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Our ref BoD/288

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Dear Mr Liikanen

Exposure Draft *Proposed Targeted Amendments to the IFRS Foundation Constitution*

We appreciate the opportunity to comment on the IFRS Foundation's Exposure Draft *Proposed Targeted Amendments to the IFRS Foundation Constitution* (the ED). We have consulted with, and this letter represents the views of, the KPMG network.

We acknowledge the Foundation's need to streamline its operations to ensure that the Foundation remains fit for the future and continues to deliver the global standards within its available resources.

Generally, we believe the proposals are a reasonable response to the current funding position of the Foundation. However, we encourage the Trustees not to amend the Constitution in a manner that would limit their ability to optimise the operations of the International Accounting Standards Board (IASB) and the International Sustainability Standards Board (ISSB) (together, the boards) if the funding position improves. Allowing short-term funding pressures to shape the Foundation's Constitution unduly could raise questions about the strength of its governance framework and its legitimacy as a global standard setter.

As an example, in the absence of the current funding constraints, we believe that a board comprising around 14 members remains an effective means of ensuring appropriate diversity of expertise, geographical representation and stakeholder confidence when managing a busy standard-setting agenda. The Constitution should therefore provide sufficient flexibility to accommodate boards of this size.

A fundamental element of the Foundation's governance framework is that the IFRS Standards are developed by independent boards. It is therefore vital that the boards remain independent, both in fact and appearance. We are concerned that some of the proposals could be seen to dilute this independence, even if that is not the intent – for example, the proposals around the role of the Managing Director and the duration of board members' terms. We encourage the Trustees to consider how these changes might be perceived and whether additional safeguards are needed.

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In summary, to the extent that the current funding constraints persist, we agree with some, but not all, of the proposals. Our concerns and recommendations are explained in our detailed responses to the questions in the Appendix to this letter.

Please contact Brian O'Donovan at brian.odonovan@kpmgifrg.com if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix

Question 1 – Board size and geographical allocation of board members
Do you agree with how the Trustees propose to amend the Constitution to implement their decision to reduce the size of the boards by: a) specifying a range for board membership; and b) amending the geographical allocation of members to maintain appropriate international diversity and balance? If not, why not and what would you propose instead and why?

We believe that the introduction of a range for board membership provides flexibility to optimise the activities of each of the boards in light of their respective agendas, within the funding envelope. However, we have the following comments.

Upper limit of 12 members [sections 25 and 44]

We do not agree with setting the upper limit at 12 members. In the absence of the current funding constraints, we believe that a board comprising around 14 members remains an effective means of ensuring appropriate diversity of expertise, geographical representation and stakeholder confidence when managing a busy standard-setting agenda. While we recognise the need for temporary measures in response to funding constraints, we do not believe that such measures should dictate the Foundation's long-term governance structure or operating model. Therefore, we recommend that the upper limit of the range is higher and accommodates boards of 14 members.

Reduced size of the boards [sections 25 and 44]

The ED does not clearly explain why a range of 8–12 members would enable the boards to continue operating effectively while maintaining appropriate global diversity, expertise and stakeholder confidence. Based on our experience of teams responsible for developing our own global interpretive positions on IFRS Standards, we do not believe that boards at the lower end of the proposed range would always be sufficient. We recommend that the Constitution state that the Trustees will seek to optimise the size of each board from time to time, having regard to specified criteria including the standard-setting agenda, other board priorities and the funding position.

Optimal board size for IASB vs ISSB [sections 25 and 44]

Given that the IASB and ISSB are at different stages in the development and maintenance of their respective standards, we encourage the Trustees to consider independently the optimal size of each board. This assessment should take into account the differing responsibilities, workloads and agendas.

Question 2 – Attributes of board members
Do you agree with the Trustees' decision to propose no changes in the Constitution: a) To the main provisions related to part-time board membership; and b) To the main qualifications for membership of the boards? If not, why not and what would you propose instead and why?

We support the proposal for the ISSB Chair to serve full-time. [section 49]

We also agree with the Trustees' decision to propose no changes to the main qualifications for membership of the boards. [sections 26 and 45]

However, we are concerned that the proposal to permit boards comprising as few as eight members, while retaining the existing provision allowing up to three part-time members, could result in a significant proportion of a board serving on a part-time basis. This could affect a board's ability to fulfil its standard-setting responsibilities. We therefore recommend that the maximum number of part-time members be reduced when the board is at the lower end of the proposed range of 8–12 members. [sections 25A and 44A]

Question 3 – Voting arrangements
Do you agree with how the Trustees propose to update the voting arrangements in the Constitution to facilitate effective decision-making for the smaller boards? If not, why not and what would you propose instead and why?

We understand that the proposed change to the voting arrangements, from a supermajority of members to a simple majority plus one additional vote, would not result in a significant change to the level of support required for decisions to be approved. Accordingly, we do not object to this aspect of the proposals. [sections 36 and 55]

The following table illustrates our understanding.

	Current	**Proposed**
Votes required for approval of IFRS Standards and EDs	• If the board has 14 members – nine members must approve (64 percent) • If the board has 13 (or fewer) members – eight members must approve (62 percent)	• If the board has 10 members – seven members must approve (70 percent) • If the board has eight members – six members must approve (75 percent)

However, we have concerns regarding the following.

Minimum affirmative votes [sections 36 and 55]

We do not believe that a minimum of five affirmative votes is sufficient for the approval of major new IFRS Standards and EDs. In particular, we are concerned that such a threshold may not maintain stakeholder confidence in the legitimacy and robustness of the standard-setting process. This concern may be particularly relevant in jurisdictions where the local endorsement process considers the technical quality of an IFRS standard, including its understandability, relevance, reliability and comparability before endorsing it. We recommend that the minimum threshold be “at least” five votes with a requirement to consult with the Due Process Oversight Committee on a case-by-case basis on major standard-setting projects when the board size is relatively small.

Small group meetings [paragraph 3.42 of the *Due Process Handbook*]

We are concerned that participation in these meetings could become overly restricted when the board size is relatively small. We understand the restriction exists to promote transparency by ensuring that a group of board members comprising a blocking majority cannot hold private meetings. However, we believe that small group meetings are an important part of the standard-setting process, providing an opportunity for members and staff to discuss and resolve technical and other matters ahead of public decision-making meetings, while operating within appropriate safeguards. Therefore, we recommend that the Trustees consider, for example, relaxing the current limits on participation in small group meetings while retaining alternative safeguards, such as requiring meetings to be reported to the Chair of the relevant board.

Question 4 – Other targeted amendments
Do you agree with the other proposed targeted amendments to the Constitution?

We have the following observations and recommendations regarding the other targeted amendments.

Role of the Managing (formerly ‘Executive’) Director [section 64]

The proposed amendments would appear to shift the Managing Director's role from a focus on day-to-day operations towards a more strategic role in implementing and delivering the Foundation's “mission”, subject to the oversight of the Trustees. However, we note that the Constitution itself does not clearly articulate the Foundation's mission. We believe the Constitution should clearly set out both the Foundation's mission and the distinct roles of the Trustees, the boards and the Managing Director in fulfilling that mission.

Based on the mission statement published on the Foundation's website, we understand the Foundation's mission to be the development of high-quality IFRS Standards that bring transparency, accountability and efficiency to capital markets around the world.

We also note that section 2(a) of the Constitution assigns responsibility for developing IFRS Standards to the independent boards.

Accordingly, we recommend that the Trustees consider further amendments to the Constitution to clarify the Foundation's mission and to reinforce the distinct responsibilities of the Trustees, the boards and the Managing Director.

Duration of member terms [sections 31 and 50]

We understand that the proposed amendments would retain the existing principle that a member's total term would normally be no more than eight years but could extend to a maximum of 10 years. However, the proposals would bring more flexibility in the length of individual terms, with initial appointments of up to five years (rather than fixed five years) and the possibility of renewal for one or more further terms.

While we recognise the objective of allowing the Trustees to tailor appointments to the needs of the boards and prospective board members, we are concerned that this flexibility could give rise to perceptions that board members appointed for short initial terms are 'on probation', dependent on the Trustees for reappointment. This may, in turn, affect the perceived independence of the boards, which is a fundamental element of the Foundation's governance framework.

We also note that shorter terms could affect a member's effectiveness and overall contribution, given the time required to develop a thorough understanding of their role and responsibilities and the projects on the board's agenda.

We encourage the Trustees to consider whether additional safeguards are needed to ensure that the increased flexibility in appointment terms does not adversely affect the perceived independence of members or their ability to contribute effectively. For example, the Constitution could require transparent and objective criteria for reappointment decisions, clear disclosure of the reasons for any term extensions, and an independent assessment process to support reappointment decisions. Such measures could help balance flexibility in appointments with maintaining stakeholder confidence in the independence and effectiveness of the boards.