



Mr Masamichi Kono
Acting Chairman
IFRS Foundation Monitoring Board

Dear Sir

RESPONSE TO THE CONSULTATIVE REPORT: REVIEW OF THE IFRS FOUNDATION'S GOVERNANCE

The Ministry of Finance, Singapore, appreciates the opportunity to comment on the Consultative Report on the *Review of the IFRS Foundation's Governance*, issued by the IFRS Foundation Monitoring Board on 7 February 2011.

General comments

2. With the increasing adoption of the IFRS as the international standard, and its increasingly pervasive use in many jurisdictions, it is important that the public have full confidence in the IFRS-setting process. We note that one of the driving forces behind the setup of the IFRS Foundation Monitoring Board was to ensure that the IFRS-setting organisation is accountable to the stakeholders, and independent of external and political influence. Therefore, the role of the Monitoring Board in providing independent assurance on the standard setting process is critical. The Monitoring Board is responsible for providing oversight of the various processes of the Foundation. This should not be confused with the role of the IFRS Foundation, which is to oversee the activities of the IASB, including agenda setting, source of funding and appointment of IASB members.

3. Therefore, we generally do not support expanding the role of the Monitoring Board through its engagement in additional executive functions, such as involvement in the agenda setting or appointment of IASB members.

4. Our comments on the specific questions in the Consultative Report are as follows:

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.

5. We agree that there is a need to deepen the pool of candidates for IASB membership to ensure a diversity of views from different geographical areas, professional backgrounds and stakeholder groups. This will add to the breadth of discussions at the IASB and enhance the standard-setting process. In particular, we are of the view that there is a need for increased

representation of the smaller and emerging markets from regions such as Asia, where more and more jurisdictions are adopting IFRS.

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.

6. We agree that it would be better for the roles of the IASB Chair and the CEO of the IFRS Foundation to be separated. First, this would help to prevent any conflicts of interests (perceived or otherwise) in the decision-making processes, as the IASB is subject to oversight by the IFRS Foundation. Second, both roles have heavy responsibilities and require full-time commitment. Hence, the IASB Chair should focus on the standards-setting process and related activities, while the Foundation CEO can manage the administration of the organisation. The division of responsibilities between the IASB Chair and Foundation CEO should be clearly established in writing and disclosed publicly for greater transparency and accountability.

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.

7. We agree that there should be clearer division of duties and responsibilities between staff dedicated to technical projects and staff dedicated to the Foundation's administrative and oversight functions. This would provide the staff with greater clarity on their roles and responsibilities, and prevent any confusion on their role as well as conflicts of interest in areas which concern both the IASB and IFRS Foundation. There should also be separate and clearly defined reporting lines for the staff.

Question 4:

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

8. The current geographical distribution¹ of the Trustees allows for a fixed number of Trustees to be selected from each of the major geographical regions. However, this distribution may not be proportional to the number of economies in each region. For example, both North America and Asia-Oceania have six seats allocated to each region. However, there are more than 50 jurisdictions in Asia-Oceania, as compared to North America, which has less than 10 jurisdictions. The current geographical distribution should be reviewed to allow for a more equitable representation of emerging capital markets from regions such as Asia-Oceania.

¹ Currently, six of the Trustees must be selected from the Asia-Oceania region, six from Europe, six from North America, one from Africa, one from South America and two from the rest of the world.

9. We thus suggest reviewing the Trustee geographical distribution on a regular basis, possibly in conjunction with the five-yearly Constitution reviews, so as to reflect changes and developments in the world economy. In addition, there should also be sufficient diversity of the Trustee composition to comprise representatives from developed economies, emerging markets and also smaller economies, so as to ensure better diversity of views and perspectives, and therefore enhance the standard-setting process.

Question 5:

(1) *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?*

(2) *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.*

10. We are of the view that the roles and responsibilities of the Trustees Nomination Committee and the Monitoring Board in the Trustee nomination process are unclear. There should be greater transparency on the entire nomination and appointment process, particularly on the selection criteria. While we agree that the Trustees should consult the Monitoring Board and other key international organisations during the nomination process, the Monitoring Board should be treated no differently from other stakeholders. Greater transparency on the entire Trustee nomination process would help to increase stakeholder confidence in the independency of the process.

Question 6:

(1) *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?*

(2) *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?*

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

11. We are of the view that the public interest to which the IFRS Foundation is charged with serving is broader than just the international capital markets. There are other relevant stakeholders such as prudential regulators, tax authorities, auditors, national accounting standard-setters, preparers and users of financial statements. The membership of the Monitoring Board should therefore reflect this diversity of stakeholders, and could include organisations such as the Financial Stability Board (FSB) and the International Federation of Accountants (IFAC).

12. However, if the decision is taken to restrict the membership of the Monitoring Board to capital market authorities, we agree that there should be an expansion of the membership of the

Monitoring Board to allow greater diversity of representation from other jurisdictions. Other relevant stakeholders can be invited as observers.

13. We welcome suggestions to broaden the membership of the Monitoring Board to include emerging economies. However, instead of 4 permanent members from major emerging economies and only 2 rotating members, we should consider all the six additional members for rotating membership to allow greater flexibility.

14. We are of the view that those jurisdictions which have adopted IFRSs or have committed to a timeline for adoption of IFRSs, should play a greater role towards deciding on the membership of the Monitoring Board as they would be the most affected by decisions made by the IASB and IFRS Foundation. While financial contribution can be one factor, it should not be the only or main deciding factor for membership, as this would exclude the smaller and emerging economies, which are unable to provide as much financial contribution as the major economies.

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.

15. We agree, to the extent that the size of the Monitoring Board remains manageable, for decisions to be made by consensus. We would also suggest that any dissenting views at meetings be made public for greater transparency.

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?

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.

16. We have earlier highlighted our view that the membership of the Monitoring Board should include other key stakeholders such as public authorities and international organisations. For organisations which would like to be more involved in the standards-setting work of the IASB, they could join the IFRS Advisory Council, which advises the IASB on a range of issues, including work plan and agenda.

17. While the IASB has made efforts to increase its engagement with stakeholders through the increased number of roundtable meetings and outreach sessions, the IFRSs are by necessity principles-based and therefore subject to interpretation by preparers and auditors. There could be greater involvement and engagement with the national accounting standard-setters to understand the

local implementation issues. As the legal framework and the business and economic environment would differ between jurisdictions, the IASB could allow national standards setters to provide local implementation guidance, which the IASB could endorse, so that there could be consistent and robust implementation of the standards which will also reflect the underlying economic substance reported.

Question 10:

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

18. We are of the view that the Monitoring Board's discussions and minutes of meetings should be made publicly available on the IFRS Foundation website, to provide proper visibility and connection between the work of the Monitoring Board and the activities of the IFRS Foundation. Members of the Monitoring Board could also participate in the key international annual conferences, such as the World Standard-Setters Meeting in London and the IFRS Regional Policy Forum in Asia, so that it could share its views on the accounting standards setting process, while concurrently promoting greater understanding of its work.

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.

19. We are of the view that the Monitoring Board should not have an explicit ability to place an item on the agenda unilaterally, as that is not the role of an oversight body of the IASB and IFRS Foundation. However, this does not preclude the Monitoring Board from holding discussions with the IASB on current financial reporting issues and offering their views.

20. There are also other channels to provide views on the IASB agenda, such as through the IFRS Advisory Council. The IFRS Advisory Council comprises a diverse group of some 40 members from different organisations and jurisdictions, and is well-placed to provide feedback to the IASB on agenda items. It is also noted that the member organisations of the Monitoring Board are also represented in the IFRS Advisory Council, either as a member or an observer.

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?

21. It remains to be seen if a mandatory levy system could be imposed on the different countries using the IFRS, considering that there is no consensus currently on this matter. In the meantime, all countries should continue to contribute within their means. We would also encourage more central banks, accountancy firms and international accountancy networks to contribute to the funding of the IFRS Foundation.

Question 13:

(1) *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.*

(2) *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.*

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.

22. We are of the view that the Monitoring Board should not be given the right to select the IASB Chair, as this falls outside the role of the Monitoring Board as an independent oversight body of the IFRS Foundation and IASB. The Board's role should be to monitor the nomination process to ensure a fair process, and could at most be extended to allow the Monitoring Board to establish a set of publicly disclosed criteria for selection of the IASB Chair. While the Board could share its views on nominees with the Trustees based on their experiences or knowledge of these nominees, the Nominating Committee and Trustees should be given the right to make its decision independent of the Monitoring Board.

23. Similarly, the Monitoring Board could share their views with the Trustees on the framework on the composition of the IASB, but the actual nomination and selection process should be left to the Trustees to manage.

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.

24. We do not believe that there is a need to establish a permanent secretariat for the Monitoring Board, given our views that the Monitoring Board's role is to oversee the governance of the IFRS Foundation, and not be directly involved in the activities undertaken.

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.

25. We agree that there should be a periodic formal review, and the timing could be aligned with the Foundation's five-yearly Constitution reviews. This would facilitate a more comprehensive review of the whole governance structure, and would also be more expedient administratively.

26. We hope that our comments will contribute to the Monitoring Board's review of the IFRS Foundation's governance. Should you require any further clarification, please do not hesitate to contact me. Thank you.

Yours faithfully,

CHIN CHEE KIAT
DIRECTOR (ECONOMIC PROGRAMMES)
for PERMANENT SECRETARY (FINANCE)