

Mr. Masamichi Kono
Chair of the Monitoring Board Working
Group on Governance Review
Monitoring Board of the IFRS Foundation
30 Cannon Street
London
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7 April 2011

Dear Mr. Kono

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

The global organisation of Ernst & Young is pleased to respond to the request for views on the Consultative Report on the Review of the IFRS Foundation's Governance (Consultative Report). We support the Monitoring Board's decision to consult stakeholders in their efforts to enhance the IFRS Foundation's governance structure. Our detailed responses to specific questions in the Consultative Report are set out in the Appendix to this letter.

Overall, we continue to support the existing three tier structure of the IFRS Foundation as a means towards incorporating independence and accountability into the standard setting process. We are pleased with a number of the recommendations within the Consultative Report such as recommendations to emphasise the need for sufficient technical expertise of IASB members and continuing to focus the Monitoring Board membership on capital market regulators. These recommendations are important in striking the appropriate balance between independence and accountability.

Roles and responsibilities of the Monitoring Board

The Monitoring Board is an integral part of the IFRS Foundation's governance as it provides a link between the standard setting process and the public, via the capital markets regulators, and therefore provides accountability for the IFRS Foundation. At the same time, and in part due to this accountability link, the Monitoring Board must remain vigilant about staying independent of the standard setting process.

To achieve this independence, we believe the Monitoring Board should have no involvement in or influence over the content of the IASB's agenda or the agenda setting process. We agree with the current process whereby there is a mechanism for the Monitoring Board to suggest items for the IASB agenda; however we believe greater transparency would improve this process. We would support a process whereby the Monitoring Board is able to suggest items to the agenda which the IASB can reject by public notice that provides explanation for the agenda decision. It is critical that the Monitoring Board does not influence the agenda setting without transparency as this could be perceived as conflicting with the independence of the IASB and ultimately undermine the legitimacy of the IFRS Foundation.

We also believe that the Monitoring Board has a valuable role to play in the IFRS Foundation establishing a transparent and non-voluntary funding mechanism tied to those capital markets that utilise IFRS. We acknowledge that there is significant complexity in establishing a consistent method of funding allocation for varying jurisdictions that use IFRS. These complexities could be dealt with by first allocating the fees to jurisdictions that utilize IFRS using a consistent basis and then allowing each jurisdiction to develop the best method for allocating fees to the IFRS users. This process of allocating fees should be overseen by the Monitoring Board. This would assist in protecting the public perception of independence in the standard setting process by insulating the Trustees (who appoint the IASB members responsible for setting standards) from the 'potential' influence of significant funding contributors.

We encourage the Monitoring Board to be more publicly visible in its support for the IASB and to discourage local regulators from issuing local 'interpretations'. These steps will help promote global consistency in the application of IFRS, encourage increased adoption of IFRS and overall protect the IASB from the appearance of undue influence.

Membership of the Monitoring Board

We agree with the recommendation in the Consultative Report to restrict the membership of the Monitoring Board to capital market regulators. To safeguard the inclusiveness of the broader public interest overseen by other public interest organisations (such as prudential regulators), we would support more formalised outreach activities and increased dialogue. We also believe the Monitoring Board should continue to have consensus decision making and therefore membership size should be restricted such that it does not hinder this process. The majority of Monitoring Board representatives should come from current IFRS adopters and care should be taken to ensure the appropriate balance between developed and emerging economies is maintained.

Involvement of others in the standard setting process

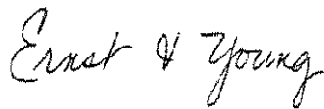
In our response to the Trustees' Strategy Review, we stated that in our view the primary objective of the IASB is to set standards for the capital markets and focus on the needs of investors and creditors. This reflects the objectives of external financial reporting as set out in the IASB's *Framework*.

We recognise, however, that other groups have a legitimate interest in the standard setting process and understand the need for differing views to be raised, such as those of prudential regulators. We believe the involvement of other groups representing non-primary users of financial statements would best be achieved through an observer role at the Monitoring Board meetings, increased dialogue and formalised outreach activities such as roundtables.

Regardless of the form used to seek input from others outside of capital market authorities, the process needs to avoid the risk of a group having special access without transparency or the appearance of bias in selecting those who will have special access.

Should you wish to discuss the contents of this letter with us, please contact Ruth Picker on +44 (0) 20 7951 3497 or Leo van der Tas on +44 (0) 20 7951 3152.

Yours faithfully

A handwritten signature in cursive script that reads 'Ernst & Young'.

Appendix - Responses to the questions in the IFRS Foundation Monitoring Board's Consultative Report on the Review of the IFRS Foundation's Governance

IASB

Composition and structure of the IASB

Q1: 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 strongly agree with the Monitoring Board's decision to emphasise the importance of technical expertise in the selection of IASB membership. We agree that achieving increased geographical or professional representation is important, but should remain secondary to the requirement for strong technical attributes of IASB members.

We also believe that any future discussions to increase the number of IASB members should consider the possible implications such an increase would have on the pace of decision making. Ultimately, the membership should not be expanded beyond 16 as this may inhibit the ability of the IASB to adequately debate issues. This ability to robustly debate issues is also important in ensuring the public's view that the IASB is producing appropriate and high quality standards. Overall, this will help support the acceptance of IFRS globally.

Q2: 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.

It is unclear what distinction in roles is being proposed in the Consultative Report between the role of the IASB Chair and the CEO. Is the CEO role meant to be a form of "director of operations" role (which currently exists) or is this meant to deal with the political and managerial aspects of the organisation; whereas the IASB Chair would focus more on the technical merits and overall objective of creating high quality standards? It is also unclear if the separation of these roles is necessary considering the recent creation of a vice-chairman role set to come into effect July 2011.

Ultimately, if there is a separation of roles and responsibilities between the Chair and the CEO, then the respective roles would need to be clearly defined. How the separated CEO role aligns with the IASB membership criteria should also be considered to ascertain whether the revised CEO role would also represent a voting member of the IASB.

We also believe that control of the budget process should remain with the Chair of the IASB if these roles are separated. This would allow the IASB to allocate resources to standard setting projects as deemed necessary and guard against the possibility of the IFRS Foundation (through the newly separated CEO role) controlling the agenda by withholding funding for certain projects.

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Regardless of whether these roles are separated, the emphasis of the CEO should be to increase public visibility, encourage adoption of IFRS throughout the world and discourage local interpretations of IFRS.

Q3: 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.

As noted in the Consultative Report, this question is an extension of the division of roles between the CEO and Chair discussed in Question 2 above. Generally we agree that, if the roles of the CEO and Chairman of the IASB are segregated, then clearer division between staff could be beneficial to obtain efficiencies and increase the focus of the staff presuming there is a different purpose behind each role. We understand an appropriately high level of separation between IFRS Foundation staff and the IASB staff currently exists and any modifications would be to provide formality around this existing segregation.

We also believe that there may be a need to more clearly separate staff supporting the IASB from staff supporting the Trustees. The process whereby the Trustees oversee the IASB is integral to providing independence within the standard setting process. Accordingly, we can see the benefits of ensuring that there is some distance between staff supporting these two groups.

Trustees

Oversight role and functions of the Trustees

Q4: Please provide comments on any aspects of Trustee composition or appointments that you believe the Monitoring Board should consider.

We believe that appropriate Trustee membership is important to ensure adequate continued involvement of the private sector and the profession in the standard setting process. It is important that the Trustees are influential and respected members within the global business community. Further, we believe that the Trustees should act publicly in their activities supporting the IASB. This would allow stakeholders to have greater visibility into the work the Trustees perform and enhance the credibility of the IFRS Foundation.

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Q5: 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 with the recommendations of the Consultative Report that there should be greater visibility and transparency into the roles and activities of the Trustees. This would provide stakeholders with greater understanding of the governance process with the goal of increasing stakeholder confidence in that process. Clarification of the candidacy criteria would be an example of only one of such possible measures.

The role of the Monitoring Board is to create a link between the IASB and public authorities that is important to provide public accountability for a global standard setting process to achieve widespread public support. As a result, the role of the Monitoring Board in the Trustees' appointment process should be limited to oversight of that process to maintain this accountability role. We believe the power of the Monitoring Board over the Trustees membership should be limited to being able to remove Trustees or require that the Trustees investigate and take appropriate action with respect to Trustees who are not performing their duties.

Monitoring Board

Composition of the Monitoring Board

Q6: 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 are highly supportive of the Consultative Report recommendations to continue limiting the Monitoring Board membership to 'capital market authorities' as this is more closely aligned with the objectives of financial reporting as set out in the IASB's *Framework*.

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As set out in our response to Question 7 below, we believe decisions of the Monitoring Board should continue to be made by consensus and therefore membership size should be restricted such that it does not hinder this process.

The Monitoring Board should consider to what extent a country needs to use IFRS to warrant representation on the Monitoring Board. Generally, we believe that countries that adopt or accept IFRS, are working towards IFRS or are aligning with IFRS could be entitled to representation. However, the majority of Monitoring Board representatives should come from current IFRS adopters. We support emerging economies having adequate representation on the Monitoring Board as set out in the Consultative Report. However, we believe that care should be taken to ensure the appropriate balance between developed and emerging economies is maintained. Regardless of membership, the Monitoring Board should monitor whether the standard setting process appropriately takes account of the needs of non-public entity groups where applicable (such as in establishing IFRS for SMEs) and the needs of emerging economies to adequately fulfill its oversight responsibilities.

The Monitoring Board also needs to consider whether certain organisations could be represented twice depending on how the membership structure is determined (e.g., when wider interest groups are represented by a Monitoring Board member such as with IOSCO membership). It is important that Monitoring Board members are clearly acting as a representative of the organisation from which they have been selected.

Q7: 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 agree that consensus decision making by the Monitoring Board is appropriate and is an important factor in the public's perception of the standard setting process. This will further enhance the legitimacy of the IFRS Foundation and support the acceptance of IFRS on a global basis. As noted in our response to Question 6 above, there is a delicate balance between the size of the Monitoring Board and the ability to effectively govern using consensus decision making. We believe that consensus decision making is appropriate and the membership size needs to support this process.

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Q8: 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 recognise that other groups may have an interest in the standard setting process and understand the need for differing views to be raised, such as those of prudential regulators. However different special interest groups are likely to have divergent concerns and deciding which group's interest is most important can vary depending on the current environment.

This creates difficulties in distinguishing which groups should be provided with special access and which should not. Therefore, we believe the involvement of other groups representing non-primary users of financial statements would best be achieved through increased dialogue and formalised outreach activities such as roundtables.

Establishing an advisory body would create unnecessary complexity in the process and could lead to issues over where to draw the line of which authorities are included.

Regardless of the form used to seek input from others outside of capital market authorities, the process needs to avoid the risk of a group having special access without transparency or the appearance of bias in selecting those who will have special access.

Q9: 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 that the current structure and processes in place, as set out in the IASB Due Process Handbook, contribute to ensuring high quality standards. The outreach activities to seek input from a wide range of stakeholders are integral to this process. We commend the Board for the degree of outreach that has occurred recently and encourage continued field testing as a critical part of developing high quality standards.

Current processes are in place to allow all interested stakeholders to provide input into the standard setting process through outreach activities, the public comment process and the IFRS Advisory Council. The IFRS Foundation should engage in increased outreach activities and continue to ensure sufficient emphasis is placed on providing transparency into the standard setting process, which includes processes around governance of the IFRS Foundation.

Some would argue that the role of financial reporting standards may conflict with other public policy concerns, such as financial stability requirements. We highlighted in our response to the Trustees' Strategy Review that we believe these two perspectives are not

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irreconcilable, nor inherently conflicting. In the end transparency in financial reporting benefits not just the investor but also those concerned with financial stability.

In our response to the Trustees' Strategy Review we stated that in our view the primary objective of the IASB is to set standards for the capital markets and focus on the needs of investors and creditors. This reflects the objectives of external financial reporting as set out in the IASB's *Framework*.

Q10: What are the appropriate means and venues for the Monitoring Board to enhance the visibility and public understanding of its activities?

We strongly support increased transparency and visibility surrounding the IFRS Foundation's governance and we believe the measures suggested (e.g., increased press releases, public presentations) are appropriate. Further, we believe that the Monitoring Board should focus efforts on discouraging local 'interpretations'. We view this as a critical part of achieving a truly global set of standards and this role would best be filled by the Monitoring Board members, who are respected representatives of not just their local jurisdiction but also of the global capital markets community.

We also believe that the measures to increase public awareness recommended in the Consultative Report should be extended to the activities performed by the Trustees.

Roles and responsibilities of the Monitoring Board

Q11: 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 current due process provides the Monitoring Board with the ability to submit requests to the IASB to add items to the agenda, whilst the ultimate decision on whether or not to include these items on the agenda remains at the discretion of the IASB. We believe this existing process appropriately preserves the independence of the IASB.

The Monitoring Board was created in an effort to bring the regulators closer to the standard setting process to improve accountability to governments, to discourage local interpretations and encourage increased adoption of IFRS worldwide. In the interest of independence, 'interpretations' and standards should only be made by the IASB or the IFRIC and the public perception of this as an independent process should be protected. The role of the Monitoring Board should be clearly defined as one that monitors the effectiveness of the standard setting process, without unduly influencing the inputs to or outcomes of that process. Accordingly, the Monitoring Board should not have specific agenda setting abilities to either add or remove items from the agenda.

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The key point is to ensure that the Monitoring Board is not influencing the agenda setting without transparency. One method to achieve this transparency would be to allow the Monitoring Board to suggest items to the agenda which the IASB can only reject by public notice that provides explanations for the agenda decision. This process is similar to the process followed by the IFRIC for public requests for agenda items.

Q12: 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?

In our view, the IFRS Foundation needs to establish a long-term sustainable process that spreads its sources of financing out and establishes a non-voluntary funding process. This would allow the IFRS Foundation to avoid the appearance of influence.

The appropriate source of funding should be tied to the primary users of IFRS as discussed in Questions 6 and 9 above. Accordingly, the source of automatic funding should be clearly linked to the capital markets that are supported by and utilise IFRS.

We believe the Monitoring Board has an important role in the IFRS Foundation's funding process. Each individual jurisdiction may have a vastly different structure and process around standard setting. Some jurisdictions require standards established in law by the government whilst others are set out through the securities regulators or other authorised bodies. These differences create a number of issues in developing a consistent method of allocating fees that will work for each jurisdiction. We believe these complexities should be acknowledged and dealt with by first allocating the fees to countries that utilize IFRS using a consistent basis and then allowing each jurisdiction to develop the best method for allocating fees to the relevant IFRS users. This process of allocating fees should be overseen by the Monitoring Board.

This process outlined above would assist in protecting the public perception of independence in the standard setting process by insulating the Trustees (who appoint the IASB members responsible for setting standards) from 'potential' influence of significant funding contributors. This 'potential' for perceived influence is of even greater concern in the current environment where the funding is voluntary and must be actively solicited by the Trustees.

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Q13: 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 roles of the Monitoring Board and Trustees need to be clearly defined and separated to preserve independence or the appearance of undue influence on the standard setting process.

We agree that the Monitoring Board should have a more transparent role in the appointment process; however, this does not mean increased power as this would be a perceived threat to independence. Rather, the Monitoring Board should oversee the appointment process to ensure that it is adequately performed by the Trustees.

The governance strategy should consider building a requirement for the Trustees' nominations committee to consult with the Monitoring Board using a process that is transparent. However, the nomination of the IASB chair should ultimately be the responsibility of the Trustees.

Q14: 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 believe that the role of the Monitoring Board is to oversee the Trustees and to ensure that adequate governance activities are being undertaken. Refer also to responses to Question 13 above.

Q15: 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 need for a Monitoring Board secretariat indicates increased activities outside of monitoring, such as more involvement in the processes of the Trustees and the IASB. We strongly believe this is outside the role of the Monitoring Board.

It is unclear what the benefits would be of having a combined secretariat for the Monitoring Board and the Monitoring Group responsible for overseeing the governance of IFAC. If

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scheduling for those members in common between these two groups is the main concern, then we would suggest meetings should be organised consecutively.

We would also support the ability for the Monitoring Board to engage other individuals when necessary to perform administrative tasks, which could include the IFRS Foundation support staff.

Other matters

Q16: 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 believe there needs to be a period of stability once this current review is completed to allow the IFRS Foundation to fully implement and achieve the benefits of the changes resulting from this review. We would support the proposal for periodic reviews of the IFRS Foundation's governance processes focusing on the operational effectiveness of the Monitoring Board and Trustees commencing after this period of stability and further in the future.

Q17: Do you have any other comments

We have no further comments at this time.