

The Chairman

Date: 19 July 2011  
ESMA/2011/212

**Mr. T. Seidenstein**  
**Chief Operating Officer**  
**IFRS Foundation**  
**30 Cannon Street**  
**London EC4M 6XH**  
**United Kingdom**

## **RE: IFRS as the Global Standard: Setting a Strategy for the Foundation's Second Decade**

Dear Mr Seidenstein,

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to safeguarding the stability of the European Union's financial system by ensuring the integrity, transparency, efficiency and orderly functioning of securities markets, as well as by enhancing investor protection.

The Trustees of the IFRS Foundation published on 27 April 2011 a second consultation paper which sets out a strategy and vision for the IFRS Foundation and the International Accounting Standards Board (IASB) as they evolve as the global accounting standard-setter.

The Monitoring Board is currently also conducting a review of the IFRS Foundation's governance. We welcome the Joint Statement by the Monitoring Board and the Trustees of the IFRS Foundation published on 27 April 2011 and expect the Trustees and Monitoring Board to continue to coordinate their respective projects. ESMA shares the Trustees' and the Monitoring Board's view that the Trustees' strategy review and the Monitoring Board's governance review should result in an integrated package of measures and in an action plan to implement the necessary improvements.

ESMA is supportive of most of the proposals aimed mainly at further improving the accountability of the IFRS Foundation and the IASB. Consistent and faithful application and implementation of IFRS is of utmost importance for users' confidence in financial statements and for the success of IFRSs. This becomes even more important with more than 100 jurisdictions applying IFRSs. ESMA believes that post 2011 the IASB should strive for a period of calm in changes to accounting standards for users and preparers and focus rather on post-implementation issues and promoting consistent application, which would mean a more prominent role for the IFRS Interpretations Committee (IFRS IC).



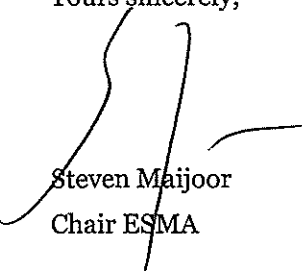
We would have preferred a clearer articulation of the role of the IFRS IC in the Foundation's Strategy Review. We believe that a more diverse composition of the Committee should be sought and that Trustees should improve the independence of their members, especially with respect to audit firms. With that objective in mind we would welcome the increased participation of more enforcers in addition to the observership granted to the International Organization of Securities Commissions (IOSCO).

We acknowledge that the IASB has made significant steps in developing its outreach program but we believe we have now arrived e at a point in time where a comprehensive look at the IASB's standard-setting process would have significant merit. We particularly believe that there is a need to see how the various steps of the due process link together in the project cycle and that Trustees should strengthen their oversight activities, promote more transparency and communicate better with stakeholders. The IASB could develop this transparency further by dedicating sufficient resources to understanding the impact of proposals prior to issuing them for public consultation (e.g. exposure drafts), giving greater consideration to the number of amendments that users and preparers of financial information can reasonably absorb within time frames, more formalised feedback statements and carrying out post-implementation reviews more systematically. A full and transparent due process giving due consideration to market participants' comments is the best guarantee for a smooth adoption of IFRSs.

As a last point we welcome the fact that the Trustees' strategy review emphasises the role of securities regulators in the various steps of the standard-setting process. ESMA hopes to continue its good cooperation with the Foundation and with the IASB and is looking forward to contributing to the Foundation's and IASB's activities whenever possible.

I would be happy to discuss any or all of these issues further with you.

Yours sincerely,



Steven Maijoor  
Chair ESMA

## APPENDIX I – ESMA’S COMMENTS ON THE STATUS OF THE CONSULTATION PAPER

### *Co-operation with the IFRS Foundation Monitoring Board*

1. The Monitoring Board is currently conducting a review of the IFRS Foundation’s governance. The Monitoring Board issued a draft for consultation on 7 February 2011 and is expected to discuss the outcome of that consultation during its next meeting. ESMA thinks that it would be unfortunate if the Trustees took decisions about the organisation’s future strategy and/or governance before they have had the chance to consider the recommendations that will result from the Monitoring Board’s review.
2. We welcome the Joint Statement by the Monitoring Board and the Trustees of the IFRS Foundation published on 27 April 2011 and expect the Trustees and Monitoring Board to continue coordinating their respective projects. ESMA shares the Trustees’ and Monitoring Board’s view that the Trustees’ strategy review and the Monitoring Board’s governance review should result in an integrated package of measures and in an action plan to implement the necessary improvements.

### *The IFRS Foundation Constitution*

3. We note that the Trustees launched the consultation paper as a strategy review. ESMA believes that the consultation paper focuses mainly on the important issue of how the Foundation and the IASB could enhance their accountability. We are convinced that the Trustees and Monitoring Board are considering a strategy in which an important factor will be the decisions by the Japanese FSA and US SEC on whether or not to use IFRSs for domestic issuers later this year.
4. The Trustees have recently launched a number of reviews that have a bearing on the IFRS Foundation’s future strategy, including:
  - This comprehensive review of the IFRS Foundation’s strategy (a consultation paper was published in November 2010 of which this consultation paper is a follow-up);
  - A review of the effectiveness of the IFRS Interpretations Committee (questionnaire issued on 2 November 2010);
  - A review of the IFRS Advisory Council (announced as part of the conclusions of the Constitutional review on 15 February 2010; the Advisory Council has also carried-out a self-assessment).

5. There are various inter-linkages between these different reviews, meaning therefore they cannot be treated in isolation. For example, the conclusions of the strategy review may have important implications for the overall direction of the IASB's technical agenda, as well as for the roles of both the IFRS Interpretations Committee and the Advisory Council. We believe that it would have been helpful for the Trustees' strategy review report to reflect the different reviews and their outcomes.
6. The Trustees completed their periodic Constitution Review in 2010. It is unclear to us whether the strategy review will result in some sort of *gentlemen's agreement* between the Trustees and the Monitoring Board or whether it will affect the Foundation's Constitution and/or the Due Process Hand Book.

## APPENDIX II – ESMA’S DETAILED RESPONSES TO THE CONSULTATION PAPER

### A. Mission: defining the public interest to which the IFRS foundation is committed

#### *Purpose of financial reporting standards*

**In carrying out the IFRS Foundation’s mission as the standard-setting body, the IASB should develop financial reporting standards that provide a faithful presentation of an entity’s financial position and performance. Those standards should serve investors and other market participants in their economic and resource allocation decisions. The confidence of all users of financial statements in the transparency and integrity of financial reporting is critically important for the effective functioning of capital markets, efficient capital allocation, global financial stability and sound economic growth.**

1. ESMA shares the concern that many policymakers and stakeholders seem to have that all relevant public policy objectives should be taken into account in the standard-setting process and therefore concurs with the suggested purpose of financial reporting standards. We however agree with the Trustees that the tensions between the varying objectives should not be overstated and that the various public policy objectives are all likely to be served by transparency in financial reporting. While we believe that the IASB and (prudential) supervisors should try to align reporting requirements as far as possible, we acknowledge that it is not possible to remove all differences between financial reporting and prudential regulatory requirements. We believe that, if a conflict does arise between the wide range of measures that prudential regulators may require reporting entities to adopt and the needs of investors, investor’s needs should take precedence for the development of accounting standards. Relevance, faithful representation, transparency and enforceability are crucial elements for ESMA in the development of accounting standards.
2. ESMA welcomes the fact that the proposed purpose of financial reporting as part of the IFRS Foundation’s mission is consistent with that of the IASB’s current *Conceptual Framework* and that no further amendments would be necessary to the latter.
3. We believe that achieving good cooperation in practice with authorities with responsibility for financial stability and other regulators is more appropriate than including a reference to financial stability in the IFRS Foundation’s Constitution or Mission Statement. The different initiatives that were developed in the aftermath of the financial crisis to encourage closer engagement between the IASB and such authorities and regulators should be carried out on a more structured basis.

### *Adoption of IFRSs*

**As the body tasked with achieving a single set of improved high quality global accounting standards, the IFRS Foundation must remain committed to the long-term goal of the global adoption, in their entirety and without modification, of IFRSs as developed by the IASB. Convergence may facilitate adoption over a transitional period. Convergence, however, is not a substitute for adoption. Adoption mechanisms may differ among countries and may require an appropriate period of time to implement but, whatever the mechanism, they should enable relevant authorities to have an audit opinion stating full compliance with IFRSs as issued by the IASB.**

**With co-operation from national and international market and audit regulators, the IFRS Foundation should seek full disclosure where adoption of IFRSs is incomplete or there is divergence from the full set of IFRSs as issued by the IASB. The Foundation should seek a mechanism to highlight instances where jurisdictions are asserting compliance with IFRSs without adopting IFRSs fully.**

4. It is difficult to overstate the importance of achieving a single set of high quality accounting standards. ESMA has always been and still is a strong advocate of global accounting standards. We agree with the Trustees that convergence may facilitate adoption over a transition period but it should not be a substitute for adoption and that partial adoption should be avoided. It would benefit investors if that results in an audit opinion stating full compliance with IFRSs as issued by the IASB. We however would like to reiterate that a full and transparent due process giving due consideration to market participants' comments is the best guarantee for a smooth adoption of IFRSs.

### *Scope of standards and IFRS activities*

**In the near term, the primary focus of the IFRS Foundation and the IASB should remain on developing standards for private sector entities (i.e. both publicly traded entities and SMEs). Taking into account the necessary resource requirements, the Foundation and the IASB will consider developing standards for other entities and for other purposes at a later date.**

5. Over the last decade the IFRS Foundation has developed various other initiatives and activities in support of its objective of IFRS standard-setting (through the IASB and the Interpretations Committee), including IFRSs for Small and Medium-Sized Entities (SMEs). We believe that setting accounting standards for listed entities should remain the main focus and priority of the IASB.
6. On whether the Foundation should actively consider other areas related to financial reporting (for example, integrated reporting, not-for-profit, and so on) we believe that the Foundation and/or the IASB should explain more comprehensively why it believes there is a need to do so and that it should consult market participants on such proposals prior to active involvement and allocating resources, for example through its consultation on its agenda-setting.

### *Consistency of application and implementation*

**In pursuing its mission, the IFRS Foundation has a vested interest in helping to ensure the consistent application of IFRSs internationally. The Foundation should pursue that objective in the following ways:**

- **The IASB as the standard-setter, should issue standards that are clear, understandable and enforceable.**
- **The IASB will provide guidance on its standards that is consistent with a principle-based approach to standard-setting. All application guidance and examples must be necessary to understand the principles.**
- **The IASB will work with a network of securities regulators, audit regulators, standard-setters and other stakeholders to identify divergence in practice. Where divergence in practice could be resolved through an improvement in the standard or an interpretation, the IASB or the IFRS Interpretations Committee will act accordingly.**
- **The IFRS Foundation, through its education and content services, should undertake activities aimed at promoting consistent application.**
- **The IASB, in partnership with relevant authorities, will identify jurisdictions where IFRSs are being modified and encourage transparent reporting of such divergence.**
- **The IFRS Foundation will seek the assistance of the relevant public authorities to achieve this objective.**

### *Consistent application*

7. Consistent application and implementation of IFRS is of the utmost importance for users' confidence in financial statements and for the success of IFRSs. ESMA believes that post-2011 the IASB should strive for a period of calm in changes to accounting standards for users and preparers and rather focus on post-implementation issues and promoting consistent application, which would mean a more prominent role for the IFRS IC in the coming years.
8. We believe that the IASB should continue to critically examine, during the standard-setting process, whether the standard under development is capable of consistent interpretation, application and enforcement. We think that the IASB should perform on a systematic basis at least some sort of (limited) post-implementation review by, for example, organising round table meetings or other outreach activities in order to be sure that standards have not led to significant interpretation or implementation issues. In that respect we believe that it might be better not to issue new standards or to renew old standards without clear evidence of problematic issues in practice (not just because they are old), so as to provide stability, consistent application and comparability. Continued dialogue with enforcers of IFRS could provide fruitful results.
9. ESMA would stress that consistency in application and implementation is essential to the success of IFRS, therefore we believe that consistency in IFRSs as principles-based standards should continue to entail the careful use of professional judgment, applied transparently. That judgment should aim at accounting and reporting similar transactions in the same manner and dissimilar transactions differently. We believe that disclosures can play an important role in ensuring comparability.

### *IFRS Interpretations Committee*

10. We welcome the assessment of the effectiveness of the IFRS Interpretations Committee launched earlier by the Trustees and their intention to clarify their position *vis-à-vis* the IASB and would have preferred a clearer articulation of the role of the Interpretations Committee's role in the Report of the Trustees' Strategy Review.
11. ESMA has contributed to this consultation and would like to refer to the letter we sent to the Trustees on 25 February 2011<sup>1</sup>. We believe that a more diverse composition of the Committee should be sought and that the Trustees should improve the independence of its members, especially with respect to audit firms. With that objective in mind we would welcome the increased participation of more enforcers of IFRS in addition to the observership granted to the International Organization of Securities Commissions (IOSCO) in the meetings. In this respect we would like to highlight that

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<sup>1</sup> <http://www.esma.europa.eu/popup2.php?id=7467>



ESMA has extensive experience with enforcement of IFRS through its European Enforcers Coordination Sessions (EECS) which we believe to be valuable for the standard-setting activities of the IASB. In addition we think that the operational effectiveness and transparency of the Committee could be improved further (by considering, for example, a longer than 30-day comment period for tentative agenda decisions, more transparent appointment procedures, and greater consideration of the role of interpretations).

12. The IASB already reaches out to audit firms (and in particular the globally networked audit firms) to discuss the auditability of proposed amendments. ESMA believes that it would be good to strengthen the relationship between the IASB and ESMA to discuss the decision-usefulness of the information provided to investors under a new standard and the standard's enforceability.
13. It is also important for enforcement authorities to consult with each other and reach common ground on the application and implementation of IFRS. ESMA has contributed to this in the past by setting up the European Enforcers Coordination Sessions in order to achieve consistent application of IFRS within the European Economic Area. ESMA has and will invest in future dialogue with third country enforcers to achieve mutual exchange of experience. The IASB and the IFRS Interpretations Committee has and will remain in that respect a valuable partner.

## **B. Governance: independent and public accountability**

**The independence of the IASB in its standard-setting decision-making process, within a framework of public accountability, must be maintained.**

**The current three-tier structure (Monitoring Board, Trustees, IASB) is appropriate for the organisation's mission. Within that governance structure, the Monitoring Board, the IFRS Foundation and the IASB should enhance their interaction and procedure where appropriate to reinforce the principles of transparency, public accountability and independence. In doing so, the roles and responsibilities of each element of the organisation's governance should be clearly defined.**

**Consistently with point B2, the Trustees should further clarify how they discharge their oversight responsibilities.**

**Elements of the governance structure should provide regular public reports to demonstrate their effectiveness.**

### *IFRS Foundation Monitoring Board*

14. The IFRS Foundation Monitoring Board published its *Consultative Report* on 7 February 2011. The principles mentioned above are discussed in detail in that report. As stated in appendix 1 we believe that it is crucial that the comprehensive review of the IFRS Foundation strategy and the Monitoring Board governance review run in parallel and lead towards an integrated action plan to implement the necessary improvements. We would therefore like to refer to our comment letter submitted to the IFRS Foundation Monitoring Board<sup>2</sup> and will only refer here to our comments that relate directly to the role of the Trustees.

### *Trustees*

15. The IFRS Foundation needs to be seen to be exercising its governance and oversight role actively if it is to be effective. The IFRS Foundation's role should be a pro-active one, acting on the organisation's behalf to work with jurisdictions to ensure their support (or non-interference with) the standard-setting process and promoting the use or adoption of IFRSs. This implies a more visible role for the Trustees than at present in the governance and oversight of the IFRS Foundation and a visibly ambassadorial role for them liaising with policy-makers in IFRS jurisdictions and potential IFRS jurisdictions, ensuring that lines of communication remain open and accessible to the IASB. Such contacts could include governments, those responsible for incorporating/endorsing IFRS for use in their jurisdictions and those responsible for the enforcement of the standards in those jurisdictions.
16. We believe that it is important that all Trustees should be able to dedicate sufficient time to fulfilling their obligations as Trustees and to meeting the expectations that exist of them. Given the heightened profile of the IFRS Foundation now as a result of the G20 mandate given to the IASB, we see this requirement as unavoidable. In addition, we believe that the recruitment process for Trustees should be broadened and more publicity should be sought for vacancies than is currently the case.
17. Although the IASB has made significant progress towards becoming a more transparent organisation in developing its outreach programme to ensure that stakeholders' views are taken into account during the standard-setting process, there is still a long way to go for the Trustees. The Trustees should strengthen their oversight activities, promote more transparency and better communication with stakeholders. One particular area where such transparency and communication could be improved is on the activities of the Due Process Oversight Committee. Regular public reports could be part of that.

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<sup>2</sup> <http://www.esma.europa.eu/popup2.php?id=7593>

18. ESMA agrees with the Trustees that the role of the Due Process Oversight Committee should be enhanced. However, we have two comments regarding the current recommendation to have the sub-committee perform due process status reviews:
- The Trustees should clarify what the substance of this recommendation would be in practice (major projects; agreed framework; best practice). We believe the substance could include the Committee from time to time re-assessing how the IASB analyses comment letters to EDs to ensure that there is no bias in the IASB analysis. Another thing it might do is consider whether issues papers raise all the substantial concerns raised by respondents. We believe the substance should not include second-guessing the IASB's technical decisions.
  - This recommendation does not include a mechanism for the Due Process Oversight Committee/Trustees to act where the due process has not been followed properly.
19. We would support the Trustees having a closer involvement in overseeing the IASB's agenda-setting process, while preserving the IASB's full technical independence. The Trustees should thus be more involved so that they can fully understand the process by which the IASB has determined its agenda and set the relative priorities. Such involvement should include more active engagement of the IASB with the IFRS Advisory Council and the Trustees. The Trustees should be more visible in these public fora if they are to remain credible in discharging their oversight role. The Monitoring Board should ensure adequate oversight of the IASB by the Trustees, which could also include a closer involvement in the agenda-setting process, such as referring issues that the Monitoring Board believes to be relevant for the IASB's consideration.

**C. Process: ensuring that its standards are of high quality, meet the requirements of a well-functioning capital market and are implemented consistently across the world**

**A thorough and transparent due process is essential to develop high quality, globally accepted accounting standards. The IASB's due process is and should continue to be reviewed and further enhanced regularly, benefiting from regular benchmarking against other organisations and from stakeholder advice.**

**The framework for the Trustees in their oversight of the IASB's due process should be clarified. The Trustees' Due Process Oversight Committee should review and discuss due process compliance regularly throughout the standard-setting process and at the end of the process before a standard is finalised. The Committee should report regularly on these activities to the Trustees and in its annual report.**

**Building on the existing due process framework and in an effort to improve the usability of financial information, the IASB should undertake the following:**

- **Clear demonstration of how priorities on its agenda are set:** In the agenda-setting process and after the required public consultation, the IASB should provide full feedback. This will assist in demonstrating how the IASB's priorities are set.
- **Agreed methodology for field visits/tests and effect analysis:** the IASB should work with relevant parties to develop an agreed methodology for field visits/tests and effect analyses (more often referred to as cost-benefit analyses or impact assessments).
- **Integration of XBRL into the standard-setting process and the development of relevant XBRL taxonomy extensions:** In order to take into account the impact of technology, the development of the IFRS XBRL taxonomy should be expanded to include a relevant number of extensions to the existing base taxonomy.

**To support the IFRS Foundation's interest in consistent application of IFRSs and within the IASB's standard-setting mandate, the IFRS Foundation and the IASB should undertake the following actions:**

- **Using an agreed methodology, undertake post-implementation reviews to help identify implementation issues.**
- **Establish formal co-operation arrangements with securities regulators, audit regulators and national standard-setters to receive feedback on how IFRSs are being implemented and to encourage actions aimed at addressing divergence.**
- **Refine the scope of the IFRS Interpretations Committee's activities to ensure consistency of interpretation, without undermining the commitment to a principles-based approach to standard-setting.**

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

**To provide thought leadership in the field of financial reporting, the IASB should establish, or facilitate the establishment of, a dedicated research capacity.**

*Comprehensive look at the standard-setting process*

20. We acknowledge that the IASB has made significant steps in developing its outreach program but we believe we have now arrived at a point in time where having a comprehensive look at the IASB's standard-setting process would have significant merit. We particularly believe that there is a need to see how the various steps of the due process link together in the project cycle and the criteria to decide on re-exposure. Consistent application of IFRS should also be considered earlier in the process. European companies, users and regulators have gained extensive experience with the use of IFRS. ESMA thinks that the IASB could benefit from that experience and it could, for example, help the IASB in defining a methodology for post-implementation reviews.
21. The Trustees' recommendation aimed at enhancing the agenda-setting process sets out that the IASB should provide full feedback explaining how it accounted for the views of the Trustees, the IFRS Advisory Council, the Monitoring Board and other stakeholders. However, the recommendation does not include a mechanism how to act if divergence in views were to arise.
22. With regard to ensuring that views are taken into account during the standard-setting process, we believe that the organisation could develop further. Examples of how this might be achieved include (i) dedicating sufficient resources to understanding the impact of proposals prior to issuing public consultation documents such as exposure drafts assessing the need for new proposals and their scope; (ii) assessing the impact of the proposals in earlier phases; (iii) giving greater consideration to the number of amendments that users and preparers of financial information can reasonably absorb within certain time frames; (iv) better formalising feedback statements; and (v) carrying out post-implementation reviews more systematically.
23. Regarding post-implementation reviews, ESMA believes that the scope of such reviews as included in the Trustees' recommendations is too narrow, being limited to important issues identified as contentious during the development of the pronouncement and including any unexpected costs or implementation problems encountered. The scope of such post-implementation reviews should also cover whether the standard's objectives have been met. Regarding the selection of standards for post-implementation review, such reviews are limited to new IFRSs and major amendments and major interpretations. It would make sense to give priority to standards causing application problems.

24. In addition we believe that preparers of financial statements will face significant changes when they implement all the new standards that the IASB is currently developing, and so the implementation process will inevitably reveal issues that the IASB will need to consider (especially as it has completed many of the projects on a rather compressed timescale). The increasing number of countries adopting or converging towards IFRS could accentuate these pressures. We would encourage the Foundation to ensure that the agendas of the IASB and the IFRS Interpretations Committee allow sufficient time and resources to deal with these issues.

*Improving the IASB's due process*

25. ESMA thinks that it is important to differentiate between the need for independent high quality execution of standards and the need for a strong accountability framework. The former would help to ensure the latter. We believe that the IASB should introduce a more robust due process, in particular through systematic use of effects analyses and clearer communication of the reasons for changing accounting standards at an earlier stage of the standard-setting process in order to achieve greater transparency about the technical choices the standard-setter has. We believe that post-2011, the IASB should strive for a period of calm in setting accounting standards. The winding-down of the IASB-FASB convergence program, combined with a more rigorous agenda-setting and due process, should in practice lead to a reduction in the pace of the IASB's standard-setting activity. This should enhance stability and comparability across time in financial information produced using IFRSs, which should benefit all users of this information - investors, preparers and regulators alike.
26. The IASB should further improve participation of all relevant stakeholders, including relevant supervisory authorities, in the standard-setting process. The IASB could organise a forum of technical experts representing securities and other relevant regulators to discuss at an early phase the potential impact of upcoming standards.
27. ESMA believes that the following could lead to other possible improvements in the standard-setting process:
- Greater consideration of the number of amendments to IFRSs that users and preparers of financial information can reasonably absorb within certain time frames. An overload of new accounting standards could affect the proper implementation of standards by preparers;
  - Sufficient allocation of resources to meet market participants and to prepare market failure analyses prior to developing exposure drafts, in order to assess the need for new proposals and their scope, as well as to assess the impact. Wider consultation also promotes excellence, neutrality, the identification of unintended consequences and, ultimately, broad acceptance of the legitimacy of the standards that are adopted;

- The IASB should introduce formalised feedback statements for comments received in public consultations;
- Post-implementation reviews should be carried out on a systematic basis after finalisation of standard-setting projects; and
- Clearer criteria for re-exposure should be set.

*Transparency on Trustees' oversight activities and the role of IFRIC*

28. We would like to refer you to our response set out to the questions above which states that we believe that the Trustees should strengthen their oversight activities, promote more transparency and better communication with stakeholders. Respecting the due process should not only be done but also seen to be done. Regular assessment and improved feedback from Trustees will contribute to stakeholders' confidence.
29. We believe that the IFRS Interpretations Committee could contribute more than currently is the case to the activities of the IASB and the Foundation and refer to our comments set out above on the role of the IFRS Interpretations Committee.

**D. Financing: ensuring the organisation is financed in a manner that permits it to operate effectively, efficiently and independently**

**The funding system must maintain the independence of the standard-setting process, while providing organisational accountability.**

**The existing base of financing should be expanded to enable the IFRS Foundation to serve the global community better and to fulfil the strategy described above. Specifically, funding should be proposed by the Trustees on a long-term basis (at least three to five years), be publicly sponsored, be flexible to permit the use of differing mechanisms and to adjust to budgetary needs, be shared among jurisdictions on the basis of an agreed formula (consistent with the principle of proportionality) and provide sufficient organisational accountability.**

30. ESMA believes that the necessary independence of the IASB and the IFRS Foundation could be strengthened by more stable and diversified funding. A stable funding mechanism benefits the IASB by allowing it to carry out its technical agenda and to attract high-quality staff. It also provides greater assurance to jurisdictions using or in the process of adopting IFRSs regarding the quality



and independent nature of the accounting standards themselves. Sufficient and independent funding is key to achieving this objective.

31. ESMA supports the proposed funding structure as we believe that the Foundation should move as quickly as possible to a funding structure that relies solely on public sponsorship and other intermediated mechanisms – this would exclude reliance on voluntarily contributions. We believe that the different regulators within the jurisdictions using or in the progress of moving to IFRS should further consider developing stable funding mechanisms to fund the IFRS Foundation. We note in this respect that the European Commission has decided recently to contribute to the Foundation and that National Funding Mechanisms have been set up in some European jurisdictions.