

11 April 2011

Mr Masamichi Kono
Acting Chairman of the IFRS Foundation Monitoring Board
3-2-1 Kasumigaseki, Chiyoda-ku,
Tokyo, 100-8967
Japan

Dear Mr Kono

Review of the IFRS Foundation Governance

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the Monitoring Board's call for views on the *Consultative Report on the Review of the IFRS Foundation's Governance* issued on 7 February 2011.

The AOSSG currently has 24 member standard-setters from the Asian-Oceanian region: Australia, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Thailand, and Uzbekistan.

To the extent feasible, this submission to the Monitoring Board reflects in broad terms the collective views of AOSSG members. Individual member standard setters may also choose to make separate submissions that agree or disagree with aspects of this submission. The intention of the AOSSG is to enhance input from the Asian-Oceanian region and not to prevent the Monitoring Board from receiving the variety of views that individual member standard setters may hold.

This submission has been reviewed by members of the AOSSG after having been initially developed through the discussion at a Working Group.

AOSSG General Stance on Review

When the IASB was established it was agreed that the Board should be comprised of experts and not representatives. The Board was to be comprised of individuals who could appreciate the views of the various stakeholders in standard-setting, including users. Since then we have seen 10 years of refinement of processes and procedures, including the formation of the IFRS Advisory Council and the Monitoring Board. Challenges to the adequacy of those processes and procedures have come from both genuine concerns and quite probably from a desire to slow, or change the direction of, change.

We are now witnessing an unprecedented amount of change that, but for compounding factors, would not have been the deliberate aim of an orderly plan. Partly this change is the result of strategic objectives (especially achieving US adoption of IFRS), partly because of the perceived need to respond to criticisms arising from the global financial crisis (e.g., revamping financial instruments requirements and responding to the recommendations of FCAG) and partly as a result of normal maturation of some very important long-running projects (e.g., insurance).

On top of all of these developments, we now have the two reviews carried out by the Trustees and this review of the Monitoring Board.

In our region, where convergence with or adoption of IFRS is being carried out in many jurisdictions now or in the next few years (see below), the instability from the combination of the above developments can only be characterised as being of very unfortunate timing and complicating for the tasks of transition. Accordingly, we call upon the Monitoring Board, the Trustees and the IASB to work jointly to provide an improved but controlled environment in which the trauma of our changes can be minimised.

We note that we have member jurisdictions in a variety of situations, including those that:

- (a) have adopted IFRS since 2005 (e.g., Australia, Hong Kong);
- (b) have recently adopted IFRS (e.g., Korea)
- (c) will require application of IFRS from a specified future date;
- (d) are converging their domestic GAAP with IFRS, with a view to considering adopting IFRS at some unspecified date in the future, while permitting the voluntary application of IFRS (e.g., Japan); and
- (e) are converging their domestic GAAP with IFRS, but do not yet permit the use of IFRS (e.g., China, India, Malaysia¹, and Singapore²).

We support the existence of a Monitoring Board, and expect it will play a part in ensuring that the IASB and Trustees are operating as they should. In essence, we wish to see the Monitoring Board providing independent assurance that the governance of the Trustees is being carried out appropriately and that the due processes of the IASB are satisfactorily applied. We also wish to see that Board acting as an independent scrutineer of appointment processes for the Trustees and the IASB. That independent assurance would give comfort to those who have, or plan to, adopt IFRS or converge with IFRS, and help avoid political interference in the standard setting process.

We do not wish to see the Monitoring Board undermining its own independence in any way, especially by being involved in technical debates, including agenda setting, at the IASB. The authority of the Monitoring Board's views should, like an auditor, come only from independence and quality. There should be no confusion between the roles of the Monitoring Board and the Trustees. We would particularly oppose any suggestion that the Monitoring Board has an executive role.

Our views are expressed in detail in Attachment A, following the questions asked in the request for views.

If you have any queries regarding any matters in this submission, please contact us.

Yours sincerely



Ikuo Nishikawa
Chairman of the AOSSG



Kevin Stevenson
Vice-chairman of the AOSSG

¹ Foreign companies listed on a stock exchange in Malaysia are allowed to use IFRS.

² Singapore companies are allowed to apply the IFRS subject to the approval of the Accounting and Corporate Regulatory Authority.

Attachment A

AOSSG Responses to Monitoring Board Proposals and Questions

Introduction

The following sets out the proposals and questions raised by the Monitoring Board and the responses of the AOSSG. The order follows that of the Board's review.

(1) Monitoring Board Proposal

IASB:

Undertake concrete efforts to improve identification of candidates to ensure IASB membership from diverse geographical and professional backgrounds in order to provide for further objectivity and impartiality of the decision-making process, while maintaining professional competence and practical experience as the primary qualifications.

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.

AOSSG Response

1.1 The AOSSG is more concerned with ensuring that the IASB has adequate expertise relevant to the setting of international financial reporting standards than it is in having more representation of diverse geographical and professional backgrounds. The Board is already large and reasonably diverse. However, the AOSSG would always support endeavours by the Trustees to identify potential candidates (to ensure an adequate pool for the Trustees to consider) and would aim to ensure that there are as many as possible identified in our region. The AOSSG is pleased to assist Trustees in this regard and hope other regions would do likewise.

(2) Monitoring Board Proposal

Separate the roles of the IASB Chair and the CEO of the Foundation to safeguard the independence of the standard-setting process led by the IASB Chair and to avoid undue conflicts of interest as the CEO of the Foundation manages all the other aspects of the Foundation's functions, including IASB oversight.

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.

AOSSG Response

- 2.1** Although we do not necessarily believe that a separation of roles is necessary, given that there is to be a separation of roles, we think the title of “CEO” may give a wrong impression of the role relative to what is actually expected of that person. In principle, we think requisites for the Chair of the IASB and a senior administrator (if so described) differ significantly, where one should have strong expertise in accounting and another should handle the day-to-day operation of the organisation. In addition, if the Foundation is to have a senior administrator, that person would need to work very closely with the Chair of the IASB on many matters. Accordingly, we would support there being a separate senior administrator so that it would facilitate the work of the Chair of the IASB. In this regard, the title of CEO may not reflect the role of the administrator and may imply, inappropriately, that the Chair is not a CEO. Perhaps the position could be described as Foundation Secretary or similar.

(3) Monitoring Board Proposal

Consider clearer division of responsibility between staff dedicated to the IASB’s operations and staff dedicated to the Foundation’s administrative and oversight functions.

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.

AOSSG Response

- 3.1** AOSSG would agree that there should be separation of the roles, but is not aware of any operational demarcation problems at present. Perhaps, the concern comes more from a perception, where Trustees should fulfil an oversight role of the IASB’s standard setting, which we understand is important to ensure its independence (both in substance and appearance) of the IASB. If such a perception is critically important, there is a good reason to separate the roles more clearly. Nevertheless, we also see the need for close dialogue between the Trustees’ staff and the IASB so that educational and outreach activities are coordinated. This also applies to translation.

(4) Monitoring Board Proposal

Trustees:

Continue to review the diversity of geographical and professional background of the Trustees so as to provide for objectivity and impartiality of the decision-making process.

Question 4:

- Please provide comments on any aspects of Trustee composition or appointments that you

believe the Monitoring Board should consider

AOSSG Response

4.1 The AOSSG is not aware of any issue with the diversity of geographical and professional background of the Trustees. However, if the Trustees would like to be seen more for the oversight function, its membership should consist more of those with experience of oversight in governance and strategy.

(5) Monitoring Board Proposal

Devise formal procedures and clearer criteria for the nomination of candidates and appointment of Trustees accountable to the stated objectives for the IFRS Foundation.

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.

AOSSG Response

5.1 The AOSSG agrees that the nomination process for Trustee membership should be transparent, but it does not agree that the Monitoring Board should recommend candidates. What is needed from the Monitoring Board is independent assurance that the processes of the Trustees and IASB are operating as designed and to make recommendations to the Trustees for improvement, should this be seen to be needed.

(6) Monitoring Board Proposal

Monitoring Board:

Expand the membership to [eleven] members to include more capital markets authorities responsible for setting the form and content of financial reporting in respective jurisdictions, focusing on increased representation from major emerging markets. [Four] new members primarily from major emerging markets would be added on a permanent basis and [two] additional seats would rotate amongst authorities not permanently represented. The use of IFRSs in a jurisdiction and the contribution of the jurisdiction to the funding of the IFRS Foundation should be considered in selecting members.

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.

AOSSG Response

- 6.1** We consider that the Monitoring Board membership should better reflect that IFRSs are used in different jurisdictions and sectors. The current membership seems to focus on capital markets authorities, but we think it should be reconsidered in due-course, taking into account the objective of the IFRS Foundation as well as the use of the IFRSs.
- 6.2** When considering the membership, it is important that members should be able to reflect the broad constituency with an interest in standard setting and have knowledge and experience of both developed and emerging markets and smaller markets as well as knowledge and experience of adopting or converging with IFRSs.
- 6.3** Some AOSSG members consider that it would enhance the transparency of the appointment process if there were measurable criteria for the jurisdictions from which members are appointed, such as size of GDP or size of capital market.
- 6.4** Some AOSSG members strongly agree with the proposal to expand the Monitoring Board's membership by adding permanent members representing primarily major emerging markets. Those members also share the general views of the AOSSG membership expressed in paragraphs 6.1 to 6.3.

(7) Monitoring Board Proposal

Consider whether any types of decisions taken by the Monitoring Board would justify deviation from the current consensus-based decision-making system.

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.

AOSSG Response

- 7.1** The AOSSG consider that decision making by consensus is appropriate as far as the size of the group is reasonably manageable, but repeats that what it is seeking from the Monitoring Board is independent assurance of the processes of the

Trustees and IASB. If, in arriving at a consensus, there is diversity in the views of the Monitoring Board we would wish to be aware of that diversity.

(8) Monitoring Board Proposal

With a view to increasing the involvement of other public authorities and international organizations, consider either:

- a) extending the observer status to groups of prudential authorities and international organizations;
- b) holding more formalized dialogue with public authorities and international organizations;
- or
- c) establishing an advisory body composed of prudential authorities and international organizations.

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?

AOSSG Response

8.1 Please refer to the AOSSG answers to question 6. We believe it is important that the Board comprising a selected group of persons provide the assurance sought based on adequate due process in its monitoring. Also, the proposal seems to be disproportionate to the perceived problems. Consultation with other bodies should be part of that due process and such consultation should not be confined to observers or a limited panel of advisers.

(9) Monitoring Board Question

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.

AOSSG Response

9.1 The AOSSG is of the view that standard setting processes needs continuous improvement, reflecting upon the changes in the environment. The improvement should be made with the benefit of participation from a broad range of stakeholders, including those from jurisdictions at different stages of economic development and jurisdictions that are taking different strategies to aligning national standards with IFRSs. The AOSSG would welcome any changes if it leads to improvement rather than bureaucracy. Nevertheless, some may think that we

have reached the point where more than enough time and effort has been put into questioning governance and standard-setting processes, which typically comes from the jurisdictions in which IFRSs are already being applied. The degree of desire for change may vary depending upon whether a particular jurisdiction has adopted IFRSs already.

9.2 The formation of the AOSSG reflects a concern in our region that the agenda for IFRS was being captured, to some degree, by other regional influences in an unhelpful and somewhat political way. We wish to see a return to a more technical focus of the IASB that is not skewed by the US GAAP/IFRS convergence issue or by the resistance to embrace needed change. Implicitly, this means that we think our voice has not been adequately heard and we accept partial responsibility for not having been more involved.

9.3 The AOSSG's formation, and its concentration on contributing constructively to improving IFRS, is intended to help rectify the latter problem. We trust that the IASB will respond to our views going forward, especially as this region rivals other regions for the size of its capital markets and exceeds others from a population viewpoint. The successful implementation of IFRS throughout our region must be a shared prime focus of the Trustees, the IASB and ourselves. The failure of IFRS in the Asian-Oceanian region would offset any gain elsewhere.

(10) Monitoring Board Proposal

Enhance publication of written records of Monitoring Board deliberations, increase the use of press releases, and strengthen the exposure of Monitoring Board members' views to the media and wider audiences.

Question 10:

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

AOSSG Response

10.1 The Monitoring Board's meeting proceedings should be available publicly whenever practicable and the Board should be totally transparent in its deliberations and processes. The activities of the Monitoring Board should be strictly confined to providing independent assurance; otherwise, the public will be confused as to the respective roles of that Board and the Trustees.

(11) Monitoring Board Proposal

Consider if the Monitoring Board's current ability to refer matters to the IASB for consideration, requiring feedback, is sufficient, or whether an explicit role should enable the Monitoring Board to place an item on the IASB agenda.

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.

AOSSG Response

11.1 The AOSSG is strongly opposed to the suggestion that the Monitoring Board could interfere with the agenda of the IASB. In providing independent assurance there is no limitation as to what the Monitoring Board could recommend, but we think it would be most unwise for it to be seen to influence the agenda of one of the bodies it is independently assessing. In our view, the IFRS Advisory Committee, where IOSCO and other Monitoring Board members are present, is the appropriate forum for conveying views to the IASB about agenda items, rather than the Monitoring Board.

(12) Monitoring Board Proposal

Explore possible options to establish a non-voluntary, transparent and stable public funding platform for the Foundation.

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?

AOSSG Response

12.1 While the AOSSG agrees that stable funding is necessary to help ensure independence of the IASB, the AOSSG regards this matter as an important one for the Trustees, rather than being a matter for the Monitoring Board except insofar as the Board could consider providing support for the Trustees.

(13) Monitoring Board Proposal

Enhance the Monitoring Board's involvement in the nomination of the IASB Chair by enabling the Monitoring Board to provide a set of criteria for selecting potential candidates and evaluate certain candidates on the short list against the criteria during the selection process. Additionally, consider whether the Monitoring Board's role should also involve consultation on the Trustees' final decision and/or playing any further roles.

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.

AOSSG Response

13.1 No, the AOSSG does not believe the Monitoring Board should be involved in the selection of the IASB Chair, other than as a scrutineer of the process. The most recent appointment process has, rightly or wrongly, caused some concern among our constituents. In our view, good governance suggests that members of the Monitoring Board and the Board of Trustees should be ineligible for appointment to the IASB during the time they are members and for a reasonable period thereafter.

(14) Monitoring Board Proposal

As regards other IASB members, explicitly include in the Monitoring Board's responsibilities consultation with the Trustees as they further develop the framework to ensure proper balance in the composition of the IASB.

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.

AOSSG Response

14.1 The AOSSG believes the Monitoring Board needs to understand the Trustees' processes and strategies for appointing IASB members, but that it should remain independent of the application of those processes and strategies; otherwise, it would erode public confidence in the IASB.

(15) Monitoring Board Proposal

Explore the possibility of establishing a permanent secretariat for the Monitoring Board.

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.

AOSSG Response

15.1 The AOSSG does not believe the Monitoring Board needs more than a basic rotating seconded staff to carry out the role of providing independent assurance. The AOSSG is concerned at the increasing bureaucracy surrounding international standard-setting and its potential to divert resources from improvements in financial reporting.

(16) Other Monitoring Board Questions

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.

AOSSG Response

16.1 The AOSSG is seeking continuing independent assurance from the Monitoring Board of the application of the processes of the Trustees and the IASB. We think this should occur periodically. It may be that a more formal review should be conducted as and when needed. We do not consider a fixed period is needed to prompt such a review. If the Trustees or the IASB make significant changes to procedures and processes, we would expect the Monitoring Board would find it efficient and effective to look at them contemporaneously and also, where needed, with hindsight.

(17) Other Monitoring Board Questions

Question 17:

- Do you have any other comments?

AOSSG Response

17.1 The scope of some AOSSG members' standard-setting responsibilities is all sectors of their economy (including the public and private not-for-profit sectors). Most have a scope closer to the IASB's current scope of responsibilities. For those with a broader mandate, it is of quite some concern that the Monitoring Board is

comprised of regulators of those capital markets largely comprised of private sector for-profit reporting entities and not those of other reporting entities. In this regard, they would wish to see convergence over time between the work of the IASB and the International Public Sector Standards Board (IPSASB) of IFAC. The existence of a Monitoring Board populated only by those authorities with a particular purview is unlikely to be seen as helpful to their cause.

- 17.2 The AOSSG does not currently have a policy on this matter but, as indicated earlier, is concerned that the current composition of the Monitoring Board reflects a particular bias; and consideration should be given to the diverse political, legal economic and cultural systems in the world and the future direction of standard setting in identifying Monitoring Board members.**