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Dear Masamichi,

Monitoring Board Consultative Report on the Review of the IFRS Foundation's Governance

I am responding on behalf of the UK Financial Reporting Council (FRC) to the above consultation.

The FRC's responses to the questions in the consultation document are set out in the appendix. In this covering letter, I would like to highlight the FRC's main concerns and suggestions.

The FRC welcomes the reviews of governance being undertaken by the Trustees and the Monitoring Board (MB) although, as noted below, we believe they should be better co-ordinated. The FRC has responded already to the Trustees' consultation¹, in which we highlighted the crucial importance of the governance of the IFRS Foundation, in particular as more and more countries around the world adopt IFRS and the goal of a single set of globally accepted accounting standards comes closer to being achieved. It is vital that the governance of the organisation is, and is seen to be, exemplary, so that the independence of the IASB is matched with a high degree of accountability.

¹ The FRC response to the Trustees can be accessed at:
<http://www.ifrs.org/The+organisation/Governance+and+accountability/Strategy+Review/Comment+Letters/CL38.htm>.
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The lack of co-ordination is highlighted by the fact that the MB and the Trustees are conducting separate reviews on governance at the same time, with separate consultations coming out at different times, with little overlap.

The FRC recognises that the current governance structure has only been in place for around 18 months, but from our perspective the arrangements do not appear to be working as they should and has led to some confusion. The FRC believes that, if the current governance structure is to be retained, then there is a clear need for the respective roles and responsibilities of the Trustees and the MB to be clarified and communicated to all constituents. We welcome the acknowledgment of this fact by the MB and agree that the allocation of responsibilities between the bodies should be further clarified.

In terms of the respective roles and responsibilities, the FRC believes that:

- the **MB** should provide legitimacy and accountability to the work of the IFRS Foundation, and oversight of, and advice to, the Trustees. It should not, however, get involved directly in the management of the Foundation, although we do acknowledge that the MB should play a role in the selection of the IASB Chair (as set out in the answer to Question 13 in the appendix);
- the **Trustees of the IFRS Foundation** should be responsible for governance and oversight of the IASB, and securing funding for the organisation. The FRC's main concern with the Trustees' role to date relates to the IASB's due process and the Trustee's oversight of it. While we acknowledge the improvements that have been made over the years and the extensive nature of the due process as set out in the 'Due Process Handbook', and the establishment by the Trustees of a Due Process Oversight Committee, we still have concerns with how it has operated in practice, not least given the burden on constituents in recent years to comment upon a vast number of discussion papers and exposure drafts that have been produced by the IASB. The pressure imposed by the IASB-FASB convergence programme and the 2011 deadline in particular has raised legitimate concerns that proposed standards are being rushed through without adequate time for consultation and field testing. As the FRC made clear in its response of 13 March 2009 to the Trustees' Review of the Constitution, in our view the Trustees should have played a more active oversight role in challenging the IASB on its priorities and the application of its resources. More detailed comments on due process are set out in the answer to Question 9 in the appendix; and
- the **IASB's** role should be to continue to operate as an independent standard-setter developing high-quality IFRS, operating within an effective due process and accountable to the Trustees.

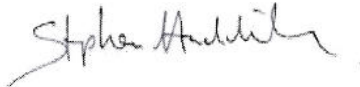
In terms of the proposals relating to the **International Accounting Standards Board (IASB)**, the FRC's main comment is to support strongly the idea in the consultative review that the appointment of part-time members to the IASB should be considered. As set out in the answer to Question 1 in the appendix, the IASB would benefit from having the perspective and challenge of part-time members who have current practical experience of the application and use of IFRS. The FRC believes

that the Trustees should consider as a priority changing the composition of the IASB from a full-time Board and bring in at least half the membership on a part-time basis.

On membership of the **MB**, the FRC has stated publicly in the past that the membership of the MB needs to reflect a wider range of interests than securities regulators. While we welcome the fact that the MB is examining its membership as part of its review, and proposes to expand the membership, we do not agree with the proposal to continue to restrict the members to those authorities within IOSCO. Our detailed comments on this issue are set out in the answers to Questions 6 and 8 in the appendix, but in summary we support expanding the membership to allow for a wider representation of the world's capital markets either using or committed to using IFRS, including a number of major emerging markets.

Should you have any queries on the above please do not hesitate to contact me or David Loweth on 020 7492 2420.

Yours sincerely



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IASB

Q1. 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.

FRC Response

1. Yes. The FRC supports the MB's call for efforts to be made to improve the process for identifying technically qualified candidates for IASB membership from across the broadest possible geographies and professional backgrounds representing the diversity of IFRS stakeholders. As noted in the covering letter, we strongly support the MB's suggestion of considering the appointment of part-time members as a means to potentially enhance the involvement of those with practical experience of IFRS.

2. Under the current Constitution, up to three members of the IASB may be 'part-time' (with 'part-time' meaning that the members concerned commit most of their time in paid employment to the Foundation). In practice, the IASB members are now all full-time. A consequence of this is that, in effect, the IASB operates without the benefit of the perspective and challenge of members who have current practical experience of the application and use of IFRS. We note that the Board, for its meetings, is provided with numerous and very detailed papers. For example, at its December 2010 meeting, the IASB was provided with 9 papers for the agenda item on post-employment benefits. All this has, in our view, resulted in the IASB sometimes getting bogged down in some very detailed and very technical debates without an opportunity to step back and think more widely about the implications of its proposals and decisions.

3. In the FRC's view, the MB should encourage the Trustees to consider, as a priority issue for the IASB in taking forward its post 2011 agenda, changing the balance of the IASB to make at least half the members part-time. We recognise that this proposal brings with it the challenge of how to make it work, but we believe it would be preferable for the IASB to include members drawn from a range of interests to provide some external perspectives and to allow the opportunity for a different, more strategic, nature of debate at the Board.

Q2. 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.

FRC Response

4. Yes. The FRC agrees that it should not be left to one individual to fulfil both roles, given both the heavy commitment of each of them, and the fact that they require different skills. Separating the roles would also remove any potential conflict of interest of the IASB Chair also being the CEO of the IASB's oversight body. That said, the FRC thinks it is important that the IASB Chair should continue to attend meetings of the Trustees.

Q3. *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.*

FRC Response

5. The FRC does not agree that this is an issue for the MB review, but instead is one for the management of the IFRS Foundation, rather than any external body.

Trustees

Q4. *Please provide comments on any aspects of Trustee composition or appointments that you believe the Monitoring Board should consider.*

FRC Response

6. While the FRC is broadly content with the composition and appointment of the Trustees, we do have an issue with the effectiveness of how the Trustees have discharged their duties and powers. This is particularly the case in the exercise of their oversight role, where – in our view – the Trustees should have played a more active part in challenging the IASB in pursuing such an extensive agenda on the convergence projects with the US Financial Accounting Standards Board (FASB). The publication by the IASB of a large number of consultation documents in recent years has placed a heavy burden on constituents and compromised their ability to give full and proper consideration to them. This remains a problem with the IASB's continuing desire to finalise a number of major new standards by the arbitrary deadline of 30 June 2011.

7. The FRC therefore supports the proposals in the MB paper for increased transparency in the processes followed by the Trustees as they execute their duties and improve the communication of, and transparency into, their oversight activities. The FRC agrees that the MB should, in turn, improve the transparency of its oversight of Trustee activities.

Q5. *(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.

FRC Response

8. The FRC supports the proposals to improve the transparency both in the process for Trustee nominations and the clarification of the criteria for candidacy.

Monitoring Board (MB)

Q6. (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.*

FRC Response

9. The FRC does not agree that the membership of the MB should be restricted in the way proposed. While the proposal to expand the MB is welcome, in the FRC's view, the membership needs to reflect a wider range of interests encompass official global organisations with a wider range of responsibilities, notably those with financial stability, banking and insurance mandates. It is also the case that a number of the world's major capital markets, including in Europe, as well the major emerging markets, are not included in the current membership. We believe that the membership of the MB should be expanded to reflect these interests. We comment below on reflecting the wider mandates, but in terms of the membership reflecting major (and not just emerging) markets our view is that a number of seats (two or three) should be allocated to authorities representing major capital markets, in particular within the EU, together with a number of the major emerging markets, to be determined on the basis of market capitalisation. This could be determined on a rotating basis, but membership should not, in effect, be restricted to members of IOSCO, given that, in some jurisdictions such as the UK other authorities have relevant responsibilities for financial reporting.

10. The FRC agrees that a jurisdiction's application of IFRS and support for the IFRS Foundation through a funding contribution should be taken into account in determining selection of the membership.

Q7. *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?*

FRC Response

11. The FRC agrees that decision-making should continue to be made by consensus, given the nature of the MB's role.

Q8. *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?*

FRC Response

12. As noted in the covering letter and our comments above, the FRC believes that authorities with wider mandates, such as the Basle Committee on Banking Supervision (BCBS), should be represented on the MB as members, rather than just observers. The MB notes that it would be difficult to clearly draw the membership criteria for such authorities, but – for example – it would be possible to start with one member representing each of the BCBS, the Financial Stability Board (FSB) and the International Association of Insurance Supervisors (IAIS). In any event, the FRC agrees that the MB should open dialogues with a wider range of authorities.

13. Whatever the membership of the MB, we think it is important that the members fulfil their functions in an open and transparent manner, taking into account the constituencies they represent. This is particularly the case for those MB members who represent a range of jurisdictions, such as the representatives of IOSCO Committees and the European Commission.

Q9. *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.*

FRC Response

14. As noted in our response to the Trustees' strategy review, the FRC believes that improvements can be made in the way the IASB's due process operates in practice. The IASB's due process arrangements already provide for feedback statements, effects (impact) analyses and Post-Implementation Reviews (PIRs), but while feedback statements are now produced as a matter of course, the latter two have yet to be produced on a regular basis. We understand that PIRs will be proposed as an important component of the IASB's post-2011 agenda, but the role and importance of effects analyses as an important feature of the IASB's due process should also be emphasized. On this subject, the FRC's Accounting Standards Board (ASB) and the European Financial Reporting Advisory Group (EFRAG) have recently issued a DP 'Considering the Effects of Accounting Standards' to stimulate discussion as to how standard setters should integrate further into their due process a systematic approach for considering the effects of accounting standards as they are developed and implemented.

15. While the FRC welcomes the requirement in the latest revision of the Constitution for the IASB to carry out a public consultation on its forward agenda every three years, the first of which is due to begin before 30 June 2011, in our view it does not go far enough. The IASB should consult more regularly on its forward work programme and priorities, and subsequently produce a feedback statement with the final programme which justifies its agenda choices and the priorities attached to them. In our view, this would improve the agenda-setting process, without compromising the IASB's independence in determining its technical agenda, by subjecting the IASB to a high degree of accountability to ensure that its actions and the decisions it reaches on its work programme are evidence-based and consistent with the objective of developing high quality standards.

16. The IASB needs to consider more actively input from constituents on which standards give problems and changes which can deliver real improvements to financial reporting. The move away from a convergence agenda should help in this respect. The focus for the future agenda of the IASB needs to be on developing and reviewing standards which can deliver demonstrable improvements.

Q10. What are the appropriate means and venues for the Monitoring Board to enhance the visibility and public understanding of its activities?

FRC Response

17. The FRC agrees that the MB needs to enhance the visibility and public understanding of its activities and supports the ideas proposed in the consultative document. Improving the availability and accessibility of information on the website would assist, as would establishing a dedicated website, rather than the MB having a portion of the IOSCO website.

Q11. 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.

FRC Response

18. The FRC believes that the current arrangements are appropriate. The responsibility for setting the agenda must remain with the IASB, although we agree that this needs to be accompanied with a strong due process in which the IASB consults publicly periodically on its forward agenda and provides feedback on how constituent views have been considered in arriving at a final agenda.

Q12. 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?

FRC Response

19. The FRC supports the efforts of the Trustees to achieve a secure and sustainable long-term financing system. In the UK, there is already automaticity of funding, in that the FRC raises the UK contribution to the cost of the Foundation by issuing invoices and collecting monies on its behalf. The FRC pays over to the Foundation the amount it requires up to the amount collected. The only concrete suggestion we have would be for the Trustees to highlight the arrangement in the UK and in other jurisdictions which have adopted similar funding mechanisms as a way of encouraging other countries to follow suit.

Q13. 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.

FRC Response

20. The FRC agrees with the proposal that the MB's role should include involvement in establishing a set of publicly disclosed criteria for the Chair and an assessment of the short list of candidates against those criteria. In our view, the final selection of the Chair should be made by the Trustees. One option might be to give the MB a veto over the final appointment, although in practice it should never be exercised, given that MB has considered the short list of candidates against the required criteria.

Q14. 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.

FRC Response

21. The FRC agrees that the MB should not have a direct role in the appointment of IASB Board members, for the reasons set out in the consultative document. That is a matter for the Trustees. But, that said, we agree that the Trustees should consult with the MB as they further develop the framework to ensure proper balance in the composition of the IASB.

Q15. 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.

FRC Response

22. The FRC is not convinced that the roles and responsibilities of the MB warrant the establishment of a permanent secretariat. While the FRC acknowledges that some level of support is necessary, for example to maintain and update an enhanced MB website and to service the meetings of the MB, we are concerned that the establishment of a permanent secretariat would inevitably lead to an expansion in workload which may not be necessary or justified. As the recent establishment of a website by the Asian-Oceanian Standard-Setters Group (AOSSG) demonstrates, this can be achieved without the need to put in place a permanent secretariat.

Other issues

Q16. 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.

FRC Response

23. The FRC agrees with the proposals.

Q17. Do you have any other comments?

FRC Response

24. The FRC has no other comments to make.