



25 July 2011

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(By email)

Dear Sir

RESPONSE TO THE REPORT OF THE TRUSTEES' STRATEGY REVIEW

The Singapore Accounting Standards Council (ASC) appreciates the opportunity to comment on the *Report of the Trustees' Strategy Review*, issued by the International Financial Reporting Standards (IFRS) Foundation in April 2011.

General

We would like to start by commending the IFRS Foundation and IASB for having made significant progress over the past few years in the journey towards a single set of high quality global accounting standards. Under the leadership of former Chairman, Sir David Tweedie, the IASB has made great strides in addressing the various concerns from stakeholders on relevant accounting issues, and we would like to acknowledge the hard work and efforts that have been made.

We also appreciate the focus towards increasing stakeholder engagements and seeking views from constituents around the world as part of the process of developing new standards. The review by the Trustees is a timely one reflecting their keen intent to engage jurisdictions worldwide towards shaping the IFRS Foundation's strategy and processes, and together with the concurrent review being carried out by the Monitoring Board, we hope that the findings and results of the two reviews will help the IFRS Foundation in meeting the challenges ahead.

We also note in the summary to the Report that the Trustees have assumed that major jurisdictions which currently play a significant role as Trustees or IASB members, will make a positive decision in some form on the adoption of global standards. We concur with the view that failure of such commitment on this basis should lead to the review and reconsideration of the geographical distribution of the membership of the Trustees and IASB, as jurisdictions which do not have a key stake in IFRSs should not occupy places of influence over the IFRS-setting process.

Our comments on the specific areas in the Report are as follows:

A. Mission: Defining the public interest to which the IFRS Foundation is committed

Purpose of Financial Reporting Standards and standard-setting activities

Our view is that while financial reporting standards should be developed primarily for investors and other market participants in their economic and resource allocation decisions, the public interest should also include the wider range of preparers and users of financial reports, such as creditors, policy makers, tax authorities and prudential regulators. These stakeholders would share the same ultimate objective as the IFRS Foundation, which is to have high quality financial reporting standards that reflect the economic reality and substance of doing business. Hence, the IASB should work closely with these stakeholders to reconcile the various perspectives to eliminate any major inconsistencies during the standard-setting process, while ensuring that fundamental accounting principles are not compromised.

Global application of IFRSs – Convergence versus Adoption

The report states unequivocally that convergence is not a substitute for adoption, and that the IFRS Foundation must remain committed to the long-term goal of global adoption, in their entirety and without modification, of IFRSs as developed by the IASB. While we agree that the adoption of IFRSs should be the long-term objective for jurisdictions, convergence is an important milestone on the pathway towards full IFRS adoption, particularly for those jurisdictions with existing local standards. For such jurisdictions, immediate adoption of full IFRSs would be a major change to their financial reporting frameworks, which may have a huge impact on their markets.

Another consideration is that jurisdictions are understandably hesitant to give up their sovereign rights to prescribe financial reporting standards, as financial reporting standards are a key component of the overall financial reporting and corporate governance framework. Each jurisdiction is accountable to its own constituents and stakeholders for any changes to the local financial reporting framework, and the local

standard-setter/Government would have to bear the potential consequences or impact to markets of any standards adopted.

The scope of the IASB's work

Our view is that while it would be useful for the IASB to develop standards for not-for-profit entities in the future, we recognise that the IASB's resources are limited, and the current key projects as well as the IFRS-US GAAP convergence roadmap with FASB are taking up most of the Board's time and resources. Accordingly, we agree with the proposal to focus on the development of standards for private sector entities for the time being.

Consistent application of IFRSs

We agree that for cases where IFRSs are being modified for use in jurisdictions, such divergence should be disclosed for transparency. Where such divergence could be resolved through an improvement in the standard or an interpretation, the IASB or the IFRS Interpretations Committee should work closely with the national standard-setter to resolve the issue.

However, we also note 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 across different regions when drafting 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.

Hence, further to the current role of national standard-setters in providing feedback on issues with standards, the IASB could also work with them on implementation of the IFRSs 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 provide guidance on 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, the IASB could work with the national standard-setters to endorse such accompanying notes as part of the implementation process. The IFRS Foundation's Constitution can be amended to include this as one of the IASB's objectives.

We would also suggest that a due process be considered that will allow each jurisdiction suitable authority and support to review and work out implementation issues and timelines. For example, a longer time lag for implementation deadlines would allow each local standard-setter to review the impact of the new standards, provide the market with necessary guidance and time for implementation and updating of internal systems, and possibly even adjust local regulations or policies to align with new standards. To this end, national standard-setters have a key role to play not just in providing feedback to the IASB, but also in guiding local implementation of standards in consultation with the IASB to ensure consistent application in their jurisdictions.

B. Governance: Independence and accountability

We agree that the independence of the standard-setting process should be maintained, and subject to extensive due process requirements within a framework of public accountability. The existing three-tier governance structure (Monitoring Board, Trustees and IASB) serves this function, but we would suggest that the roles and responsibilities of each element of the governance structure be clearly specified, to prevent any duplication or overlap of functions. This should extend to the various committees set up under the Trustees to carry out specific duties, e.g. Due Process Oversight Committee, Nominating Committee. Other improvements should include the development of enhanced procedures and clearer criteria for the nomination process of Trustee candidates.

We support the proposal to assign staff dedicated to supporting the Trustees in managing their due process oversight responsibilities, and reporting directly to the Trustees. We note that this recommendation was also proposed in the Monitoring Board's review paper, and would help to address any perceived conflict of interest for staff in serving both the Trustees and the IASB.

C. Process: Ensuring high-quality standards that meet the requirements of a well-functioning capital market and are implemented consistently

Due Process Oversight Committee (DPOC)

We think that there should be greater visibility on the DPOC and its work, which should be publicly communicated regularly, as not many people may know of the DPOC. We also agree with the proposal that the IASB should consult the DPOC before it decides to skip a non-mandatory portion of its due process, as part of a "comply or explain" approach. Any deviation from the mandatory due process would continue to require the Trustees' approval.

Agenda-setting and Standard-setting process

We support the proposal that the IASB should provide full feedback on how priorities on its agenda are set, which will improve the transparency of the agenda-setting process. We also support the proposal to develop an agreed methodology for field testing and effects analyses for major projects. Field testing standards before they are officially issued would help in assessing the practical impact, and add rigour to the standard-setting process. Geographical and industry diversity in field testing may also help in surfacing issues that are specific to a particular industry or geographical region.

We welcome the intention for post-implementation reviews, which would act as another checkpoint whereby practical issues can be surfaced for the IASB's deliberation and action. We would also suggest that the post-implementation reviews should be carried out by independent parties, and the results together with any actions that may arise from the reviews, be made available to the public.

Cooperation with regulators and national standard-setters

We are supportive of the IASB's intention to work closely with securities regulators, audit regulators, and national standard-setters, using existing or new networks to facilitate such interaction. We would again reiterate the importance of close cooperation between the national standard-setters and the IASB in ensuring consistent application of the IFRSs. The national standard-setters as well as regional groupings such as the Asian-Oceanian Standard-Setters Group (AOSSG) have key roles to play within their own national or regional context. The IASB should hence continue to engage the national standard-setters on identification of emerging issues, offering guidance on the IASB's priorities and providing stakeholder input from their own jurisdictions.

D. Financing: Ensuring that the IFRS Foundation has a broad and sustainable source of funding

We agree that there should be appropriate independent funding streams to allow the IFRS Foundation to carry out the full mission of standard setting, which should include IFRS education and training. Jurisdictions adopting IFRSs should make contributions relative to the size of their economies in order to contribute towards the process of setting high quality international financial reporting standards that are beneficial to our globally connected economies. Such contributions should also be committed on a long-term basis so as to provide certainty to the IFRS Foundation in planning the activities that it should embark upon, while not compromising the independence of the standard setting process. We also support the proposal for the Trustees to publish annually a breakdown of how they intend to use the funds, with the Monitoring Board giving the final approval of the annual budget as the oversight body.

We hope that our comments will contribute to the Trustees' review of the IFRS Foundation's strategy. Should you require any further clarification, do contact me.

Thank you.

Yours faithfully,

Siew Luie SOH (Ms)
Secretary
Singapore Accounting Standards Council