

# **Summary of Comments**

**To the Consultative Report  
on the Review of the IFRS Foundation's Governance**

**September 2011**

**IFRS Foundation Monitoring Board**

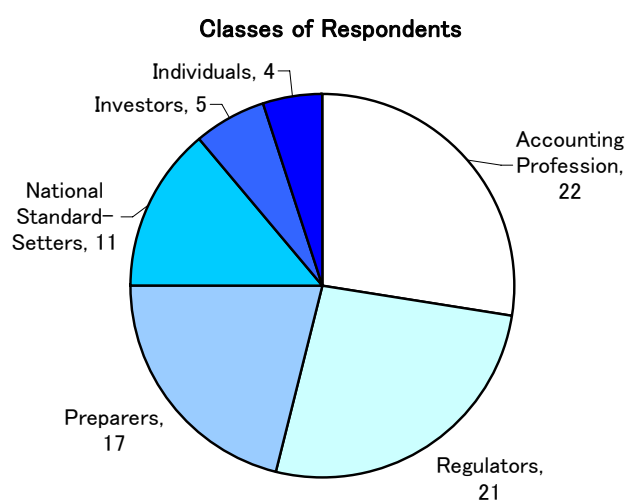
# Introduction

## *Background*

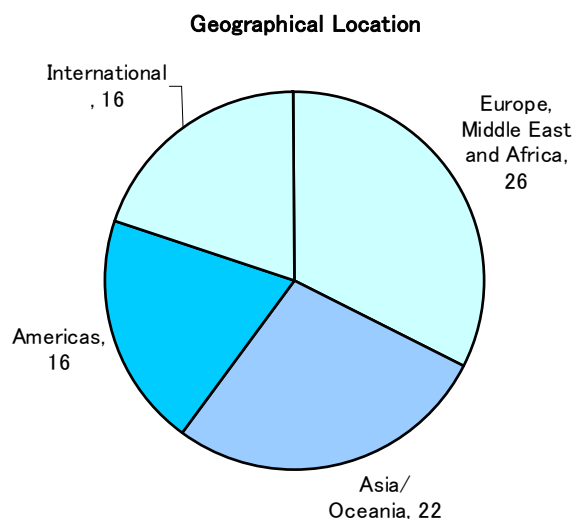
This paper is a summary of the comments received in response to the IFRS Foundation Monitoring Board's Consultative Report on the Review of the IFRS Foundation's Governance. The report was published on 8 February 2011 for a two-month public consultation until 7 April. The Monitoring Board also conducted public stakeholder meetings at four venues (Brussels, Tokyo, Kuala Lumpur, and Palo Alto) in March 2011 to reach out to a wide range of stakeholders. In addition to this summary, further work will be undertaken by the Monitoring Board, taking into consideration comments received, to produce an action plan on specific steps to improve the governance structure of the IFRS Foundation. The Monitoring Board will coordinate closely with the Trustees of the Foundation, who are currently undertaking a separate strategy review to develop a joint package of improvements. The objective is to finalize the above during the fourth quarter of this year.

## *Overview of the Comments Received*

The Monitoring Board received a total of 80 comment letters. The composition of respondents is summarized in the two charts below, broken down by classes of respondents and their geographic location. The mix of different classes of stakeholders suggests that the topic attracts increasing interest from across a wide spectrum of relevant groups. Accounting professionals and regulators amounted to more than a quarter of the total responses each, closely followed by industry associations. Comment letters from national standard-setters also exceeded ten per cent of the total responses. The number of responses from investors amounted to more than five per cent of the total, and included letters from associations representing multiple individual investors.



Respondent Type	No.	%
Accounting Profession	22	27.5
Regulators	21	26.25
Preparers	17	21.25
National Standard-Setters	11	13.75
Investors	5	6.25
Individuals	4	5
<b>Total</b>	<b>80</b>	<b>100</b>



Respondent Type	No.	%
Europe, Middle East and Africa	26	32.5
Asia/ Oceania	22	27.5
Americas	16	20
International	16	20
<b>Total</b>	<b>80</b>	<b>100</b>

\* The response from the European Commission has been counted as one response, though it reflects all EU member countries' comments.

## Questions Asked

In its consultative report, the Monitoring Board invited comments on the following questions.

Area	Question	See page
IASB	<p>Question 1 <i>Do you agree with the proposal to urge concrete efforts to deepen the pool of candidates for IASB membership from diverse geographical and professional backgrounds? Please provide reasons for your agreement/disagreement.</i></p>	
	<p>Question 2 <i>Do you agree with the proposal to separate the roles of the IASB Chair and the CEO of the IFRS Foundation, and if so would you have suggestions on how to formalize this? Please provide reasons for your agreement/ disagreement.</i></p>	
	<p>Question 3 <i>Do you agree that clearer division of responsibility between staff dedicated to the IASB operations and staff dedicated to the Foundation’s administrative and oversight functions should be considered, and if so would you have suggestions on how to formalize this? Please provide reasons for your agreement/disagreement.</i></p>	
Trustees	<p>Question 4 <i>Please provide comments on any aspects of Trustee composition or appointments that you believe the Monitoring Board should consider.</i></p>	
	<p>Question 5 <i>Do you agree with the proposal to provide increased transparency into the process for Trustee nominations? Please provide reasons for your agreement/ disagreement. To what extent should the Monitoring Board be involved in the nomination process? Do you agree that further clarification of criteria for the Trustees’ candidacy would help support confidence of the stakeholders? Please provide reasons for your agreement/disagreement.</i></p>	
Monitoring Board	<p>Question 6 <i>Should the membership of the Monitoring Board continue to be confined to capital markets authorities responsible for setting the form and content of financial reporting in respective jurisdictions?</i></p> <p><i>Do you agree with the proposal to expand the Monitoring Board’s membership by adding a mix of permanent members ([four]) representing primarily major emerging markets and rotating members ([two]) from all other markets? Please provide reasons for your agreement/disagreement. How should the major markets be selected? Should a jurisdiction’s application of IFRSs and financial contribution to standard-setting play a role?</i></p> <p><i>Do you agree that rotating members should be selected through IOSCO? Please provide reasons for your agreement/disagreement.</i></p>	
	<p>Question 7 <i>Do you agree that the Monitoring Board should continue to make its decisions by consensus? Please provide reasons for your agreement/disagreement. Are there any types of decisions taken by the Monitoring Board for which voting other than by consensus (for example, by qualified majority) may be appropriate? If so please describe why and suggest an appropriate voting mechanism.</i></p>	
	<p>Question 8 <i>To ensure increased involvement of public authorities and other international organizations in Monitoring Board activities, do you support the Monitoring Board (a) expanding the number of Monitoring Board observers, (b) holding more formalized dialogue, or (c) establishing an advisory body, and on what basis? What should be the criteria for selecting participants?</i></p>	

	<p>Question 10  <i>What are the appropriate means and venues for the Monitoring Board to enhance the visibility and public understanding of its activities?</i></p>	
	<p>Question 11  <i>Do you believe that the current arrangements for Monitoring Board involvement in the IASB's agenda-setting are appropriate, or should the Monitoring Board have an explicit ability to place an item on the agenda, or would you consider other alternatives that would enhance the Monitoring Board involvement in the IASB agenda setting? Please provide reasons.</i></p>	
	<p>Question 12  <i>Do you have concrete suggestions on how the Monitoring Board or the Trustees could encourage a move towards a more stable and independent funding model?</i></p>	
	<p>Question 13  <i>Do you believe that the Monitoring Board should have a more prominent role in the selection of the IASB Chair? Do you agree with the proposal that the role include involvement in establishing a set of publicly disclosed criteria for the Chair, and assessment of a short list of candidates against those criteria? Please provide reasons.  Do you believe that the Monitoring Board should be given any further, specific role in the selection of the IASB Chair? In particular, should the Monitoring Board approve the Trustees' final selection? Please provide reasons.</i></p>	
	<p>Question 14  <i>Do you agree that the Monitoring Board's responsibilities should explicitly include consultation with the Trustees as they further develop the framework to ensure proper balance in the composition of the IASB? Please provide reasons for your agreement/disagreement.</i></p>	
	<p>Question 15  <i>Do you agree with the proposal to consider establishing a permanent secretariat for the Monitoring Board to support its increasing roles in overseeing the governance of the standard-setter? Would you support this proposal even if it would require additional financial contributions from stakeholders? Please provide reasons.</i></p>	
Others	<p>Question 9  <i>Do you believe that the current arrangements for the standard-setting process adequately ensure the appropriate involvement of all relevant stakeholders and that all relevant public policy objectives are taken into account? Please provide reasons for your agreement/disagreement.</i></p>	
	<p>Question 16  <i>Do you agree with the need for regular reviews, and the interval of five years as a benchmark? Should the reviews be aligned with the timing of the Foundation's mandated Constitution reviews? Please provide reasons for your agreement/disagreement.</i></p>	
	<p>Question 17  <i>Do you have any other comments?</i></p>	

# Summary of Comments

## Question 1

- *Do you agree with the proposal to urge concrete efforts to deepen the pool of candidates for IASB membership from diverse geographical and professional backgrounds? Please provide reasons for your agreement/disagreement.*

1) Many respondents agree (or partially agree) with the proposal, mainly because they think that it would address concerns about legitimacy and enhance the standard-setter's credibility. IASB composition should reflect the balance of all interested parties. Diversity of geographical backgrounds is necessary for global organisations acting in the public interest.

However, some respondents caution that diversity should not be pursued at the expense of quality, expertise and technical competence of the candidates. Some go further and insist that priority should be placed on skill set. Others recommend making a choice between either geographic representation or technical expertise (which will impact the need for part time members and the profile of the staff).

Finally, some respondents agree with the proposal to deepen the pool of candidates, but question the role of the Monitoring Board in this regard. They are of the opinion that the selection of IASB Board members is a task/responsibility for the Trustees rather than for the Monitoring Board.

2) A smaller number of respondents disagree with the proposal (mainly European respondents). The reasons provided are as follows.

- They are not convinced or do not see any evidence that there are problems with the current composition.

Some believe that professional competence, practical experience and technical expertise should take precedence over the diversity of geographical and professional backgrounds, which should be the secondary criteria. The membership should be determined by quality and skills rather than a strict quota system linked to geographic origin. One respondent is also of the view that more specific allocation of professional background should not be required, because the degree of specialized expertise limits the range of professional backgrounds from which to select the IASB Board members.

- Some believe that changes should not be introduced now for two reasons: some say that there are more pressing regulatory objectives, and others think that recent changes made by the Trustees to the composition criteria and size of the IASB should be given a reasonable period

to work before introducing new changes.

- Finally, some do not see the need for adding criteria (the existing ones are already too rigid). One respondent suggests that the geographical criteria should be replaced with a general requirement that composition of the IASB should not be materially imbalanced when measured against realities of contemporary capital markets.

### 3) Suggestions by respondents:

There should be more transparency in the selection process. The Trustees could engage with national standard-setters, the IFRS Interpretation Committee, the IFRS Advisory Council, and the Monitoring Board to identify individuals, and could issue a report thereafter.

The model for selecting members should not be fixed and should be based on principles rather than hard-and-fast rules requiring specific numbers from each category – i.e., ranges rather than fixed numbers.

The size of the IASB should not be increased, but its composition should be reviewed regularly. One respondent encourages more extensive use of expert groups to support the IASB deliberations. A few suggest including members having experience in financial reporting of small and medium sized enterprises (SMEs).

Many respondents support that the representation on the IASB only comprise jurisdictions applying IFRSs or having expressed a firm commitment to do so.

Some respondents express support for part time members (to incorporate practical experiences in order to fill gaps in experience and backgrounds; and to accommodate good candidates who cannot serve on a full time basis), but others do not support the idea.

## Question 2

- ***Do you agree with the proposal to separate the roles of the IASB Chair and the CEO of the IFRS Foundation, and if so would you have suggestions on how to formalize this? Please provide reasons for your agreement/disagreement.***

1) Many respondents agree with the proposal for the following reasons:

- The current situation creates conflict of interest (real or perceived) between the roles of Chairman of the IASB (which is subject to oversight by the IFRS Foundation) and Chief Executive of the Foundation (the oversight body). The separation of the two roles would safeguard the perceived and actual independence of the standard-setting process, ensure proper checks and balances and improve the objectivity of the oversight. The IFRS Foundation should not be involved in the standard-setting process, and the IASB members and Chair should not be involved in the affairs of the Foundation. Some activities of the IFRS Foundation have political aspects that may impede the independence of the IASB, whereas the Foundation should be there to protect IASB from interference.
- Both roles are demanding and time-consuming, and encompass heavy responsibilities. Some respondents think both jobs require full time commitment. The reasons given are the increased level of activity of the IASB, its enlarged membership, the need for interaction with the Monitoring Board, the growth of the Foundation and the need for accountability to many new jurisdictions using or planning to use IFRSs. The appointment of an IASB Chair and Vice-Chair does not address this issue, as the two roles (IASB Chair and the CEO of the IFRS Foundation) require different skills.

Those respondents who agree with the separation make the following suggestions:

***Transparency:*** The Trustees should consult publicly before amending section 30 of the Constitution to reflect the separation of roles. The division of responsibilities should be clearly established, in writing and publicly. The seniority of both posts should be equivalent and transparent and a well governed selection process should be established for each post.

***Coordination:*** A close working relationship between holders of the two posts is essential. There is a need for detailed and formal two-way reporting lines between the IASB Chair and the Foundation CEO to avoid dual control within the organisation. The CEO should attend the meetings of the IASB Board in a non-voting capacity (as an observer) and similarly, the Chair should attend Foundation meetings.

2) A small number of respondents partially agree (coming mainly from UK and Australia), arguing that this is not a critical governance issue as the situation is not comparable with a corporate



environment (an oversight body does not require a CEO).

Some respondents who partially agree suggest that a new role is necessary to manage the resources supporting the Trustees' oversight and funding activities, and that the CEO is not the right title; the senior manager of the IFRS Foundation would be better described as a COO, accountable to the IASB Chair (NB: status quo) or to the Chair of the IFRS Foundation, rather than a CEO.

Another solution could be to expand the role and resources of the Chair of the IFRS Foundation, who would take on the CEO role, supported by the COO of the Foundation. The IASB Chair would be responsible for prioritization of projects and for staffing and resources for standard-setting, but would not have responsibility for oversight of the Foundation.

Some think that the appointment of the IASB vice-chair will provide opportunities to reallocate management responsibilities to address operational issues such as staffing.

Finally, others note that the current dual role acts as a bridge between the IASB and the Foundation which ensures efficient connection between the standard-setter and its governing body and enables them to exchange full knowledge as necessary. However, they recognise that it can be seen to compromise independence as the structure of the IFRS Foundation has grown in size.

3) A few respondents disagree, because they are not aware of any problems in practice and think that the current dual system works well. The separation of the two roles may enhance the perception of independence but does not guarantee real improvements. Furthermore, it would induce inefficiency and higher costs given the small size of the organisation.

Question 3

- *Do you agree that clearer division of responsibility between staff dedicated to the IASB operations and staff dedicated to the Foundation's administrative and oversight functions should be considered, and if so would you have any suggestions on how to formalize this? Please provide reasons for your agreement/disagreement.*

1) Many respondents agree for the following reasons:

- **Independence:** A clear separation of the roles is important to avoid undue conflict of interest (real or perceived) that could impair the independence of the standard-setting process. This is consistent with the reasons for separating the roles of the CEO of the IFRS Foundation and the IASB Chair.

Dedicated secretariat resources for the Foundation, independent of IASB management structures, would improve the Trustees' ability to monitor and challenge the IASB's non-technical decisions and reinforce the perception that the Trustees are exercising an oversight role.

- **Clarity:** As the work of the IFRS Foundation has expanded, the separation would provide more clarity for the staff on their roles and responsibilities and would avoid confusion for constituents as to where the relevant responsibilities and accountabilities rest. The respective staff roles are very different and require different skills. Some recognise that such a separation exists already to a very considerable extent, but in an informal manner. It should be formalized so that standard-setting activities do not interfere with oversight activities.

Respondents who agree with the proposal put forward some suggestions, as follows:

- Develop and publish a formal policy that precludes one individual from working for both the IASB and one or more of the other Foundation departments (e.g., each individual reports directly or indirectly to either the Foundation CEO or the IASB Chair, but not both). In particular, separate staff roles of supporting standards development and carrying out post-implementation reviews of standards. A cost/benefit analysis of standards could be done by a separate unit operating as part of the oversight function of the Foundation.
- Draw up guidelines explaining the duties of each, and put in place separate and clearly defined reporting lines for the staff. Disclose the division to the public.
- Ensure close dialogue between the Trustees' staff and the IASB, so that educational and outreach activities are coordinated.
- Appoint a company secretary type person (the respondent suggests "on the basis of the UK model") for functions that have overlaps between the IASB and the Trustees.
- May consider physically moving to a different location to further distinguish boundaries between the IASB and the IFRS Foundation (one respondent suggests moving to the Americas

or Asia), although there are some views considering it not necessary to separate operational support (office space and infrastructure).

2) A few respondents partly agree for the following reasons:

The current structure could be vulnerable to actual or perceived conflicts of interest but they are not aware of problems caused by the current staffing arrangements. Other safeguards are in place to enhance the independence of the standard-setting process (key safeguard: effective oversight by the Trustees).

Some think that the separation is not an issue for secretarial and administrative staff, but only for staff involved in oversight. The responsibility for IASB operations and staff should be clearly separated from responsibility for the Foundation's administrative and oversight functions, but this does not imply 100 per cent separation of individual staff members associated with these areas. The key tests are the cost-effectiveness and whether overall staff support to the IASB, the Foundation and the Monitoring Board is enhancing both formal and informal aspects of the relationships between these bodies.

Some agree that there should be a clear division of responsibility, but think that this division already exists to a considerable extent. They recognise that if the division is not clear, the situation should be clarified.

Finally, some respondents think that this issue is more of a matter for the Trustees rather than for the Monitoring Board to decide.

3) Some respondents disagree:

They are not aware of any problems in practice with the current division of responsibilities. They support clear management structures and responsibilities, but do not see a need for formal or strict division at the staff level, provided appropriate governance structures are in place at the IASB and management levels.

Separation would induce inefficiency and higher costs given the small size of the two organisations. Flexibility on the daily operation of both institutions ensures cost-effectiveness.

4) Some respondents refrain from taking any positions basically because they think the problem is difficult to evaluate from the outside. They also claim that they cannot give an opinion, as the justification for the separation (e.g., costs and benefits analysis) is not provided.

#### Question 4

- ***Please provide comments on any aspects of Trustee composition or appointments that you believe the Monitoring Board should consider.***

For some, the current constitutional requirements regarding Trustee composition are adequate. Others make the following comments:

#### **On geographical balance:**

- Geographical balance has improved, but is not proportionate to the number of economies in each region. It would be further enhanced by better representation from both developed and emerging markets (some suggest in particular one member from Middle East, South America and Africa and better representation from the Asia-Oceania region). This could be achieved by reduction in membership from Europe and North America (in the latter case, especially since US public companies do not apply IFRSs). The Trustees should represent (in priority or exclusively) jurisdictions that have adopted IFRSs or are committed to the adoption of IFRSs and contribute to the funding of the Foundation.
- The rationale should be made clear (GDP, stock market capitalisation, population, etc.), but some also pointed out the need for flexibility in the application of the rules on geographical diversity. The current prescriptive approach in the Constitution is not helpful in this regard. The broad geographical balance is important, but quality, competence and experience should be primary considerations. On the contrary, some think that diverse and representative geographical distribution is more important for the Trustees than for the IASB, to guarantee independence and facilitate fund raising.
- Several respondents stress the need for periodic, regular review of the balance to take into account the changes in the GDP and economic conditions of countries and to reflect changes surrounding stakeholders (e.g., as part of five-yearly Constitution reviews).

#### **On professional backgrounds:**

- Trustees should represent all relevant users of financial information, and in particular include significant representation from qualified investors.
- Some underline that experience in high position or of great relevance in the business sector is more important than a professional background in accounting. Trustees should be influential and respected members within the global business community and enjoy a high status in their respective jurisdictions to support fund raising but ensure independence of the IASB at the same time.
- A few respondents note that as voluntary funding by the audit profession should be phased out, it is not necessarily in the public interest to reserve two seats for senior partners of big audit firms.

**On other issues:**

- Some respondents think that Trustees should strengthen their oversight activities, promote more transparency and improve communication with stakeholders on their oversight activities (in particular, those of the Due Process Oversight Committee).
- Some respondents stress that the Trustees should be able to dedicate sufficient time to their function. The recruitment process should be broadened and the Monitoring Board and respective organisations should be able to provide significant assistance in identifying suitable candidates.

Question 5-1

- *Do you agree with the proposal to provide increased transparency into the process for Trustee nominations? Please provide reasons for your agreement/disagreement. To what extent should the Monitoring Board be involved in the nomination process?*

**A) Increased transparency**

1) Many respondents agree.

In general, they think that transparency increases stakeholders' confidence in the process for Trustee nominations, and in the Trustees. It enhances accountability and independence of the IFRS Foundation and of the IASB (both in fact and in appearance). Given the expanded use of IFRSs worldwide, it is even more important to ensure clarity on Trustee selections.

More specifically, some respondents highlight that the current process is not well understood by those not involved in the process. The roles and responsibilities of the Nominating Committee of Trustees and the Monitoring Board are unclear. Some also report a possible perception that the Monitoring Board has too much influence on the process. It is therefore important to clarify and formalise the procedure and criteria. Agreed procedures should be published on the IFRS Foundation website.

However, many respondents stress the need for an appropriate balance between transparency and respect/protection of confidentiality and privacy for individuals.

Those respondents argue that the Monitoring Board and the Trustees should report on the steps undertaken and provide details on reasons why individual candidates were considered. Some suggest that the Trustees could provide a post-nomination report on the process or an annual report.

Some respondents ask for a more visible consultative outreach to relevant organisations in accordance with the Constitution. The Trustees could provide a description of key attributes to national standard-setters, the IFRS Interpretations Committee, the IFRS Advisory Council, and the Monitoring Board to help identify candidates. The Trustees should also publish an explicit statement of the expected time commitment required of a Trustee.

2) Some respondents disagree.

They are not aware of problems with the current process. The Constitution provides for a good level of transparency. Indeed, too much transparency could be a disincentive to candidates. The appointment process for individual candidates requires sensitivity. If opened up, it could become exposed to undue external pressures.

## **B) Involvement of the Monitoring Board role in the nomination process**

1) Many respondents think that the current arrangements provided by the Memorandum of Understanding are appropriate.

Improvements should be achievable within the scope of the Monitoring Board's present role. The Trustees are responsible for establishing procedures to be agreed by the Monitoring Board. The Trustees should choose a candidate according to criteria, and the Monitoring Board should vet and approve/disapprove. The responsibility of the Monitoring Board for the appointments increases confidence of stakeholders.

2) A few respondents think that the Monitoring Board should play a pivotal role and have a final voice. It should be the lead body heading the exercise, with the Trustees playing a supporting role.

3) Some respondents think that less involvement is desirable. The Monitoring Board could be perceived as having too much influence over the Trustees' nomination process. Therefore, its role should be limited to oversight of the nomination process (one of its core functions) to ensure it is open, transparent, operating as designed and that appointments are made in concordance with set criteria. However, its participation in the appointment process is questioned. Some recommend no role in the actual selection of Trustees beyond submission of names, others do not support any recommendation or nomination of candidates at all, and a few think that the Monitoring Board should review and give opinions on Trustee nominations without having a veto, which might be perceived as introducing a political dimension into the selection of Trustees.

Others say that the power of the Monitoring Board should be limited to being able to remove the Trustees or require that the Trustees investigate or take appropriate action if the Trustees are not performing their duties.

In any case, the respective roles of the Monitoring Board (overseeing the process) and the Trustees (managing the process) should be delineated explicitly and both bodies should communicate on their respective responsibilities. In particular, the role and the influence of the Monitoring Board should be more transparent and formalised. For example, the Monitoring Board could publish *ex ante* a description of process and criteria and *ex post* a summary of the results (number and geographical distribution of candidates).

**Question 5-2**

- ***Do you agree that further clarification of criteria for the Trustees' candidacy would help support confidence of the stakeholders? Please provide reasons for your agreement/disagreement.***

1) A large majority of respondents agree.

Publishing the criteria would help support confidence of stakeholders. The criteria should be agreed between the Monitoring Board and the Trustees and included in the Constitution.

Some respondents also note that the current criteria do not establish a challenging benchmark and offer little insight into how the different perspectives that individual Trustees will bring are expected to contribute to the functioning of a highly effective group.

Criteria should be objective and promote the nomination of qualified individuals rather than political appointees. They should be linked to both the work program of the IASB and ongoing objectives of the Trustees. They should ensure fair representation of users of financial information, including significant representation from qualified investors.

2) Very few respondents disagree.

They are not aware that stakeholders lack confidence in the structure. They think that no further criteria are needed. Some flexibility is also necessary to reflect changing circumstances.

One respondent has no particular concerns with current criteria, but observes that the criteria might need to be reviewed if the Trustees' role and responsibilities change following the ongoing Monitoring Board and Trustees' consultations.



**Question 6-1**

- ***Should the membership of the Monitoring Board continue to be confined to capital markets authorities responsible for setting the form and content of financial reporting in respective jurisdictions?***

1) A large majority of respondents agree with limiting the Monitoring Board membership to capital markets authorities.

Most comments address this question, and many of those commenting agree with the Monitoring Board's proposal that membership should be reserved for capital markets authorities responsible for setting the form and content of financial reporting. The reason for agreement provided most frequently is the consistency of this criterion with the primary mission of the IFRS Foundation as expressed in the Constitution (consistency with the objectives of financial reporting set forth in the IASB's Framework was also noted). Respondents note the congruence of the mission of capital markets authorities generally and the IFRS Foundation's mission, as well as the alignment of the Monitoring Board membership criteria with the role of the Monitoring Board as defined in the Charter and the IFRS Foundation Constitution.

Other reasons provided in support of the proposal include:

- Promotes confidence of capital markets participants, whereas inclusion of authorities with mandates other than capital market efficiency would raise concerns that IFRSs are influenced by public policy or political considerations
- Capital market authorities are the main subscribers of IFRSs and some have delegated their standard-setting powers to the IASB, resulting in the need for representation

Some respondents, while not disagreeing with retaining a capital markets focus for membership, observe the following:

- Increase the Monitoring Board's communication with other users of financial information – in particular, other authorities such as prudential supervisors – would be a way to maintain the current membership criteria, avoid confusion as to the Monitoring Board's purpose, and yet acknowledge other users of financial information.
- The Monitoring Board might include a degree of flexibility as to how to determine the appropriate Monitoring Board member for a given jurisdiction, to allow for differing regulatory models. Some respondents note that the allocation of responsibilities for public company financial reporting regulation differ between countries, with one respondent suggesting that the membership criteria should be articulated as a principle to provide flexibility in identifying the appropriate member from a given jurisdiction. Another respondent notes that members should be those authorities with the most credible alignment of priorities with the global investment community in a given jurisdiction.
- The Monitoring Board should either include representatives of non-public company reporting

interests, or not hinder their appropriate representation through Trustee appointments, to reflect that the IASB sets IFRSs for SMEs.

- Though members should remain primarily capital markets authorities, other types of members should not be ruled out if a sound and widely-supported case is made.
- In the event members other than capital markets authorities are permitted, investors should be directly represented.

## 2) Some respondents disagree with limiting the Monitoring Board membership to capital markets authorities.

The basis for disagreement most frequently provided by respondents opposed to the Monitoring Board's proposal is the need for Monitoring Board to be represented by a broader range of public policy interests in IFRSs. Prudential authorities (primarily banking but also insurance) are the most commonly cited examples of authorities responsible for other public policy interests, with macro-prudential supervisors and tax authorities also mentioned. Of those respondents recommending that the Monitoring Board represent authorities with broader public policy mandates, approximately half are from organizations or agencies related to financial institutions. One respondent states that membership should reflect the definition of public interest by the International Federation of Accountants (IFAC), and should focus on "financial resource suppliers" rather than "capital providers".

Other respondents that disagree with the proposal provide the following input:

- Monitoring Board membership should include all stakeholders in IFRSs, including preparers, auditors, and, more frequently cited, investors directly.
- The Monitoring Board's role should be assumed by the Financial Stability Board (FSB), as a politically legitimate body whose membership includes the main users of IFRSs. Another respondent expresses that the G20 should be involved in identifying or endorsing the Monitoring Board composition.

Organizations listed as potential members include the Basel Committee on Banking Supervision (BCBS), FSB, International Association of Insurance Supervisors (IAIS), IFAC and International Monetary Fund (IMF).

### Question 6-2

- *Do you agree with the proposal to expand the Monitoring Board's membership by adding a mix of permanent members ([four]) representing primarily major emerging markets and rotating members ([two]) from all other markets? Please provide reasons for your agreement/disagreement. How should the major markets be selected? Should a jurisdiction's application of IFRSs and financial contribution to standard-setting play a role?*

Most respondents agree with expanding the Monitoring Board membership.

The vast majority of respondents are supportive of the Monitoring Board's general proposal to expand the Monitoring Board and increase representation. However, most letters do not explicitly comment on the specifics of the proposal for expansion. Some respondents observe that the report does not make a persuasive case for expansion as proposed; others state that more information on the criteria for the selection of additional members and identification of specific major market candidates would be necessary to express a view, and that in all cases the final criteria should be transparent.

### **Four members primarily from major emerging markets, two rotating members**

Many respondents support an increased diversity of Monitoring Board members, and to increase input from emerging markets. Very few letters comment specifically on whether four new members "primarily from emerging markets" is the correct number. Several respondents believe that selection should be based on factors such as:

- Capital markets size (examples include aggregate free float, market capitalization, trading volume)
- Openness /transparency/liberalization of markets
- Size of economy (e.g., GDP)

A number of respondents support the selection of major capital markets, including those within Europe that are currently represented by the EC. Some respondents suggest that members should serve terms, allowing for reevaluation of market structure when determining future members. Several respondents observe that the future Monitoring Board size should be limited to ensure that it does not hinder the efficiency of operations. Some recommend limiting the Monitoring Board to ten members, while one suggests ten to twelve members.

### **Application of IFRSs**

Respondents addressing the relevance of use of IFRSs to Monitoring Board membership generally express the view that the use of IFRSs should be a consideration. Some respondents specify that the criteria should be near- or medium-term intentions to adopt or converge with IFRSs and that acceptance of IFRSs is also relevant. One respondent observes the absence of a common definition of what constitutes application of IFRSs, given variations applied in local markets and the impact of

varying stages of convergence, and therefore use of IFRSs cannot serve as an objective measure at this time. Others observe that such a criterion is not significant due to the prevalent use of IFRSs, convergence and consideration of future use of IFRSs.

**Contribution**

Most respondents do not address the relevance of funding to membership. Most that do hold the view that contributions should be a factor. However, a small number of respondents disagree, with one expressing the concern that consideration of contributions could be perceived as buying a seat on the Monitoring Board. Others note that participation in contributions should not be a determinative factor and that the Monitoring Board would need to ensure that this consideration of funding would not create a conflict of interest.

Question 6-3

- *Do you agree that rotating members should be selected through IOSCO? Please provide reasons for your agreement/disagreement.*

1) While a number of respondents do not reply to this question, the majority of views expressed support selection of rotating members through IOSCO.

Most respondents commenting on this question strongly support the selection of members through IOSCO. Common responses point to the credibility of IOSCO as representative of capital markets and with broad membership, including emerging markets authorities. Some respondents note that selection through IOSCO, however, should not exclude non-members that, due to the structure in the domestic market, are not securities regulators (and are not IOSCO members) but do satisfy the relevant role in their domestic capital markets to serve as a Monitoring Board member.

2) Some respondents disagree.

Responses disagreeing with selection through IOSCO generally correspond to the respondents' view, as expressed in response to Question 6-1, that Monitoring Board membership should be broader than capital markets authorities. Accordingly, selection among IOSCO membership may exclude non-securities regulators.

One respondent notes that objective criteria for selection (e.g., aggregate market value of listed companies) would be preferable to discretionary powers of IOSCO.

### Question 7

- *Do you agree that the Monitoring Board should continue to make its decisions by consensus? Please provide reasons for your agreement/disagreement. Are there any types of decisions taken by the Monitoring Board for which voting other than by consensus (for example, by qualified majority) may be appropriate? If so please describe why and suggest an appropriate voting mechanism.*

#### 1) Most respondents agree with retaining the consensus decision-making.

Most respondents believe that the Monitoring Board should retain consensus decision-making.

Reasons include:

- The nature of decisions being made: as the Monitoring Board's role is primarily monitoring or strategic, decisions are not of the type that requires urgent resolution in the event of disagreement.
- Provides constructive pressure to reach agreement and ensures commitment of all parties.
- Ensures all views are taken into account and prevents large jurisdictions from dominating decisions.
- Broad support and inclusiveness increases confidence in the process.

#### 2) Some respondents disagree.

Respondents supporting decision-making other than by consensus generally propose supermajority voting (with 75% mentioned by some respondents) and one stating a "qualified" majority (with criteria unspecified). Arguments against consensus decision-making include:

- The nature of decisions being made: monitoring type decisions do not require consensus.
- Consensus disproportionately empowers minority views.
- Complicates decision-making in a large, diverse group.
- Potential for undesirable compromises.
- Not the practice of democratic legislatures.

#### 3) Suggestions by respondents:

Many respondents observe the impact the Monitoring Board's size could have on decision making. Some feel that the proposed size of eleven would not adversely affect consensus-based decisions, while others think such a size would make supermajority decisions more effective.

Two respondents suggest consensus, but defaulting to supermajority when consensus cannot be reached (one respondent specifies that there should be no more than two dissenting votes, assuming a Monitoring Board size of eleven). Another supports providing transparency about dissenting positions.

### Question 8

- *To ensure increased involvement of public authorities and other international organizations in Monitoring Board activities, do you support the Monitoring Board (a) expanding the number of Monitoring Board observers, (b) holding more formalized dialogue, or (c) establishing an advisory body, and on what basis? What should be the criteria for selecting participants?*

1) While most respondents broadly support increased interaction with other parties with a stake in IFRSs, views varied broadly as to how to achieve this. Some respondents note the need to specify the objective of increased involvement of other public authorities and international organizations, to ensure that the mechanism is not misused as an opportunity to influence the IASB's standard-setting operations.

#### **Increased Observers**

Among the three alternatives presented in the paper, respondents most frequently support the addition of observers. Of these, many note that observership provides a means for input from stakeholders whose interest in financial reporting “share some common features” with capital markets authorities, without creating the need for “reconciliation of different perspectives” or “potentially inhibit[ing] the dialogue between the Foundation and securities regulators”, as may be the case if other public interest authorities were full members. Some respondents express that an observer role, rather than membership, for prudential authorities is appropriate given the stated purpose of the Monitoring Board and because financial stability is not a primary objective of financial reporting. Other respondents note that a broader set of stakeholders could be involved, including regulators charged with enforcement of IFRSs and an “open invitation” to observers would enable inclusive, rather than selective, participation in Monitoring Board activities. Institutions listed as potential observers are consistent with those presented in the paper, along with investors and representatives of SMEs. A number of respondents reference the connection between the FSB and the G20 as justification for FSB observership. Others note that the BCBS should not have a privileged position as an observer, and that the IAIS's position with respect to the Monitoring Board should be equal to that of the BCBS.

#### **Formal Dialogue**

Respondents who support a formalized dialogue feel that such a mechanism allows for input without compromising Monitoring Board efficiency by increasing observers. Some state that it would be more flexible than the other alternatives, which might “overburden the structure with bureaucracy”.

#### **Advisory Body**

Respondents who support an advisory body state that this would allow a more meaningful number of participants to interact with the Monitoring Board, without loss of efficiency in the form of an

overly large set of observers. One respondent expresses that such a body could fulfill the role of “External Public Accountability”, with a clear delineation between external public accountability and oversight (noting that the Monitoring Board currently serves in both capacities). Another respondent notes that this could be organized regionally.

Among those respondents that do not state a preference for any of the alternatives presented, the most commonly cited reasons are:

- The Monitoring Board’s operations should be public and transparent and the Monitoring Board should be open to informal involvement and input across all interested parties. In this way, all stakeholders in IFRSs would have equal access to observe meetings and know of Monitoring Board proceedings. Variations on these comments included recommendations for periodic open meetings with stakeholders.
- The Monitoring Board membership itself should be expanded, obviating the need for observers, dialogues or advisory bodies with other public interest authorities or international organizations.

## 2) Concerns and questions by respondents:

While a number of respondents do not reply to this question, many respondents express concern about undue complexity, cost and administrative burden associated with formalized mechanisms for engagement with other stakeholders. Additionally, several respondents note that advisory councils and opportunity for public input, including from public authorities, already exist through the Foundation and the IASB (for example, the IFRS Advisory Council and roundtables). Respondents note that these are appropriate avenues for input into standard-setting, which is not the purpose of the Monitoring Board. Some respondents are concerned with potential confusion, a perceived fourth level of governance, and interference with the “essential constructive relationships of the structure” overall. Finally, some respondents question whether the monitoring responsibilities of the Monitoring Board warrant any formal consultative mechanism.



### Question 9

- *Do you believe that the current arrangements for the standard-setting process adequately ensure the appropriate involvement of all relevant stakeholders and that all relevant public policy objectives are taken into account? Please provide reasons for your agreement/disagreement.*

#### **A) Public policy objectives**

1) While not many respondents address this question, the majority of respondents who do believe that the standard-setting process takes into account all relevant public policy objectives. Many respondents affirm as appropriate the primacy of transparent information for investors/capital markets purposes, and note that such transparency often benefits other public policy objectives, including financial stability. Some note that appropriate accounting standards cannot always be reconciled to other public policy interest, but suggest that such conflicts be dealt with either by: prudential authorities obtaining information through their other available avenues; IASB cost-benefit analyses addressing the impact of a standard on public policy not linked to investors; or the IASB bringing issues to the attention of the responsible parties for discussion and resolution, to the extent reasonable within the IASB's own mission.

2) Some respondents do not think that the current arrangements for the standard-setting process ensure that all relevant public policy objectives are taken into account. The most common reason given for disagreement refers to the relevance of other important users of financial information (prudential regulation and financial stability are most frequently cited) that should not be undermined. One respondent states that the Constitution of the IFRS Foundation and Conceptual Framework should be revised to give due consideration to legitimate public policy objectives, including revising the current definition of public interest. Another respondent states that financial and prudential reporting should be kept in line as closely as possible. One respondent recommends that the IASB's due process should include consultation with prudential regulators on proposals that might have financial stability implications. Several respondents note that jurisdictions recently adopting or deciding on IFRS adoption are concerned that IASB's agenda is captured by unhelpful and political regional influences; these respondents recommend the return to a technical focus, not skewed by US GAAP-IFRS convergence or resistance to needed change.

#### **B) Stakeholder engagement**

1) While quite a few respondents did not reply to this question, most respondents agree that the IASB's processes allow for appropriate stakeholder involvement, and several respondents favorably noted recent process improvements to that end. One banking supervisor observes that the IASB successfully worked with prudential regulators through the financial crisis.

2) Respondents disagreeing with the adequacy of stakeholder engagement note the following areas for improvement (note that many respondents that agreed overall with the adequacy of engagement provided many of these as suggested areas for continuing improvement):

- Improve visibility of Trustees' role in guaranteeing the fairness of due process.
- Projects should allow more time for stakeholder input and for the IASB to assess input received, and the pace of standard-setting should correspond to what stakeholders can reasonably absorb.
- More regular agenda consultation, followed by a feedback statement justifying agenda choices and priorities.
- Increase outreach activities and publish the results/conclusion of outreach.
- Increase use of field testing and consideration of preparers' business practices and cost of implementation. Introduction of impact assessments prior to the issuance of Exposure Drafts and post-implementation of IFRSs.
- Develop a universally accepted approach to impact assessments, and undertake impact assessments at an earlier stage for major projects.
- Increase participation from investors and from constituents in Asia and emerging markets, including SMEs.
- Increase involvement with national standard-setters and professional bodies that assist with education and implementation of IFRSs at the national level.

### Question 10

- *What are the appropriate means and venues for the Monitoring Board to enhance the visibility and public understanding of its activities?*

1) A large majority of respondents generally support increased transparency into the Monitoring Board's functions and support the measures provided in the report as means to increase visibility.

#### Other suggestions include:

- Making all meetings public (with the exception of Trustee appointments noted by some); publication of meeting minutes and papers discussed at Monitoring Board meetings and joint meetings with Trustees; and press releases noting key matters discussed. One respondent points as an example to the IFRS Foundation Constitution's provisions for transparency of Trustee and IASB activities.
- Monitoring Board participation in key international conferences, such as the World Standard-Setters' meeting and the IFRS Foundation annual regional conferences, to hear stakeholders' views and to communicate Monitoring Board activities. One respondent notes that the Monitoring Board is "literally invisible" to stakeholders and should directly publicize its vision and purpose through speeches, participation in conferences, and other outreach activities.
- A dedicated website/improved website accessibility, or making information available on the IFRS Foundation website (one respondent noted a preference for use of the Foundation's website, as it is confusing to use the IOSCO website, while others supported the Monitoring Board having its own website—for example, to emphasize separation from individual members).
- Increase clarity of the Monitoring Board's roles and responsibilities versus those of the Trustees.
- Organize public meetings or consultations where issues have broader relevance, as is being done with the governance review.
- Issue annual reports of Monitoring Board activities or newsletters
- Publish Monitoring Board assessments of Trustees' discharge of their responsibilities.
- Employ consulting advice from qualified professionals on media and communication strategy planning, to better identify and reach target audiences.

#### 2) Observations by respondents include:

- More time is needed for the Monitoring Board "to build up and firmly establish its identity, credibility and public status in the eyes of stakeholders as it is a relatively new set-up".
- The Monitoring Board should focus efforts on discouraging local interpretations of IFRSs.
- Transparency should be commensurate with the Monitoring Board's monitoring role.
- Greater visibility also needed regarding how the Trustees conduct their oversight activities.
- One respondent, while supporting making meeting materials and minutes publicly available,

notes that the need for consensus requires appropriate confidentiality of individual members' views.

- One respondent expresses doubt that “the public” has any interest in the Monitoring Board’s activities.

Question 11

- *Do you believe that the current arrangements for Monitoring Board involvement in the IASB's agenda-setting are appropriate, or should the Monitoring Board have an explicit ability to place an item on the agenda, or would you consider other alternatives that would enhance the Monitoring Board involvement in the IASB agenda-setting? Please provide reasons.*

1) A large majority of respondents opposes the Monitoring Board's direct involvement in the IASB agenda-setting with compulsory power.

In general, those respondents say that the current arrangement for Monitoring Board involvement in agenda-setting is absolutely appropriate and further involvement of the Monitoring Board should be avoided in order not to damage the standard-setter's independence in terms of both substance and appearance.

Although they make strong objections to the idea that the Monitoring Board will have the ability to place an item on the IASB's agenda, some respondents agree with the idea of some nature of Monitoring Board involvement in IASB agenda-setting. In their view, the Monitoring Board could refer matters to the IASB for consideration, which is allowed under the existing Memorandum of Understanding between the Monitoring Board and the Trustees.

Others argue that the Monitoring Board should have a right to request placing an item on the IASB agenda and could get feedback from the IASB on how the standard-setter decided on a Monitoring Board request.

A few respondents argue that only the IASB should be responsible for its agenda-setting, from the viewpoint of maintaining the standard-setter's independence, and the Monitoring Board should focus on oversight of the IASB's and the IFRS Foundation's activities.

2) Some respondents show strong support for the Monitoring Board's direct involvement in the agenda-setting.

Specifically, several respondents think that the Monitoring Board should have a compulsory power to place an item on the IASB agenda in order to reflect public perspectives on the standard-setter's work programs.

A subset of those respondents thinks that the Monitoring Board's involvement could enhance transparency and public accountability in the IASB's agenda-setting process.

### 3) Suggestions by respondents:

Other respondents say that the Monitoring Board should not have a compulsive power but should have a right to approve or reject the IASB's agenda and work plans, mainly because it is important for the standard-setter to take into account relevant public policy objectives in the agenda-setting process through the Monitoring Board.

Some argue that it would be appropriate to utilize the IFRS Advisory Council for improvement of the IASB agenda-setting, since the Council is comprised of various stakeholders including public authorities, and could convey those stakeholders' views to the IASB.

## Question 12

- *Do you have concrete suggestions on how the Monitoring Board or the Trustees could encourage a move towards a more stable and independent funding model?*

1) There is full agreement on establishing a more stable and independent funding model, and most respondents argue that improvement in the funding model is primarily a responsibility of the Trustees.

### **Establish a more stable and independent funding model**

All respondents to this question support the idea of establishing a more stable and independent funding model on the grounds that, in the face of an increasingly large number of jurisdictions using IFRSs all over the world, it is indispensable to have in place a solid funding model to ensure independence of the standard-setter.

### **Responsibility of Monitoring Board and Trustees**

Most respondents comment that the Trustees, not the Monitoring Board, should have the primary responsibility for the move towards a more stable and independent funding model. In this context, those respondents think that funding issues should be resolved by the Trustees in principle.

Although a large majority of respondents argue that the Monitoring Board should not be directly involved in the funding issues, some believe that the Monitoring Board should cooperate with the Trustees towards a more stable and independent funding model.

Other respondents say that public authorities, such as the Monitoring Board or IOSCO, should play a prominent role in establishing a more stable and independent funding model.

2) Suggestions on funding model by respondents:

Although there are various opinions on what kind of funding model could be appropriate, a large majority of respondents suggest that financial resources must be provided by a broad base of jurisdictions using IFRSs.

Many suggest that funding resources should be collected mainly from developed countries as opposed to emerging or small countries, for example by using the size of the economy and/or market capitalization as the criteria for allocation of responsibilities.

Although a few respondents support the idea to establish an integrated funding mechanism common across all countries, many comments leave the determination of specific fund-collecting measures to each jurisdiction's own discretion.

As funding resources, the following are suggested by some respondents:

- Levy from listed companies in jurisdictions using IFRSs.
- Contribution from public authorities in jurisdictions using IFRSs.
- Contribution from national standard-setters in jurisdictions using IFRSs.

Some respondents highlight that contribution to funding should be a benchmark in selecting Trustees or other Foundation organization members.



Question 13

- *Do you believe that the Monitoring Board should have a more prominent role in the selection of the IASB Chair? Do you agree with the proposal that the role include involvement in establishing a set of publicly disclosed criteria for the Chair, and assessment of a short list of candidates against those criteria? Please provide reasons.*
- *Do you believe that the Monitoring Board should be given any further, specific role in the selection of the IASB Chair? In particular, should the Monitoring Board approve the Trustees' final selection? Please provide reasons.*

1) Most respondents did not support the expansion of Monitoring Board involvement in the nomination of the IASB Chair.

**More prominent role in the selection of the IASB Chair**

A large majority of respondents make strong objections against the Monitoring Board having a more prominent role in the selection of the IASB Chair. Those respondents argue that the current IASB Chair selection framework (i.e., giving the Trustees primary responsibility for the Chair selection) works appropriately, and the Monitoring Board's further involvement in the IASB Chair selection would have detrimental effect on the independence of the standard-setter.

**Further, specific role in the selection of the IASB Chair**

Most respondents view that the Monitoring Board should not be involved nor be given any further, specific role in the section of the IASB Chair. Underlying this view is an argument that the Chair selection should not be a role of the Monitoring Board and only the Trustees should take responsibility of the Chair selection process.

2) There are some strong calls for enabling the Monitoring Board to be involved in the selection process at an early stage.

A number of respondents agree with the idea that the Monitoring Board should be involved in the IASB Chair selection process beyond its current role, but at the same time they clearly disapprove of the idea that the Monitoring Board should take responsibility for the IASB Chair selection process.

Some of those respondents suggest that the Monitoring Board could have a more prominent role in the selection of the IASB Chair by way of possessing the power to approve or reject the Trustees' final selection.

Also, there are some opinions that the Monitoring Board should be given the right either to establish a set of criteria for the Chair or to approve the criteria established by other parties such as the

Trustees.

At the same time, those respondents disagree with the Monitoring Board's involvement in the selection of individual IASB Chair candidates.

Others think that the Trustees should be obliged to have a dialogue with the Monitoring Board before selecting the IASB Chair. The objective of this idea is to enable the Monitoring Board to assess the appropriateness of the IASB Chair selection process.

A few respondents argue that the current involvement of the Monitoring Board is already excessive and must be reduced, since the role of the Monitoring Board should be limited to oversight of the Chair selection process conducted by the Trustees.

Question 14

- *Do you agree that the Monitoring Board's responsibilities should explicitly include consultation with the Trustees as they further develop the framework to ensure proper balance in the composition of the IASB? Please provide reasons for your agreement/disagreement.*

1) A large majority of the respondents agree with the consultation framework.

Most respondents think that the Monitoring Board should engage in general consultation with the Trustees when the Trustees develop their framework to ensure proper balance in the composition of the IASB.

Some of them view that it will be beneficial both for the Monitoring Board and the Trustees to consult with each other.

2) Most of those respondents supporting the consultation framework disagree with the Monitoring Board's direct involvement of the IASB member selection.

The vast majority of those respondents are of the view that the Monitoring Board should not be directly involved in appointment of the individual IASB members, considering the importance of the standard-setter's independence. They say that while it would be appropriate for the Trustees to consult with the Monitoring Board the Trustees must be responsible for developing the well-balanced IASB composition.

Based on that argument, they make a point that the final decision of the IASB member selection should be the responsibility of the Trustees, and the Monitoring Board's role should be limited to giving its general views to the Trustees and monitoring the appropriateness of the selection process through the Trustees.

3) Suggestions from respondents include the following:

A number of respondents argue that the Monitoring Board should be involved in the development of the IASB composition framework more proactively and broadly beyond the proposed consultation framework.

Some of them suggest that the Monitoring Board's consultation with the Trustees should include the criteria for IASB members and the selection process, in addition to the proper balance of the IASB members and framework of member selection.

Question 15

- *Do you agree with the proposal to consider establishing a permanent secretariat for the Monitoring Board to support its increasing roles in overseeing the governance of the standard-setter? Would you support this proposal even if it would require additional financial contributions from stakeholders? Please provide reasons.*

1) There are many views against establishing a permanent secretariat for the Monitoring Board.

A large number of respondents make strong objections to the proposal to consider establishing a permanent secretariat for the Monitoring Board to support its increasing role in overseeing the governance of the standard-setter.

In general, they argue that the Monitoring Board's roles should not be expanded further, and thus its staff and secretariat function should be provided by its member authorities. They also think that it might be difficult for the Monitoring Board to maintain the current efficiency and cost-effectiveness by enlarging its organizational structure.

Some of them think that cost is a source of concern and the establishment of a Monitoring Board secretariat could be an additional financial burden for the IFRS Foundation.

2) Certain respondents support the proposal to consider establishing a Monitoring Board secretariat.

Some respondents (most of whom support the expansion of the Monitoring Board's membership and roles) agree with the idea of establishing a permanent secretariat for the Monitoring Board, considering the expansion of the number of the Monitoring Board members, and the possibility that a permanent secretariat could facilitate effective and efficient implementation of the Monitoring Board's roles.

Most of these respondents share the concerns about the cost of a permanent secretariat, and highlight that requiring additional financial contribution from stakeholders must be avoided.

3) Suggestions by respondents:

Several respondents suggest that the Monitoring Board should utilize existing resources, such as the IOSCO secretariat, instead of establishing a new office.

There is very limited support for combining the Monitoring Board secretariat with that of the IFAC Monitoring Group.

### Question 16

- *Do you agree with the need for regular reviews, and the interval of five years as a benchmark? Please provide reasons for your agreement/disagreement.*
- *Should the reviews be aligned with the timing of the Foundation's mandated Constitution reviews? Please provide reasons for your agreement/disagreement.*

#### **A) Need for regular reviews and the interval of five years as a benchmark**

1) The majority of respondents agree with the need for regular reviews of the governance structure. However, several respondents feel that the Monitoring Board ought to exercise flexibility in reviewing critical issues that may substantively affect the governance of the IFRS Foundation as and when such circumstances arise, and a fixed period is not required to prompt these reviews.

#### 2) Suggestions by respondents:

Some respondents highlight that regular reviews should occur every three years with the adoption of both a three-year and five-year strategy business plan.

Several respondents are of the view that issues, including those discussed in the governance review, should not be subject to excessive reviews. This is to enable markets to gain confidence in the new structures and approaches in place, and to avoid tiring participants with too many reviews.

Respondents also suggest that the Monitoring Board should review the implementation of decisions reached, and conduct effectiveness reviews to assess its performance, relevance, and the extent to which it has carried out its mandate, and in responding to issues from various stakeholders.

#### **B) Reviews aligned with the timing of the Foundation's mandated Constitution reviews**

1) In general, respondents are of the view that there should be alignment between future Monitoring Board governance reviews and the IFRS Foundation's Constitution reviews. This would facilitate a more comprehensive set of outcomes, and would be more expedient administratively. It would also reduce the burden on relevant stakeholders.

2) Some respondents disagree with the proposal for an alignment of reviews, as it seems unnecessary.

### Question 17

- *Do you have any other comments?*

#### **Structure of IFRS Foundation and definition of roles and responsibilities**

While there is general support for the three-tier structure of the IFRS Foundation, many respondents highlight the need for clearer definition and separation of the roles and responsibilities between the three layers of governance. This would reduce any potential ambiguity and overlap between the different components of the governance structure.

With regard to the roles and powers of the Monitoring Board, one respondent is of the view that the Monitoring Board should have meaningful authority to carry out its oversight responsibilities and have the ability to block the actions of the Trustees, albeit in extremely rare circumstances. Several respondents are of the view that the Monitoring Board should stay with its current role of monitoring the processes and not expand its role.

#### **Transparency and accountability of the governance process**

There are calls for greater transparency within the governance process and functions of the bodies within the IFRS Foundation to facilitate the legitimacy and effectiveness of their roles. It is also recommended that all meetings of the IASB, the Trustees and the Monitoring Board be held in public fora allowing observers' input and discussion.

#### **Interaction with the IFAC Monitoring Group**

Some respondents suggest that the Monitoring Board explore the possibility of merging with the Monitoring Group as both entities exist with similar aims, and to ensure that due processes are adhered to in the course of setting standards for financial reporting and regulation.

One respondent questions why the Monitoring Board's Governance Review Consultative Report does not make reference to the IFAC Monitoring Group's IFAC Reforms Review Report published in November 2010 given that the BCBS and IOSCO are also represented in the Monitoring Group, and the IFAC Report had highlighted that there may be potential synergies associated with the two accountability functions of the Monitoring Group and the Monitoring Board.

#### **Interpretation and implementation of IFRSs**

Several respondents are concerned with the emergence of domestic regulatory interpretations and application of IFRSs, and believe that the Monitoring Board, given its composition, should take the lead and discuss how this type of divergence can be addressed.

There is a suggestion that the Monitoring Board should encourage capital market authorities to raise concerns with the interpretation and application of IFRSs within their jurisdictions with the IFRS Interpretations Committee.

### **IFRS for SMEs**

One respondent is of the view that, in making changes to the components of the IFRS Foundation, due consideration should be given to the SME sector. This is essential because financial reporting by the SME sector may involve different considerations as compared to reporting by public companies.

### **IASB related issues**

- **Outreach and consultation:** The IASB and the IFRS Foundation should increase the level of outreach to various stakeholders, including investors as primary users and countries that have adopted IFRSs.
- **IASB staffing:** One respondent proposes that the IFRS Foundation should look towards securing staffing contributions from more jurisdictions to support the IASB's standard-setting work program. This may include secondments of staff from various national standard-setters on either a project-by-project or term basis, with selection being based on objective evaluation criteria and merit.
- **IASB decisions:** Concerns are highlighted on the process of documenting and recording decisions made by the IASB, and re-deliberation of items. It is recommended that action be taken to:
  - (i) Establish greater discipline in the manner in which motions are brought to the IASB;
  - (ii) Require that issues and questions are restated before votes are taken;
  - (iii) Require that votes be recorded by name; and
  - (iv) Require that minutes of IASB meetings be distributed promptly.
- **IASB succession planning:** With respect to turnover in IASB members and staff, a respondent suggests that the IASB should maintain a system that enables successors to be provided with sufficient detailed information on the status of discussions to ensure a smooth handover process and to avoid disruption to long-term projects.

### **Miscellaneous**

- **Consideration towards emerging markets:** One respondent observes that in the past, some provisions in the accounting standards were made without due consideration of economic conditions of many countries, and in particular emerging markets. This may lead to greater resistance and delayed acceptance of IFRSs.
- **IFRS Advisory Council and IFRS Interpretations Committee:** The functions of the IFRS Advisory Council and the IFRS Interpretations Committee should have been considered as part of the Monitoring Board's governance review.
- **Trustees Committees:** Terms of reference should be set up and formally published for each of the various Committees of the Trustees to increase transparency of the Trustees' functions. Further, it should be made clear that these Committees report to the full group of Trustees, and the Committees' reports should be formally endorsed by the Trustees.

## Appendix

# List of Respondents

American Institute of Certified Public Accountants  
Asian-Oceanian Standard-Setters Group  
Association for Financial Markets in Europe  
Association of British Insurers  
Association of Chartered Certified Accountants  
Australia Joint Accounting Bodies  
Australian Institute of Company Directors  
Bank of Canada  
Basel Committee on Banking Supervision  
BDO IFR Advisory Limited  
Belgian Accounting Standards Board  
British Columbia Securities Commission  
BUSINESSEUROPE  
Canadian Accounting Standards Board  
Canadian Accounting Standards Oversight Council  
Canadian Public Accountability Board  
Caroline Walker  
Confederation of British Industry  
COOPERATIVES EUROPE  
Council of Institutional Investors  
Deloitte Touche Tohmatsu Limited  
Denise Silva Ferreira Juvenal  
Department of Finance Canada  
Deutsches Rechnungslegungs Standards Committee e.V. – German Accounting Standards Board  
Dutch Accounting Standards Board  
Ernst & Young Global Limited  
European Accounting Association  
European Association of Co-operative Banks  
European Banking Authority  
European Commission  
European Group of International Accounting Networks and Associations  
European Securities and Markets Authority  
Fédération Bancaire Française - French Banking Federation  
Federation des Experts comptables Européens – Federation of European Accountants  
Financial Accounting Standards Foundation of Japan



Financial Executives International Canada  
Financial Reporting Council, Australia  
Financial Services Commission of Korea  
Grant Thornton International, Ltd.  
Group of 100  
Hermes Equity Ownership Services Limited  
Hong Kong Institute of Certified Public Accountants  
Institut der Wirtschaftsprüfer in Deutschland e.V.  
Institute of Certified Public Accountants of Singapore  
Institute of Chartered Accountants in England and Wales  
Institute of International Finance  
Institute of Management Accountants  
International Association of Insurance Supervisors  
International Banking Federation  
International Business Machines Corporation (IBM)  
International Corporate Governance Network  
International Federation of Accountants  
Korea Accounting Standards Board  
KPMG  
Linus Low  
Long Term Investors Club  
Mazars  
Ministry of Finance of China  
Ministry of Finance Singapore  
Nicolas Véron  
Nippon Keidanren (Japan Business Federation)  
Norsk RegnskapsStiftelse – Norwegian Accounting Standards Board  
Office of the Superintendent of Financial Institutions Canada  
Organismo Italiano di Contabilità  
PricewaterhouseCoopers International Limited  
Revenue Watch Institute  
Securities & Exchange Board of India  
Securities and Commodities Authority of United Arab Emirates  
Securities and Exchange Commission of Brazil  
Securities and Futures Bureau  
Singapore Accounting Standards Council  
The Australian Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)  
The Bank of Tokyo - Mitsubishi UFJ, Ltd.  
The Japanese Institute of Certified Public Accountants  
The Life Insurance Association of Japan

The Securities Analysts Association of Japan

The South African Institute of Chartered Accountants

The World Bank

UK Financial Reporting Council

United States Insurance Association – GNAIE, ACLI, NAMIC, PCI, RAA