

IFRS Foundation Monitoring Board

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Submitted by email to:

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Dear Monitoring Board Members,

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

Grant Thornton International Ltd appreciates the opportunity to comment on the IFRS Foundation Monitoring Board's Consultative Report on the Review of the IFRS Foundation's Governance (the Report).

We make some general comments and summarise our main views below. Our more detailed responses to the questions in the Report are appended.

Summary and main comments

Overall governance model

The overall governance structure should be designed in order to:

- respect the operational independence of the IASB
- ensure that the IASB sets standards in observance of comprehensive due process
- balance independence with accountability and legitimacy.

As acknowledged in the Report, there is some tension between the independence objective and the accountability and legitimacy objective. A balance therefore needs to be struck. This involves finding compromises and practical solutions in certain areas. The Monitoring Board was established, creating a three tier governance structure, to improve this balance by establishing a formal link with public authorities. We support the role of the Monitoring Board within the three tier structure. We believe that it offers a workable and effective means of achieving an appropriate balance.

This Review provides an opportunity to assess whether the Monitoring Board's composition and role are optimally constituted, in the context of the overall structure, in order to:

- be compelling and widely accepted
- promote the goal of globally accepted, high quality accounting standards
- achieve clarity of roles and responsibilities among the three tiers.

Composition

We believe that the Monitoring Board's membership should be expanded. We also suggest that membership should extend beyond capital markets authorities, in order to provide a better proxy for the broad range of public interests in financial reporting. In our view this will increase the credibility of the Monitoring Board as the principal means of promoting

accountability and legitimacy. This in turn will make the overall structure more compelling and widely acceptable.

To this end we suggest continued representation of the European Commission, and expansion to include appropriate international authorities identified as critical to the global financial system. Such authorities might include the Financial Stability Board and International Monetary Fund. The G-20 should preferably be involved in identifying the appropriate bodies and/or endorsing the final composition.

Powers

The Report raises a number of questions concerning the Monitoring Board's formal powers and whether they should be extended in specified areas (such as the IASB's agenda and appointment of its chairman). In our view, before concluding on these specific matters, it is necessary to first clarify the general roles and responsibilities of each of the three tiers in the governance structure. In particular, the allocation of roles and responsibilities between the IFRS Foundation's Trustees (the Trustees) and the Monitoring Board is vulnerable to confusion and tension, and should therefore be clarified.

Trustees

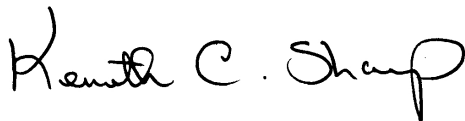
We believe that responsibility for the day to day oversight of the IASB's activities should continue to lie with the IFRS Foundation Trustees.

Monitoring Board

We believe the central role of the Monitoring Board should be to monitor the IFRS Foundation Trustees' effective execution of their oversight functions. This does not in our view require a significant extension of the Monitoring Board's formal powers to intervene. We stress that we are not advocating a powerless Monitoring Board - that would not provide a compelling accountability and legitimacy safeguard. We believe that the Monitoring Board has (and should continue to have) significant informal power/influence because the Trustees are unlikely to act in contravention of the Monitoring Board's recommendations.

If you have any questions on our response, or wish us to amplify our comments, please contact our Executive Director of International Financial Reporting, Andrew Watchman (andrew.watchman@uk.gt.com or telephone + 44 207 391 9510).

Yours sincerely,



Kenneth C Sharp
Global Leader - Assurance Services
Grant Thornton International Ltd

Responses to questions

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.

We agree that the process to recruit IASB members should be designed and executed in a way that, as far as practicable, identifies the strongest pool of candidates in accordance with the Constitutional criteria. If the Monitoring Board has identified specific shortcomings in design or execution of the recruitment process they should raise these directly with the Trustees.

We think the current criteria for IASB membership, as set out in paragraphs 24 to 27 of the IFRS Foundation's Constitution, remain appropriate. In particular, we agree that the main qualification for membership of the IASB should be professional competence and practical experience. In our opinion this main qualification does not limit the potential to appoint a Board that reflects a more diverse geographical and professional spread.

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.

We have no objection to separating the roles of the IASB Chair and the CEO of the IFRS Foundation for operational reasons but do not regard this as a critical governance issue.

We suggest the case for separating the roles within the IFRS Foundation is not comparable with arguments for separation of the chairman and CEO in the corporate environment. The strategic, governance and oversight functions that are exercised by a Board of Directors in a commercial company, rest largely with the Trustees and Monitoring Board in the Foundation.

We note that the IASB will soon have a new chair and also a vice-chair. The appointment of a vice-chair will provide opportunities to reallocate management responsibilities to address operational issues such as staffing priorities and development.

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.

We agree that, as an operational matter, the Foundation's staff should have clear roles and responsibilities. We acknowledge that the current structure (under which all staff are employed by the Foundation) could be vulnerable to actual or perceived conflicts of interest. We are not however convinced that a formal division of responsibility between staff engaged in IASB operations and in the Foundation's administrative and oversight functions is necessary given the numbers involved and other in-place safeguards.

The key safeguard is effective oversight by the Trustees. It is clearly essential that the Trustees have adequate access to staff and other resources to undertake their role effectively but we are not aware that current staffing arrangements have led to problems in this regard.

Question 4

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

We believe that the criteria for the selection of Trustees and their overall composition, as set out in paragraphs 4 to 10 of the IFRS Foundation's Constitution, remain appropriate for the time being. Naturally, these criteria should be reviewed from time to time.

We agree with the comments in paragraph 2.3.1 of the Report as to the importance of diversity and appropriate balance of professional backgrounds among the Trustees. We would hope that the Monitoring Board members and respective organisations would be able to provide significant assistance in the identification of suitable candidates, especially if expanded in the manner envisaged in the Report.

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.

We agree that the process for the identification, nomination and selection of Trustees should be rigorous, inclusive and transparent (subject to the need for privacy - see below). We therefore agree that it would be beneficial to specify this process in more detail. This specification should be developed in consultation between the Trustees and the Monitoring Board.

We also strongly agree with the comments in paragraph 2.3.2 of the Report concerning the need to respect individuals' privacy. A process that fails to do this would discourage potential candidates from coming forward and would therefore be counter-productive. An appropriate balance between transparency and respect for privacy is essential.

Consistent with our reply to Question 4, we think that the existing criteria for Trustee selection remain appropriate. We agree that these criteria should be clarified if specific problems have been identified, although we have no particular concerns or suggestions. We do note that, should the Trustees' role and responsibilities change following the consultations currently in progress, it would be appropriate to review the selection criteria.

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.

We agree with the Report's proposals to expand the representation of capital market authorities. We also agree that IOSCO is the appropriate body through which capital market authority representation should be identified. We question whether setting aside a specified number of permanent seats is the fairest model in principle, although we also acknowledge that those authorities responsible for the world's larger capital markets may be best placed to undertake this role in practice.

We believe that a jurisdiction's ultimate decision on the application of IFRS should indeed be a factor in the IOSCO selection process. However, we also observe that almost all the world's major capital market jurisdictions either apply IFRSs already or are taking active steps that may lead to that outcome. Accordingly, we do think that this is a significant differentiator at present. This analysis would change if particular jurisdictions ultimately decide to reject IFRS.

We also believe the Monitoring Board's membership should be broader than capital markets authorities, in order to provide a better proxy for the broad range of public interests in financial reporting. To this end we suggest continued representation of the European Commission, and expansion to include appropriate international authorities identified as critical to the global financial system. Such authorities might include the Financial Stability Board and International Monetary Fund.

The G-20 should preferably be involved in identifying the appropriate bodies or endorsing the final composition.

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.

We believe decision-making by consensus is preferable and should be retained unless it becomes impractical. The practicality of a consensus requirement may be affected by the outcome of the current consultations on:

- the Monitoring Board's size and membership
- the Monitoring Board's role and responsibility and hence the issues on which it takes decisions.

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?

We are not convinced of the need to formalize any such arrangements. We comment in response to Question 6 on the possible expansion of the Monitoring Board. We believe that, in expanding the Board, one objective should be to ensure that its members represent a sufficient range of public interests in financial reporting. If this is achieved we question the need for additional observers, formal dialogue or advisory bodies. We do of course recognize that Monitoring Board members will frequently seek input from their constituencies.

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.

We believe the standard-setting process is adequately prescribed, although there is always room for improvement and refinement (eg criteria for annual improvements, operation of IFRIC, etc).

We also believe that the IASB and the staff should be commended for their enhanced efforts to engage with stakeholders. We observed a step change in outreach efforts during the development of IFRS 9 *Financial Instruments*. This has set a new benchmark which has been carried forward into other high profile projects.

We do however believe that the IASB has been too ambitious in setting its agenda. The technical resources required to deliver several critical projects are only part of the issue. Creating a broad consensus on the need for change, and gaining acceptance for major revisions, are also critical. We understand that convergence has been the main driver and we continue to support the convergence objective in the short-run. However, it has become evident that the organisation has struggled to deliver the volume of high quality standards that has been envisaged. Constituents are increasingly calling for a more stable system.

Once the current convergence process is complete, we suggest that the organisation must reflect on the lessons learned. We would expect that, beyond 2011, the IASB should take on fewer projects.

We note that some constituents continue to call for more detailed, quantified cost-benefit analysis. The difficulties of performing such analysis - and of quantifying benefits in particular - are well documented. Whilst recognizing the challenges and acknowledging the steps that have been taken, we believe efforts should be made to enhance this aspect of due process. We also suggest, however, that calls for more work in this area are in large part a reflection of concerns over the level of complexity and the extent of change.

Question 10

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

We would encourage the Monitoring Board to:

- hold meetings in public (although we also recognise that certain matters such as consideration and approval of individual Trustee appointments should be covered in private sessions)
- publish agendas before meetings and outcome summaries afterwards
- issue an annual report on their activities and assessment of the Trustees discharge of their responsibilities. The objective of such an annual report would be to lend credibility and legitimacy to the work of the IASB as 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.

We welcome the IFRS Foundation's commitment to public consultation on the IASB agenda. We believe the agenda-setting process should be more open, inclusive and transparent.

We think the IFRS Foundation Trustees should oversee the effective conduct of the agenda-setting process, including the forthcoming consultation and the IASB's response thereto. The Monitoring Board should in turn monitor whether the Trustees have discharged this function adequately and effectively. We have also raised the possibility that the Trustees should have greater power to intervene in the agenda.

We do not believe the Monitoring Board needs an explicit ability to place an item on the IASB's agenda. Such an ability would in our view go beyond a monitoring remit, and could also raise questions over the openness and inclusiveness of the agenda-setting process and consultation.

We note that the Monitoring Board is already empowered to refer matters of public interest related to financial reporting to the IASB and the Foundation. We expect that, in practice, any such referrals will be highly influential.

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?

We believe that a stable and secure funding system is best achieved by national or regional payment systems or levies. However, we recognise the challenges of implementing such a system across multiple regions and jurisdictions. Recent commitments by the European Commission indicate that the funding situation will be adequate in 2011-2013, but a truly stable, secure and global funding solution remains elusive. We therefore expect the Trustees will need to continue to operate a hybrid funding model in the short to medium term. The Trustees' funding model should also be considered and preferably endorsed by the Monitoring Board.

We also suggest that a more fundamental governance reform that establishes closer links with the G-20 may provide an opportunity to engage the G-20's support for a stable and secure funding solution.

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.

We agree with the proposal that the Monitoring Board's role should include oversight in establishing a set of publicly disclosed criteria for the IASB Chair. We believe that the Monitoring Board members and sponsoring organizations are well placed to assist in the identification and evaluation of suitable candidates.

Consistent with our other responses, we are not convinced that the Monitoring Board needs additional, formal powers to approve (or veto) the final selection. We think a monitoring role should comprise an assessment of whether the Trustees have executed their responsibilities diligently and effectively, and to comment accordingly.

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.

We explain our general views in this area in our response to Question 1. We are not convinced that the Monitoring Board should take on explicit responsibilities in this area.

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 Monitoring Board should of course be provided with the resources it needs to discharge its responsibilities effectively. Accordingly, the Board's composition, role and responsibilities should first be settled. Only then can a meaningful assessment be made of the necessary resources to fulfill that role.

Beyond that, the need for a permanent secretariat is an operational matter that the Monitoring Board itself is best placed to assess.

If the conclusion is that secretariat-type resources are needed, we encourage the Monitoring Board to explore options to utilize existing infrastructure resources to the fullest extent possible. For example, it might be possible to use the IOSCO secretariat. This should reduce the need for additional funding, without necessarily eliminating it altogether.

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.

We agree. The Monitoring Board and the associated three tier governance structure are relatively new and it is appropriate to review their effectiveness from time to time. Setting a minimum review frequency is also appropriate in order to provide structure, manage stakeholder expectations and avoid inertia. However, we think flexibility to respond to changing circumstances is also necessary.

We also agree that reviews should be aligned with the timing of the IFRS Foundation's Constitution reviews. The review processes, including public consultations, should also be coordinated as far as practicable. This will help in achieving an optimal and cohesive outcome and will reduce burdens on stakeholders.

Question 17

Do you have any other comments?

We have no other comments.