

Report of the Chair of the Monitoring Board



MASAMICHI KONO
CHAIR
IFRS FOUNDATION
MONITORING BOARD

The Monitoring Board was formed in 2009 to help ensure public accountability of the IFRS Foundation by monitoring and reinforcing the public interest oversight function of the organisation, as well as to promote the continued development of IFRS Standards as a high-quality set of global accounting standards. In order to fulfill its responsibilities, the principal activities of the Monitoring Board are threefold:

- (a) participate in the selection and approval of the Trustees of the IFRS Foundation (the Trustees);
- (b) advise the Trustees with respect to the fulfilment of their responsibilities, in particular with respect to regulatory, legal and policy developments that are pertinent to the IFRS Foundation's oversight of the International Accounting Standards Board (the Board) and appropriate sources of IFRS Foundation funding; and

- (c) discuss issues and share views relating to IFRS Standards, as well as regulatory and market developments affecting the development and functioning of the Standards.

In February 2012, the Monitoring Board issued the Governance Review report, which contained a comprehensive set of recommendations to improve its accountability and transparency, including a recommendation to extend its membership to capital market authorities of major emerging market jurisdictions. Since then, the Monitoring Board has been implementing those recommendations, while conducting its monitoring and public oversight functions. The Monitoring Board appointed me as the current Chair¹ for my second two-year term starting in February 2015.

A challenging year for the Monitoring Board

In 2015, the Monitoring Board of the IFRS Foundation faced a very challenging year. Work to provide feedback to the Trustees' Review of Structure and Effectiveness (the Review) and to help secure stable funding sources for the IFRS Foundation's activities were high on the Monitoring Board's agenda.

Lately, there have been critical comments from stakeholders on the activities of the Monitoring Board, pointing out the need to enhance its monitoring activities and improve transparency. According to some critiques, too much time is spent on organisational matters such as Trustee appointments and membership issues, resulting in less time available for exercising proper public interest oversight over the Foundation's activities. The Monitoring Board is quite sensitive to such comments, and as the current Chair I am willing to engage with stakeholders on any point concerning its work.

While the importance of organisational work to make the Monitoring Board more inclusive and effective should not be understated, particularly for the longer term, the Monitoring Board recognises that it should step up its efforts in monitoring the activities of the Trustees effectively, and in a timely manner. Consequently, it is taking steps to improve its monitoring activities by drawing up an annual work plan as well as to increase working-level discussions. Closer and more frequent interactions with the work of the Trustees, particularly over the Review, are envisaged going forward. A more structured and forward-looking work programme would help the Monitoring Board to become more effective in fulfilling its mission of the Foundation's governance.

Future work to fulfil the Monitoring Board's mission

As the Charter of the Monitoring Board states, it is tasked with a mission to promote the continued development of IFRS Standards as a high-quality set of global accounting standards.

The G20 and the Financial Stability Board (FSB) have made repeated calls in recent years to achieve a single set of high-quality global accounting standards. One should not forget that it was in the wake of the global financial crisis that governments realised the importance of measuring the soundness of financial institutions and the integrity of global capital markets by accounting standards that ensured global consistency and applicability. The increasingly globalised activities of financial institutions and the emergence of globally interconnected financial markets were important factors behind this realisation.

¹ Any views expressed in this report are presented under the responsibility of the author, and may not necessarily be identical to the official views of the Monitoring Board, or those of its members.

The global economy now requires a resumption of sustainable growth, and global capital markets are essential elements in providing the necessary finance for growth and development. The use of consistent and comparable financial statements across jurisdictions is an essential element of a capital market infrastructure that supports cross-border market activity and capital flows for financing sustainable growth and development.

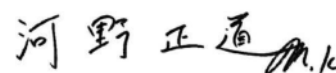
In response to such calls, work to achieve convergence between the IFRS Standards and national accounting standards has been making steady progress in the past decade, although it has seemed to be encountering difficulties recently. It is clear that more time and effort will be needed to achieve largely harmonised standards in a number of key areas such as leasing and insurance.

In an increasingly globalised capital market, one needs to be aware of the costs incurred by not having globally consistent and comparable financial statements. Investors and preparers are paying the cost of being forced to use different accounting standards in parallel, often producing different results for the same firm during the same period. Consistent implementation of different standards in such areas as expected loss provisioning would be particularly challenging, undermining comparability and confidence in the financial reports of banks and other financial institutions.

According to a survey conducted in Japan, consistency among group entities situated in multiple jurisdictions and markets was the most common advantage that preparers derived from the voluntary adoption of IFRS Standards. This was followed by the advantages of enhanced comparability with competitors and the ease of making explanations to investors. While there are initial costs of adoption, such benefits to stakeholders are clear in the longer term.

In aiming for the ultimate goal of a single set of global accounting standards, one needs to develop an element of trust and a sense of ownership for those global standards among the broad range of stakeholders worldwide. Public trust must be there both for the content of the standards and the process of standard-setting. The challenge is how to build trust towards, and to ensure accountability of, the standard-setting process in a rapidly changing environment that requires enhancements of the Standards and their implementation globally.

This is why proper and effective governance over the standard-setting process is critical. Because further progress has been made towards global adoption of IFRS Standards in recent years, there is a need to further improve governance at the IFRS Foundation, as the stakeholder community grows on a global scale. The Monitoring Board is aware of this challenge, and in the context of the Review it is exploring how to improve the governance of the IFRS Foundation in close consultation with the Trustees. Through this and other work, the Monitoring Board intends to live up to its mission of further enhancing public interest oversight over the activities of the IFRS Foundation.



Masamichi Kono
Chair
IFRS Foundation Monitoring Board