



Review of the IFRS Foundation's governance

The ABI's response to IFRS Foundation Monitoring Board's consultative report

Introduction

1. The Association of British Insurers¹ (ABI) is grateful to the IFRS Foundation Monitoring Board for the opportunity to respond to its invitation to comment on its review of the IFRS Foundation's governance.

ABI comments

2. We support the current three-tier governance structure for the IFRS Foundation so as to ensure the independence of the IASB, and the high quality of its standards and their global application. In our view, it is essential that the roles at each level are clearly and separately defined.
3. We consider that the Monitoring Board should oversee directly only the IFRS Foundation Trustees, and it is Trustees alone who should oversee the IASB Board. This means that the Monitoring Board has a legitimate role in ensuring that there are structures in place to ensure that the IFRS Foundation's objectives are achieved. But it also means that the Monitoring Board should not have any direct role in the selection of the IASB Board's Chair or of its other members, nor in the establishment of its technical agendas or in the formulation of its standards.
4. We also accordingly welcome the Monitoring Board's review of whether it is able to fulfil its role adequately. We agree that its composition should reflect more capital markets authorities globally and that there should be greater transparency about its activities, subject to the need for a degree of confidentiality that may be necessary to maintain its consensus basis of decision making, which we support.

Association of British Insurers
8 April 2011

¹The ABI represents the UK's insurance, investment and long-term savings industry. It has over 300 members, which together account for around 90% of premiums in the UK domestic market and manages investments of £1.5 trillion. The UK insurance industry is the third largest in the world and the largest in Europe, helping individuals and businesses protect themselves against the everyday risks they face.

Questions for consultation

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.*

1. We consider that the IASB's objective of establishing high quality, global financial reporting standards can only be met if the criteria for IASB Board membership focus clearly on both technical expertise and experience in financial reporting, and wider business experience – including of the international capital markets. Candidates possessing such qualities may then be selected so as represent diverse geographical and professional backgrounds.
2. We caution against expanding the IASB's size solely to achieve diverse representation. We note that the Monitoring Board itself suggests a maximum of fifteen in order not to undermine efficiency and flexibility in reaching decisions. Hence, we consider that the IASB Board should not be expanded beyond its currently planned total of sixteen.

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.*

- 3 We continue to support the separation of the two roles. Their separation would improve governance because it would remove the inherent conflict of interest, and it should therefore strengthen the independence of the IASB's standard-setting.

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.*

- 4 We support the principle of having a clear division of staff responsibility to reflect the division of standard setting from oversight functions.

Question 4 - *Please provide comments on any aspects of Trustee composition or appointments that you believe the Monitoring Board should consider.*

- 5 We consider that a priority for Trustee composition is to reflect that of IFRS standard setting overall. This is to ensure that investors, being shareholders and other suppliers of capital, are provided with the high quality information that they need. We encourage the Foundation to ensure therefore that the investor interest is adequately represented in the composition of the 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.

- 6 We support transparency about what the process comprises, and we consider that the Monitoring Board should agree with the process to be used. We do not, however, support that the Monitoring Board's role in the actual selection of Trustees should otherwise go beyond the submission of names for consideration by the Trustees.

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.

- 7 We consider that the membership of the Monitoring Board should continue to be confined to capital markets authorities. We also suggest accordingly that the place of the European Commission on the Monitoring Board should be taken instead by the European Securities and Markets Authority.

- 8 We agree with the expansion of the membership to ensure appropriate representation and with the role of IOSCO in selecting rotating members.

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.*

- 9 We support the Monitoring Board's continuing decision-making only by consensus, as that provides legitimacy for the Board's advisory role and ensures that no jurisdiction can be too powerful.

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?*

- 10 We support the composition of the Monitoring Board as comprising capital markets authorities in so far as this reflects their responsibilities for providing orderly and efficient markets for investor participation. We note the interest of other public interest bodies with quite different policy objectives, and consider

that observer status only is appropriate for them – though we question why banking sector is represented through the Basle Committee and not the insurance sector. We suggest that the Financial Stability Board might be given observer status as well, to provide a link to the G20. We do not support any further strengthening of representation for these other public interest bodies either by establishing separate consultation processes that exclude other stakeholders by establishing another advisory body.

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.*

- 11 In our view, this question is in the first instance primarily for the IFRS Foundation Trustees to consider, and we note that the Trustees have recently consulted on the standard setting process as part of its strategy review. We regard this overlap in review and consultation as indicating that there needs to be a clearer understanding of the appropriate division of responsibilities between the Trustees and Monitoring Board.
- 12 In our response to the Trustees' consultation, we observed that the IASB is already a relatively open and transparent organisation. We noted that it has made a number of significant improvements changes to its consultation and other stakeholder-engagement processes. We consider that these changes need time to bed down, and the IASB be given space to concentrate on its immediate, very demanding, work-programme. We suggest that the IFRS Foundation Trustees should conduct a further review at a suitable point in time, some way into the 'stable platform' period that the Foundation aims to provide in the near future.
- 13 We note also that the IFRS Foundation Trustees and the IASB have several times consulted recently on the Foundation's objective and that of the IASB's standards. We remain convinced that the investor interest is paramount. We consider that a proper focus on investors' needs provides the most appropriate way in which the public interest may be furthered. We do not consider it appropriate that other public policy objectives, such as financial stability, should separately inform the IFRS Foundation's aims or the IASB's standards.
- 14 Effective outreach to investors as the primary users of corporate financial reporting is critical. The IASB has not always been very effective in communicating with the institutional investor community though there has been improvement in this regard. We understand that further thought is now being given to investor outreach and we would welcome renewed efforts to achieve further improvements. It will be important that the IASB allocates sufficient resources to support the renewed focus of the outreach activities.

Question 10 - *What are the appropriate means and venues for the Monitoring Board to enhance the visibility and public understanding of its activities?*

- 15 We generally support transparency and welcome the Monitoring Board's consideration of whether it provides enough. This would especially be to ensure that it is clear that the IASB's independent standard-setting is never compromised. For example, its agendas and related papers can be made

publically available and, generally, it can follow the practices of the IFRS Foundation Trustees. We note, however, that the need for consensus in the Monitoring Board's decision-making requires that there is appropriate confidentiality on individual members' views.

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.*

16 In our view, the IASB's standards derive considerable legitimacy from its independence, and it is highly important to us that this independence is not compromised either in relation to its standard-setting or its agenda-setting activities. We therefore consider that the IASB should be solely responsible for both, and we do not agree that the Monitoring Board should have the ability to place an item on the IASB's agenda.

17 We acknowledge that the IASB needs to have robust processes for engagement with stakeholders, and we support their periodic review to ensure their adequacy. We consider that these processes should enable public authorities as well as other stakeholders to provide appropriate input.

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?*

18 In our recent response to the IFRS Foundation Trustees' strategy consultation, we suggested that the objectives for financing should not only be that it is sufficient for the purpose, but also that it is obtained without due cost, and accordingly we commend the approach taken by the Financial reporting Council in the UK.

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.*

19 We do not agree that the Monitoring Board should have any direct role in selecting the IASB Chair, nor in approving the Trustees' selection, as that would inevitably compromise the independence of the IASB and its standards and so undermine their legitimacy. The Monitoring Board's role should instead be restricted to making recommendations to the IFRS Foundation Trustees only on the selection criteria and the selection process.

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.

20 As in our answer to question 1 above, we consider that the composition of the IASB Board should reflect firstly, technical and business criteria and secondly, the need for geographical representation. We do not consider that the Monitoring Board has any role other than monitoring the application of these criteria by the IFRS Foundation Trustees.

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.*

21 We do not currently support the establishment of a permanent secretariat for the Monitoring Board. This is because we do not consider that its proper role is such as to require such a resource. As public authorities, the Monitoring Board's members should be able to sustain its activities without recourse to separate resources, including separate funding.

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.*

22 We agree.

Question 17 - *Do you have any other comments?*

23 We have no further comments to make at the present time.