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6 May 2011

**Re: Consultative Report on the Review of the IFRS Foundation's Governance**

Dear Sir/Madame,

OIC is pleased to have the opportunity to comment on the *Consultative Report on the Review of the IFRS Foundation's Governance*.

OIC welcomes the fact that also the IFRS Foundation Monitoring Board are seeking to make a review of the Foundation's governance in order to further enhance its accountability and public confidence in it as well as the independence of the standard-setting. We appreciate the efforts made over the years to improve these aspects.

Our main considerations are summarized below as follows:

- We support the proposal to separate the roles of the IASB Chair and the CEO of the IFRS Foundation. This dual role of the IASB Chair could compromise the independence of the IASB and give rise to potential conflicts of interest, for example regarding the budget allocation. Furthermore, we think that it would be appropriate, in order to increase transparency, that the CEO's responsibilities are clearly indicated in the Constitution. We point out that no overlap of functions should exist between the two roles but an appropriate and clear coordination system.
- We highlight that the Trustees, being moreover the governance body of the IFRS Foundation, need to be individuals representing jurisdictions which finance the Foundation as well as IFRSs adopters; we concur with the proposal to provide

increased transparency in the process for Trustee nominations and we welcome that the criteria for the Trustees' candidacy are further clarified.

With regard to the Monitoring Board's involvement in the nomination process, we think that the current provisions are adequate considering the role of the Monitoring Board.

- We believe that the membership of the Monitoring Board should be reserved to organizations which are involved in the implementation of IFRSs. Furthermore, we reaffirm the importance that these organizations represent the jurisdictions that apply IFRSs and contribute to funding the Foundation. In our opinion, the Charter should better clarify the criteria for being a member of the Monitoring Board, it being understood that a diversity of membership is appropriate.

An increased involvement of public authorities and other international organizations in Monitoring Board activities may be appropriate. The engagement of other organizations could take the form of a permanent advisory group.

- The funding is essential in order to ensure both continuity in the Foundation's activities and the independence of the standard-setting process. We think that the current funding model, based on direct contributions from stakeholders who represent private interests, cannot be sustainable in the long run for an organization like the IFRS Foundation that has to operate in the public interest, free of undue influence. The financing from private parties does not secure the independence of the Foundation. We think that the financing should come mainly from countries that adopt IFRSs, as they are those who have more interest in the Foundation operating in the public interest as well as ensuring their implementation. A proposal to achieve more automaticity of financing and independence could be a stable funding system from individual countries. The more significant financial contributors should be represented in the governance.

Please find our detailed comments attached below.

### **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.*

As a preliminary remark, we note that the Board is currently composed also of individuals from jurisdictions which have not yet adopted the IFRSs. This situation can be acceptable only for a temporary period, because the Board should consist of members representing countries that are IFRSs adopters.

Having said that, we think that it is appropriate that the best composition of the Board reflects the best available combination of technical expertise and diversity of international business as well as ensures a broad international basis. This balance is already required by the current Constitution and these criteria are those more proper for an international standard setter, such as the IASB.

Therefore, we think that the best composition is not achieved by setting additional criteria in order to identify the best candidates but by the ability to find a proper balance between the geographical allocation and the suitable candidates from the diverse geographical area.

### **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.*

We agree with the consideration made in the report that the dual role of the IASB Chair could compromise the independence of the IASB and give rise to potential conflicts of interest, for example regarding the budget allocation. Therefore, we support the proposal to separate the roles of the IASB Chair and the CEO of the IFRS Foundation, considering also the commitment required to perform both functions.

We note that the Constitution already provides the requirements that the CEO “*shall be subject to supervision by the Trustees*” and he/she “*shall be responsible for establishing the senior staff management team of the IFRS Foundation, in consultation with the Trustees*”. Instead, we think that it would be appropriate, in order to increase transparency, that the CEO’s responsibilities are clearly indicated. We point out that no overlap of functions should exist between the two roles but an appropriate and clear coordination system.

### **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.*

In accordance with the proposed separation between the roles of the IASB Chair and the CEO of the IFRS Foundation, we concur with the division of responsibility between staff dedicated to the IASB operations and staff dedicated to the Foundation’s administrative and oversight functions. However, the proposed division should ensure efficiency as well as avoid significant rises in costs.

### **Question 4**

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

We think that it is important that the composition of Trustees ensures an appropriate diversity of geographical and professional backgrounds. Therefore, the Trustees should

continue to review their composition in order to reflect the changes and developments surrounding stakeholders. However, we point out that for the role that the Trustees hold, the experience acquired holding positions either important at the institutional level or of great relevance in the business sector is more appropriate than having a professional background in accounting matters.

Furthermore, we strongly highlight that the Trustees, being moreover the governance body of the IFRS Foundation, need to be individuals representing jurisdictions which finance the Foundation as well as IFRSs adopters.

#### **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.*

We strongly support any initiative that can enhance the transparency in the IFRS Foundation activity. Therefore, we concur with the proposal to provide increased transparency in the process for Trustee nominations, documenting and publishing the formal procedures for their nominations. Moreover, we welcome that the criteria for the Trustees' candidacy are further clarified.

With regard to the Monitoring Board's involvement in the nomination process, we think that the current provisions are adequate considering the role of the Monitoring Board.

#### **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.*

In accordance with the description of the Monitoring Board provided in the Charter as "a group of capital market authorities that are responsible for setting the form and content of financial reporting in their jurisdiction, have a responsibility to protect and advance the public interest and are strongly committed to supporting the development of high quality international accounting standards", we believe that its membership should be reserved to organizations which are involved in the implementation of IFRSs. Furthermore, we reaffirm the importance that these organizations represent the jurisdictions that apply IFRSs and contribute to funding the Foundation. This is because they are those who have more interest in the Foundation operating in the public interest.

We have some concerns about the criteria used to select the members of the Monitoring Board. Indeed, it is not clear why the membership consists of both organizations representing several countries, such as the IOSCO and the European Commission, and National Supervisory Authorities, such as the SEC and the Japan Financial Service Agency. We think that the Charter should better clarify the criteria for being a member of the Monitoring Board, it being understood that a diversity of membership is appropriate. For

example, its composition could include organizations at international level or representing relevant international markets.

Regarding the proposal to expand the membership of the Monitoring Board to eleven members, with four members primarily from major emerging markets and two rotating members from all other markets, we have nothing against this. Nonetheless, the criteria to select the rotating members should be clarified. We note that if these members represent geographical areas, it is necessary to identify in advance which areas are entitled to propose a candidate.

#### **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.*

Given that the current composition of the Monitoring Board, we think that it is not necessary to introduce voting mechanisms that are different from the consensus model. Furthermore, we note that the types of decisions that require a vote are quite limited and that the Monitoring Board has mainly an oversight function on the IFRS Foundation activity. However, in the case of an increase in the Monitoring Board membership, the decisions could be made using a majority model, which depending on the number of members could be also a 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?*

As already noted in our comment letter on the Trustees' consultation about the strategy review, we think that the public interest should drive the accounting choices. Therefore, in order to develop high quality global accounting standards, a dialogue with all stakeholders, regulators included, is essential. An increased involvement of public authorities and other international organizations in Monitoring Board activities may be appropriate to achieve this objective.

The engagement of other organizations, such as for example the Financial Stability Board, the International Association of Insurance Supervisors, the International Monetary Fund and the World Bank, could take the form of a permanent advisory group. It could be composed of the main interested parties and release a non-binding opinion to the Monitoring Board, before its decision.

#### **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.*

We think that some enhancements to the standard setting process could be made in order to improve the accountability and the transparency of the IASB towards its stakeholders. We think that it is important that the relationship between the IASB and the National standard setters is clearly defined. In order to achieve this, we suggest the adoption of a

Memorandum of Understanding between the IASB and the NSSs that recognizes to NSSs a more critical role in the standard setting process, given that they are stakeholders that voice national issues.

We think that the IASB should intensify its liaison relationship with NSSs. In particular, the NSSs could play a more active role with reference to the IFRS Interpretation Committee's activity and in carrying out impact assessments. Moreover, the views of the NSSs should be taken more in consideration in order to set the priority and the scope of the agenda items. We have already pointed out these aspects in response to the Trustees' consultation about the strategy review. Please refer also to our answer to question 8.

#### **Question 10**

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

We support the proposal of the Monitoring Board to provide more transparency in its oversight activities. Making more readily available the information about the Monitoring Board, but in general with regard to any bodies of the IFRS Foundation, seems the better manner not only to disclose to the public what the Foundation is doing but also to enhance the understanding of its work.

We think that the website is the most appropriate tool to achieve this objective, given its global accessibility. Furthermore, the presence of representatives of the IFRS Foundation at public meetings is useful in order to create a more direct relationship with the stakeholders as well as enhance confidence in the Foundation.

#### **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.*

In our view, the existing Constitution already recognizes an adequate involvement of the Monitoring Board in the IASB's agenda-setting and this is explicitly included in the Memorandum of Understanding between the Monitoring Board and the Trustees. Indeed, this Memorandum recognizes, moreover, to the Monitoring Board the possibility to refer accounting issues to, and confer regarding these issues with, the Trustees and the IASB Chair.

#### **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?*

We want to take the opportunity to reiterate our thinking about the funding of the IFRS Foundation, already expressed in our letter in response to the Trustees' consultation about the strategy review, i.e. that it is essential in order to ensure both continuity in the Foundation's activities and the independence of the standard-setting process.

Therefore, it is fundamental that the Foundation has a funding system that guarantees that the financing is stable, able to achieve a diversification of the funding sources and appropriate in order to permit it to operate efficiently and independently.

We think that the current funding model, based on direct contributions from stakeholders who represent private interests cannot be sustainable in the long run for an organization, like the IFRS Foundation, that has to operate in the public interest, free of undue influence. The financing from private parties does not secure the independence of the Foundation.

Furthermore, in order to enhance the Foundation's accountability, appropriate transparency should be provided about the sources of financing.

We think that the financing should come mainly from countries that adopt IFRSs, as they are those who have more interest in the Foundation operating in the public interest as well as ensuring their implementation.

We acknowledge that the IFRS Foundation is a private organization and that, therefore, it has no authority to impose funding requirements. A proposal to achieve more automaticity of financing and independence could be a stable funding system from individual countries. The more significant financial contributors should be represented in the governance.

### **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.*

### **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.*

In our opinion, the current provisions in the Constitution enable the Monitoring Board "to review and provide advice to the Trustees on their fulfillment of the responsibilities set out in section 13 and 15". Accordingly, the Monitoring Board can oversee if the nomination process of the IASB members, reserved to the Trustees, is appropriately developed. Furthermore, the Monitoring Board can call on the Trustees or the Chair of the Trustees to discuss any area of work of the Trustees or the IASB. Therefore, we think that is not necessary require as an explicit provision that the Monitoring Board's responsibilities include consultation with the Trustees as they further develop the framework to ensure proper balance in the composition of the IASB.

We agree with the need for the criteria for the selection of the members and the Chair of the IASB to be clear and for the candidates to be assessed against these criteria. However, this responsibility should continue to be assigned to the Trustees.

Furthermore, we think that the involvement of the Monitoring Board in selecting the Chair, insofar as it can give feedback on a short list of candidates, could be appropriate.

### **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.*

We have nothing against the establishment of a permanent secretariat for the Monitoring Board. However, we think that the related cost should be minimized. Therefore, the opportunity, considered in the report, to share the permanent secretariat with the bodies responsible for overseeing the governance of IFAC, could be a solution to limiting these costs.

**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.*

We agree with the need for regular review both about the governance structure and the process in order to evaluate the effective implementation of the decisions taken and to consider properly the environment developments. We think that an interval of five years is reasonable. However, we note that it would be appropriate if the consultations launched on the governance structure review and on the Constitution review were conducted in a coordinated manner by the Monitoring Board and the Trustees.

**Question 17**

*Do you have any other comments?*

No other comments.

If you have any queries concerning our comments, please do not hesitate to contact us.

Yours faithfully,

Angelo Casò  
(OIC Chairman)