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Dear Sirs,

**Re: FEE Comments on Consultative Report on the Review of the IFRS Foundation's Governance**

- (1) FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the consultation on the Review of the IFRS Foundation's Governance ('Governance Review').
- (2) As mentioned in our letter of 25 February 2011 to the Trustees' consultation on *Status of Trustees' Strategy Review*, we support maintaining the three-tier system of the Monitoring Board, Trustees and the IASB ('Board'). We believe that there needs to be a clear allocation of responsibilities between the Monitoring Board and the Trustees. The potential ambiguity and over-lap between the roles of the Trustees and that of the Monitoring Board would be reduced through a clearer definition of the role of each group. Please refer to our letter to the Trustees for more details on this and other matters.

**IASB**

- (3) We have no major concerns with the current composition of the IASB. In our view, it seems sensible to deepen the pool of candidates for the membership of the IASB on the condition that this would contribute to a greater diversity of geographical and professional backgrounds within the Board without compromising the technical excellence of future members.
- (4) In order to improve the accountability of the IFRS Foundation, further initiatives to increase transparency in respect to the process of selecting potential candidates for the IASB would be welcome, within the constraints of confidentiality. Such increased transparency would demonstrate the extent of the effort put into the process of identifying technically qualified candidates across the widest possible geographical distribution as well as gender and professional backgrounds.

- (5) We question the need for a separate CEO role in the Foundation as proposed in the Governance Review. We recommend the Monitoring Board to consider other alternatives. In view of the size of the organisation, it may suffice for a chief operating officer to report to the Chair of the Trustees regarding the more operational aspects of the Foundation including human resources.
- (6) In any case, the governance arrangements should protect the independence of the standard setting process and roles should be clearly defined.
- (7) We also acknowledge the need for the IASB to be independent in setting the standards. Therefore, the Board should have complete responsibility for the standard-setting process, including all technical matters and full discretion in pursuing its technical agenda, once that agenda has been set following public consultation and debate.

### **Trustees**

- (8) We believe that the current composition of the Trustees is sufficiently balanced in order to meet their commitments and the criteria for selection set out in the Constitution are adequately defined. It provides appropriate balance of professional backgrounds and reflects broad international representation and diversity of geographical and professional experience.
- (9) We also support the current nomination process for the Trustees. However, it is also important to note that the expectation for future candidates should be closely linked with a more active oversight role of the Trustees. This would allow the candidates to clearly commit themselves to the stated objectives based on their matching profiles.
- (10) In this context, we would welcome a more active and visible role for the Trustees in overseeing the key strategic and managerial decisions that determine the resources and activities of the IASB. In our view, the Trustees should also be more actively involved in the agenda setting process by overseeing the public consultation and the process of deliberating feedbacks. They should also challenge the agenda priorities of the IASB more robustly.
- (11) The Trustees should also ensure that transparency in respect of the standard setting process and the pace at which new standards are issued are continuously taken into account and carefully monitored in order not to impair the standing of IFRS.

### **Monitoring Board**

- (12) We think that the membership of the Monitoring Board should continue to be confined to those relevant market authorities who have the authority to endorse the application of the accounting standards or to allow or require the use of IFRSs in their respective jurisdictions. Membership of the Monitoring Board should also imply a firm commitment to global standards issued by the IASB.
- (13) We support the proposed expansion of the membership of the Monitoring Board. However, it should be done in a sensible way that would ensure effective and efficient decision-making when needed and should also be in line with the role and the responsibilities of the Monitoring Board.

- (14) We do not support the inclusion of prudential regulators and other international organisations as members of the Monitoring Board. However, a closer link between the Monitoring Board and the Financial Stability Board, e.g. by inclusion of the latter in an observer capacity, would in our view be welcome.
- (15) In our view, the Monitoring Board, representing the public authorities' views, is important because it ensures that the IASB is ultimately accountable to those representing the public interest at large. On the other hand, the Monitoring Board should not take over responsibilities that better belong to the Trustees in fulfilling their oversight and governance role in the organisation.
- (16) The Monitoring Board should not intervene in the day to day operation of the Foundation, except in rare cases, for example, when there has been a very serious breakdown of the due process. The role of the Monitoring Board should focus on reviewing and advising the Trustees in the fulfilment of their responsibilities as the governance body charged with oversight over the IASB.
- (17) We believe that the Trustees should have the sole responsibility to appoint the Chair of the IASB while ensuring that the Monitoring Board is directly consulted during the nomination process. The Monitoring Board should have an explicit consultative role to maintain an ongoing dialogue with the Trustees on this and any other issues as appropriate.
- (18) FEE believes that the importance of the global capital markets and the investor community are such that the current structure, which includes the IFRS Foundation and its three key bodies, best serve the needs and the interests of investors and other participants in global capital markets. However, in the longer term, a broader worldwide discussion on the role and use of IFRSs (including IFRS for SMEs) may be warranted and taken into account in a future revision of the Constitution.

Our responses to the questions in the Governance Review are also included in the Appendix of this letter.

For further information on this letter, please contact Henri Olivier, Secretary General, at the FEE Secretariat on +32 2 285 40 71 or via e-mail at [henri.olivier@fee.be](mailto:henri.olivier@fee.be).

Yours sincerely,



Philip Johnson  
President

**IASB****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.***

- (19) We believe that there are no major concerns with the current composition of the IASB. Its current composition facilitates the process of properly balanced decision-making as there appears to be the right balance in the allocations of different backgrounds and appropriate technical expertise within the Board.
- (20) The members of the IASB are currently selected on the basis of technical and professional competence and practical experience while ensuring broad international representation and diversity in market experience. The current membership is inclusive of different professional backgrounds, both technical and non-technical, including standard-setters, regulators, preparers, auditors and international investors.
- (21) In our view, it seems sensible to deepen the pool of candidates for the IASB membership on the condition that this would further contribute to a greater diversity of geographical and professional backgrounds within the Board. We also note that the seats on the IASB are inevitably limited and therefore not all the stakeholder groups can be presented at the same time. Therefore the Trustees will have an increased responsibility to ensure that there is an appropriate and balanced representation of different stakeholders over time based on the agenda of the IASB.
- (22) We also believe that the public is not fully informed about the selection process for the IASB membership. In order to improve the accountability of the IFRS Foundation, in this area, further initiatives should be taken to increase transparency in the process of selecting potential candidates with due consideration given to the confidentiality of the candidates. For instance, the Trustees could issue a report describing the measures taken to advertise the open positions, the active search method used in the particular circumstances, the number of applicants or the approval of a short list leading to a final decision. These initiatives would clearly demonstrate the extent of the effort put into the process of identifying technically qualified candidates across the widest possible geographical distribution, gender and professional backgrounds.
- (23) In addition to publicly announcing upcoming vacancies, job profiles and selection criteria for Board members, the Trustees may want to consider advertising these in a more targeted way to individuals in relevant groups, including regional and national standard setting bodies; global, regional and national stakeholder groups and IASB committees, such as the Interpretations Committee and the Advisory Council.

**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.***

- (24) We question the need for a separate CEO role in the Foundation as proposed in the Governance Review. We recommend the Monitoring Board to consider other alternatives.
- (25) In view of the size of the organisation it may suffice for a chief operating officer to report to the Chair of the Trustees regarding the more operational aspects of the Foundation including human resources. The management and administration of the Foundation could be the responsibility of this person who could also provide strategic help to the Trustees as well as develop an effective communication line between the Monitoring Board, the Trustees, and the IASB.
- (26) Furthermore, this person should also support the Trustees in fulfilling their constitutional responsibilities concerning the funding of the association. However, it is important to note that the combination of oversight mechanisms with administrative or operational responsibilities should be avoided as a principle of good governance.
- (27) In any case, the governance arrangements should protect the independence of the standard setting process. Putting too much weight on the CEO position as suggested in the consultation might not be in the interest of the organisation. The respective roles and responsibilities should be clearly defined to ensure that the Chair of the IASB is clearly in charge of all the matters pertaining to the Board's activities.
- (28) The technical work of the IASB such as setting the work program, managing the due process, allocating work to technical staff and representing the IASB to the public should remain under control of the IASB Chair. The IASB Chair should have the capacity to decide on the allocation of resources and priorities of different projects following public consultation and debate based on technical merits and urgency of the projects and availability of funds.
- (29) We also acknowledge the need for the IASB to be independent in setting the standards. Therefore, the Board should have complete responsibility for the standard-setting process, including all technical matters and full discretion in pursuing its technical agenda, once that agenda has been set following public consultation and debate.

**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 suggestions on how to formalize this? Please provide reasons for your agreement/disagreement.***

- (30) FEE supports a clearer line of responsibilities between staff supporting the technical activities of the IASB and those working for the Foundation's responsibilities. However, the Monitoring Board should also consider our remarks above and that administrative functions and support to the Trustees in their oversight role should be distinguished in order to comply with the principles of good governance.

**Trustees****Question 4:**

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

- (31) We believe that the current composition of the Trustees is sufficient to meet their commitments and the criteria for selection set out in the Constitution are adequately defined. It provides appropriate balance of professional backgrounds and reflects the broad international representation and diversity of geographical and professional experience.
- (32) We also support the current nomination process for the Trustees. However it is also important to note that the nomination document, which is made publicly available, should more clearly articulate the right expectation and job profiles for future candidates in respect to both the responsibilities of the Trustees and the IASB's work programme. The expectation for candidates should be closely linked with a more active oversight role of the Trustees. This would allow the candidates to clearly commit themselves to the stated objectives based on their matching profiles.
- (33) In this context, we would welcome a more active and visible role for the Trustees in overseeing the key strategic and managerial decisions that determine the resources and activities of the IASB. In our view, the Trustees should also be more actively involved in the agenda setting process by overseeing the public consultation and the process of deliberating feedbacks. They should also challenge the agenda priorities of the IASB more robustly.
- (34) The role of the Trustees in exercising oversight of the due process connected to standard setting as well as securing wide stakeholder acceptance is essential to maintain the technical credibility of the IASB.
- (35) Furthermore, a clear delineation of responsibilities between the Monitoring Board and the Trustees needs to be found. This also involves increasing the role of Trustees by strengthening their interaction with the stakeholder community in order to support and strengthen the legitimacy and credibility of the organisation.

**Question 5:**

***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.***

- (36) We do not have significant concerns with the transparency in respect to the nomination process for the Trustees. The Constitution states that members of the Trustees should be selected after consultation with national and international organisations of auditors (including IFAC), prepares, users and academics. The call for candidates is a public call including detailed advertisement about the vacant positions.
- (37) The Monitoring Board currently plays an active role in the nomination process. It is entitled to put forward their own names and consult with the Trustees during the nomination process. It is also the Monitoring Board who approves the appointment of the Trustees at the end of process. We think the current involvement of the Monitoring Board in the nomination process is appropriate.
- (38) However, it would be also desirable for the Trustees to provide a post-nomination report on the process for selecting the candidates, covering broadly (to the extent that confidentiality allows) the reasons governing the selection, geographical considerations and professional expertise as well as other relevant details about the successful candidate's profile. That would also increase the confidence of all constituents in the nomination process.

**Monitoring Board****Question 6:**

***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?***

***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?***

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

- (39) We agree that the membership of the Monitoring Board should be confined to those authorities responsible for setting the form and content of financial reporting in their respective jurisdictions. We note however that not all capital market authorities are responsible for prescribing the form and content of financial statements.
- (40) Therefore the membership should be confined to those relevant market authorities who have the authority to endorse the application of the accounting standards or to allow or require the use of IFRSs in their respective jurisdictions.

- (41) Membership of the Monitoring Board should also imply a firm commitment to global standards issued by the IASB. We therefore believe that the members of the Monitoring Board should be selected from those jurisdictions which have adopted or converged to, or have committed to adopt or converge to, IFRSs. It will be increasingly difficult for the IFRS Foundation, due to public pressure, to justify any representation in the various bodies of the organisation where there is uncertainty as to commitment or without a formal convergence work programme to IFRSs.
- (42) We support the expansion of the membership of the Monitoring Board to include certain number of relevant capital market authorities, primarily from major emerging market jurisdictions, as permanent members as well as an increased regional diversity by selecting a number of rotating members. Finding the right balance between the emerging and major capital market is important.
- (43) The number of members of the Monitoring Board should be limited to a size that ensures an effective and efficient decision-making where required.

**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.***

- (44) We support the decision-making process by consensus on the Monitoring Board. In those rare circumstances when the Monitoring Board needs to take a position on certain matters such as the appointment of the Trustees or serious breakdowns in the due process, it is desirable to have a broad acceptance amongst the members.
- (45) Therefore, we believe that the consensus model should be retained, even in the light of increased number of member. While increased membership may make consensus decisions more difficult and consultation more prolonged, we believe that this would not necessarily limit the Monitoring Board's ability to make decision by consensus.
- (46) We also believe that it is important that the most senior person from the organisations that are present in the Monitoring Board should attend the meetings and only in exceptional cases should delegates be substituted.

**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?***

- (47) The membership of the Monitoring Board should reflect the role and responsibilities of an oversight body. These responsibilities include the appointment of the Trustees and reviewing the Trustees in the fulfilment of their responsibilities as the governance body charged with oversight of independent standard setting process.

Appendix - Responses to the questions in the Consultative Report on the Review of the IFRS Foundation's Governance

- (48) We recognise that as a result of the recent financial crises, there are increasing demands for high quality financial information by other users as well, including depositors, suppliers, other creditors and prudential regulators. More broadly, a consideration to include those bodies that are charged with securing other public policy objectives such as financial stability in the standard setting process has received more attention.
- (49) We believe that the financial statements are currently most relevant to the investors, capital providers and other stakeholders who are identified as the primary users of financial information.
- (50) Prudential supervisors sometimes choose to use general purpose financial statements as a vehicle for making the adjustments necessary to meet their objectives. However they often also make their own adjustments to financial statements amounts or require a separate reconciliation between financial reporting capital and regulatory capital to better suit their primary objectives.
- (51) Relevant and faithfully represented financial information supports the efficient operation of the financial markets and increases transparency. High quality financial reporting is an effective method for communication about existing economic conditions and therefore serves the public interest. Increased transparency, in general, reduces the level of risks and mitigates systemic financial risk in the market. We agree with the views of the Chairman-designate of the IASB, Mr Hans Hoogervorst, expressed in his recent speech at an EC conference, that financial stability and transparency are not two contradicting but rather supplementary goals. Transparency is a necessary precondition for financial stability.
- (52) We therefore disagree with the idea that financial stability should be included in the standard setting process as a separate objective. In most instances, financial statements prepared primarily for investors will also serve the information needs of those charged with overseeing financial stability. Where their needs are not met, supervisory authorities have additional means of obtaining the information they need for those other purposes.
- (53) Therefore, as mentioned above, we think that the full membership of the Monitoring Board should continue to be limited to relevant markets authorities who have the authority to endorse the application of the accounting standards or to allow or require the use of IFRSs in their respective jurisdictions.
- (54) In this context, we do not support the inclusion of prudential regulators and other international organisations as members of the Monitoring Board whereas we would support their attendance as observers as appropriate. We would support a closer link with the Financial Stability Board who could be present in the meeting of the Monitoring Board as an observer.

- (55) FEE believes that the importance of the global capital markets and the investor community are such that the current structure, which includes the IFRS Foundation and the its three key bodies, best serve the needs and the interests of investors and other participants in global capital markets. However, we also call for a broader worldwide discussion on the role and use of IFRSs (including IFRS for SMEs) in order to consider whether the focus of the IFRS Foundation on capital markets needs is optimal in a longer term.

**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.***

- (56) Please see our answers to Question 8.

**Question 10:**

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

- (57) We support an increased transparency in the oversight operation of the Monitoring Board to improve its accountability, for instance by making meeting summaries that substantiate the Monitoring Board's deliberations on certain issues publicly available. In addition, the Monitoring Board may want to consider publishing an annual report to communicate its activities.
- (58) In our view, an increased visibility regarding how the Trustees have conducted their oversight responsibilities is of higher priority. Enhancing the visibility of the Monitoring Board in order to secure a better public understanding of its activities should be considered. However, any initiatives should in our view be commensurate with its distinct monitoring role.

**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.***

- (59) The Monitoring Board should not intervene in the day to day operation of the Foundation. In exceptional circumstances, for instance when there has been a very serious breakdown in due process, the Monitoring Board should consult more frequently with the Chairman and vice-Chairman of the Trustees and seek to rectify any deficiencies or issues.

- (60) The role of the Monitoring Board should focus on reviewing and advising the Trustees in the fulfilment of their responsibilities as the governance body charged with oversight over the IASB as well as participating in the nomination process of the Trustees and election of the Chairman of the Trustees. But the Monitoring Board should not direct the IASB on the resolution of accounting matters and it should not have an explicit ability to place items on the IASB's technical agenda.
- (61) The Monitoring Board already has the ability under the current Memorandum of Understanding to discuss potential agenda items with the Trustees, which in our view should be retained. In addition, as the IASB starts its new public agenda consultation process, the organisations represented on the Monitoring Board will have the opportunity to participate fully, and as influential voices, in this public consultative process and make their views on agenda priorities known.
- (62) Rather, the role of the Trustees concerning the setting of the agenda and the oversight of the compliance with the approved priorities in the agenda should be strengthened. As a result, the Trustees should also ensure that transparency in respect of the standard setting process and the pace at which new standards are issued are continuously taken into consideration and carefully monitored in order not to impair the standing of IFRS.
- (63) In addition, the oversight role of both the Monitoring Board and the Trustees must be designed to promote and not undermine the independence of the IASB and its standard setting process.

**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?***

- (64) We support the efforts moving towards the establishment of a firm financial footing to help ensure the sustainability of the standard-setting process. We believe that broad based sustainable funding can ultimately only be achieved through the application of a capital markets-based levy mechanism. The precise mechanism will need to vary from country to country and may be supplemented in some countries by institutional funding such as that provided by the European Commission.
- (65) Furthermore, we also welcome the European Union's stated intention to extend their contribution to the funding of the IFRS Foundation, which would reduce the necessity for private funding. In our view, private funding being subject to greater uncertainty will always run the risk of being accompanied by a general inferred accusation of undue influence on the standard-setting process by the relevant stakeholder groups. The preferred source of financing should be through a levy on the capital markets of those jurisdictions adopting IFRS.

**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.***

- (66) In our view, the Monitoring Board, representing the public authorities' views, is important to ensure that the IASB is ultimately accountable to those representing the public interest at large. On the other hand, the Monitoring Board should not take over responsibilities that better belong to the Trustees in fulfilling their governance role in the organisation.
- (67) We believe that the Trustees should have the sole responsibility for appointing the Chair of the IASB while ensuring that the Monitoring Board is directly consulted during the nomination process.

**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.***

- (68) The responsibility for setting up the framework to ensure proper balance in the composition of the IASB should also remain with the Trustees. The Monitoring Board should be consulted throughout this process.
- (69) Direct involvement of the Monitoring Board in the appointment or removal of IASB members would impair the independence of the IASB and may be perceived by the public as the Monitoring Board overriding a formal and transparent selection process. If that process is working well, there should in principle be no need for the Monitoring Board to impose its own candidate. In our view, the Monitoring Board should rather have an explicit consultative role, to maintain an ongoing dialogue with the Trustees on issues concerning the operation of the Foundation as appropriate.

**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.***

- (70) As we believe that the Monitoring Board should be limited to the monitoring function of the Foundation without a direct involvement in the day-to-day operation, except in rare circumstances, the establishment of a permanent secretariat may not be necessary.

**Question 16:**

***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.***

(71) We agree that there is a need for regular reviews which should be aligned with the timing of the Trustees' review.

**Question 17:**

***Do you have any other comments?***

(72) We have no further comments at this time.