



8 April 2011

Mr. Masamichi Kono  
Acting Chairman  
IFRS Foundation Monitoring Board

Dear Mr. Kono:

**re: Comments on Consultative Report on**  
**“The Review of the IFRS Foundation’s Governance”**

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on Consultative Report on “The Review of the IFRS Foundation’s Governance” put out by the Monitoring Board. The SAAJ is a not-for-profit organization providing investment education and examination programs for securities analysts. Its certified members number 24,000. The CAC is a standing committee of the SAAJ composed of 14 members, most of whom are users including equity and credit analysts, and portfolio managers, while a few others are academicians and public accountants. The CAC writes comment letters to global standard setters, including the International Accounting Standards Board (IASB) and Accounting Standards Board of Japan (ASBJ), and exchanges opinions with organizations including the ASBJ and the Financial Services Agency.

**General Comments**

The CAC greatly appreciates the efforts of the Monitoring Board in conducting a comprehensive and detailed review of governance by the IFRS Foundation. The review findings are reported in the Consultative Report in which the CAC finds a number of reasonable and constructive proposals which should be adopted in the action plan to be published in the third quarter of 2011. On the other hand, some proposals would result in expanding the authority of the Monitoring Board to such an extent that would effectively change the current three-tiered governance structure into a two-tiered one—the CAC opposes these proposals from the viewpoint of protecting IASB independence. Some other proposals, including separation of the roles of the IASB chair and the CEO of the IFRS Foundation, and establishing a permanent secretariat for the Monitoring Board, excessively emphasize organizational formality—the CAC also opposes these proposals in view of the resulting inefficiency and higher costs. Following are our answers to specific 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.***

The CAC thinks IASB board members are currently well diversified in terms of both regional and professional background. To secure this diversity going forward, it is reasonable to deepen the pool of candidates.

**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 CAC opposes this proposal. The IASB and the IFRS Foundation are still small with only about 120 staff in total. Separation of the IASB Chair and CEO of the IFRS Foundation would only induce inefficiency and higher costs.

**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.***

Again, the CAC opposes the proposal. As mentioned under Question 2 above, the CAC thinks that being excessively sensitive to the division of responsibility between the two small organizations would result in inefficiency and higher costs.

**Question 4:**

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

The CAC is concerned that currently the Trustees have fewer representatives from financial statement users compared to IASB members. In order to properly evaluate IASB performance, a certain number of Trustees should have experience in analyzing financial statements as users. It is recommended that the Monitoring Board take this point into consideration when approving future Trustees.

**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.***

The CAC agrees with the proposal. As the Board of Trustees plays a core role in the three-tiered governance structure of the IFRS family, increased transparency regarding the Trustee nomination process would contribute to enhancing IFRS credibility. As approval of Trustee nominations is an important responsibility of the Monitoring Board, it should be involved in the nomination process more actively than now. The Trustee nomination process has hitherto not been clear. Hence, further clarification of candidacy criteria would help enhance stakeholder confidence.

**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.***

The CAC believes that membership of the Monitoring Board should continue to be confined to the capital market authorities responsible for setting the form and content of financial reporting. The mission of the Monitoring Board is to promote the continued development of IFRS as transparent and decision useful global accounting standards, whilst preserving IASB independence. Only capital market authorities can assume this mission. Expansion of the Monitoring Board's membership should be designed in such a way that it would not hinder efficient operation of the Board. In selecting new members, it is obvious that a jurisdiction's application of IFRSs and its financial contribution to standard setting are important criteria, but we think that whether a jurisdiction's capital markets are transparent and liberalized should also be considered. Selecting rotating

members through IOSCO is rational as the entity comprises capital market authorities from around the world which are responsible for setting the form and content of financial reporting.

**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.***

In view of the expected expansion of the Monitoring Board's membership, the CAC has some concern regarding efficient decision making if the Board continues to make all decisions by consensus. The CAC is specifically concerned that decision making by consensus might stymie approval of Trustee appointments which is the most important responsibility of the Board. Thus, the CAC proposes allowing Trustee approval by qualified 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?***

Only two years have passed since establishment of the Monitoring Board and there have been no serious problems. Hence, the CAC does not think there is any need to expand the Board's organization except for a limited increase in members (see our answer to Question 6 above). Presently, the Basel Committee on Banking Supervision (BCBS) is an observer of the Board. Being a prudential regulator as opposed to a capital market authority responsible for setting the form and content of financial reporting, the BCBS is not eligible to be a member of the Monitoring Board. However, as banking is an important industry which settles financial transactions in an economy, there is some rationale for the BCBS to be an observer. On the other hand, the CAC sees no need for additional observers. Establishing an advisory body simply sounds like 'gilding the lily'. The CAC supports holding more frequent dialogue as it would help enhance visibility of the Board (see our answer to Question 10 below), but prudent consideration is needed to 'formalize' such dialogue.

**Question 10:**

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

Although the Monitoring Board is already a member of the IFRS family, its objectives and activities are not fully appreciated by the stakeholders. This is partly because the Board is quite a new organization, but the real issue is that the Board is literally invisible. Taking every opportunity, Monitoring Board members should directly publicize the vision and raison d'être of the Board to the constituents. The round table discussion of the Consultative Report is the first opportunity of direct contact. The Monitoring Board and its members should become more than just names through direct contact including speeches and lectures at seminars and conferences, outreach activities, and by making a portion of Board meetings public.

**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 CAC believes that current arrangements for Monitoring Board involvement in IASB agenda setting are appropriate and that no changes are required.

**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 current situation where many countries and regions are not paying their dues to the IFRS Foundation is a serious issue threatening continuation of the development of high quality accounting standards. The first thing the IFRS Foundation could do is to explicitly stipulate that an important performance benchmark for a Trustee is that the country/region he/she represents is paying dues.

**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.***

The CAC supports the current structure where the Monitoring Board approves nomination of Trustees, and the Trustees nominate IASB members including the Chair. Practically, as long as the Monitoring Board continues serious dialogue with the Trustees, the Trustees will not select an IASB Chair who is not acceptable to the Monitoring Board. The CAC agrees with the proposal for the Monitoring Board to be involved in establishing a set of publicly disclosed criteria for the Chair.

**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 CAC agrees with the proposed consultation with the Trustees as long as it is limited to the framework and does not include involvement in appointment of specific members.

**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.***

As its very name defines, the Monitoring Board's commission is just to monitor, not to execute. Hence, there is no need for a permanent secretariat.

**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 CAC appreciates the IASB's enhanced outreach activities. However, one problem is that it is hard for non-participants to know what has been discussed. Information gathered through outreach activities should be immediately disseminated to the constituents.

**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.***

The CAC agrees with the regular reviews and that they be aligned with the Foundation's reviews. This would be an excellent opportunity for dialogue between the Monitoring Board and the Trustees and to exhibit unity within the IFRS family.

If you have any questions or need further elaboration, please do not hesitate to contact Sei-Ichi Kaneko, Executive Vice President, SAAJ (s-kaneko@saa.or.jp).

Sincerely yours,



Keiko Kitamura

Chair

Corporate Accounting Committee