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Dear Mr Nagaoka and Mr Sonoda

IFRS Foundation Monitoring Board Report on Governance Review

Ministry of Finance of China is pleased to respond to the IFRS Foundation Monitoring Board's *Consultative Report on the Review of the IFRS Foundation's Governance*. In our opinion, a clear and stable governance structure of IFRS Foundation does well to achieving the ultimate goal of a single set of high-quality global financial reporting standards. We support monitoring Board's review of the IFRS Foundation's governance. We support a three-tier governance model for IFRS Foundation which is composed of Monitoring Board, Trustees and IASB. We agree to deepen the pool of candidates for IASB membership from diverse geographical and professional backgrounds while maintaining professional competence and independence as the primary qualifications. We support the review of IFRS Foundation governance focus on the independence and authorities of IFRS and the efficiency of IFRS setting.

We wish to highlight the following issues that we see as fundamental to IFRS Foundation's governance.

1. Responsibilities of Monitoring Board, IFRS Foundation Trustees and IASB

In a three-tier governance model, we support the responsibilities of Monitoring Board, IFRS Foundation Trustees and IASB are separately followed:

- the Monitoring Board provides public accountability by acting as the link to public authorities and provides oversight of the IFRS Foundation. Monitoring Board should not intervene directly with activities of IFRS Foundation Trustees and IASB authorized by IFRS Foundation constitution;
- the IFRS Foundation Trustees execute its responsibilities authorized by IFRS Foundation Trustee Constituent and promote the transparency and independence of IASB;
- the IASB, as an independent standard-setter operating within a clearly defined and documented system of due process, is accountable to setting high-quality International Financial Reporting Standards.

2. Composition of Monitoring Board

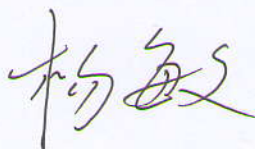
The nomination of member of Monitoring Board should consider global public interests, especially the emerging economics. We agree the proposal to expand the Monitoring Board's membership by adding permanent members representing primarily major emerging markets. Given the differences of legal system, public interest protection system and accounting standards bodies among jurisdictions, we disagree the membership of the Monitoring Board continue to be confined to capital markets authorities rather public authorities that are responsible for setting accounting standards and financial report policy in respective jurisdictions.

3. Nomination of IFRS Foundation Trustee and Member of IASB

We think that IFRS Foundation Trustees is accountable to nomination of Trustee, chairmen and member of IASB based on approved IFRS Foundation Constituent. The Monitoring Board should be confined to make sure whether candidates for IFRS Foundation Trustee and Member of IASB are qualified by approved requirement and the nomination process executed by IFRS Foundation Trustee comply with approved procedure.

Our detailed responses to the Summary of Proposals and Options and associated questions are included in the Appendix to this letter.

Yang Min



Director General
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APPENDIX

Responses to Monitoring Board Proposals and Questions

Introduction

The following sets out the proposals and questions raised by the Monitoring Board and the responses of the AOSSG. The order follows that of the Board's review.

(1) Monitoring Board Proposal

IASB:

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.

Response

We agree to deepen the pool of candidates for IASB membership from diverse geographical and professional backgrounds while maintaining professional competence and independence as the primary qualifications, which facilitate IASB to consider efficiently responses of related constituents from different jurisdictions and achieving the ultimate goal of IFRS Foundation.

(2) Monitoring Board Proposal

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.

Response

We think that the roles of the IASB Chair and the CEO of the IFRS Foundation are mutual dependence and complement and current arrangement that the IASB chair serve concurrently the CEO of the IFRS Foundation works well. We think it is unnecessary to separate the roles of the IASB Chair and the CEO of the IFRS Foundation.

(3) Monitoring Board Proposal

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.

Response

We are not aware of any issue with current division of responsibility between staff dedicated to the IASB operations and staff dedicated to the Foundation's administrative and oversight function. We propose maintain the current arrangement.

(4) Monitoring Board Proposal

Trustees:

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

Response

We support geographical and professional diversity of IFRS Foundation Trustee but the Monitoring Board may pay more attention to the trustee's competence and experience on strategic decision.

(5) Monitoring Board Proposal

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?*
- *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.*

Response

We support improve the transparence of Trustees appointment, including criteria of candidates, process for nomination and assessment. Monitoring Board is independent assurance that the processes of the Trustees and IASB are operating as designed. We disagree that the Monitoring Board get involved with the nomination process, such as recommend candidates. We agree that further clarification of criteria for the Trustees' candidacy would help support confidence of the stakeholders.

(6) Monitoring Board Proposal

Monitoring Board:

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.

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.*

Response

We think the nomination of member of Monitoring Board should facilitate achieving unitary goal and responsibilities of IFRS Foundation and consider global public interests, especially the emerging economics. We agree the proposal to expand the Monitoring Board's membership by adding permanent members representing primarily major emerging markets. Given the differences of legal system, public interest protection system and accounting standards bodies among jurisdictions, we disagree the membership of the Monitoring Board continue to be confined to capital markets authorities. We also disagree that rotating members should be nominated through IOSCO rather through public authorities responsible for setting accounting standards and financial report policy in respective jurisdictions.

(7) Monitoring Board Proposal

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.

Response

We agree that the Monitoring Board should continue to make its decisions by consensus.

(8) Monitoring Board Proposal

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?

Response

We believe that it is more flexible that Monitoring Board hold more formalized dialogue to strengthen the link to public authorities and other international organization.

(9) Monitoring Board Question

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.

Response

We think that standards setting process needs continuous improvements to assure its independence. The accounting standards setting process should be participated by both developed economics and emerging economics, by both economics full adopted IFRS or converged to IFRS and economics considering transition to IFRS. It is appropriate trying to coordinate accounting standards with other public policies while maintaining the independence of accounting standards setting process.

(10) Monitoring Board Proposal

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?

Response

We support Monitoring Board enhances publication of written records of deliberations to greatest extent by available methods to improve its transparency.

(11)Monitoring Board Proposal

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.

Response

To assure the independence of IASB, We think that it is inappropriate that the Monitoring Board could interfere with the agenda of the IASB or get involved with other specific activities of IASB.

(12) Monitoring Board Proposal

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?

Response

We support that Monitoring Board and IFRS Foundation Trustees establish a voluntary, transparent, stable and acceptable public funding platform for IFRS's setting and application.

(13) Monitoring Board Proposal

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.

- 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.

Response

We think the appointment of IASB chairmen is accountable to IFRS Foundation Trustees. We think it is inappropriate that the Monitoring Board intervene directly with the nomination process of IASB chairmen. The Monitoring Board should be confined to make sure whether candidates for IASB chairmen are qualified by approved requirement and the nomination process executed by IFRS Foundation Trustee comply with approved procedure.

(14) Monitoring Board Proposal

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.

Response

We think the appointment of IASB member is accountable to IFRS Foundation Trustees. The Monitoring Board should be confined to make sure whether candidates for IASB members are qualified by approved requirement and the nomination process executed by IFRS Foundation Trustee comply with approved procedure.

(15) Monitoring Board Proposal

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.

Response

We don't disagree with the proposal to consider establishing a permanent secretariat for the Monitoring Board, if it would not require additional financial contributions from both IFRS Foundation and other stakeholders.

(16) Other Monitoring Board Questions

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.

Response

We think it is feasible that Monitoring Board executive regularly reviews of its works. But it is unnecessary that the reviews should be aligned with the timing of the Foundation's mandated Constitution reviews.

(17) Other Monitoring Board Questions

Question 17:

- Do you have any other comments?

Response

The objective of IFRS development is to improve transparency and comparability of accounting information. We support the accounting information about same transactions occurred in different jurisdictions should be identical. Given the diversities of politics, legal, economic and culture system all over the world, we believe that it is contributive to IFRS global application if strategies or methods rather than full adoption can be applied in IFRS application in respective jurisdictions.