical changes may still be required for particular standards, and in these cases IASB should not delay work on the required changes. As standards are principles-based, national standards setters could play a larger role in providing national guidance for application of the IFRSs, which could be endorsed by the IASB to ensure appropriate application in each jurisdiction.

While we appreciate that there is a need for some form of public accountability on the part of the IFRS Foundation, we are not clear if having the Monitoring Board is the best way to achieve this. In particular, there is insufficient clarity on the objectives and responsibilities of the Monitoring Board, and there are some seemingly duplicative functions between the Monitoring Board and the IFRS Foundation. That said, any monitoring body established should have broad diversity of representation in order to engage member countries which have implemented IFRS so as to draw in a range of expertise and a fresh perspective on the Board's activities.

Our comments on the specific questions in the Public Consultation Paper are as follows:

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

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 believe that the fundamental purpose of financial reporting is to present a true and fair account of an entity's affairs and activities, in order to help investors and users of financial information make sound economic decisions. Hence, we are of the view that the objective stated in the current Constitution is still appropriate and relevant to the IFRS Foundation.

However, the Public Consultation Paper has correctly pointed out that convergence and adoption remains a challenge, with a number of key jurisdictions still yet to make decisions to adopt the IFRS for domestic use. Even among the jurisdictions that have adopted the IFRS, the approach differs from jurisdiction to jurisdiction. For instance, some jurisdictions have adopted the IFRSs with specific carve outs, while some talk about "alignment" of their local GAAP with the IFRSs. With each jurisdiction allowed to define its own approach towards convergence and adoption of the IFRSs, it raises the question of effective comparability between financial statements in different financial markets. This could result in a situation where the convergence towards IFRS is more in "form" rather than in "substance". It is imperative that all jurisdictions should be on equal footing with regards to full adoption of IFRS.

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?

We are of the view that other stakeholders such as policymakers and regulators have the same objectives as the IFRS Foundation, which is to have high quality standards that reflect the reality and economic substance of doing business in the jurisdiction. As an example, regulators had long wanted loan provisions of banks to be forward-looking as they felt that it better reflected the economics of loans, but such forward-looking loan loss provisioning was proposed by the IASB only in the aftermath of the global financial crisis.

Therefore, the Foundation and IASB should rightfully take into consideration the views of such stakeholders during the standards-setting process. It would therefore be useful to consult on an early basis with public policy and public interest authorities (which include prudential regulators and other entities involved in financial stability) before the development or amendment of major financial reporting standards. This is because:

(i) such authorities share the IFRS Foundation's objective in many respects to have high quality standards that reflect the reality and economic substance of doing business; and
(ii) such authorities may be familiar with current practice and business models and the associated risks – such knowledge would be relevant as inputs to the standard setting process.

However, regulators would also have financial stability objectives with regards to financial reporting, which are not shared by standards setters. The two perspectives should be reconciled to remove any major inconsistencies during the standard-setting process, but only to the extent that this is possible while ensuring that fundamental accounting principles are not compromised.

Hence, the Foundation would have to keep in mind that its objective is to develop high quality, principles-based accounting standards that are able to reflect the economic substance of doing business in the jurisdiction. It would follow that the Foundation and IASB should not let the concerns of policy makers in application overshadow the objectives that the Foundation and IASB have set out to achieve.

<u>Governance: How should the organization best balance independence with accountability?</u>

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?

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 we appreciate that there is a need for some form of public accountability on the part of the IFRS Foundation, we are not clear if having the three-tier structure including the Monitoring Board is the best way to achieve this. In particular, there is insufficient clarity on the objectives and responsibilities of the Monitoring Board, and there seem to be some overlap between the responsibilities of the Trustees and the Monitoring Board. For instance, the Monitoring Board participates in the Trustee nominations process and approves the Trustee nominees, but this is also the function of the Nominating Committee under the IFRS Foundation. It is not clear where the roles of one group stops and the other group begin.

At the same time, we do appreciate that there needs to be some form of public accountability on the part of the Foundation. However, this could be achieved through other means such as increasing the transparency of the Trustees' meetings and discussions by allowing more meeting observers to attend, or establishing Advisory Committees that will provide inputs to the IFRS Foundation on the agenda and work programmes of the IASB.

The Monitoring Board's current composition of a representative each from the Technical Committee (TC) and Emerging Markets Committee (EMC) of the International Organization of Securities Commissions (IOSCO), the European Commission, the Financial Services Agency of Japan (JFSA), and US Securities and Exchange Commission (SEC), also does not fully represent the diversity of views from different jurisdictions and regions, especially the many smaller emerging markets in the Asian region (particularly ASEAN). Hence, we are of the view that there could be more members appointed to the Monitoring Board, or that minimally, membership of the Monitoring Board should be on a rotational basis, with some new members coming in after each term. This would allow other independent organizations to bring their own expertise and a fresh perspective on issues raised for the attention of Foundation and IASB.

Some questions have also been raised on why the US SEC is on the Monitoring Board, when it has not even adopted IFRS for its listed companies. However, should the US SEC affirm its intention to fully converge with or adopt IFRS within a specified timeline, it could be argued that it is necessary for the US SEC to be given a stake in the governance of the Foundation. This would help to accelerate the convergence process, and assure the US that they will play an important role in the international standard-setting process.

Process: How should the organization best ensure that its standards are high quality, meet the requirements of a well functioning capital market and are implemented consistently across the world?

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?

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?

To ensure that the standards are high quality, the IASB needs to conduct thorough and sufficient public consultation so that it could obtain the views and comments from various stakeholder groups. This is especially important for projects that are of significant importance and involve difficult concepts or practical issues. The IASB has issued many exposure drafts in the last 12 months proposing fundamental paradigm shifts to existing recognition and measurement principles, and we are concerned that this would leave stakeholders with insufficient time to provide a considered and well thought through response to the IASB. The IASB cannot afford to be perceived to be inadequate in seeking for public consultation, and in that spirit, should allow for sufficient notice and timeline for responses even if it has to compromise on speed of issuance of standards.

It is noted that in having principles-based standards, it would not be possible for the IASB to take into consideration the different legal systems and market conditions when writing the standards. As such, implementation of the standards across different jurisdictions and industry sectors, with varying degrees of complexity of the market and size of the economy could be challenging. For example, price discovery and valuation discovery are not possible in simple and emerging markets, and some industry sectors have distinctive business traits.

In that respect, IASB could best work with national standards setters in implementing IFRS in a manner that would take into consideration the local legal, economic and business environment so as to reflect economic substance in financial reporting. Without deviating from the fundamental principles in the IFRSs, there could be an established process for national standard setters to issue accompanying notes that would prescribe appropriate application of standards giving due regard to the local operating environment. To ensure consistent application when the standards are adopted and implemented on a global basis across jurisdictions, IASB could give endorsement to such accompanying notes as part of the implementation process.

We are also of the view that during the standard-setting process, the IASB should give due consideration on how the standard under development can be consistently applied across different jurisdictions.

We suggest that after the release of the proposed standards on IASB's current agenda, there should be a moratorium on further changes to these or other standards, in order that resources can be focused on assisting and supporting the various jurisdictions in their implementation of the standards. During the moratorium, critical changes may still be required for particular standards, and in these cases IASB should not delay work on the changes.

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

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

We are of the view that contributions to the IFRS Foundation should remain on a voluntary basis, instead of making provisions in the new governance structure to ensure more automaticity of financing. However, the Foundation could encourage all jurisdictions using the IFRS to contribute within their means, and also encourage more accounting firms and networks to contribute to the funding, as there are not that many firms and networks currently doing so.

Other Issues

8.	**Are there any other issues that the Trustees should consider?**

We are of the view that the IASB needs to take a wider view of the needs of developing and emerging markets with respect to accounting standards, and that IASB should provide more targeted assistance to help ensure consistent implementation of the IFRS.

We hope that our comments will contribute to the Foundation's deliberation on the Trustees' strategy. Should you require any further clarification, please contact me. Thank you.

Yours faithfully,

Siew Luie Soh
Secretary, Accounting Standards Council