



Australian Government

**Australian Accounting
Standards Board**

Level 7, 600 Bourke Street
MELBOURNE VIC 3000

Postal Address
PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600
Facsimile: (03) 9617 7608

7 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 Australian Accounting Standards Board is pleased to provide comments on the Monitoring Board's *Consultative Report on the Review of the IFRS Foundation's Governance* issued on 7 February 2011.

When the IASB was established it was agreed that its members would be appointed as individuals and not representatives. The Board is intended to be comprised of individuals who can appreciate the views of the various stakeholders in accounting standard-setting, including users.

The IASB's due process has been refined and improved over 10 years, with the formation of the IFRS Advisory Council and extended outreach activities. 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 resulting from a range of factors that would have been difficult to foresee. Partly this change is the result of stylistic 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).

The review of the Monitoring Board is being carried at a time when there is a heightened level of technical standard setting activity and a review by the Trustees.

Australia is an established adopter of IFRSs. However, we are conscious that convergence with or adoption of IFRS is being carried out in many jurisdictions now or in the next few years and the instability from the combination of the above developments is complicating the task of transition for those jurisdictions. Accordingly, the AASB urges the Monitoring Board, the Trustees and the IASB to work jointly to provide a stable environment in which the trauma of change can be minimised.

The AASB supports the existence of a Monitoring Board, and expects it will play a part in ensuring that the Board and Trustees are working effectively. 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. The AASB also wishes to see the Monitoring 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.

The AASB believes the criteria for membership of the Monitoring Board should focus on the skills and experience of individuals, rather than necessarily relating to the organisations with which they are currently associated. The AASB appreciates that those individuals are likely to possess particular affiliations by virtue of their work experience; however, they should be able to reflect the broad constituency with an interest in accounting standard setting. In particular, there needs to be a greater recognition of the significance of skills and experience acquired in the Asia-Oceania region.

The AASB considers that it is likely to be necessary to go beyond securities regulators to find the individuals with the necessary breadth of skills and experience. Furthermore, the AASB believes the focus should not necessarily be on gaining representation from particular organisations, although the AASB also acknowledges that the affiliations of some members may be useful in helping to shield the IASB from undue political pressures.

The AASB does not wish to see the Monitoring Board undermining its own independence in any way, especially through influencing technical debates 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. The AASB is strongly of the view that the Monitoring Board should not have an executive role in relation to accounting standard-setting.

The AASB's comments on specific questions asked in the request for views are in the attachment to this letter.

If you wish to have further clarification of any matters in this submission, please contact me.

Yours sincerely

Kevin M Stevenson
Chairman and CEO

Attachment A

AASB comments on Monitoring Board Proposals and Questions

Introduction

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

- 1.1 The AASB is more concerned with ensuring that the IASB has adequate expertise relevant to setting international accounting standards than it is in having more representation of diverse geographical and professional backgrounds.**
- 1.2 The (IASB) Board is already large and reasonably diverse. However, the AASB 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 assist in ensuring that suitable Australian candidates are identified. The AASB hopes other jurisdictions would do the same.**

(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.

- 2.1 The AASB considers the title of 'CEO' may give a wrong impression of the role the Chair is expected to play. In principle, the AASB believes the roles of the IASB Chair and of a senior administrator (if so described) differ significantly, where one should have strong expertise in accounting and another should be focused on handling day-to-day operations 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.

- 2.2 The AASB would support the separation of the proposed roles to facilitate the work of the IASB Chair. 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 should 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.

- 3.1 The AASB agrees there should be separation in the roles, but is not aware of current issues on this matter. Perhaps, some have a concern based on a perception that the Trustees should fulfil an oversight role of the IASB’s standards setting, which we understand is important to ensure the independence (both in substance and appearance) of the IASB. If such perception is critically important, then 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

- 4.1 The AASB is not aware of any issue with the diversity of geographical and professional background of the Trustees. However, if it is considered there should be greater focus by the Trustees on an oversight function, then its membership should consist more of those with oversight experience.



(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.*

5.1 The AASB agrees that the nomination process for Trustee membership should be transparent, but it does not agree that the Monitoring Board should recommend candidates.

5.2 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.*

6.1 The AASB considers the criteria for membership of the Monitoring Board should, ideally, focus on the skills and experience of individuals, rather than necessarily relating to the organisations with which they are currently associated. Those



individuals should be able to reflect the broad constituency with an interest in standard setting and financial reporting more generally and have experience and knowledge of a range of market environments, including experience in developing economies and for key regions such as Asia-Oceania.

- 6.2 Having sufficient individuals on the Monitoring to reflect the relevant skills and experience should be the focus and the absolute size of the membership of the Monitoring Board is not the critical matter (and the AASB notes in paragraph 8.1 that it need not be large). However, we doubt that limiting membership to individuals associated with capital market authorities would achieve the necessary breadth of skills and experience, particularly since standard-setting in many countries is not the responsibility of such authorities.
- 6.3 The AASB considers it may enhance the transparency of the appointment process if there were clear published criteria for membership, including, where relevant:
- (a) criteria for the jurisdictions or regions from which members are to be appointed, such as jurisdictions in which a commitment to IFRS or its adoption has been made and the importance of financial reporting for in the jurisdictions' capital markets; and,
 - (b) criteria relating to the individuals to be appointed (for example, financial reporting experience, experience in assessing and providing assurance over matters of governance and independence).

(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.

- 7.1 The AASB emphasises that what it seeks from the Monitoring Board is independent assurance of the processes of the Trustees and IASB. If there is diversity in the views of the Monitoring Board that diversity should be publicly known.



(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?

- 8.1 Please refer to the AASB response to question 6. The AASB does not necessarily agree with the suggested expansion of the Monitoring Board membership because it emphasises representation and does not seem necessary to providing the assurance function that the AASB considers core to the Monitoring Board's role. The AASB considers that the proposal might result in a Monitoring Board structure that is more elaborate than it needs to be.**
- 8.2 The AASB believes that a Monitoring Board comprising a select group of individuals can provide the assurance sought, provided it applies adequate due process in its monitoring.**
- 8.3 The AASB considers that consultation with other bodies should be part of the Monitoring Board's 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.

- 9.1 The AASB considers that the standard-setting process needs continuous improvement, reflecting upon the changes in the environment; and welcomes 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 to which an entity wants change may vary depending upon whether a particular jurisdiction has already adopted IFRSs.

- 9.2 The AASB is concerned that the politics surrounding standard setting has unduly impacted on the agenda for IFRSs. The AASB would like 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.**
- 9.3 The AASB's focus is to contribute constructively to improving IFRSs, and is highly supportive of the efforts of the Asian-Oceania Standard-Setters Group (AOSSG), which has the same focus. The AASB is devoting considerable efforts, as an AOSSG member, to promoting the successful implementation of IFRSs throughout our region, and the AASB believes that goal should be a shared by the IASB, the Trustees and the Monitoring Board. The failure of IFRSs in the Asia-Oceania 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?

- 10.1 The proceedings of Monitoring Board's meetings should be made 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 or else 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.

- 11.1 The AASB 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 the AASB**



thinks it would be most unwise for it to be seen to influence the agenda of one of the bodies it is independently assessing. In the AASB's view, the IFRS Advisory Committee, where IOSCO and other Monitoring Board members are present, should be the appropriate forum to convey 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?

12.1 The AASB regards this matter as an important one for the Trustees, but it is not a matter for the Monitoring Board except insofar as it may comment on the need for stable funding to help ensure independence of the IASB.

(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.

13.1 No, the AASB 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 the AASB's constituents.

13.2 The AASB considers that good governance suggests members of the Monitoring Board and the Board of Trustees should be ineligible for appointment to the IASB whilst 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.

14.1 The AASB considers the Monitoring Board will need 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 or it will risk eroding 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.

15.1 The AASB does not believe the Monitoring Board needs more than a basic rotating seconded staff to carry out the role of providing independent assurance. The AASB 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.

16.1 The AASB is seeking continuing independent assurance from the Monitoring Board of the application of the processes of the Trustees and the IASB. The AASB does not think that this should occur irregularly. It may be that a more formal review should be conducted as and when needed.



16.2 The AASB does not see that a fixed period is needed to prompt such a review. If the Trustees or the IASB make significant changes to procedures and processes, the AASB would expect the Monitoring Board to look at them contemporaneously and also, where needed, with hindsight.

(17) Other Monitoring Board Questions

Question 17:

- Do you have any other comments?

17.1 The AASB has responsibility for setting accounting standards in all sectors of the Australian economy (including the public and private not-for-profit sectors). The AASB acknowledges that most national standard setters have a purview closer to that currently of the IASB.

17.2 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, the AASB wishes to see convergence over time between the work of the IASB and the International Public Sector Standards Board (IPSASB) of the IFAC. The existence of a Monitoring Board populated only by those authorities with a particular purview is not regarded as being helpful to this cause.