

IFRS Foundation Monitoring Board Review of the IFRS Foundation's Governance
Asian Roundtable, Tokyo
24 March 2011
Summary of Discussion

Introduction

Following the publication of a consultative report on its review of the IFRS Foundation's governance on 7 February 2011, the Monitoring Board planned to organize public stakeholder meetings in Europe, Asia, and the Americas to reach out to stakeholders and acquire their preliminary feedback to the consultation. The second of such roundtable in Asia was held in Tokyo on 24 March 2011, with 20 participants at the table and further 14 audiences. They represented a spectrum of stakeholders including investors, preparers, auditors, standard setters, and the regulator¹.

Masamichi Kono, Chairman of the Monitoring Board's Working Group charged with the review, made a presentation on the objectives of the review and outlined the key proposals and options put forward in the Consultative Report, as well as the way going forward. He clarified that the Monitoring Board's focus was on reviewing institutional aspects of the Foundation's governance structure, while the Trustees of the Foundation were looking primarily at operational aspects in their ongoing Strategy Review project. The two parties would closely coordinate with each other to secure consistency in the outcomes of respective reviews.

Participants generally welcomed the review and its timing considering the rapidly changing landscape concerning the use of IFRSs around the world. While they considered the scope of the review to be far-reaching, and most of the proposals rational and reasonable, many participants remained cautious about the expansion of the roles and responsibilities of the Monitoring Board due to its impact on the independence of the standard setter. Many participants urged the Monitoring Board to work closely together with the Trustees and put together concrete measures for prompt implementation.

A summary of specific comments on key issues are as follows:

General issues

- Participants were basically satisfied with the performance of the current three-tiered governance structure of the Foundation, and found no need to change the fundamental structure. Some participants emphasized how effectively the current structure protected the standard setter from undue political pressures.
- Many agreed that the key to proper functioning of the governance mechanism was clarification of

¹ Due to recent earthquakes and ensuing events, attendance was only from within Japan.

respective roles and responsibilities of the IASB, Trustees of the Foundation and Monitoring Board. Transparency in various processes was also called for.

IASB

- Participants strongly shared a view that the independence of the IASB is crucial as the basis for pursuing its objective of creating a set of high quality, globally accepted accounting standards.
- There was a broad agreement on the importance of ensuring diversity in the composition of the IASB board members without sacrificing a high level of technical expertise. Recognizing the Foundation's past efforts reflected in its Constitution Reviews, some participants were comfortable with the current composition and found it unnecessary to revisit the issue at this point.
- Views differed on the separation of the roles of IASB Chair and the CEO of the Foundation, as well as the separation of the roles of the staff devoted in standard setting and the organization's day to day management. Some argued for retaining the *status quo* based on the observation that there was no imminent risk for conflict of interest and that the small size of the organization warranted flexibility on job allocation. Others considered that measures should be taken with a view to addressing upfront potential future problems in terms of corporate governance.

Trustees of the IFRS Foundation

- Importance of a close collaboration between the Trustees and Monitoring Board as well as the need for clarifying their respective roles were widely supported.
- There were arguments for improving representation of certain classes of stakeholders, such as analysts (investors) and accountants, among the Trustees in order to ensure desired diversity of Trustees' backgrounds.
- Many participants supported the recommendation to improve the transparency of the criteria and processes for the Trustee selection, but were strongly opposed to increasing the Monitoring Board's direct involvement in the process. One of the participants expressed the need for including representatives from medium-sized preparers which had a large share in number among listed companies.

Monitoring Board

Composition of the Monitoring Board

- Most of the views supported the proposal to limit the membership to capital markets authorities, while there was one suggestion to allow qualified individuals to participate.
- While there was a general support for the expansion of the membership, many cautioned not to

move too quickly to doubling the number of members, mainly out of concern for hindering efficient discussion. It was argued that the size of the Monitoring Board should reflect the scope of roles and responsibilities entrusted to it as the result of the review. Other points raised included the need for a proper balance between developed and emerging markets, and the need to include in the selection criteria the use of IFRSs in a jurisdiction and its financial contribution to standard setting. A few participants stressed that it was important to look at how open and mature the markets were in addition to mere size.

- In conjunction with the arguments on the membership expansion, the current consensus based decision making model was widely supported. Some participants agreed on the possibility of introducing a qualified majority rule, but only in strictly limited cases; for example, when consensus could not be reached for the approval of a Trustee.
- While no one supported the inclusion of prudential and other public authorities as members of the Monitoring Board, the importance of listening to their views was generally acknowledged. Views were divided on how to address such needs between increasing observers and further facilitating dialogue, but there was little support for formalizing such dialogue or establishing an advisory body.

Other issues regarding the Monitoring Board, including its roles and responsibilities

- Many of the participants were cautious about expanding the Monitoring Board's roles to explicitly include direct involvement in setting the IASB's technical agenda and the nomination of the IASB Chair. Some considered that the Monitoring Board was already capable of exerting sufficient influence over these decisions and further explicit involvement would only raise questions on the IASB's independence in appearance. Meanwhile, one participant argued that a direct involvement of the Monitoring Board in the IASB's agenda setting could facilitate the convergence project currently underway.
- No one explicitly supported the idea of creating a permanent secretariat at this stage, citing that it should be considered only after the outcome of the review on the size and the roles and responsibilities of the Monitoring Board had been implemented and tested.

Other

- Many participants found it useful to have a regular review of the governance structure, and supported such review to coincide with the regular review of the Foundation's Constitution.