

NATIONAL STANDARD-SETTERS
AND
THE IASB:

JOINING FORCES
FOR GLOBAL ACCOUNTING STANDARD-SETTING

Executive Summary

- National standard-setters (NSS) and the IASB strive to **streamline and improve the efficiency** of the standard-setting process whilst ensuring quality so that IFRS respond to **real needs** and are adopted by the **largest number of countries possible**.
- **The IASB needs to base its standard setting activities on evidence** and to **improve countries' buy-in** in terms of adoption of its standards. It therefore needs to be close to constituents and **be aware and understand the diversity of issues arising in individual jurisdictions**.
- **The NSS and their resources are best placed to provide the IASB with access to, coverage and synthesis of those constituents and issues** within the relevant contextual framework of their respective countries. The wisest or more efficient use of its own resources and a sustainable strategy for the IASB is to best combine its activities with the NSS.
- Therefore the approach proposed in this paper consists for the IASB and NSS to **join forces** and frame their joint activities according to commonly agreed principles and methods.
- In that spirit, the proposals seek to be inclusive of all **constituents without making it more lengthy or bureaucratic**. It suggests creating a body that materialises all **the added value of national bodies acting in the public interest who engage in the same standard-setting activities and share the same constituents** with the IASB. Those NSS that engage most input in all forms in global standard-setting activities - including the four larger European standard-setters- are well identified and limited in number, and constitute a relevant and manageable group in practice; they already work together, albeit in a manner that needs strengthening and to be more efficient: this is the purpose of this paper.
- To work in a network mode with NSS will constitute for the IASB a highly efficient expertise and outreach tool in order to best inform choices and decisions at all stages of the standard-setting process. The paper explains how it should be developed at all levels.
- In doing so in practice, the IASB will not ignore the fact that the impact of IFRSs differs considerably, based on how much "skin in the game" each jurisdiction has, measured firstly by the scale of its companies using IFRS with consequences on its economy.
- Given all this, and even assuming that the IASB might not wish or have sufficient resources to liaise on a permanent basis with each NSS individually, no regional arrangement can make up for the relationship to NSS and through them to constituents on a sufficient scale. Indeed regional groups worldwide today include very different bodies and working arrangements, within considerably differentiated business environments and widely varying policies vis-à-vis IFRSs.
- Appropriate solutions will however be simple to set up so as to ensure that all other NSS in the world are directly or indirectly within reach of the IASB. NSS active on the Council/Board would be happy to ensure proper outreach, in- or outside existing regional groups as actors seen best fit.
- These proposals deal with issues that are critical for the IASB, for those jurisdictions already using IFRS as well as others, and all market participants. This paper has been conceived and drafted in confidence that the proposals are key factors of further success for in global accounting standard-setting for the 21st century.
- Such Council/Board of standard-setters will not duplicate IFRS/IASB's own institutions, neither the Board nor the Advisory Council, which is inclusive of a great variety of interested groups and serves a specific and useful function in the system.

CHARTER

NETWORK BETWEEN THE NATIONAL STANDARD SETTERS AND THE IASB

BASIS FOR CONCLUSIONS

1. There is global agreement to enhance the relationship between National Standard-Setters and the IASB and to set up a network together

Background

1. With the move of a number of countries to IFRS adoption by 2005, the IASB and national accounting standard setters (NSS) recognised as early as 2004 that they should work together. This led to the issuance in 2006 of the *Statement of Best Practice: Working relationships between the IASB and other accounting standard setters*.

This Statement of Best practice was meant as recording “an understanding between the International Accounting Standards Board (IASB) and other accounting standard-setters”. It was meant to be “particularly relevant to standard-setters in jurisdictions that have adopted or converged with International Financial Reporting Standards (IFRSs), or are in the process of adopting or converging with IFRSs. It identifies a range of activities that the IASB and other accounting standard-setters believe should be undertaken by them in the interests of facilitating the ongoing adoption of or convergence with IFRSs.”

2. In 2012, with a larger number of countries having adopted or incorporated IFRS since then, a number of years of experience of those first adopting countries and countries still considering adoption or incorporation in various forms, this need to work together has been made even more imperious.

The Trustees of the IFRS Foundation have recognised this in their Strategy Review in which they state (§C5):

“The IFRS Foundation and the IASB should encourage the **maintenance of a network of national accounting standard-setting bodies and regional bodies involved with accounting standard-setting as an integral part of the global standard-setting process**. In addition to performing functions within their mandates, national accounting standard-setting bodies and regional bodies involved with accounting standard-setting should continue to undertake research, provide guidance on the IASB’s priorities, encourage stakeholder input from their own jurisdiction into the IASB’s due process and identify emerging issues.”

It is also striking to note the allusion made by the Chairman of the IASB, Hans Hoogervorst in some of his recent speeches, about the need for a network with the NSS. This was very well in tune with informal conversations had between him and other NSS.

The very long time it has taken in the recent past to issue individual IFRS and the risks taken in terms of adoption of those IFRS by individual jurisdictions evidence the need to revisit the way in which that “working together” should be envisaged.

3. NSS have initiated work among themselves on the subject (in the presence of the IASB) as soon as in March 2011 in their meeting in New York, where it was decided that five of them would set up a working group.

In September of the same year in Vienna, they produced a comprehensive document, which was discussed. A further fruitful exchange of views took place in March 2012 in Kuala Lumpur around deepened thoughts and possible ways forward, leading to the preparation for a new discussion in Zurich in October 2012.

In other words, since the matter was first opened in early 2011, considerable progress has been made. A common notion of the benefits to expect from such endeavour and a common perception of what can be achieved in practice are emerging. The purpose of this paper is to sketch out and finalise this common vision.

2. National Standard-Setters, the key for global accounting

- a. It is often forgotten or overlooked that National Standard-Setters – albeit possibly in varying forms across jurisdictions - set the accounting rules that are to be applied domestically for statutory accounts by millions of companies of all sizes and therefore engage in the same activities and role than that of the IASB as regards IFRS. They discharge this mission as part of a legal role assigned to them by legislators. They are part of a more global regulatory environment and act in the public interest.

Therefore, any accounting issue or any accounting standard-setting issue is, by design and as their name indicate, of greatest interest to them, if not within the remit of their mission and responsibility. Inter alia they are evidently, regardless of the form it takes, pivotal in terms of adoption, implementation and assessment of international accounting standards within their jurisdiction.

- b. The legal status of NSS varies, from private bodies with or without public funding and resources, to public authorities. These differences do not matter, as long as NSS truly act in the public interest and are effectively held accountable for it.

Firstly, form may be misleading and obscure substance. Some NSS appear closely linked to official bodies yet totally independent; some others appear to be without links to public authorities but in practice are closely overseen by them, with many possible variations of funding and governance combinations;

Secondly, all NSS conduct the same activities and this is what matters for the purpose of the present document. Such variety should even be considered as a good exemplification of the need to take more into consideration the national realities to ensure more credible and stable global constructs. Therefore, there is little reason for the differences in legal status to be an issue for the purpose of this Charter.

- c. NSS have full knowledge of local regulatory, economic and cultural factors. Generally, either directly or indirectly, they draw together the accounting expertise from their jurisdiction. It is more and more striking that, each time a specific technical question is raised and that tends to be more and more often (even by staff of the IASB), NSS are able to provide responses regarding IFRS, that are set in a context and giving background and insights that the IASB may not be aware of.

That is simply their day-to-day work. They are on the ground. All stakeholders are represented in their bodies at all times (practitioners in vast majority, stemming from business and audit firms, large and small, but also users, academics when not regulators, in varying forms).

NSS are a synthesis of history, present debates and of all views for the future. They gather all parties and stakeholders, however are independent and act in the public interest. Therefore they are instrumental, if not simply vital in the successful development, implementation and maintenance of IFRS.

- d. More precisely, the expertise and legitimacy of NSS can be understood as twofold:
 - A unique “ex-ante” expertise, notably on the very drafting of accounting standards (due process, network of local experts, ...), which cannot but be of extreme relevance to the IASB;
 - But also a deep understanding of accounting “ex-post”, i.e. the impact that accounting standards may have on the various market participants, all part of the same business environment.
- e. Business specificities vary from country to country. There are sometimes only a few differences within different jurisdictions of a geographical area. Sometimes there are numerous differences within the same geographical area (China, Japan; Canada, United States). There are also some strong similarities across different geographical areas or regions (France, Germany, Japan), although there may be more or less significant differences in implementation. There could also be some similarities between jurisdictions on some subjects whilst there are strong differences on other subjects. Thus the relevant focus for devising consistent and credible global standards is on legally anchored business models/environments.
- f. It is therefore unthinkable that accounting issues in major markets or in any markets are overlooked or looked through the sole lenses of regional bodies.

In practice, in every region the role given to such regional levels is significantly different. Indeed arrangements vary over the world: in Europe, only endorsement of IFRS occurs on a regional and political level and Efrag is not a standard-setter nor a group of NSS; in Asia and Latin America, the regional level consists of a grouping of NSS but is not set as a political level as it is in Europe. Regional levels are therefore not referred to specifically in this document.

Incidentally no global system or arrangement in the world works in a setting where the global scene is represented by only 3 (or 4) regional interlocutors, even more so in the universe of accounting, dominated by technical complexity and extreme diversity of maturity vis-à-vis the implementation of IFRS. The best result achieved and known so far is the G20 and seems to be fair to most observers.

- g. The need for a global set of accounting standards being widely agreed, the only way to make it thrive is to ensure that it is produced by the best combination of forces. Those whose “day job” is and will remain to set accounting standards – the IASB and NSS - have to combine forces. That only will maximise the buy-in to the set of standards as well as the efficiency and effectiveness of the system.

This process should be formalised in a manner that recognises the respective legitimacies and roles of both parties to the same endeavour. Given all the above, such approach should best enable the world to move towards a unique global set of standards which a number of significant jurisdictions have already elected to be the IFRS.

This entails operational consequences in terms of process as demonstrated in the Charter.

3. The IASB would gain in efficiency and quality by joining forces with and building on NSS capacities

A. Complexity and lack of understandability of recent standards and standard-setting process need to be addressed.

The recent standards and proposals have been criticised as overly complex and difficult to understand and therefore to apply. This criticism has been repeated and been given prominence in the responses to the IASB agenda consultation, for example.

Some of this complexity can be traced back to a very conceptual approach leading to a disconnection from the actual practices. Beyond a certain level, such phenomenon is very detrimental: it may lead to a decrease in the credibility of the standards themselves as a whole.

Moreover, this has materialised in considerable delay in some projects, which have apparently become almost impossible to conclude, and give raise to the iteration of alternative proposals. It sometimes gives the impression of an even stronger disconnection from the needs of the constituents, although they continue to participate in the standard-setting process – albeit with lesser implication.

B. Collective work between the IASB and the NSS could address these difficulties.

NSS are able to bring very early in the process all information necessary to the IASB to ensure a result better aligned with expectations and realities.

As this would be integrated by the IASB in the course of the process, the standards would gain higher chances of acceptability and endorsement. Indeed in almost all jurisdictions now, standards are endorsed or incorporated before implementation and it is becoming increasingly clear that endorsement will nowhere be automatic.

C. The IASB and the NSS can organise themselves, so that at all stages the IASB benefits from early NSS input: that would be the golden rule of the “Network”, where NSS play the role of “sensors” and facilitators.

The first key element is for the IASB to make the best use of the “synthetic” nature and role of the NSS. Processes should be organised so that the management of the IASB can sound and check reactions to projects, in more or less deep and formal ways depending on the matter.

The second key element is to adopt this attitude at every step or critical step of a project, thus maximising the chance of their smooth finalisation.

These two elements should not be seen as a complex institutional setting or a heavy process requirement, adding time to already long processes. In reality, it will not add much time to consult with fellow standard-setters full time on the job. And it may save not weeks, but months or years to confer in advance on the projects.

D. Such arrangements also make sense from an institutional standpoint.

Firstly, it seems obvious that global accounting standard-setting has to be run in a manner that takes fully into account in its very organisation the variety of jurisdictions using the standards. This would obviously bring an element of balance to the benefit of all actors.

Secondly, the IFRS Foundation being increasingly funded by local jurisdictions and, more precisely, one way or another, through mechanisms run by NSS, it would only appear normal that they play this role and represent the jurisdictions using IFRS in a common setting with the IASB.

NSS would then be present in a Board or Council with fairly frequent meetings as necessary according to the projects. It would not be competing with the IASB nor challenge the IASB's independence in setting the standards. The IASB will have to give appropriate consideration to the differences between countries applying IFRS and others, issues in the former having inevitably a greater weight than issues in the latter.

CHARTER NETWORK BETWEEN THE IASB AND NATIONAL STANDARD-SETTERS: A PARTNERSHIP FOR GLOBAL ACCOUNTING STANDARD SETTING

National standard-setters (hereafter ‘NSS’) and the IASB have traditionally been engaged on a bilateral basis. However, within the framework of global standard-setting, NSS have also been building capacity amongst themselves through various more or less formalised networks which have also been interacting with the IASB. Both these bilateral and multi-lateral relationships between the IASB¹ and NSS² are important and are to be considered cohesively.

This charter addresses both bilateral and multilateral relationships between the IASB and NSS.

1. Nature of this document

This document formalises in writing the partnership between the NSS and the IASB which draws from the commonality of goals and activities of the international and national standard-setters which operate in the public interest whilst also counting on their complementary differences.

This document spells out the spirit and the way in which global accounting standard-setting activities should be run in the optimal way to both achieve the common goal and satisfy the needs and requirements of each of the parties involved from their respective perspectives. It therefore provides for delineation of roles and responsibilities and outlines the objectives and principles for collaborative activities.

The purpose of this Charter is to frame the parties’ respective commitments as moral and not legal commitments.

This Charter foresees its review by the parties engaged in it within a timeframe that enables to draw from reasonably acquired experience.

2. Abiding by overarching principles

NSS and the IASB, are committed to working:

- in close co-operation while maintaining independence;
- transparently and openly, including on the sharing of information and, where deemed necessary, of resources;
- with mutual trust and respect; and
- with a sense of duty, responsibility and accountability for achieving the shared goal in the public interest.

¹ As interpretations are part of the IASB’s due process, no specific reference is made to the IFRS Interpretations Committee which is implicitly subsumed in the reference to the IASB.

² Regional levels are therefore assumed in the notion of NSS in this document.

3. Ensuring cooperation at each phase of the standard-setting process

The IASB and the NSS share the same goal and the same constituents as regards IFRSs.

The IASB needs to base its global standard-setting activities on evidence. It needs to be close to its constituents as well as be aware and understand the diversity of their issues as early as possible in the process as well as all along the standard-setting process.

The NSS and their resources facilitate this as they provide:

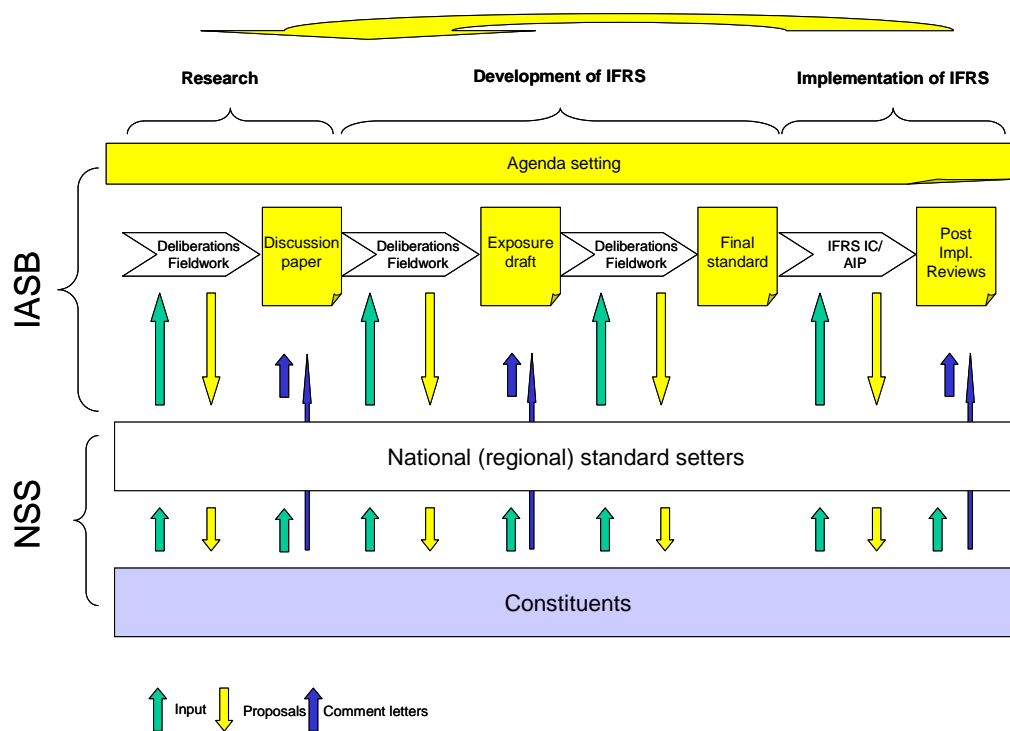
- best access and coverage of those constituents, as they necessarily engage with them for their own due processes, as well as
- understanding of their issues within their appropriate contextual framework, ie as focused and balanced input and evidence, taking into account the respective weights and interplay between their different local constituent groups³. NSS therefore exercise a synthesis role.

Therefore, local input channelled through the NSS is fundamental for each stage of the standard-setting process. This is not intended to prevent the IASB from having direct relationships with constituent groups, even locally, although in such relationships, transparency with the local NSS is key.

Such process streamlines and facilitates the development and subsequent adoption of IFRSs as well as it avoids over-consultation of constituents.

Seeking input in the IFRS standard-setting process

At every step in the standard-setting process as defined by the IFRS Foundation Due Process Handbook pictured in the diagram below, regardless of the format under which it is provided (fieldwork, informal input, formal input, comment letters, ...) input by constituents through their NSS to the IASB helps the IASB define and refine its proposals with the aim of minimising the risk of non adoption of IFRS at the end of the process.



³ Local constituent groups comprise: investors, preparers, auditors, securities and prudential regulators, academics and any other constituent with an interest in IFRS.

The IASB has responsibility for making proposals for which it seeks input.

However, both the IASB and NSS carry out the same activities for the due process phases geared towards setting a standard, ie during both the research and the standard development phases.

Therefore, in all type of activities (fieldwork, informal and formal input, comment letters), there is no justification for foreseeing diverging principles and ways of seeking input from constituents than those described further in this document under point 4.

Managing the IFRS implementation phase

A NSS's active participation in earlier phases of the process should facilitate its activities in the IFRS implementation phase. In this phase, activities of the NSS and the IASB diverge to some extent, thus warranting the separate description hereafter.

The role of NSS does not stop once an IFRS is published. To the contrary, there are a number of activities that NSS then engage in:

- adoption/endorsement activities which include translation, compliance with local legislative requirements, compilations of standards for a specific time period and consolidation of new or revised text;
- implementation activities which include identifying and communicating emerging issues (see below) as well as post-implementation reviews (for which the overarching principles as described in this document apply) and consistent application;
- helping constituents understand IFRS.

Consistent application

NSS and the IASB should work together to help ensure consistent application of IFRS. In this respect, NSS help their constituents understand the new standards through various formats and, in doing so they may identify implementation issues.

An implementation issue identified locally should be shared with other NSS and the IASB to determine the breadth of the issue and whether there is a need for local interpretation or guidance on that issue, with an aim to, to the extent possible, avoiding a proliferation of local interpretations. NSS should also liaise with regulators in charge of IFRS enforcement on such issues.

Some issues may affect only one or two jurisdictions and relate to particular legislative or other local requirements—for example, a tax law that is unique to a jurisdiction. In these cases, which are likely to be rare, NSS may decide to issue their own interpretations or guidance, in compliance with IFRS.

4. Working efficiently on a day-to-day basis

The approach explained above is to be implemented in the respective parties' day-to-day work.

Elements of this approach exist already to some extent. Clarifying how to streamline and optimise the processes would benefit all parties involved, from constituents and their NSS to the IASB, to all constituents' satisfaction.

The main areas in which this approach should be detailed are as follows:

- how to seek constituents' input

- cooperation among staff
- terms of reference of work carried out together
- creating, as an essential tool, a Board / Council of standard setters

Seeking constituents' input

Irrespective of the various standard-setting phases described in 3, the process of seeking constituents' views may take various formats: participation in working groups and expert panels, search for input on specific subjects that are key to one or the other stakeholder, testing of proposals including effects analysis. These activities occur in a more or less formal manner: physical meetings, conference calls, questionnaires, field visits.

As previously explained in 2., the process of seeking constituents' views should be performed jointly with NSS.

When there is direct interaction between the IASB and constituents (e.g. through direct calls or encounters in various foras) the IASB should ensure that transparency is achieved towards the respective NSS involved, so that the NSS is able to provide feedback to its constituents on how their input was taken into account..

In practice, within the organisation of the day-to-day work, this should not be a burden. There will be many occasions for the IASB and NSS to exchange either bilaterally or multilaterally and appraise one another of the issues that have been identified.

Cooperation among staff

Regular formal and informal contact at staff level, with appropriate communication channels, is necessary for the conduct of the day-to-day operations in seeking constituents' input.

This should be organised both on a general topic level and on a project level with the relevant staffs and would aim to:

- work out the terms of reference of the work carried out together for each new joint activity launched (see below)
- discuss the input provided in detail prior to the higher level discussions of the chairmen within the Council/Board of accounting standard-setters (see below).

In addition, consideration should be given to the possibility of arranging for staff to work for the IASB and NSS consecutively, in order to diffuse as much as possible a commonality of views.

Terms of reference of work carried out together

For all the types of work the IASB and NSS engage jointly in, the following terms of reference should be agreed on a project-by-project basis by the parties involved:

- the party leading the project;
- the nature of the project, including its objectives;
- the scope;
- the process (including timing, milestones and formulation);
- whether the project will contain views or recommendations, or whether it is just presenting an analysis of the facts;
- the output, including deliverables and who will own and/or publish the output, and what will be done with the output; and
- the roles, responsibilities and expectations of each party involved.

A Council/Board of accounting standard setters

The IASB is assisted by a network of NSS constituted as a Council/Board of accounting standard-setters, whose membership is by right attributed to Chairs of NSS.

This Council/Board enables high-level discussions of input coming from NSS on behalf of their constituents to the IASB and of feedback on how such input has been taken into account in the development of a standard.

Appropriate consideration by the IASB should be given to the differences between countries applying IFRS and others, issues in the former having inevitably a greater weight than issues in the latter.

The IASB does not have bandwidth to liaise with each NSS individually and not all NSS can participate to such Council/Board, which needs to remain of a manageable size to be efficient. Nor do all NSS have the resources to participate in such Council/Board. Those NSS most involved on a permanent basis – including the four larger European NSS, however, would probably form a first group even less numerous than, for example, the countries in the G20.

The Chairmanship of this Council/Board by one of its members need not be over-formalised. For instance, a two-year rotational system could be put in place with an appropriate balance to be found according to agreed relevant criteria.

The IASB would always attend the meetings, represented by its Chairman. Observers would be allowed as well.

Regular meetings should be planned, at least quarterly, with, in addition, as many other types of meetings as needed and relevant in conjunction with any work performed jointly with the IASB or significant topics and due process steps.

The role of the Council / Board should be included in the relevant IASB/IFRS Foundation “constitutional” documents. The detailed working arrangements would be defined and agreed by the Council/Board itself.

Representatives of NSS –in a limited number, for reasons of efficiency - should also be invited to attend various meetings organised by the IASB with various stakeholders (industry, analysts, investors...).