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**Comments from JICPA on IFRS Foundation Monitoring Board
*Consultative Report on the Review of the IFRS Foundation's Governance***

Dear Mr. Nagaoka and Mr. Sonoda:

We at the Japanese Institute of Certified Public Accountants (JICPA) are pleased to comment on the IFRS Foundation Monitoring Board *Consultative Report on the Review of the IFRS Foundation's Governance (the "Report")*.

We believe that the three functional tiers (the Monitoring Board, IFRS Foundation Trustees, and IASB) should be maintained, and hope that the reforms instituted in consideration of this review and the comments received will be included in your action plan for implementation that further clarify the fundamental structure, functions and responsibilities of the Monitoring Board. We acknowledge that the fundamental role of the Monitoring Board defined in the Constitution, namely, to provide a formal link between the Trustees and public authorities, is important. Yet, we also believe that in terms of how the Monitoring Board will take further concrete steps should be

articulated, in its structure, function and responsibility aspects. For this reason, we may not be able to sufficiently comment on the questions presented in the Report. Please note this when reading the following comments.

Also, please refer to our comments on the Paper for Public Consultation: Status of trustees' strategy review (submitted to the IFRS Foundation on February 24, 2011).

【IASB】

IFRS Foundation Trustees is responsible for structure and governance of the IASB. Please take note of this when reading the following comment.

(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.

(Comment)

We believe that the balance of the membership in terms of different geographical and professional backgrounds should not be pursued at the expense of losing technical expertise. Since the IASB objective is for IFRSs to be a global accounting standard, the IASB must be made up of members who have the knowledge about accounting practices used by entities listed on the "major markets" in the world (please see the comment on Question 6-2 about what "major markets" mean).

In our view, the priority related to geographical diversity should not detract from this requirement. Regarding the plan for keeping a list of names of candidates, we think it ideal in theory, but have concerns about the practicability, since, it would probably be difficult to constantly keep and maintain such a list.

(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.

(Comment)

As we stated in "Part 2 of the Constitution Review: Proposals for Enhanced Public

Accountability,” given the current environment, we believe that the CEO of the IFRS Foundation would have difficulties in meeting all of the assigned responsibilities, unless there is a separate full-time position. In addition, since the Foundation has the responsibility for oversight of the IASB, it would be desirable, from a governance point of view, that monitoring and governance functions be segregated. However, we think it will be necessary to carefully consider the separation of the role of the IASB Chair from that of the CEO of the IFRS Foundation, to ensure that the standard setting is efficiently processed.

Given the crucial importance of independence in the standard-setting process, we believe that the separation of the two roles should effectively prevent any direct involvement of the CEO of the IFRS Foundation in the standard-setting process. In our opinion, a system should be in place to consider the opinions of the IASB Chair when employing or evaluating staff members involved in that process.

We acknowledge that the main roles of the CEO of the IFRS Foundation are limited to financing and the monitoring of the due process of the standard setting. On this premise, we support the proposal.

(Question 3)

<p>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.</p>
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(Comment)

We agree with the proposal. We also see a need, however, to consider the division of responsibility with an emphasis on efficiencies. It should be permissible to have a staff perform both duties, when necessary.

With regard to the formalization of the division of responsibility, we suggest that the Foundation officially determine the division of responsibility between staff supporting the standard-setting activities of the IASB and staff working for the Foundation’s administrative and oversight functions, and disclose this division to the public.

【The Trustees】

(Question 4)

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

(Comment)

We believe that it is not necessary to change the current composition. The current distribution is well balanced in light of various aspects such as the current global capital market position, and is, by and large, consistent with the geographical distribution of IASB members. We are concerned, however, about the recent reductions in the number of accounting professionals with public practice experience serving as Trustees. Given the objective of the IFRS Foundation, namely, to monitor accounting standard-setting, we think it is necessary to secure a certain number of professionals with accounting backgrounds to serve as Trustees.

(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.

(Comment)

The Constitution states that the responsibility of the Monitoring Board is to approve the appointment of Trustees. We agree with this, but think it will be necessary to document the main procedures of Trustee nominations. At the same time, we see no need to change the Monitoring Board's current involvement, namely, to approve the appointment of Trustees.

(Question 5-2)

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.

(Comment)

We do not oppose the clarification of the criteria, but believe that the effects will be limited. As we described in our comment for Question 4, we would like to see more

professionals with accounting backgrounds in the composition of the Trustees. And, in our view, it should be articulated that the Trustees have the duty to protect the public interests, and that candidate Trustees must have respectable position and influence in the jurisdictions where they come from.

【Monitoring Board】

(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?

(Comment)

We agree with the proposal. It is important to recognize the fundamental role of the Monitoring Board defined in the Constitution, namely, to provide a formal link between the Trustees and public authorities. To fulfill this role, we believe that the membership of the Monitoring Board should continue to be confined to capital markets authorities responsible for regulating the form and content of financial reporting in their respective jurisdictions.

(Question 6-2)

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?

(Comment)

Given the number of countries that currently adopt or are considering adoption of the IFRSs, an expansion of the Monitoring Board's membership appears reasonable. On the other hand, we think that an expansion to 11 members would be excessive, although this depends on how the Monitoring Board will take specific steps as to the operational aspects. We support an expansion, but only a minimal one.

In our view, the "major markets" should be determined based on the scale or openness of the relevant capital markets. In expanding the membership, the Monitoring Board

should consider not only the scale or openness of the relevant capital markets, but also the state of adoption of IFRSs and the financial contribution of the jurisdictions.

Given the scale and openness of capital markets, we have concern about the validity of the addition of four members representing major emerging markets.

(Question 6-3)

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

(Comment)

For the same reason as described in our comment to Question 6-1, we support the proposal. The IOSCO is an international organization consisting of security commissions and security exchanges around the world, and all IOSCO members are participants in capital markets.

(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.

(Comment)

Basically, we think that the Monitoring Board should continue to make its decisions by consensus, although this depends on how the Monitoring Board will take specific steps as to the operational aspects. The board should only resort to voting other than by consensus under limited or exceptional circumstances.

(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?

(Comment)

This depends on how the Monitoring Board will take further steps related to its structural, functional and responsibility aspects. Based on the status at the present time, we would not be opposed to modest expansion in the number of Monitoring Board observers, provided that the effectiveness of the operation is ensured, and the expansion itself is minimal. Nor would we oppose a more formalized dialogue, or the establishment of an advisory body, provided that these would not impede the effective operation of the IFRS Foundation.

(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.

(Comment)

As we stated in our comments on the Paper for Public Consultation: Status of trustees' strategy review, we believe that steps should be taken to reflect the opinions of all the relevant stakeholders into the standards by further enhancing field visits, outreach activities, round-table meetings, and impact analyses, before the final standards are issued. Transparent financial statements help proper decision-making in public policy, and accounting standards should basically be independent from public policy. We believe that the process for setting the accounting standards should be kept strictly independent from public policy objectives.

(Question 10)

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

(Comment)

This depends on the specific steps the Monitoring Board will take as to the operational aspects. At a basic level, we would like the Monitoring Board to make continuous efforts to improve its accountability, by explaining its objectives, activities, and results of its activities via its website, and by issuing more press releases to explain its 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.

(Comment)

The standard-setting process must be independent, hence we think it would not be appropriate to give the Monitoring Board an explicit ability to place an item on the agenda.

As we commented on the Paper for Public Consultation: Status of trustees' strategy review, sufficient outreach activities and consultations with the constituents should be conducted in advance for the prioritization of the agenda-setting process, and reasons for the proposed prioritization should be disclosed to enhance the transparency of the prioritization.

(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?

(Comment)

We made the following proposals in our earlier comments on the Paper for Public Consultation: Status of trustees' strategy review:

- ✓ Japan has contributed funds to the organization on a pay-as-you-go basis. While more than 100 countries have adopted IFRSs, many of those countries have not provided financial contributions. We do not think that it is appropriate for a standard-setting of global accounting standards to receive most of its funding from only a small number of countries. Firstly, each country, applying IFRS should specify who, within its nation, is responsible for providing the funds (e.g., a regulatory body, standard-setter, etc.).
- ✓ Secondly, to require IFRS applicants to contribute on a Pay-As-You-Go basis, each country should consider its system. An example may be a commitment where IFRS applicants are publicly identified and are required to make financial

contributions on a Pay-As-You-Go basis based on pre-defined formula.

- ✓ Thirdly, to promote funding from users, the Trustees should consider disclosing the funding contributions and overall situation via websites, etc.
- ✓ Although it is critical to secure sufficient funding, there should be sufficient consideration, to avoid any circumstances which may lead to the impairment of independence in accounting standard-setting.

In our opinion, the Monitoring Board should provide direct or indirect support through members of IOSCO to ensure that funding processes such as the above function smoothly and that financial contributions are facilitated in each country.

(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.

(Comment)

We do not agree that the Monitoring Board should approve the final candidate of the IASB Chair. The IFRS Foundation has a three-tier structure that consists of the Monitoring Board, Trustees, and IASB. In light of this, we do not think it would be appropriate to give the Monitoring Board a role that overlaps the role of the Trustees and, at the same time, gives them the authority to revoke the decisions of the Trustees.

(Question 13-2)

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.

(Comment)

As we explained in our comment for Question 13-1, we see no need to give the Monitoring Board an additional role regarding the selection of the IASB Chair.

(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.

(Comment)

We do not agree. In our opinion, consultation is still possible under the current arrangements without any additional provisions. Insofar as the three-tier structure remains in place, there is no apparent need to add any explicit provision. The Monitoring Board also shoulders the role of ensuring the independence of the Trustees and the IASB.

If consultation with the Trustees was included explicitly in the responsibilities of the Monitoring Board, it would impair independence and create too much administrative burden for the IFRS Foundation.

(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.

(Comment)

We do not oppose the establishment of a permanent secretariat. But we believe this option should be carefully considered, as it would probably be more efficient and cost-effective to maintain the status quo. We also believe that the members of the Monitoring Board should contribute the costs necessary to establish and operate the secretariat. If the IFRS Foundation pays these costs, the Monitoring Board should actively support the funding of the IFRS Foundation.

(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.

(Comment)

We basically agree that regular reviews are necessary. However, the more specific aspects of timing depend on how the Monitoring Board will take specific steps as to the operational aspects.

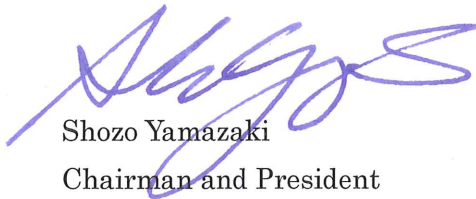
(Question 17)

Do you have any other comments?

(Comment)

We believe that the Monitoring Board should perform activities to enhance the independence of the standard-setting process and improve accountability to the stakeholders. Yet, the independence of the standard-setting process should not be distorted by giving too much priority to accountability. With this in mind, we hope that this governance review specifically clarifies the functions and scope of authority of the Monitoring Board.

Yours truly,



Shozo Yamazaki

Chairman and President

The Japanese Institute of Certified Public Accountants