4 April 2011

Mr Takashi Nagaoka
Director for International Accounting
Financial Services Agency of Japan

By E-mail: t-nagaoka@fsa.go.jp and makoto.sonoda@fsa.go.jp

Dear Mr Nagaoka

Consultative Report on the Review of the IFRS Foundation's Governance

Thank you for the opportunity to comment on the Monitoring Board's Consultative Report on the Review of the IFRS Foundation's Governance (the Report). CPA Australia, The Institute of Chartered Accountants (the Institute) and the National Institute of Accountants (NIA), (the Australian Joint Accounting Bodies) have considered the Report and our comments follow.

The Joint Accounting Bodies represent over 190,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government, academia throughout Australia and internationally.

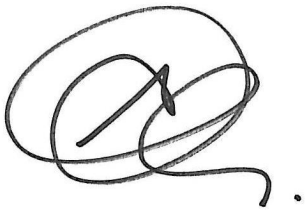
General comments

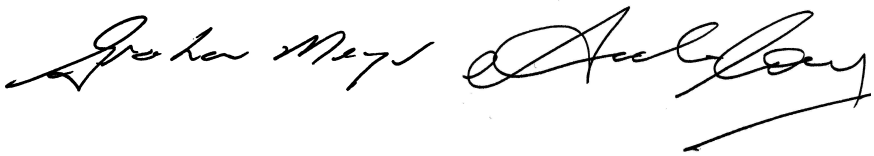
The Joint Accounting Bodies note that the Report does not propose a revamp of the three-tiered governance structure, but instead proposes improvements. Our recent submission to the Trustees of the IFRS Foundation Strategy Review included our strong encouragement to the Trustees to examine the current governance structure with particular reference to the governance structures that were put in place as part of the International Federation of Accountants (IFAC) Reforms of November 2003. We encourage the Monitoring Board and the Trustees to look at this together as part of a longer term plan. In the meantime we acknowledge that some commentators might believe there is a need for some short term reforms and a need to finalise such reforms by early Quarter 3 2011. We are disappointed that the short term plans of the Monitoring Board and the Trustees' proposals could not be exposed in a single document and we would strongly encourage both to work together in the future. Nevertheless, we accept the need for the Monitoring Board to reach decisions on its proposals. At the same time, the Monitoring Board will need to be cognisant of the decisions from the Trustees Strategy Review.

Our response to matters on which specific comment is requested is included in Appendix A. Our earlier response to the Trustees of the IFRS Foundation Strategy Review is the attached as Appendix B.

If you have any questions regarding this submission, please do not hesitate to contact Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au , Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au or Tom Ravlic (NIA) at tom.ravlic@nia.org.au.

Yours sincerely





Alex Malley
Chief Executive Officer
CPA Australia Ltd

Graham Meyer
Chief Executive Officer
Institute of Chartered Accountants in Australia

Andrew Conway
Chief Executive Officer
National Institute of Accountants

Attach : Appendix B

Appendix A : Response to Questions for Consideration

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.

The Joint Accounting Bodies agree with the proposal so long as the proposal is focused on building the best standard-setting board by deepening the pool of technically qualified candidates from diverse geographical and professional backgrounds. .

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.

The Joint Accounting Bodies do not agree with the proposal. We are not aware of any issues that demonstrate there is in fact a lack of independence and proper governance of the IASB.

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.

The Joint Accounting Bodies are not aware of any problems arising from the current structure that would require a changed approach to the division of responsibility.

Question 4:
Please provide comments on any aspects of Trustee composition or appointments that you believe the Monitoring Board should consider.

The Joint Accounting Bodies do not envisage that the duties of the Trustees extend to financing (see our response to Question 12 below). We agree with the Report that a diversity of membership of the Trustees that consistently reflects changes and developments surrounding stakeholders would form a basis for objectivity and impartiality in the decision-making process. However, to be effective we believe that the number of Trustees should be of a number that is large enough only to ensure appointment of those with sufficient expertise and representation from capital market authorities. Further, we strongly encourage membership of be majority weighted to current IFRS adopters or those committed to adoption of IFRS in the short to medium term, given the experience that adopting and implementing IFRS brings.

Question 5:

i. **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?**

ii. **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.**

The Joint Accounting Bodies agree that greater transparency in processes is consistent with enabling an increase in confidence that the activities of the IFRS Foundation and its standard setting operations and where relevant its support operations are properly responsive to the public interest. We believe that having the Monitoring Board responsible for the appointment of the Trustees increases the confidence of stakeholders.

Question 6:

i. **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?**

ii. **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?**

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

The Report states that the current membership of the Monitoring Board is limited to capital market authorities. The Joint Accounting Bodies understand the European Commission is akin to a public policy setter in contrast to a capital markets authority.

We believe it is always appropriate to have the Emerging Markets and Technical Committees of International Organization of Securities Commission (IOSCO) as permanent members of the Monitoring Board and to always include the authorities from the three largest capital markets (and therefore, extending of membership to the Financial Services Agency of Japan and the US Securities and Exchange Commission is appropriate now). Further, we call on IOSCO to develop a platform for selecting the members subject to rotation and the optimum number. In some jurisdictions, the capital markets regulator also develops related public policy. In other jurisdictions that is not the case. Therefore, we believe that the arms of government that have public policy responsibilities for capital markets should also be considered for membership subject to rotation (and therefore, we do not agree with the appointment of the European Commission to a permanent position). We believe that the size of the Monitoring Board should be no more than ten members, and to be majority weighted to members from countries that are IFRS adopters or are committed to adoption of IFRS in the short to medium term to ensure appointment of those who will enable the Monitoring Board to meet its primary purpose of serving as a mechanism for formal interaction between capital markets authorities and the IFRS Foundation.

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.

As we envisage a Monitoring Board with a membership of up to ten, the Joint Accounting Bodies support the replacement of the current voting requirements with the requirement for a super majority.

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?

The Joint Accounting Bodies support the participation in the activities of Monitoring Board as an observer of the Basel Committee on Banking Supervision and we suggest that observer participation could be extended to include others (e.g., International Association of Insurance Supervisors, The World Bank, and/or The Financial Stability Forum). However, we do not support their inclusion as Members.

We acknowledge that the perspectives of financial reporting, prudential reporting and other forms of reporting focused on financial stability share some common features and that the work of the IASB on financial instruments, fair value measurement, derecognition and consolidation is in part responsive to that. However, we do not support further reconciliation of the different perspectives. We consider that regulations dealing with prudential reporting and financial stability (including the imposition of minimum capital requirements) for banks and similar organisations while relevant to regulation of certain sectors of the economy should not distract from the objectives of financial reporting. For these reasons, we do believe observer participation appropriate.

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.

The Joint Accounting Bodies believe that the recent outreach activities of the IASB, in the area of hedging in particular, should be commended for improving the opportunities for involvement of a broader range of stakeholders and should set the bar for future projects. Outreach was seen to take place all the way through the process, and not just when an Exposure Draft was issued. Further, we have seen an increase in the use of field testing, particularly in relation to the insurance project. We encourage a continuation of global outreach activities and field testing for all major projects as a way of adequately involving stakeholders.

Question 10:
What are the appropriate means and venues for the Monitoring Board to enhance the visibility and public understanding of its activities?

The Joint Accounting Bodies are supportive of the introduction of measures that will bring about greater transparency in processes and the examples contained in the Report appear appropriate.

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.

The Joint Accounting Bodies agree with the Report's statement "…that the oversight roles of both the Monitoring Board and the Trustees must be designed to promote – and never undermine, either substantively or in appearance – the independence of the IASB and its standard-setting process.". We consider the terms of Article III.9.B of the Memorandum of Understanding provide an appropriate mechanism for the promotion of independence of the standard setter as it gives the Monitoring Board the right to suggest that a particular project be taken up by the IASB, but not the right to require action. Therefore, we do not support any change to this approach.

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?

The Joint Accounting Bodies agree with the Report that securing a stable and independent funding model is highly important as we consider that the current funding structure of the IASB is not appropriate. Some form of government funding on a global basis should be developed. We consider that governments should commit to a minimum funding period (say three years) in order to provide some certainty over funding. One would expect that if a country adopts IFRS (or bases their standards on IFRS) the governments or the relevant organisation that set accounting standards would be responsible to pay for the development of these standards.

Question 13:

i. **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.**
ii. **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.**

The Joint Accounting Bodies do not think it necessary to expand the role of the Monitoring Board to include approval of the final candidate for the IASB Chair. We are not aware of any problems arising from the current approach that would require a change and we are concerned that expanding the role of the Monitoring Board in this way could appear to infringe upon independence and erode public confidence in the standard-setting body and the Trustees.

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.

The Joint Accounting Bodies support the Monitoring Board proposal that its responsibilities explicitly include consultation with the Trustees as they further develop the framework to deepen the pool of technically qualified candidates from diverse geographical and professional backgrounds and thereby ensure proper balance in the composition of the IASB.

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.

The Joint Accounting Bodies encourage the Monitoring Board to explore the possibility of the creation of a shared permanent secretariat to service the Monitoring Board and the Trustees.

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.

Yes, the Joint Accounting Bodies agree that there is a need for regular reviews and that the interval of five years would be appropriate. However, as stated in our letter we encourage the Monitoring Board and the Trustees to undertake a longer term review of the governance structure with particular reference to the governance structure put in place as part of the IFAC reforms of November 2003.

Question 17:
Do you have any other comments?

The Joint Accounting Bodies believe that there may be possible synergies from merging the Monitoring Board and the Monitoring Group (a group that is part of the IFAC governance structure and consists of regulator bodies and related organisations committed to advancing the public interest in areas related to international audit quality. We encourage the Monitoring Board and the Trustees to explore this possibility as part of a longer-term plan.