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Direct dial : Tel.: (+31) 20 301 0391 / Fax: (+31) 20 301 0302  
Date : Amsterdam, 6 April 2011  
Re : Comment on 'Consultative Report on the Review of the IFRS Foundation's Governance'

Dear members of the Monitoring Board,

We appreciate the opportunity to comment on the above report.

We believe on the one hand that with the increased global reach of IFRS an evaluation of the IFRS Foundation's Governance is timely, but on the other hand we have significant concerns in this context.

We think it is unfortunate that both the Monitoring Board (MB) and the Trustees have decided to conduct an evaluation independent from each other (particularly with the number of overlaps between the respective consultations) rather than a combined comprehensive review<sup>1</sup>.

Furthermore, we noted the MB consultation document also refers to regional meetings that provided input for the consultation document. We are however unaware of any such meetings having been held in our country. We also found the MB consultation document confusing in the sense that it is structured from the bottom up, where we would have thought, given the oversight role of the MB, that it would have been beneficial for the MB to look at the Foundation governance from the top down. We also believe that some of the MB questions are for the Trustees to consider rather than the MB.

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<sup>1</sup> We also refer to our submitted comment on 'Paper for public consultation Status of Trustees' Strategy Review'

In our view the two months timeframe that has been provided by you for comment on the Consultative Report is too short for a fundamental reflection on your questions and the broader issues raised by both the MB and the Trustees. We note your intention to work closely with the Trustees on the outcome of the respective consultations. In our view, it is essential that these result in a joint outcome. Therefore you, together with the Trustees, may well wish to consider a second round of consultations after all comments in this phase have been evaluated, particularly if any subsequent decisions would result in proposals with significant changes.

In our opinion, it should be a matter of priority to clearly define the roles of in particular the Trustees and the MB and make them more transparent in the envisaged governance structure. The MB has been set up to monitor, but to some extent it appears that the MB is now taking on certain of the responsibilities that belong in our view with the Trustees. A number of the questions in your Consultative Report appear to be highly suggestive in this respect. The necessary strengthening of the institutional framework of the Foundation could, inter alia well be achieved by raising the visibility of the Trustees, and at the same time limiting the role of the MB to the one intended, i.e. oversight rather than getting involved in running the Foundation.

The primary purpose of the MB is the enhancement of public accountability of the IASB through the public interest oversight function of the Trustees whilst preserving the independence of the IASB. In reviewing the questions raised by you we are increasingly convinced that changes in the membership of the MB are needed, too. In effect, that is suggested by you as well.

We believe that, certainly at present, there is a much broader stakeholder community that has an interest in IFRS. The future composition of the MB (and/or the Trustees) should reflect that. After all, a proper functioning of capital markets is a matter of public interest. In this respect we think it is questionable whether the MB purpose can be achieved by limiting its members to stakeholders that only represent capital market authorities. On the contrary, membership of the MB should be broadened to achieve a better reflection of public interest in which governments play a substantial role.

Also, as public interest is in general monitored by governments and financial reporting principles aimed at capital markets are a vital part of a proper functioning of those markets in our opinion the costs of the process of financial reporting standard setting should be borne by public financing.

As a consequence of the above, in our view the Foundation governance should be structured in three tiers, i.e. the IASB under supervision of the Trustees in turn overseen by the MB with an appropriate composition at each level. Much of that structure is already there, but it needs to be filled out and made to work in practice.

We have addressed that structure in more detail in our responses to the detailed questions, which are included in the appendix to this letter.

Yours sincerely,

A handwritten signature in black ink, consisting of a vertical line on the left that curves into a horizontal line extending to the right, ending in a small hook.

Hans de Munnik  
Chairman Dutch Accounting Standards Board

Cc: European Commission - Mr. J.J. Hooijer

Appendix:

- Our responses to the questions on 'IFRS Foundation Monitoring Board Consultative Report on the Review of the IFRS Foundation's Governance'

**APPENDIX – Responses to the questions on “IFRS Foundation Monitoring Board  
Consultative Report on the Review of the IFRS Foundation’s Governance”**

**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.

Although high quality of the members of the Board is crucial for the proper functioning of the IASB, we are unclear as to what is exactly meant here; the question appears to suggest that the present composition is not the right one and that there is a problem. In our view diversity is an important factor in selecting IASB members, but (professional) competence should be the overriding one; we are opposed to selecting members for their geographical background only.

Having said that, we also think that the Trustees, who are primarily responsible, should work with a model for selecting members that is adaptable, i.e. not fixed forever in where candidates should come from. Besides this, member selection should also consider practical experience, high level technical and communication skills and last but not least the ability of members to work together, whilst preserving independence of mind.

**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.

Yes, the roles of the IASB Chair and the CEO of the IFRS Foundation should be separated; in our opinion IASB members and the IASB Chair should not be involved in the affairs of the Foundation.

We understand that both the IASB Chair and the Foundation CEO also have an ambassadorial function, the IASB Chair for promoting IFRS and the CEO for funding. The best option would in our view be for the Chair of the Trustees to take on the CEO role; that would probably require more time in that role but we believe that to be appropriate particularly with regard to funding (see also our response to question 3). As a consequence, the constitution should be amended in this respect.

**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.

As a matter of principle we agree with that division of responsibilities. However, we also believe that “lean and mean” should be a guiding principle here; as long as staff is only there for limited support, i.e. secretarial and administration, we do not consider this a major problem; on the other hand staff that is involved in oversight is another matter and should be totally separate. One of the options that could be considered is appointing a Company Secretary type of person on the basis of the UK model for many of the functions that have some overlap between the IASB and Trustees.

**Question 4:**

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

We believe a three-tier model to be the most appropriate governance structure for the Foundation, whereby the IASB is the independent standard setter (i.e. the executive level) under the supervision of the Trustees (i.e. the non-executive level) in turn overseen by the MB (i.e. the public interest stakeholder level). The MB level should also be reviewed in the context of funding. Composition and appointments tailored to the respective tiers should follow this structure.

The MB stakeholder level should then be composed of representatives of countries or governments that either have adopted or are committed to IFRS. For that reason funding should also be arranged at this level (see our responses to question 6 and 12).

The Trustees’ level should be composed of representatives of the preparer, user and audit community, possibly augmented by some other general representatives, for instance from academia.

The IASB level appointments should be on the basis of several competences (see our response to question 1).

**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.

**5(1)**

Yes, in principle we support more transparency in the process for Trustee nominations, but we believe it will be challenging to achieve a balance between openness and the protection of privacy for individuals involved.

In our view there should be an explicit agreement between the Trustees and the MB on the criteria for selection and those criteria should be public.

The Trustees should propose a candidate based on those criteria and the Monitoring Board should vet and approve/disapprove.

## **5(2)**

As said, we agree that further clarification of the criteria for the Trustees' candidacy will help. We agree that the current criteria are not sufficient clear.

### **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.

## **6(1)**

In our view the MB should reflect those countries converted to IFRS or committed to IFRS, i.e. on a geographic basis; it would then be up to countries as to how to fill that membership.

We do not think that capital markets authorities should fill that role necessarily as they are in many instances not responsible for accounting standard setting, but for supervision. Restricting the MB membership to capital markets authorities only would in our view lead to a situation where the custodians review their own work.

We understand the need for a compact MB; there are quite a few examples (World Bank; IMF) where a combination of direct and indirect representation exists and we cannot see why such a model could not be functional at the MB level.

This question needs to be considered also in the context of funding (see our response to question 4).

## **6(2)**

Expanding the board: See our comments above.

## **6(3)**

We disagree; see our comments above.

**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.

Obviously, consensus would be fine if achievable in all cases, but a qualified majority is in our view acceptable in many instances as well; otherwise, certainly with an expanded MB, members have a de facto veto on any decision.

We think that Trustees appointments can be based on a qualified majority for instance, but in our view none of the decisions that the MB in its monitoring function, as described in its charter, are of such a nature that they would require a consensus opinion. The MB can decide what level would be appropriate for a qualified decision; this may even be modified based on the type of decision.

**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?

We are opposed to all of these suggestions.

In our responses to earlier questions we have indicated how we believe the MB should be composed, i.e. on a geographical basis; public policy concerns can then be channelled into the MB deliberations through the countries represented directly and indirectly; we do not see any point in involving even more “regulators” in the MB; on the contrary, regulators should regulate, i.e. oversee rather than be involved in the standard setting process.

We are against the “observer” model; given an appropriate country representation there is no need for this; adding observers does not contribute to a better process or better decisions. MB meetings should in principle be open to the public, with closed sessions where individuals are discussed. If the MB believes certain issues require a wider dialogue, it could organise public meetings or consultations on a broader basis, as the occasion may require.

We are against more advisory bodies; there is already the IFRS Advisory Council as an advisory body to the IASB in the constellation, which in our view with something close to 50 members is already bordering on the unwieldy; the IFRS Advisory Council could be reformed to be advisory to all levels within the governance structure, but having advisory bodies at nearly all levels is just not productive in our view. We find it curious that the role of the IFRS Advisory Council is not raised in the context of this report.

**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 this is a question for the Trustees, not for the Monitoring Board.

We do believe that there are a number of issues here, particularly with respect to the comment letter process on EDs issued by the IASB. In our view the Trustees should take on a far more visible role in ensuring that those commenting on EDs believe that their comments have been reviewed and evaluated appropriately. At present, it is the IASB (or its staff) that has drafted an ED that is evaluating comments (if not criticisms) on a particular ED. In our view the Trustees should play a more prominent role here, as we at present believe in practice there is a lack of due process. To fill this in, Trustees should be the guarantor for the fairness of this due process. In this vein we have written to the Trustees it should be a priority item in their agenda. For this matter we also refer to our earlier comment letter with regard to the 'Paper for public consultation Status of Trustees' Strategy Review'.

We also believe that the MB can, if not should, raise this question with the Trustees.

As we have written to the Trustees, public policy objectives should not be the primary driver in drafting accounting standards; they may be factored into the process, but they do not always reconcile to what is appropriate accounting.

**Question 10:**

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

As commented before, make the meetings public and where issues have a broader relevance organise public meetings or public consultations, but also see our response on Question 8.

**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.

No, there is no need for the MB for further explicit ability to place an item on the IASB agenda; that ability is already there and we see no necessity to enhance this, the more so to preserve the IASB independence.



**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?

In our comment letter on the Review by the Trustees we have stated that we are of the opinion that all countries that permit or require the use of IFRS should contribute to the organisation in such a way that the organisation can operate effectively and efficiently, particularly so as IFRSs are replacing local regulations in this respect. However, that would in our view also require changes to the governance model.

After all, a proper functioning of capital markets is a matter of public interest. In this respect we think that membership of the MB should not be limited to stakeholders that only represent capital market authorities, but that it is necessary to improve its balance in accordance with public interest in which governments play a substantial role.

Also, as public interest is in general monitored by governments and financial reporting principles aimed at capital markets are a vital part of a proper functioning of those markets in our opinion the costs of the process of financial reporting standard setting should be borne by public financing.

Within that changed governance model global budgets can be approved and these can be levied out. The best sharing base between countries is probably 'Gross Domestic Product' but perhaps 'Market Capitalisation' should play a role as well. There could be a mixture of attributes to come to a fair cost sharing model.

**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.

**13(1)**

No, the MB should only approve. We can see an opportunity to discuss the preferred profile with the Trustees, but other than that the MB remain distant and independent.

**13(2)**

Given the crucial role for the proper functioning of the IASB, we believe that this should be applied to all Board members.

**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.

Obviously, there is no problem if the MB on a continuous basis engages (and perhaps challenges) the Trustees on the selection basis for the IASB composition. However, we refer to our responses to question 1 as well in this context.

**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.

No, as it entirely depends on what the functions of that secretariat involve; if this should prove necessary, then it should certainly be explained to the stakeholder community. This could also be resolved by moving that function with the Chair of the MB, or by having this supported by "dedicated" staff at the Foundation. In addition, we refer to our suggestion under 3 above on a Company Secretary type of function to assume these responsibilities.

**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.

Regular reviews, i.e. on a five year basis, are appropriate, but only if a significant revision is necessary. Parallel timing with the Constitution review seems logical.

**Question 17:**

Do you have any other comments?

Why was the function and place of the IFRS Advisory Council not considered as part of this review? And for that matter the IFRIC?