



The Association for  
Accountants and  
Financial Professionals  
in Business

April 7, 2011

Mr. Masimichi Kono, Acting Chairman  
Monitoring Board of the International Financial  
Reporting Standards Foundation

**RE: Consultative Report on the Review of the IFRS Foundation's Governance**

The Financial Reporting Committee ("FRC") of the Institute of Management Accountants ("IMA") is writing to share its views on the *Consultative Report on the Review of the IFRS Foundation's Governance* (the "Consultative Report") issued by the Monitoring Board of the International Financial Reporting Standards Foundation (the "Monitoring Board").

The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

We agree with any efforts to strengthen the public oversight of the IFRS Foundation, but we do not believe the Monitoring Board has made a strong enough case for action on each topic. In addition, we are concerned that certain of the preliminary proposals and possible options would potentially impair the independence of the International Accounting Standards Board ("IASB" or "Board"). In particular, we do not believe the Monitoring Board should have the ability to place items on the IASB's agenda, nor should it have the ability to approve the IFRS Foundation's selection of the IASB chair. We believe the ability to add items to the IASB's agenda would be inconsistent with the Monitoring Board's oversight responsibility and could delay the IASB from addressing current financial reporting issues that it believes are more pressing by tying up resources needed to address those issues on projects added by the Monitoring Board. Similarly, we are concerned that the Monitoring Board could use its ability to approve the IFRS Foundation's selection of an IASB chair to block a candidate who might not be viewed as sufficiently sympathetic to the concerns of prudential regulators.

Further, we are concerned about any proposal that would require the IASB to consider "relevant public policy objectives" before it issues a final standard. The objective of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") is to provide information to users of financial statements – investors and lenders – both existing and potential. The IASB should develop high quality accounting standards that seek to provide the best

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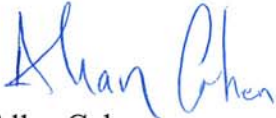
information about the economic performance of a reporting entity. In some cases, the needs of investors and lenders and the needs of prudential regulators diverge. In those cases, the IASB must relegate the needs of prudential regulators to the needs of investors and lenders. If it does not, investors and lenders will begin to question the value of the information in the financial statements, which will eventually result in increasing the cost of capital to companies applying IFRS. Some prudential regulators believe accounting standards should dampen the effects of economic volatility that affects the companies they regulate. We would not want such thinking to unduly influence standards the IASB issues.

We have included our responses to certain questions raised in the Consultative Report in Appendix I.

\* \* \* \* \*

We would be pleased to discuss our comments further with the Monitoring Board or the Working Group. You may contact me at (212) 484-8112.

Sincerely,



Allan Cohen  
Chair, Financial Reporting Committee  
Institute of Management Accountants

cc: Mr. Tsuguoki (Aki) Fujinuma, Vice Chair, IFRS Foundation  
Mr. Robert Glauber, Vice Chair, IFRS Foundation  
Sir David Tweedie, Chairman, International Accounting Standards Board  
Mr. James Kroeker, Chief Accountant, Securities & Exchange Commission

## APPENDIX I

### **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.***

While we do not necessarily disagree with the proposal in theory, the Consultative Report does not identify any issues with the existing process for identifying potential members of the IASB. We are hesitant to start fixing something when it is not clear anything is broken. We believe the Monitoring Board should first study what efforts the IFRS Foundation has historically made to identify candidates for Board membership. We also believe the Monitoring Board should state clearly what professional backgrounds it believes the IFRS Foundation should include in the pool of candidates. While we understand the desire to broaden the professional backgrounds of the Board's members, we believe all candidates for the Board must have an understanding of the IFRS Framework and a commitment to issuing standards that provide the best information to users.

### **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.***

We agree that the same individual should not serve in the roles of both the IASB Chair and the CEO of the IFRS Foundation in order to maintain the appearance of independence. Practically, given the demands on the IASB Chair, we do not see how the IASB Chair could serve as the CEO of the IFRS Foundation without one or both roles suffering.

### **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.***

We agree that, if the division of responsibility between staff dedicated to the IASB's operations and staff dedicated to the Foundation's operations is not clear, it should be.

### **Question 4**

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

We understand the desire to have Trustees representing diverse geographical and professional backgrounds. However, we do not understand how a "diversity of membership that consistently reflects changes and developments surrounding stakeholders would form a basis for the objectivity and impartiality of the Trustees' decision-making process" as stated in the Consultative Report. We can certainly understand how important geographical diversity is when considering the Trustees' responsibility for securing funds for the IASB's operations, but do not

understand the linkage between that diversity and objectivity and impartiality in the decision-making process.

We believe the criteria in sections 6 and 7 of the Constitution for selecting Trustees are appropriate and do not see how “changes and developments surrounding stakeholders” would justify changing those criteria, particularly since investors and lenders are the primary stakeholder for which the IASB develops its standards.

**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?***

We agree with the proposal to provide increased transparency into the process for Trustee nominations. We believe an open and transparent process for nominating potential Trustees is important to the independence of the IFRS Foundation, as it will continue to promote the nomination of qualified individuals (rather than political appointees).

We believe the Monitoring Board’s involvement in the nominating process should be limited to recommending potential candidates and ratifying the candidates selected by the IFRS Foundation Trustees. We believe the Monitoring Board’s ability to reject a candidate selected by the Trustees should be limited to situations where the candidate clearly does not meet the criteria set forth in the Constitution.

***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.***

We agree that further clarification of the criteria for a candidate for Trustee would help support confidence in the process.

**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?***

We believe membership on the Monitoring Board should be limited to capital markets authorities. In general, the capital markets authority in each country is responsible for protecting investors and lenders and ensuring that they receive sufficient information to make investment decisions. As the IASB’s focus is to develop high quality accounting standards that benefit investors and lenders in making investment decisions, we believe limiting membership on the Monitoring Board to regulators with similar objectives is appropriate.

***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?***

While we agree that the Monitoring Board should include representation from capital markets authorities from emerging markets, we believe capital markets authorities from the largest four or five markets should have permanent seats on the Monitoring Board and should represent a majority of the voting members. We believe the selection of major markets should consider the volume of transactions in shares of public companies within a jurisdiction. Further, we would limit membership on the Monitoring Board to capital markets authorities from jurisdictions that accept financial statements prepared in accordance with IFRSs and contribute financially to the IFRS Foundation.

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

We agree that IOSCO should select rotating members of the Monitoring Board. We believe IOSCO is in the best position to identify potential members.

**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.***

We believe the Monitoring Board should make decisions by majority vote. We are concerned that making decisions by consensus could lead to a minority of the Monitoring Board dictating to the majority. However, if the Monitoring Board decides to retain its consensus approach, we believe it should define what it means by "consensus." We note that the Monitoring Board's Charter does not include a definition.

**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 agree with the Monitoring Board's conclusion not to include prudential or other public authorities as members and do not object to the Monitoring Board increasing the involvement of public authorities and other international organizations, either through increasing the number of observers or through holding more formalized dialogue. However, we believe the Monitoring Board needs to specify the objectives of that increased involvement. As noted in the Consultative Report:

... Financial reporting standards are primarily designed to provide accurate information to users of capital markets.

Because the interests of prudential regulators do not always align with the interests of users of financial information in the capital markets, we believe the Monitoring Board should be careful by how much it increases the involvement of those regulators. It would not want to give investors and lenders the impression that it is seeking to influence the direction of the IASB on behalf of the regulators.

**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 believe the IASB's standard-setting process appropriately solicits and considers the views of all relevant stakeholders. As noted in our cover letter, we do not agree that the IASB's standard-setting process should consider public policy objectives to the extent those objectives conflict with providing accurate financial information to investors and lenders. If those objectives do not conflict with providing accurate financial information to investors and lenders, we believe the IASB's normal due process is sufficient to consider input from prudential regulators and other public authorities.

**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.***

We do not believe the Monitoring Board should have the ability to place an item on the IASB's agenda. As stated in our comment letter, we do not believe that ability is consistent with the Monitoring Board's oversight responsibilities.

**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.***

We agree that the IFRS Foundation Trustees, in consultation with the Monitoring Board, should establish and publish criteria for the Chair. However, we do not believe the Monitoring Board should play any greater role in the selection of the IASB Chair than it does for any other member of the Board. In other words, the Monitoring Board should limit its involvement in the selection

of the Chair to ratifying the Trustee's selection, provided the Trustee's selection meets the established criteria.

**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.***

We believe the Monitoring Board should consult with the Trustees as the Trustees develop the criteria for membership on the IASB. Consultation on those criteria is consistent with the role of the Monitoring Board in overseeing 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.***

We understand the need for certain administrative functions as the involvement of the Monitoring Board in overseeing the activities of the IFRS Foundation increases. However, we would prefer that the Monitoring Board explore the possibility of utilizing IFAC or IOSCO staff for those activities rather than hiring its own staff. As noted in the Consultative Report, sharing staff with IFAC may allow for efficiencies because of overlapping member organizations. Given the difficulty the IFRS Foundation has had obtaining funds for the IASB's operations, we would not want to see an oversight body competing for available funds, which could adversely affect the Trustee's ability to secure sufficient funding for the IASB.

**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.***

We agree that the Monitoring Board should periodically review the implementation of any decisions reached. In the absence of concerns about the implementation of certain decisions by users or user groups, we agree that a five-year interval is appropriate, as it is consistent with the review conducted by the IFRS Foundation.