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Dear Mr Nagaoka and Mr Sonoda

### **IFRS Foundation Monitoring Board Report on Governance Review**

The Securities and Exchange Commission of Brazil is pleased to respond to the IFRS Foundation Monitoring Board's *Consultative Report on the Review of the IFRS Foundation's Governance*.

We welcome the Monitoring Board's Report, which we think is a useful and timely contribution to the debate surrounding the governance of the IFRS Foundation and the International Accounting Standards Board. Below we reproduce the questions raised and present our proposals.

IASB:

(1) Undertake concrete efforts to improve identification of candidates to ensure IASB membership from diverse geographical and professional backgrounds in order to provide for further objectivity and impartiality of the decision-making process, while maintaining professional competence and practical experience as the primary qualifications.

*Question 1:*

*- Do you agree with the proposal to urge concrete efforts to deepen the pool of candidates for IASB membership from diverse geographical and professional backgrounds? Please provide reasons for your agreement/disagreement.*

**Answer:** We believe the target of having a diverse board is desirable but not essential. The main criteria for selecting board members should be technical competence and not geographical origin. The idea of selecting board members based on a pre-specified geographical location can create unnecessary restrictions on the sample of available candidates. The selection process would be enhanced by a larger sample of suitable candidates. We also believe the Board should have part-time members as an alternative to accommodate good candidates which cannot serve on a full time basis.

(2) Separate the roles of the IASB Chair and the CEO of the Foundation to safeguard the independence of the standard-setting process led by the IASB Chair and to

avoid undue conflicts of interest as the CEO of the Foundation manages all the other aspects of the Foundation's functions, including IASB oversight.

*Question 2:*

*- Do you agree with the proposal to separate the roles of the IASB Chair and the CEO of the IFRS Foundation, and if so would you have suggestions on how to formalize this? Please provide reasons for your agreement/ disagreement.*

**Answer:** We do not think this separation is necessary. So far we are not aware of any significant problem caused by the current system.

(3) Consider clearer division of responsibility between staff dedicated to the IASB's operations and staff dedicated to the Foundation's administrative and oversight functions.

*Question 3:*

*- Do you agree that clearer division of responsibility between staff dedicated to the IASB operations and staff dedicated to the Foundation's administrative and oversight functions should be considered, and if so would you have suggestions on how to formalize this? Please provide reasons for your agreement/disagreement.*

**Answer:** We are not aware of any problem caused by the current organization structure. We believe the staff perform their duties appropriately without any further step in this direction.

Trustees:

(1) Continue to review the diversity of geographical and professional background of the Trustees so as to provide for objectivity and impartiality of the decision-making process.

*Question 4:*

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

**Answer:** We believe that geographical representation at the Trustee level is an important feature of the Foundation governance. Unlike the Board the Trustees should represent a diverse and representative geographical distribution in order to guarantee independence and facilitate efforts to fund raising.

(2) Devise formal procedures and clearer criteria for the nomination of candidates and appointment of Trustees accountable to the stated objectives for the IFRS Foundation.

*Question 5:*

*- Do you agree with the proposal to provide increased transparency into the process for Trustee nominations? Please provide reasons for your agreement/ disagreement. To what extent should the Monitoring Board be involved in the nomination process?*

**Answer:** We believe these efforts to increase transparency are welcome. We also believe the monitoring board should play a pivotal role in the selection of the trustees. We actually believe the monitoring board should have a final voice on it.

*- 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.*

**Answer:** Yes, we do not believe the current criteria are clear to most stakeholders.

Monitoring Board:

(1) Expand the membership to [eleven] members to include more capital markets authorities responsible for setting the form and content of financial reporting in respective jurisdictions, focusing on increased representation from major emerging markets. [Four] new members primarily from major emerging markets would be added on a permanent basis and [two] additional seats would rotate amongst authorities not permanently represented. The use of IFRSs in a jurisdiction and the contribution of the jurisdiction to the funding of the IFRS Foundation should be considered in selecting members.

(Note: Figures in square brackets are indicative.)

*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?*

**Answer:** Yes. We believe capital market regulators are the main subscribers of the IFRS and are actually delegating their standard-setting powers to the IASB. Capital market authorities have main stake in this process and consequently should be appropriately represented at the monitoring board. Additionally they benefit the most from high quality financial reporting and as a result can help the IASB to maintain its main mission of producing high quality financial standards to global capital markets.

*- 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?*

**Answer:** Yes. We believe emerging markets which are adopting IFRS should be appropriately represented at the monitoring board. We believe the main criteria for this selection should be the country's commitment to IFRS adoption. Emerging markets which are adopted IFRS should have a preference in this selection process.

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

**Answer:** Yes, we believe IOSCO has the appropriate representative legitimacy to select the rotating members.

(2) Consider whether any types of decisions taken by the Monitoring Board would justify deviation from the current consensus-based decision-making system.

*Question 7:*

*- Do you agree that the Monitoring Board should continue to make its decisions by consensus? Please provide reasons for your agreement/disagreement. Are there any types of decisions taken by the Monitoring Board for which voting other than by consensus (for*

*example, by qualified majority) may be appropriate? If so please describe why and suggest an appropriate voting mechanism.*

**Answer:** This is a controversial point because consensus increases the legitimacy of the decisions made by the Board but increases the complexity of reaching decisions. We believe that a supermajority rule (e.g. 75%) is the balanced solution.

(3) With a view to increasing the involvement of other public authorities and international organizations, consider either:

- a) extending the observer status to groups of prudential authorities and international organizations;
- b) holding more formalized dialogue with public authorities and international organizations;
- or
- c) establishing an advisory body composed of prudential authorities and international organizations.

*Question 8:*

*- To ensure increased involvement of public authorities and other international organizations in Monitoring Board activities, do you support the Monitoring Board (a) expanding the number of Monitoring Board observers, (b) holding more formalized dialogue, or (c) establishing an advisory body, and on what basis? What should be the criteria for selecting participants?*

**Answer:** The expansion of the number of members should be done with care in order not to reduce the effectiveness of the monitoring board. Thus we believe the number of observers should not be extended. However we believe the MB should look for alternative ways of receiving the concerns and proposals of all organizations interested in its activities.

(4) Enhance publication of written records of Monitoring Board deliberations, increase the use of press releases, and strengthen the exposure of Monitoring Board members' views to the media and wider audiences.

*Question 10:*

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

**Answer:** We more transparency of the MB is necessary. It could inform its main stakeholders about its activities through some structured channel like a newsletter.

(5) Consider if the Monitoring Board's current ability to refer matters to the IASB for consideration, requiring feedback, is sufficient, or whether an explicit role should enable the Monitoring Board to place an item on the IASB agenda.

*Question 11:*

*- Do you believe that the current arrangements for Monitoring Board involvement in the IASB's agenda-setting are appropriate, or should the Monitoring Board have an explicit ability to place an item on the agenda, or would you consider other alternatives that would enhance the Monitoring Board involvement in the IASB agenda setting? Please provide reasons.*

**Answer:** We believe the monitoring board should not have the power to put items on the IASB agenda. An independent standard-setter should have the power to set its own agenda and there are other mechanisms to suggest topics for the IASB to deliberate.

(6) Explore possible options to establish a non-voluntary, transparent and stable public funding platform for the Foundation.

*Question 12:*

*- Do you have concrete suggestions on how the Monitoring Board or the Trustees could encourage a move towards a more stable and independent funding model?*

**Answer:** We believe steps should be taken in the direction of more firm contributions from countries involved in the IFRS adoption. Local national standard setters could be in charge of this.

(7) Enhance the Monitoring Board's involvement in the nomination of the IASB Chair by enabling the Monitoring Board to provide a set of criteria for selecting potential candidates and evaluate certain candidates on the short list against the criteria during the selection process. Additionally, consider whether the Monitoring Board's role should also involve consultation on the Trustees' final decision and/or playing any further roles.

*Question 13:*

*- Do you believe that the Monitoring Board should have a more prominent role in the selection of the IASB Chair? Do you agree with the proposal that the role include involvement in establishing a set of publicly disclosed criteria for the Chair, and assessment of a short list of candidates against those criteria? Please provide reasons.*

**Answer:** No. We believe the monitoring board should be involved in the selection of the Trustees and not of the IASB chairman.

*- 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.*

**Answer:** No. We believe the Trustees should have this responsibility.

(8) As regards other IASB members, explicitly include in the Monitoring Board's responsibilities consultation with the Trustees as they further develop the framework to ensure proper balance in the composition of the IASB.

*Question 14:*

*- Do you agree that the Monitoring Board's responsibilities should explicitly include consultation with the Trustees as they further develop the framework to ensure proper balance in the composition of the IASB? Please provide reasons for your agreement/disagreement.*

**Answer:** Yes, we believe the monitoring board should have a say in this discussion due to the nature of its responsibilities.

(9) Explore the possibility of establishing a permanent secretariat for the Monitoring Board.

*Question 15:*

*- Do you agree with the proposal to consider establishing a permanent secretariat for the Monitoring Board to support its increasing roles in overseeing the governance of the standard-setter? Would you support this proposal even if it would require additional financial contributions from stakeholders? Please provide reasons.*

**Answer:** Yes, we believe this secretariat would be of value in facilitating the monitoring board activities.

Other questions:

*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.*

**Answer:** Yes. We believe there are enough mechanisms to provide for stakeholder participation.

*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.*

**Answer:** we believe the timing of the constitutional review to be appropriate for the reviews of the board's structure.

*Question 17:*

*- Do you have any other comments?*

**Answer:** No.

Maria Helena dos Santos Fernandes Santana  
Chair

Alexsandro Broedel Lopes  
Commissioner