

**Monitoring Board
and
IFRS Foundation Trustees Meeting**
(Transcript of Public Meeting)

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Public Session: Monitoring Board and IFRS Foundation Trustees Meeting

Chair (Masamichi Kono): May I now call the meeting to order, please? We are just about past the scheduled time 1:30 p.m.

So thank you very much for coming to this meeting. This is a meeting between the Trustees of the IFRS Foundation and the Monitoring Board. This is a public meeting, and I should remind you that we have observers, and also the transcript will be made available on the website. This meeting is expected to run through until 3 p.m., more or less.

My name is Masamichi Kono. I am the representative of the Financial Services Agency of Japan in the Monitoring Board and I am Acting Chair, and with your indulgence I am chairing this meeting for this afternoon.

May I just refer you to some documents that have been distributed to you? Just to remind you of some documents that have been distributed to you. We have a list. For the public session we have MB 1 and 2 and 3; we have the attachments 1, 2, 3, 4 for MB 2, and attachments 1 and 2 for MB 3. The first one is referring to the governance and strategy reviews, the second one on IASB and FASB convergence projects, and that page from the Due Process Oversight Committee, and the third one on budget and financing strategy. So those are the documents that should be before you.

I should just also mention for the sake of clarity that today on the Monitoring Board the IOSCO Technical Committee is represented by Mr. Fernando Restoy; the IOSCO Emerging Markets Committee is represented by Mr. Greg Tanzer, and; myself, I am representing Japan's Financial Services Agency. And for your information purposes, Mr. Restoy has been appointed formally as the representative of the IOSCO Technical Committee from this meeting on.

Well, for the Emerging Markets Committee, Ms. Zarinah Anwar is not able to attend this meeting, neither can Mr. Katsunori Mikuniya of Japan's Financial Services Agency, and of course they regret that they could not attend this meeting.

First, I would like to, in the order of the agenda, I would like to invite reports from various groups, and from the Foundation and also from our side, the Monitoring Board. We will hear those reports from the relevant bodies and then we will have an exchange of views and observations.

Now I would just like to confirm that you have no objections to either the acting chair or the agenda items. Can I take it that this is approved?

Some participants: Agreed.

Chair (Kono): Thank you very much. So in the order of the agenda, I think I'm supposed to first report in my capacity as the Chair of the Working Group on Governance Review at the Monitoring Board with respect to the Governance Review project that we have been undertaking and update you on the progress being made.

In fact, I must mention that today I do not yet have a document before you since we have been working on the numerous comments that we have received from stakeholders around the globe. In total we have actually received 80 comment letters, and we have also conducted roundtables open to our stakeholders in four locations, and we have certainly been looking at the numerous comments that we have received and also discussing possible solutions where we have slight differences in the views expressed.

The other thing, I would like to emphasize at this point is that we are very much committed to coordinating this work with the Strategy Review of the Trustees and that I think it is our shared objective to arrive at a single set of reform measures or review measures that we will be either recommending or on the part of the Trustees that you will be undertaking.

Now on this Governance Review project of the Monitoring Board, since I do not yet have a draft document indicating our results yet, for transparency purposes, I would like to explain to you the major or the thrust of the comments that we have received in the form of written letters or in the roundtables that we have conducted. I would just like to apologize and ask for your indulgence that I may need a little bit of time to go through the items and I will try to be as brief as possible, but just to say that, first, we are very much grateful to the commentators who have truly gone through the Consultative Report that we issued in February this year, and since then, as I mentioned, we have received as much as 80 comment letters.

I can divide this work into three pillars, and the first pillar being the composition and the role of the IASB itself, where in this Consultative Report we had a number of recommendations; first, to improve on the diversity of IASB members by undertaking concrete efforts to improve identification of candidates in order to ensure that IASB membership would come from diverse geographical and professional backgrounds. On this recommendation there were a very large number of supportive comments, and in particular in deepening the pool of candidates to ensure diversity.

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There was general support for further consideration of geographical diversity, but in fact there were also a fair number of comments that cautioned us against too much rigidity in that sense, and there were many commentators who actually emphasized the importance and the priority on the competence and the technical expertise of the individuals being chosen.

Now a large part of the comments did not call for an expansion of the number of IASB Board members, so it was more a question of diversifying the composition.

On the second point, regarding a recommendation to separate the roles of the IASB chair and the CEO of the Foundation, that is, to safeguard the independence of the standard-setting process and avoid the undue conflicts of interest, either real or perceived, many commentators supported a separation due to this perception or possible perception of any conflict of interest or any difficulties in performing the respective roles. And in fact, there was also a certain sense amongst commentators that it will be particularly important to enable the full-time commitment of the IASB chair in the standard-setting work, and of course with the backing of the necessary resources.

The third point under the first pillar of IASB was to consider a clearer division of responsibility between staff dedicated to the IASB's operations and staff dedicated to the Foundation's administrative and oversight functions. Many of the commentators supported such a division, but some argued against this idea saying that there was no problem with the current system and the change would or could have a negative impact on the efficiency of the running of the organization.

The second pillar is on the composition and the role of the Trustees, and under this item we had basically two sets of recommendations, one being to 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. And in fact, there was very wide support for the geographical allocation and the current composition, while some called for further representation from emerging markets and also from areas or jurisdictions applying IFRSs.

With regard to creating a selection criteria related to professional and technical backgrounds, because that was one point that was in the recommendations, some called for an increased representation from professional accountants and users. There were some also who suggested that the two seats currently kept for accounting firms would no longer be necessary once their contributions were discontinued under the new funding system. This is conditional or contingent upon that.

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The second recommendation under the item Trustees was to devise formal procedures and clearer criteria for the nomination of candidates and appointment of Trustees accountable to the stated objectives for the IFRS Foundation. There was of course support for improving transparency of the selection process of the Trustees, and in fact a large number of commentators called for documentation and publication of the process and also being very mindful of the need to maintain privacy or confidentiality of personal information.

A large number of comments supported the clarification of criteria by, for example, documentation/publication, which I already mentioned; however, some were concerned about clarification bringing in too much rigidity in the process, so that is a caution.

The third pillar, Monitoring Board, I do have a number of points here. I will try to be as brief as possible.

On the expansion of Monitoring Board members, that is, there was a specific recommendation to expand the membership, including permanent members and rotating members, and a large number of comments supported that expansion, but there were also a large number of comments stating that only capital markets authorities responsible for accounting standards should become members. However, there were some very strong comments calling for the involvement of prudential regulators, including the Basel Committee but not limited to that, or an even wider range of stakeholders and organizations.

There were many of course who supported adding major emerging markets as permanent members. And as for rotating members, there were slightly opposing views, that is, there were those who supported the idea of rotating members from concerns about the membership becoming too fixed and set in stone, while others did not see any particular need for rotating seats.

In selecting the additional members there were many comments supportive of using objective indicators, such as GDP, market capitalization, et cetera, and there were a significant number of comments calling for consideration of the status of IFRSs application in respective jurisdictions, but then of course the meaning of application in this particular context differed from one commentator to another.

Now for the rotating members, I think there was a general or a lot of support for the selection being made through IOSCO.

The second recommendation under the Monitoring Board item was whether the decision-making at the Monitoring Board should be on a consensus basis or not, and most comments here supported keeping the consensus-based decision-making, but there were also some suggesting that in some cases or in exceptional cases the introduction of an alternative model, such as a qualified majority, could be justified.

The third item where there was some difference in the views expressed was whether or how to increase the involvement of public authorities other than capital markets authorities and international organizations. In the Consultative Report we had three indicative options, such as extending the observer status, holding more formalized dialogue, and establishing an advisory body. Many commentators called for the participation of prudential authorities as observers if of course the membership was to be limited to capital markets authorities, but there were of course some who were actually calling for a slightly different composition. But there were also some comments stated that even the current arrangement of observer would not be necessary, so there was a certain difference of views on this point.

A large number of comments supported enhancing a dialogue between those public authorities and the Monitoring Board, but then the exact manner in which this should take place differed from one comment to another.

Only a small number of comments supported the idea of establishing an advisory body, but some thought that if such a body was to be created careful consideration was needed on the composition and size of that body.

Well, I will just run through enhanced publication and transparency of the Monitoring Board deliberations. I think there was unanimous support for more transparency and recognition of the Monitoring Board, and it was rather striking that of course the activities of the Monitoring Board were not well known even amongst the immediate stakeholders.

Now there was one item which was somewhat contentious in the way that, whether the Monitoring Board should have an enhanced capacity to place an item on the IASB agenda or whether there was a need for further involvement of the Monitoring Board in the agenda-setting of the IASB. And while there were strong views from some calling for the Monitoring Board's direct involvement in the IASB's agenda-setting for the purpose of directly allowing public input into the process, there was also a very large number of comments who were cautious against such involvement, and on the ground then of course that the IASB's independence should not be undermined in any way. And of course the Consultative Report was quite mindful of such

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concerns, and therefore this item was very carefully drafted, the section on this recommendation was carefully drafted. I won't go into the details now.

The next item, explore possible options to establish a non-voluntary, transparent, and stable public funding platform for the Foundation, which actually resonates with the Trustees' Strategy Review, and a large number of comments that we received were of course supportive of aiming for such a funding platform.

And many commentators believed that the Trustees should be basically responsible for funding of the Foundation, and in this context some called from an influence over funding to be included as a criterion for the appointment of Trustees. Some comments suggested that each jurisdiction using IFRSs should bear the burden, while a decision on the specific method for collection should be left to that jurisdiction. There was a certain range of comments in the details, a difference in the views in the details.

The other item which was slightly, on which the comments were slightly divided was whether to enhance the Monitoring Board's involvement in the nomination of the IASB chair, and what was in the recommendations of the report was, for example, to enable the Monitoring Board to provide a set of criteria for selecting potential candidates and evaluating certain candidates on the short list against the criteria during the selection process, and additionally, consider whether the Monitoring Board's role should also involve consultation on the Trustees' final decision and/or playing any further roles.

I can be somewhat brief on this, that a large number of comments actually were not supportive of a very enhanced role of the Monitoring Board in this process, but there were some strong views calling for a certain additional ability of the Monitoring Board to be involved in the process at an early stage, and so there was a certain range of views on this.

As regards other IASB members, explicitly including in the Monitoring Board's responsibilities, consultation with the Trustees as they further develop the framework to ensure a proper balance in the composition of the IASB, a large number of comments actually supported the consultation on such a framework, and that for the purpose of ensuring proper balance in the IASB composition. But it was already acknowledged in the original Consultative Report that the situation or the setup should be different between the Chair of the IASB and the IASB Board members, and the Monitoring Board involvement should be graduated along with the importance of those positions.

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Explore the possibility of establishing a permanent secretariat, and this was a recommendation made in the report, but I must say that there was almost no support for the creation of a permanent secretariat at this stage. A large number of comments actually opposed the creation, and mainly or almost uniquely because of the question of resources, and of course an independent secretariat would certainly require additional resources to be found in one, in some corners. Some suggestions were made to make use of existing resources, such as in the IOSCO secretariat, for example.

The other questions I can probably omit, but just to say that so far as the future reviews were concerned, there was a large number of comments supporting regular reviews of the governance at the IFRS Foundation, and many agreed to conduct it simultaneously with the Foundation's Constitution Review that is held every five years.

So I would like to thank you for your indulgence in this rather lengthy report. I should just add a few words on how we would move forward from here. In the press release that we issued, we have mentioned as an indicative target end-August by which we will have certain results coming out of the consultations, and either endorsing the recommendations that we have already made in February or slightly modifying them.

Now the situation as it stands would appear to indicate that we may need slightly more time for the conclusion of this exercise, but maybe not longer than a month or so in fact, by the period September/October, we should be in the position to have conclusions from this exercise. And I would like to repeat again that this should be in full coordination with the Strategy Review process, and therefore we should start coordinating closely on not just the substance but also on the timing of the conclusion of our respective reviews. So thank you very much, and now for your comments from the Trustee side, and also your observations would be most welcome.

Robert (Bob) Glauber: Thank you, Mr. Chairman. Let me summarize what we have learned in our consultations on our Strategy Review, and let me begin by thanking you and the Monitoring Board for your continuing support of reaching integrated conclusions on our Strategy Review and the Monitoring Board's Governance Review. That was a very strong underlying response that we got from the people we queried. They really do strongly support a coordination of these two reports and we are committed to working with you on producing a final set of conclusions that are integrated.

What I've got to report – and I will not take a long time – is based on two sources: one is comment letters that we've received so far, and our deadline is July 25, so this is purely preliminary concerns of them; also the responses we

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got in six roundtables conducted around the world during June. My colleague Aki Fujinuma and I chaired jointly or singly all those roundtables, and so we can report to you on that.

First, I would say there was broad general support for the recommendations, within that, quite strong support for the mission statement as characterized in our Strategy Review paper, that is, its emphasis on investors but also a commitment to coordinate with other stakeholders. Again, as stated in our draft Strategy Review paper, the focus on faithful presentation of the financial position and performance of entities for the purpose of serving investors and other market participants in their economic and resource allocation decisions. Where there are other policies perspectives, transparency should be the foundation and often can lead to reconciliation in a single standard. And it's best to account for differing policy perspectives to effective stakeholder engagement in IASB due process.

Next, on the issue of full adoption versus continuous convergence, really very strong embracing of full adoption as the end goal, at the same time recognizing that the process will differ among countries and may take some considerable time, and some suggestions from a number of commentators that some language should be inserted to just make this point.

Strong supports for the three-tier governance structure which exists, indeed nearly unanimous support for that, and among many a call for further clarification of the roles and responsibilities at each tier.

There were calls for more Trustees' visibility in their oversight function and in defense of IASB independence.

Nearly universal support for an enhanced Due Process Oversight Committee activity with a dedicated support staff, as indeed the paper proposes. Some cautioned us on this subject, that there needs to be a balance between that intensified oversight process and the need to continue to emphasize efficiency in the standard-setting process.

Emphasis on field testing and post-implementation reviews as part of the IASB due process.

Some concern about the consistency of application across countries, and the suggestion to use the network of regulators, standard-setters, accounting associations and audit firms to support the consistency effort.

And there were suggestions from some that a country would incorporate or adopt IASB standards or explain why they did not.

And finally on the issue, Chairman, you mentioned a minute ago, about funding, there were widespread support for the funding model presented in the paper and the guidelines which surround it.

I think that would serve as an adequate summary of what we've learned to date. Again, I have to emphasize it is quite preliminary because we have not yet of course received all of the comment letters we expect to receive. Thank you, Sir.

Chair (Kono): Thank you very much, Mr. Glauber, and in fact I should have mentioned at the outset that my summary of the comments is still also very preliminary, and of course certainly our members might have certain additions or subtractions from what I mentioned. So I would like to devote the next few minutes, on questions on the reports or any observations, comments, any thoughts, and the whole floor is open. Mr. de Silguy?

Yves-Thibault de Silguy: Yes, thank you very much for your very complete and comprehensive report and this is very interesting. I have two questions. I'd like to know if the Monitoring Board has discussed the situation in the case of all of the major economies will not endorse the IFRS adoption before the end of this year, and is there any effect on our organization, mission, and so on, the Monitoring Board, on the Trustees? The first question.

The second question is concerning the problem--which is a controversial problem--of the prudential and financial stability questions. These two questions are not within the framework of our Trustees' document, but my question is, is it a problem for the Monitoring Board or does the Monitoring Board consider that the present situation is satisfied? Thank you.

Chair (Kono): Thank you. I'm not sure whether I should respond now or maybe if I can ask a number of questions first and then if I can respond. Are there any other questions, please? Mr. Barnier?

Barnier: Good afternoon to all of you, and first of all, if you will allow me I would just like to make a few remarks in the name of the European Union, and first, Masa, to thank you very much for your work as Chairman of the Governance Review Working Group and also to thank Bob Glauber and the Trustees. Just to thrust a few remarks in the name of the European Union because we have to confirm that we want on that point of governance a very ambitious reform. The European Parliament feels strongly about the matter and so do member states.

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We need to upgrade accountability and transparency of the work of the IASB, while maintaining its independence. In practice, ambitious, but really strict changes should be brought to the governance structure I think by the powers of the Monitoring Board, but also I think about the process, and two points are very important for us is the way to manage impact assessments and also cost-benefit studies. We want the changes very strongly because we are committed towards IFRSs and we hope that others will have the same commitment.

Just a few words about this Trustees' Strategy Review. I welcome the second consultation document and the strategy of the IASB for the next ten years published by the Trustees. We appreciate that the key issues that the EU has raised in its contribution to the first consultation document were taken into account. In particular, I welcome the introduction of a better balance between investors' information and other public policy objectives, like financial stability, and the commitment to coordinate with stakeholders other than investors. I also would like to stress that European constituents want a clear description of the public interest issue in the Constitution.

Finally, Chairman, I welcome also the recommendation proposed to implement a stronger due process. Thank you very much.

Chair (Kono): Thank you very much. Are there any questions? Well, maybe I should respond to the two questions from Mr. de Silguy. I'm not sure whether I understood the thrust of your question very well, but if you are referring to whether the Monitoring Board members should be in one way or another committed to the adoption of IFRS, there is a certain reference to that aspect in page 16 of our Consultative Report and we talk about it will be appropriate to require those who aspire to be members of the Monitoring Board to demonstrate a certain level of commitment to the use of IFRSs. And this is a certain agreed text at that point in time.

On the other hand, if you are referring to some developments by the end of this year, of course there are countries that have made commitments to that effect, but there are also other countries which have a slightly longer timetable.

So up to now at least in the discussions at the Monitoring Board we have not tried to qualify eligibility in the Monitoring Board by any adoption or incorporation or full convergence by the end of this year, but in fact it was certainly understood that, as I mentioned, a certain level of commitment would probably be required.

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Now this is of course not yet a final position. In the final report we would certainly need to be, let's say, even if it is not explicit in the report that we would certainly need to be clear about our intentions.

On the prudential considerations and financial stability, since this is an important public policy objective, it have been given consideration in the Monitoring Board Consultative Report, and I think it is a consensus that there needs to be very active and also close coordination and also consideration of financial stability in the development of the standards and the subsequent revisions.

Having said that, of course the manner in which this is to be ensured would be of course up for consideration at this stage; more precisely, I'm referring to whether for example a prudential regulator or a group of prudential regulators should be on the Monitoring Board as a full member. On that question we have not yet drawn a conclusion, so I think the importance of working with the prudential regulators and taking into account in fact even more consideration over financial stability is understood and we will just discuss the practicalities of implementing that.

Glauber: Chairman, if I just might make a comment in response to Commissioner Barnier's comments. I simply would like to thank him for his support of the way we have rephrased our mission statement. It has indeed attempted to reflect some comments we received after the first draft, and I'm delighted that he feels that we have made progress.

And on the issue of due process, I want to assure him that this is a point that we have heard over and over again from the stakeholders we talked with, the importance they give to due process and their encouragement that we have as we have committed ourselves to a more active involvement of our Due Process Oversight Committee in performing that due process. So thank you very much, Sir.

Chair (Kono): Thank you. Actually, I would certainly like to invite other Trustees around the table with any comments or observations that they might have on not just our review but also on the Trustees' review if you would like to mention. Are there any comments?

Pedro Malan: It's not a comment. It's just essentially to say that we are, I think I speak on behalf of many Trustees, to say that we are in full agreement on the observation that you made twice in your presentation about the critical importance of coordination between the two reviews of both the Monitoring Board and of the Trustees since we are involved in a common

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undertaking, and I think it's very important that we send a clear message that we are working together to that effect. Thank you.

Chair (Kono): Thank you very much. Please.

Jeffrey Lucy: Chairman, I just attended three outreach meetings, two in Tokyo and one in Hong Kong, and I guess the point that I would provide, in addition to those provided by Bob Glauber, is that universally there was very significant support for the fact that these activities are being undertaken vigorously by the IFRS Foundation but also by the Monitoring Board, that there is a view that where we are in our cycle, in our lifespan, that now is absolutely the right time to really look at these issues in some detail, so I think that there is a very strong support, certainly from what I've witnessed, to the very fact that we are actually undertaking this process.

Chair (Kono): Thank you very much, which of course makes our work even more in a way challenging, and of course we do need to, well, proceed as efficiently as possible in reaching a common conclusion, and for that to happen of course we do need to be very mindful of the objectives and the principles that we would rely upon in conducting those exercises, but also to express a certain element of flexibility. And so as the Acting Chair of the Monitoring Board I would certainly like to ask for your flexibility and indulgence as we go forward.

Now are there any other questions and/or comments on those reviews? If I do not see any hands raised, we may need to proceed to the next item. It is the convergence between the IASB and the FASB.

Glauber: Chairman, if I might, I think it's best to treat that issue together with, on the agenda, on an update on our due process oversight activities, so what I'd like to do is ask David Sidwell, the Chair of our Due Process Oversight Committee, to report on the activities of his Committee, and within the context of his report perhaps then Hans Hoogervorst could make some comments on the technical work program of the IASB.

Chair (Kono): Yes, by all means, please do so.

Glauber: Is that all right? Thank you, Chairman.

David Sidwell: Thank you, Bob. Thank you for the opportunity. Let me just begin by saying that we are on the Due Process Oversight Committee working hard to improve the formality and learn to do more in terms of providing an appropriate level of oversight across the technical agenda, but understanding that the technical agenda is the responsibility of the IASB, so

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we are trying to do this in a way that gets the appropriate balance of responsibilities. I do think we are making progress and I expect we will continue to make progress.

When we last met in early April, I think both the Monitoring Board and the Trustees are re-committed that in its work that the IASB working with the FASB need to focus on completion of the projects that were being done jointly and that it was important in doing that work to ensure the quality was not in any way sacrificed in terms of timeliness. And at that meeting we committed that we would meet monthly with our IASB to fully understand that the due process steps have been taken and that they met a standard that we felt appropriate.

As you know, in April 14 the two Boards--the IASB and FASB--announced some changing to the timing of some of the completion of those standards covered by the agreement with the FASB, and we were involved in understanding that decision, and as support of that decision we continue to meet monthly given the importance of the issues being considered.

In terms of standards that have been issued, and there were a number, and Hans I'm sure will touch on those in a moment, and are contained in the reporting that we have around consolidated financial statements, joint arrangements, post-employment benefits, fair value measurement, and presentation of comprehensive income, we met and had discussions with the IASB and staff, senior staff Alan Teixeira primarily, on each of those, and we were satisfied that the appropriate due process had been followed.

We have, to the comment that Michel Barnier made around effect analysis that has been one of the topics that we've discussed as we try to improve our processes. And for instance, yesterday at our meeting we talked about the document that's about to go out which is the effect analysis around joint arrangements, which I think is again reflective of the IASB's attempts to be much more transparent about the factors that they've taken consideration of around the facts. So I think we're listening hard and trying to continue to improve our working with the IASB the processes that it follows to ensure good standards.

We're also improving transparency, and the results of the discussions that we've had with the IASB on these topics have been posted to a new section of the Trustees website, which focuses on due process matters, and, again, we will continue to work towards as great a level of transparency as we can.

Moving on to a couple of other things. Areas of activity, we have responded to comments that we have received which touch on due process, and we have

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had a meeting in one instance. I've had a meeting with a group in the U.S. to discuss some of the comments that they made, so we are being responsive in a timely way to issues that are raised from important stakeholders around due process, so we think that that is a key part of our responsibility, and to the extent we are getting feedback we are responding to it.

In terms of future activities, we spent time yesterday reviewing with the IASB its planning around its future agenda, and obviously when you think about due process one of the key decisions is what goes on the agenda and importantly what is not done. We spent a lot of time talking about the IASB's approach. We specifically spent time on ensuring that as it reaches out for feedback that it goes, to the greatest extent possible, to reach populations which traditionally are very hard to reach, that not all users as an example respond in the traditional manners in terms of sending a letter in, so we want to make sure that there's a very good program around outreach, and I think we were satisfied yesterday, from the discussions that we had with Hans and his team, that they were very focused on doing this appropriately.

It's a 120-days comment period, and hopefully by the end of November we'll be at the point where they can discuss the findings. Obviously, I think we and everyone have to recognize it's going to be a process which involves a lot of judgment on the part of the IASB in deciding which topics to do given the various constraints, of which resources are only a part.

We spent time talking about the Post-Implementation Reviews, and the objective here is to start a Post-Implementation Review on IFRS 8 and to get that done in the fourth quarter. The work the Trustees believe should be done by the IASB and we will obviously oversee that work. We reviewed the planning, this being done to get this done, and this follows a discussion we had at the April meeting, and I think we feel satisfied that the right steps are being done as part of that post-implementation review. I would say I think we also view it as we will learn a lot as we do this work, and we've had some discussion that similar exercises are happening in the U.S. and we will obviously try and share best practice as we work forward on doing these Post-Implementation Reviews.

We also spent time looking at the approach to the review of the IFRS Interpretations Committee, and from the observations that have been received to date it is clear that we need to tackle this both strategically and from an operational perspective, and as part of that, the Due Process Oversight Committee is supportive of the work that Hans and his team will do to ensure that they engage in strategically or in a top-down way ensuring that the Interpretations Committee is focused on those areas that can be most useful in the process, and particularly in recognition of the growing

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global acceptance of these standards, which means that you have to make sure that your process is truly global.

We spent time reviewing and we approved the establishment of an Emerging Economies Group, which is to encourage participation of emerging economies in the standard-setting process, and I think we are very supportive of all these efforts which are going on around the world to encourage full participation of a number of jurisdictions in the development of standards.

We continue to work on understanding where best practice is. We spent some time with the Financial Accounting Foundation as we were here in the U.S. talking about some of the work they are doing around their due process oversight. We continue to seek opportunities to learn what others are doing. Part of what we are doing as we formalize what we believe has already been a very strong process on the part of the IASB, we continue to look to developing a protocol which we as Trustees will use to formalize our oversight responsibilities.

And finally, I will just say that we continue to find ways, look to ways that we can engage with others through being more transparent, and we are seeking as much commentary as we can to help us improve our oversight.

That's a quick report. I didn't go into detail on the individual standards. Let me pass off to Hans, unless anyone has any questions of me.

Chair (Kono): Thank you.

Hans Hoogervorst: Thank you, Mr. Chairman. I have been the chairman of the IASB for all of 13 days and I can assure you that I'm still enjoying it, because it's not a boring job. We have a lot of work on our plate, of huge responsibility, and of course one of the major things that is on our plate is our work we are conducting with the FASB to reach convergence on a couple of very important standards, and I would like to say a couple of comments about that.

First that we will complete the remaining convergence projects to the highest possible standards and that we'll do it in a way that benefits from the input that we see from the financial reporting community.

The main areas of convergence that are still on our plate are, first of all, the Revenue Recognition standard. We are at a very advanced state with the FASB. We have reached agreement on a standard. We will have a final re-exposure to make sure that we've got everything absolutely right; it's an extremely important standard. And if that has been done, the new joint

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standard will replace U.S. requirements that are generally considered to be too detailed and international requirements that are considered not to be detailed enough.

We'll also have very important work on Lease accounting. It is one more standard that hopes to achieve that, to push back off-balance sheet financing which is very detrimental to transparency of financial reporting. I am very hopeful that we will reach a final conclusion with the FASB very soon, and we will see probably next week whether we need to re-expose that standard as well, but I am very optimistic about reaching a good conclusion with the FASB.

But what is probably the most important standard on our plate right now is the issue of the Financial Instruments accounting standards. That is without any doubt the most pressing item on our plate, also in the light of the very serious situation on the financial markets at this moment. And I would like to take this opportunity to make some comments about the role of accounting standards on Financial Instruments in the very serious sovereign debt problems in Europe at this moment.

The FASB and IASB, as a result of the financial crisis, concluded that current incurred loss-model such as it exists in IAS 39 is not sufficiently forward-looking and that we need to move to an expected loss model. That's what we are working on now. And also the prudential community was very much wishful of that to happen. IAS 39 is simply too restrictive in the case of impairments.

Now we are obviously not in the business of giving auditing advice, yet it can be argued that even under IAS 39, in the case of some sovereign debt impairment triggers have been hit, and we know that in some areas of the world preparers and auditors have already concluded so.

We have also heard signals that the impairment issue is being handled inconsistently around the world, and inconsistent application is a concern for us and I think also for securities regulators and also for the Monitoring Board.

I think this is not just a question of inconsistent application. I think IAS 39 also plays a role here. I have to become a little bit technical about this at this moment, and not to demonstrate that I have achieved a certain level of technical accomplishment, but I will read very carefully what I have written down.

Most government bonds at this moment are held Available For Sale and when they are impaired they have to be written down completely to market

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value, which carries a liquidity discount, and that results in a very steep cliff effect when bonds are impaired and may result in very, sort of an incentive to recognize impairments at a very late stage, and it also probably does not lead to a realistic appraisal of true impairment. It might lead to some exaggeration.

Under IFRS 9 this problem has been solved. Government bonds can be carried at Amortized Cost and when impairment takes place, preparers can look at expected cash flows and they can exclude broader market effects such as illiquidity discounts, and that is very similar to the current practice under U.S. GAAP which is already in place.

Under IFRS 9 impairment will still be painful – there is no question about that – but I am convinced that it would be more timely done because the cliff effect of taking impairment is much less severe. And I also think that these impairments will be much more realistic, certainly compared to the present situation in which impairments are put off indefinitely or so it seems to be the case.

So I have made comments about this in a public speech and I thought it was only fair to repeat them here with the Monitoring Board. Those countries or regions, such as the European Union, that have not endorsed IFRS 9 yet, I think they should take this very seriously into consideration. When the European Union decided not to endorse IFRS 9 for now, one of the reasons that it gave was that it required a recovery of the financial markets, and we also all know now that the financial crisis has come back with a vengeance, and I think this would be a very good opportunity for all those who subscribe to IFRSs to reassess this situation.

Finally, these were my comments on the Financial Instruments. We will work very hard on that. I will make a presentation together with the FASB to the next Financial Stability Board next week.

We will also begin to develop the IASB post-convergence agenda. We will shortly publish a consultation document that sets out some ideas but more importantly that serve, both serve to design, to solicit feedback. And you will notice when you see the document that we have purposely left many questions open for comment. We want to know from our constituents what they think is in need of fixing and how we should best deploy the limited resources at our disposal. It is pretty amazing what our limited staff, 120 in total, how much they accomplish; the work that is being done is tremendous.

Let me leave it at this, Chairman.

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Chair (Kono): Thank you very much and thank you for the detailed explanation. Now I am quite sure that this may stimulate some discussion, but just to say that one thing I failed to mention earlier is that I will also be attending the FSB meeting next week, and there I intend to refer to the Governance Review and the Strategy Review, but since I will have only just a minute or two for my intervention, I would simply like to emphasize that we are coordinating and we intend to finalize those exercises in an integrated package, so I think that message I would certainly like to convey to the Financial Stability Board.

Now there are questions, comments? Yes, please, Fernando.

Fernando Restoy: Thank you, Chairman. Let me first thank both David and Hans for their presentations that are very useful and very clear. I believe or I used to believe that it is very important the effort that is being made right now with the Trustees in particular, by the Due Process Oversight Committee in trying to enhance the oversight activities, and also in order for this function to be better understood by the public at large. I think there are some important original ideas in the plans ahead, and in particular the idea of this protocol for oversight activities, which I'm sure is going to provide a basis actually to enhance this oversight activities. So I think it's important this protocol as an idea that has been put forward by the Due Process Oversight Committee, and I hope it's going to help to do exactly what you mentioned, which is to ensure that in all the consultation process all relevant views of our different stakeholders are taken into account in order to produce the final standard.

And also I take good note of what you could say what is already written in your documents on trying to enhance actually the impact assessments. I think it's an important part of due process, and I hope very much that the ambition is that in the future all relevant standards will only be published once we have available an appropriate cost-benefit analysis, and I think this has been not always the case in the past but I hope it's going to be the case always in the future.

Let me also express my gratitude and appreciation of the work you are conducting in relation to enhancement of the Interpretations Committee. I think that's a very important committee. I think some of us or some stakeholders believe that the Interpretations Committee has been a little bit conservative in interpreting its own function, and I think that probably an enhanced Interpretations Committee will be instrumental in order to ensure consistent application of IFRS around the world.

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As for the presentation of Hans, I simply think I took note of your comments. I think that you have definitely achieved quite technical expertise in only two weeks; not only that, but also I think you have provided good input probably to auditors and enforcers who are the ones that have the responsibility to apply IFRSs. Thank you very much.

Chair (Kono): Thank you. Mr. Barnier?

Barnier: Thank you, Chairman. I want first to thank very much David and Hans for their very precise and complete report and make some comments, first to welcome the decision taken in April, after our last meeting, by Sir David and Leslie Seidman to postpone to 30 June 2011 the target date for the revealing Memorandum of Understanding projects. I think that was the right thing to do, to preserve precisely what David said about the quality of the standards and also to ensure that all stakeholders are properly listened to.

The IASB and FASB should continue working with the stakeholders to find acceptable solutions on the pending issues. In particular, it is important to reach a rapid solution as regards IAS 39 on Financial Instruments. There is still great uncertainty in the EU regarding this matter. And as far as this IAS 39 or IFRS 9 is concerned, I have taken note of the remarks of Hans a few minutes ago; however, we have not read in the details. I do not believe, Hans, that this will be the solution or perhaps the first solution to the problems we face in Europe at the moment.

I agree with Mr. de Silguy that full adoption of IFRSs should be the end goal. We therefore accept a firm commitment from the United States to do so in 2011, and I welcome the recent paper published by the SEC staff exploring one possible way of incorporating IFRSs in the U.S., and I thank very much Mary Schapiro and the team because we need a firm decision by the SEC itself.

I welcome the intention to launch a public consultation on the future agenda of the IASB, and on this point I have just only two comments in this regard. First, European stakeholders call frankly for a period of calm, and I am not talking only about the financial markets. Coming back to our point, this is no time to concentrate on the implementation of the existing standards, and in particular on Post-Implementation Reviews which are key tools to ensure that standards are of the highest quality and serve better to the needs of markets and users.

My second point is to set up the convergence between IFRSs and U.S. accounting standards should no longer be a main driver of the IASB works

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after 2011. The IASB must focus on providing high quality standards for those jurisdictions applying IFRSs. Thank you.

Chair (Kono): Thank you very much. Other comments?

de Silguy: I would like to of course ask a question to the fellow Commission. What are your intentions concerning the endorsement of former IAS39, IFRS9 now, and for the new standards of IFRSs 13, 10, 11, 12? Is there the intention of the Commission to endorse these standards or not?

Chair (Kono): So this is a two-hand question to Mr. Barnier.

Barnier: Frankly speaking, for the moment there is no change in our position and we are still waiting and working for the answers to what you call the three phases, and there has been no change in our position.

Chair (Kono): Next on my list is Sylvie. Yes, please.

Sylvie Matherat: Thank you. Thank you very much for the update Hans, thank you David, for the update on the Due Process Oversight Committee. It's very welcome news. I mean we very much appreciate that.

On the report made by Hans I would certainly agree on behalf of the Basel Committee that the standards you mentioned were the key ones, especially on the Financial Instruments. I mean, indeed, on this one convergence is very important, but quality is also very important. So I mean I guess we would not sacrifice quality to convergence and it's really very important to have both issues in mind.

Chair (Kono): Thank you very much. Are there other comments? Please.

Hoogervorst: Well, I would just like, in answer to what Fernando Restoy said, I agree with him completely: it's the job of the auditors and preparers to decide, and enforcers, whether it is something that's impaired or not and I trust they will do their job.

And secondly, I agree completely with Michel Barnier that IFRS 9 will not solve the sovereign debt problem of Europe. No accountancy system can solve that problem.

Chair (Kono): Thank you. In fact, I did have a question myself, and I am sorry I may have not heard entirely what, David, you have mentioned, but I think you did refer to it, that is increasingly of course amongst the stakeholders the work of the Due Process Oversight Committee is being

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appreciated and there are many voices calling for further enhancement of your activities, but there are also calls for a stronger Advisory Council or a more prominent role for the Interpretations Committee. Now do you have any observations on the activities of those committees or councils, whether there is something new that you could introduce to us today?

Sidwell: Well, as I reported earlier, in terms of the Interpretations Committee we currently have a review under way and we've received commentary from a number of different sources, including the existing members of the Interpretations Committee. We discussed yesterday and approved a plan where we would look at both the strategy for the Interpretations Committee as well as how to make it operationally more important, more efficient; obviously much more important is the strategy. I think the operational issues are very easy to solve.

As part of the strategic question, we wish to support the IASB working with the IFRS Interpretations Committee to ensure that the purpose of the Committee is very clear, that there's a good understanding between the Committee and the IASB as to what is the most useful role for it to play in supporting the IASB, and importantly, as part of that, to the extent that there are many more countries that have implemented these standards that the Interpretations Committee stays sensitive to their needs for explanation or interpretation as necessary. So we are going to do this in a formal way.

We have on the Advisory Council, we have done some work, Tom, I believe it was last year, on the Council, and we intend to look further at how we might incorporate them further into our due process. One of the areas that we have discussed with the Advisory Council is that as the IASB works on completing this review of its agenda, one of the steps that the IASB has laid out is consultation with the Advisory Council. We believe that's an area that we want to ensure that the Advisory Council is very actively engaged in supporting the formulation of the future agenda. I believed that the IASB presented two or three times and has had asked for ideas from the Advisory Council as to how they should approach this question, so I believe that coordination and cooperation is going on and we want to continue to seek ways of using both the Interpretations Committee and the Advisory Council to support the overall process. I think we recognize that from a top-down perspective we want to take full advantage of these structures that we have in place. I hope that answers your question.

Chair (Kono): Thank you very much. So are there other questions, observations? Now we are slightly running out of time. We may have to go somewhat beyond 3:00, which is the scheduled time for this meeting, but can we go now on to budget and financing strategy, please. Mr. Fujinuma?

Tsuguoki (Aki) Fujinuma: Following our April report, the Monitoring Board asked us to provide an update of our budget and financing strategy. So we have provided a summary update in the Monitoring Board agenda paper 3 and its attachment. I want to highlight a few points to answer any specific questions that the Monitoring Board has.

First, we presented a balanced budget for 2011. This balanced budget depended upon our ability to raise 3 million sterling pounds from new funding sources. We believe that we have succeeded in achieving that total. This has been done through the initiation of a new funding regime in the EU, supplemented by country funding, a contribution from the United States Financial Accounting Foundation to add to the existing voluntary contribution program in the United States, new funding from countries such as Nigeria, Malaysia, and Brazil, et cetera, and a limited increase in the financing from major accounting firms, and very recently Korea very kindly agreed to increase their funding from 300 thousand U.S. dollars to 700 thousand U.S. dollars. We have shared with you the latest progress report on our financing efforts, which will appear in the annual report. This is shown in the Monitoring Board paper 3, attachment 2. We will be happy to answer any questions that you may have.

Chair (Kono): Thank you very much, so the floor is open for questions, comments. Yes, please, Mr. Barnier.

Barnier: Once more, just a few words about this budget and financing strategy, just to say that it is a pity that we have always to come back to this point. I think the first priority must be to ensure stable and sufficient funding from all jurisdictions, and we know that some jurisdictions have an important deficit compared to their weight in the global economy, and this needs to be fixed.

In this context I am pleased just to confirm to all of you that the Commission and the IFRS Foundation have just signed a grant agreement which will allow direct payment of 4.25 million euro – it's much more if you count in dollars – from the EU budget for 2011. Pre-financing has just been paid to the Foundation, the same amount will also be provided in 2011 to 2013. And remember that individual member states have maintained their individual contributions as complements to the EU grant; the total contribution from Europe exceeds the part which was expected from it, and as you see, we continue to be very committed. But in the longer term, voluntary funding cannot be the solution. We should move towards a permanent system. This could be linked to membership of the Monitoring Board. Thank you.

Chair (Kono): Thank you very much.

Fujinuma: Thank you very much. We appreciate the EU contribution, and of course we work very hard to find, how you call it, the levy type of system in the future.

Chair (Kono): And from the Acting Chair of the Monitoring Board of course I would like to appreciate very much the efforts being made, and we certainly see tangible progress in terms of increased funding and increases in the contributions, which are of course quite remarkable in this very difficult economic environment. But on the other hand, of course I would assume that we would like to make more progress in terms of particularly from those countries who have not yet contributed in measure with their importance in the capital markets and the stakeholder community. Do you have a comment, please?

Glauber: Yes, thank you, Chairman. Two points. First, again, I want to add my thanks, Commissioner Barnier, and the EU, for its commitment to our funding, but as you suggested, short-term stop-gaps are not the long-term solution, and part of our Strategy Review paper deals with funding and makes very clear that we need stable, long-term funding, that it needs to be proportionally reflective of the various sizes of the constituent countries that are adopting of IFRS, so I think we're in complete agreement that the short-term solution is in no way a long-term solution. Nevertheless, we are very grateful for the short-term help. Thank you very much.

Chair (Kono): Thank you very much and I'll just add that in the Monitoring Board's Governance Review we have also taken up this question of funding and that we are very much in line with the need for further progress on that front as well.

Are there any other questions, comments? Of course I would also like to take this opportunity to ask for any suggestions or critical comments on the activities of the Monitoring Board since we are very much committed to improving our transparency, and in the past this has not necessarily been the case, and in fact, as I mentioned earlier, we were sometimes somewhat taken aback by the fact that not many stakeholders were actually aware of the existence of the Monitoring Board itself, and so even though I am not particularly used to being in the public limelight, I am forced to become more visible in this part of the world as well for the sake of making the Monitoring Board a more known and hopefully respected institution.

Of course, if you would have any comments or suggestions on any of the subjects it would be particularly appreciated at this point in time. But if not,

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I think it is 3:00 p.m. past, so may I close this open session? And thank you very much for your patience and for your cooperation for this meeting. And we still have half an hour of an informal session after this, so I would like to break at this point and let's change the setting. Thank you.