

IFRS Foundation Governance Review

- Overview of the Consultation Report*-

March 2011

Masamichi Kono

Chair, IFRS Foundation Monitoring Board

Working Group on Governance Review

(Acting Chair, IFRS Foundation Monitoring Board)

**** This presentation is prepared under the sole responsibility of the Chair of the Working Group. All references must be made to the original consultation document issued by the Monitoring Board.***

IFRS Foundation Monitoring Board

Monitoring Board (MB)

- ✓ **Inaugural Meeting: April, 2009**
- ✓ **Role: To provide a formal link between the Trustees and public authorities**
- ✓ **Members:**
 - **Representative of the IOSCO Technical Committee**
 - **Commissioner of the Japan FSA**
 - **Representative of the IOSCO Emerging Markets Committee**
 - **Chairman of the US SEC**
 - **Commissioner for Internal Market and Services, European Commission**
- ✓ **Observer: Representative of the Basel Committee**

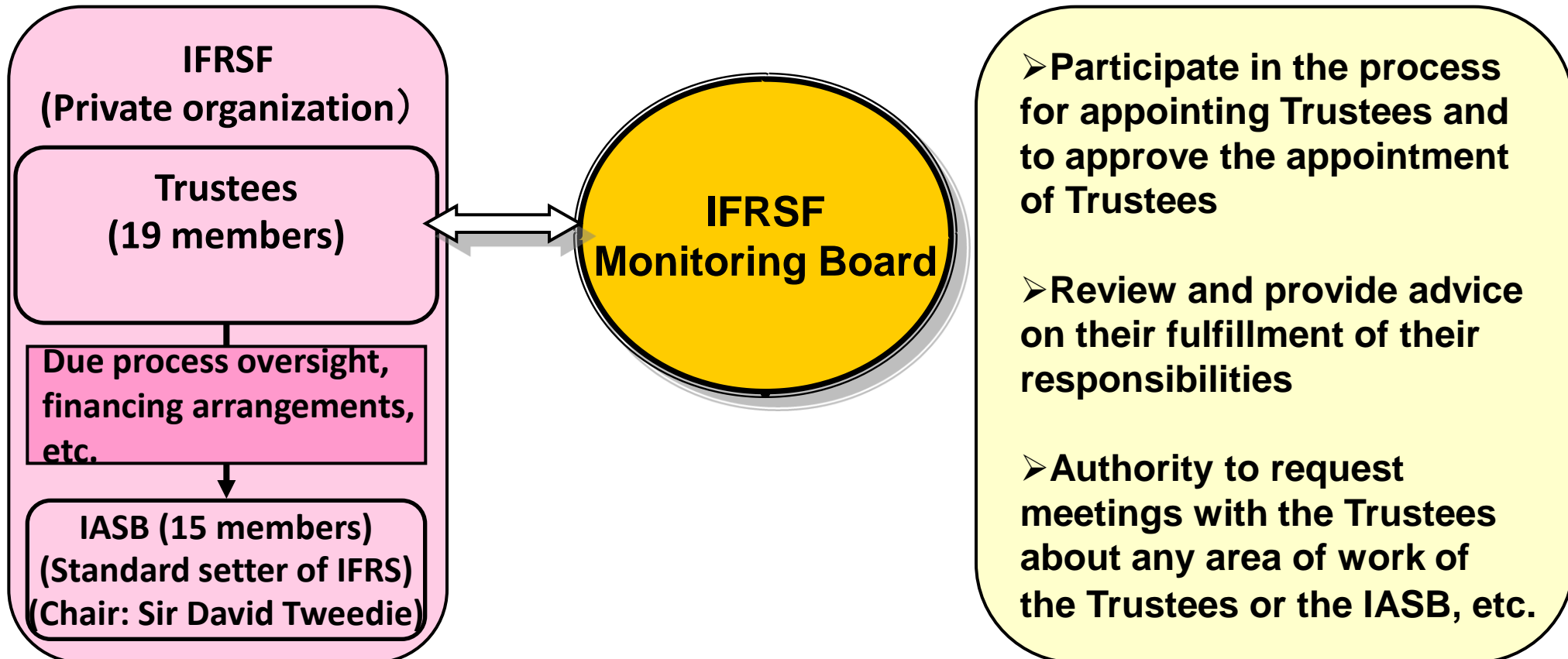
Overall Governance Structure of the IFRS Foundation and IASB

G20 Action Plan (Nov 2008)

Immediate Action by March 31, 2009

Strengthening Transparency and Accountability

With a view toward promoting financial stability, the governance of the international accounting standard setting body should be further enhanced, including by undertaking a review of its membership, in particular in order to ensure transparency accountability, and appropriate relationship between this independent body and the relevant authorities.



IFRS Foundation Governance Review (mandate and review process)

Working Group for Governance Review of the IFRS Foundation

- ✓ **Working Group was established by the MB in July 2010**
- ✓ **Working Group's mandate is to review the governance framework around the Monitoring Board and the IFRS Foundation**
- ✓ **Working group appointed from MB members and chaired by Masamichi Kono, Vice Commissioner for International Affairs of Japan FSA and Vice-Chair of IOSCO Technical Committee**
- ✓ **Consultation document prepared and opened for public comment for a period of two months on 7 February 2011**

IFRS Foundation Governance Review (focus)

Objective of the Governance Review

- ✓ The review focuses on the overall governance model of the IFRS Foundation including the composition of the MB, in order to assess whether the current governance structure adequately:
 - *provides appropriate representation for relevant authorities;*
 - *makes the IASB sufficiently transparent, and accountable to the relevant authorities;*
 - *ensures the appropriate involvement of all relevant stakeholders in the standards elaboration process;*
 - *ensures that all relevant public policy objectives are taken into account in the standard setting process; and*
 - *protects the IASB's independent standard setting process.*

IFRS Foundation Governance Review (IASB-1)

Summary of proposals and options, and associated questions

(1) Undertake concrete efforts to improve identification of candidates to ensure IASB membership from diverse geographical and professional backgrounds in order to provide for further objectivity and impartiality of the decision-making process, while maintaining professional competence and practical experience as the primary qualifications.

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.*

IFRS Foundation Governance Review (IASB - 2)

Summary of proposals and options, and associated questions

(2) Separate the roles of the IASB Chair and the CEO of the Foundation to safeguard the independence of the standard-setting process led by the IASB Chair and to avoid undue conflicts of interest as the CEO of the Foundation manages all the other aspects of the Foundation's functions, including IASB oversight.

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) Consider clearer division of responsibility between staff dedicated to the IASB's operations and staff dedicated to the Foundation's administrative and oversight functions.

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.*

IFRS Foundation Governance Review (Trustees)

Summary of proposals and options, and associated questions

(1) Continue to review the diversity of geographical and professional background of the Trustees so as to provide for objectivity and impartiality of the decision-making process.

Question 4:

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

(2) Devise formal procedures and clearer criteria for the nomination of candidates and appointment of Trustees accountable to the stated objectives for the IFRS Foundation.

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.*

IFRS Foundation Governance Review (MB-1)

Summary of proposals and options, and associated questions

- (1) Expand the membership to [eleven] members to include more capital markets authorities responsible for setting the form and content of financial reporting in respective jurisdictions, focusing on increased representation from major emerging markets. [Four] new members primarily from major emerging markets would be added on a permanent basis and [two] additional seats would rotate amongst authorities not permanently represented. The use of IFRSs in a jurisdiction and the contribution of the jurisdiction to the funding of the IFRS Foundation should be considered in selecting members.

(Note: Figures in square brackets are indicative.)

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.*

IFRS Foundation Governance Review (MB-2)

Summary of proposals and options, and associated questions

(2) Consider whether any types of decisions taken by the Monitoring Board would justify deviation from the current consensus-based decision-making system.

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.*

IFRS Foundation Governance Review (MB-3)

Summary of proposals and options, and associated questions

- (3) With a view to increasing the involvement of other public authorities and international organizations, consider either:
- extending the observer status to groups of prudential authorities and international organizations;
 - holding more formalized dialogue with public authorities and international organizations; or
 - establishing an advisory body composed of prudential authorities and international organizations.

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?*

IFRS Foundation Governance Review (MB-4)

Summary of proposals and options, and associated questions

- (4) Enhance publication of written records of Monitoring Board deliberations, increase the use of press releases, and strengthen the exposure of Monitoring Board members' views to the media and wider audiences.

Question 10:

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

IFRS Foundation Governance Review (MB-5)

Summary of proposals and options, and associated questions

(5) Consider if the Monitoring Board's current ability to refer matters to the IASB for consideration, requiring feedback, is sufficient, or whether an explicit role should enable the Monitoring Board to place an item on the IASB agenda.

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.*

(6) Explore possible options to establish a non-voluntary, transparent and stable public funding platform for the Foundation.

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?*

IFRS Foundation Governance Review(MB-6)

Summary of proposals and options, and associated questions

(7) Enhance the Monitoring Board's involvement in the nomination of the IASB Chair by enabling the Monitoring Board to provide a set of criteria for selecting potential candidates and evaluate certain candidates on the short list against the criteria during the selection process. Additionally, consider whether the Monitoring Board's role should also involve consultation on the Trustees' final decision and/or playing any further roles.

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.*

IFRS Foundation Governance Review(MB-7)

Summary of proposals and options, and associated questions

(8) As regards other IASB members, explicitly include in the Monitoring Board's responsibilities consultation with the Trustees as they further develop the framework to ensure proper balance in the composition of the IASB.

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.***

IFRS Foundation Governance Review (MB-8)

Summary of proposals and options, and associated questions

(9) Explore the possibility of establishing a permanent secretariat for the Monitoring Board.

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.***

IFRS Foundation Governance Review (Other)

Summary of proposals and options, and associated questions

Other questions:

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.*

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.*

Question 17:

- *Do you have any other comments?*

IFRS Foundation Governance Review (Way Forward)

Timetable of future activities

- ✓ **Consultative report published on 7 February 2011 and opened for public comment for a period of two months.**
- ✓ **During the public consultation period, the Monitoring Board plans to organize public meetings with stakeholders in Asia, Europe and the Americas.**
- ✓ **The comment letters received will be made available to the public, and a corresponding feedback statement on the results of the consultation will be made public after the completion of the consultation process.**
- ✓ **An action plan for implementation of the proposals will be developed and published by early in the third quarter of 2011.**

The Monitoring Board welcomes comments from all stakeholders around the world. The process will be coordinated with the Strategy Review of the Trustees.

Contacts at the Monitoring Board Secretariat:

Takashi NAGAOKA (Mr.)

Director for International Accounting

E-mail: t-nagaoka@fsa.go.jp

Makoto SONODA (Mr.)

Deputy Director

Corporate Accounting and Disclosure Division

E-mail: makoto.sonoda@fsa.go.jp



Thank you

***IFRS Foundation Monitoring Board
&
MB Working Group on Governance Review***

March 2011