



FINANCIAL SERVICES AGENCY  
GOVERNMENT OF JAPAN  
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February 10, 2004

Tom Seidenstein  
Director of Operations and Secretary  
IASC Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Re: Identifying Issues for the IASC Foundation Constitution Review - An Invitation to Comment

Dear Mr. Seidenstein,

The Financial Services Agency (“FSA”) is pleased to submit this letter in response to the consultation paper regarding the International Accounting Standards Committee (IASC) Foundation’s review of its Constitution. We commend the Trustees’ initiative in conducting this review in an open and transparent manner.

In the context of development of global capital markets, convergence of accounting standards is desirable to facilitate cross-border capital flows and to foster efficient capital markets. We acknowledge that International Financial Reporting Standards (“IFRS”) plays a key role in the process of convergence and has important implications on the operation of capital markets and on the accounting standards used in many jurisdictions including Japan. Broader support for the IASB’s activities and IFRS by market participants including investors and preparers will be an essential element in this convergence process. Therefore, we consider that the review of the Constitution is very important and hope that the review will result in enhanced confidence in the standard-setting activities and processes by the IASB.

We recognize that high-quality global accounting standards are not simply the results derived from theoretically pure solutions based on the Framework but should be accepted with confidence and practicability by a broad range of market participants, including investors and preparers. To develop such standards, it is important for the IASB to take into full consideration diverse viewpoints expressed by stakeholders in its deliberation. The most important objective is to dispel concerns that the IASB is not carefully listening to or properly considering concerns raised by various stakeholders. We believe that this can be achieved effectively by reviewing the composition of the Board and its due process in the standard-setting activities.

The attached note provides our comments mainly related to the composition of the

Board and its due process in the standard-setting activities. We believe that our comments will be helpful to improve the Constitution and the standard-setting activities.

Sincerely yours,

Yoshio Okubo  
Deputy Commissioner for Capital Markets  
Financial Services Agency  
Government of Japan

**[Attached Note]**

**The composition of the Board**

We believe that an element of cultural and professional diversity among Board members is essential to achieving high-quality global standards that can be accepted with confidence by market participants. Concerns exist as to whether the current composition of the Board is well-balanced in this respect. The Board should be composed in such a way that all practical and technical aspects of accounting standards used in major capital markets may be taken into full consideration in its deliberation.

Concerns are expressed that the IASB does not carefully listen to or properly consider concerns raised by stakeholders. We believe that these concerns can be alleviated by attaching considerable importance to candidates' communication skills to external parties in the selection of the Board members. The ability to carefully listen to and properly consider concerns raised by stakeholders in addition to technical competency should be an essential element of Board members.

Additionally, there are concerns that the current requirement for the distribution of professional background does not necessarily seem to ensure truly balanced professional backgrounds or reflect diverse viewpoints of four respective groups (auditors, preparers, users and academics) in part because there are some members who have more than two professional backgrounds. To secure good balance of professional background in the composition of the Board, we consider it essential to increase the presence of the Board members from market participants, in particular, with substantial backgrounds as users and preparers.

With respect to liaison relationships, it is important for the Board to work in closer cooperation with all liaison countries so that the Board can take into due account various alternative approaches and standard-setting experiences from standard setters worldwide. We believe that closer relationship between the IASB and national standard setters in liaison countries will contribute to convergence of accounting standards.

**Due Processes in the Standard-Setting Activities**

We often hear stakeholders expressing their concerns regarding the IASB's due process such as "concerns of stakeholders have not been listened to or properly considered by the IASB" and "the IASB places too much emphasis on theoretically pure solutions in the Framework and too little emphasis on the applicability in actual business practices". We recognize that it is important for the Board to have full opportunities to listen to these concerns, to take into due consideration the concerns in the standard-setting process and to explain clearly the Board's response to the concerns. We notice that the IASB has recently made significant efforts towards improving standard-setting process such as holding the roundtables and Chairman's visit to various countries including Japan to have dialogues with interested parties. We recognize these improvements are a first step for

better due processes. For further improvements of the due process in the standard-setting activities, we propose the following measures.

***(Public Roundtables, Advisory Groups, Field Tests and Early Consultations)***

Section 32 of the Constitution describes due processes including public roundtables, advisory groups and field tests, by which the IASB are supposed to listen to technical and practical views from various stakeholders. We consider that these due processes can be efficient ways to obtain valuable input from stakeholders and specialists in the world major capital markets. However, these due processes do not always seem to function very effectively. These due processes are performed on an *ad hoc* basis and, when performed it is not clear how views expressed in each due process are considered in the standard-setting processes. We suggest that the Trustees should set the requirements in the Constitution that these due processes be performed in all projects unless there are special reasons. In addition, we suggest that the procedure to consider input raised through these due processes and the Board's accountability to respond to the input should be clearly spelled out in the Constitution.

We suggest that the Board should seek input from stakeholders earlier in the standard-setting process than it traditionally did. This enables the Board to consider and reflect concerns of stakeholders effectively and efficiently in the standard-setting processes. Further effectiveness and efficiency could also be achieved by making use of public roundtables, advisory groups, field tests and discussion papers before publishing the Exposure Draft. Thus we propose that early consultation process should be added to the Constitution.

***(SAC)***

The Standards Advisory Council ("SAC") can provide a valuable opportunity for the Board to seek input from a wide range of members with geographic and professional diversity. Nevertheless, we believe that there is room for improvement, for example by forming sub-committees with a small number of members for efficient discussions, so that the SAC can achieve its objectives more efficiently.

It is not transparent how SAC's advice is considered by the Board in the standard-setting process. To improve this point, the Trustees could introduce a process in which the Board would deal with the advice and disclose its response to the advice.

Considering the fact that SAC's function is to provide advice to the IASB, it is not appropriate for the chair of the IASB to also serve as the chair of the SAC. The chair of the SAC should be selected from the population of SAC members, either by the Trustees or by the SAC itself.

***("Sunset Review")***

We commend the recently performed “sunset reviews” on the projects for Performance Reporting and Insurance Contracts (Phase 2), both of which are viewed as lengthy projects. However, as the reviews were performed by some Board members without participation of others who were not directly involved in the projects, these reviews did not seem to be transparent or effective. To enhance transparency and effectiveness of the reviews, we believe that the reviews should be performed through a more transparent mechanism, for example by creating a sub-committee of the SAC.

*(Trustees’ Review of the IASB)*

The Trustees should review the strategy and the procedure of the IASB annually as well as a review of the Constitution every five years in order to ensure IASB’s effective due process. In this regard, current requirements in the Constitution are appropriate.

In addition, considering concerns regarding the IASB’s due process, there is a need for strengthening oversight of the IASB’s due process. The Trustees may wish to consider the way to introduce continuous oversight of the IASB’s standard-setting activities.