

IFRS Foundation Monitoring Board Governance Review

Response to Questionnaire – April 2011

IASB

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.

We agree with this proposal. The global application of International Financial Reporting Standards means that it is important to ensure that candidates for IASB membership are drawn from a wide range of geographical areas. It may be appropriate to develop guidelines to ensure that the membership of the IASB reflects a broad geographical spread. The IASB's role as a global standard setter means that the membership should be drawn from a range of diverse professional backgrounds. The professional backgrounds should include accountancy practice, preparers of financial statements, regulators and the investment community. As the IASB has developed and maintains a specialist standard for reporting by small and medium enterprises (SMEs), at least one member of the IASB should have significant professional experience of the SME sector.

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.

The roles need to be separated. This separation will address long standing concerns over the governance and leadership of the IFRS environment. As the discussion paper acknowledges, in practice it is no longer possible to combine the demands of the two roles.

The CEO should attend meetings of the Board, in a non-voting capacity.

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.

This proposal is sensible and consistent with the separation of the roles of the Chair and the CEO.

Trustees

Question 4:

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

The present geographical and professional composition of the Trustees, as specified by the Constitution, appears reasonable and achieves an appropriate balance of skills and experience.

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?

- 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.

The process of appointing trustees needs to be more transparent. A consideration would be to create a Nomination Committee of the Trustees which operates in line with accepted standards for good practice for nomination committees. The Committee should work with the Monitoring Board. The nomination process needs to be clearly documented and a report by the Nomination Committee should be presented by the other annual reports prepared by the Foundation and its components.

Criteria for candidacy should be documented and published. There should be a transparent process for a periodic call for nominations.

Monitoring Board

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?

- 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?

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

Capital markets need to have confidence in financial influence. Therefore it would be appropriate for the membership of the Monitoring Board to continue to be drawn from capital markets authority. We have noted elsewhere in this response the importance of reporting by SMEs. We suggest that consideration is given to appointing an individual with a professional background in the SME sector to attend the Monitoring Board with observer status.

There are good reasons for including more representatives of major emerging markets. However, it is important to avoid the membership of the Board becoming too large and we question, for example, the number of permanent members. We suggest that the proposals are revised to mean that the membership is no more than ten. There needs to be a policy of rotation of membership as not all major markets can be represented on the Board at any one time.

Consideration should be given to "grouping" country representation around one Board member along with a rotation system. This is the system at the European Investment Bank, for example.

It is right to consider a jurisdiction's application of IFRS and financial contribution when determining the degree of representation.

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.

A larger Monitoring Board with a more diverse membership may find it more difficult to make a decision by consensus. A move to a form of majority voting is appropriate. We suggest that consideration is given to a form of qualified majority voting.

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?

There are many potential candidates for observer positions. We have supported observer status for an individual with professional experience of the SME sector (question 6), but other than this and the participation by BCBS, there is a danger that the number of observers could proliferate.

The involvement of relevant stakeholders and interest groups should be better addressed through an advisory board structure and a process of formalised dialogue. There will need to be limits on the size of the advisory board itself, and it will need clear terms of reference

Question 10:

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

The consultation paper makes reasonable suggestions for enhancing the visibility and public understanding of the activities of the Monitoring Board. It would have been helpful if the paper had provided more information about the current meeting arrangements to enable respondents to make a comment as to how and where the board should meet in the future.

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.

The current arrangements for Monitoring Board involvement in the activities of the IASB appear appropriate. The IASB should determine its own agenda.

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?

EGIAN is not sufficiently informed about the present funding model to be able to comment.

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.

- 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.

We agree with the proposal in the consultation paper. This permits an appropriate level of Monitoring Board involvement in the selection of the IASB Chair. The Monitoring Board should not approve the final selection.

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.

The proposals provide for appropriate involvement by the Monitoring Board, whilst leaving final decisions with the IASB.

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.

The proposal to appoint a secretariat is acceptable provided that it supports the Monitoring Board in achieving an effective increase in its governance of the standard setting process. Cost considerations are essential particularly to avoid adding cost that derives little or no value. Sharing arrangements with other oversight bodies are sensible and should be encouraged.

Other questions

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 do not feel able to conclude as to whether the current arrangements adequately ensure appropriate involvement of all relevant stakeholders. The degree of the debate on governance is perhaps evidence that not all stakeholders are satisfied. The consultation paper demonstrates that proper consideration is being given for the inclusion of a range of relevant stakeholders in the future. For practical purposes it is impossible to give all stakeholders representation. This means that transparent processes of nomination and rotation are essential.

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.

It is right for regular reviews and sensible to hold these at the same time as reviews of the Constitution.

Question 17:

- Do you have any other comments?

Presentation of the standard setting structure

The standard setting structure involves several bodies, being the IFRS Foundation, the Trustees and the IASB. It is important that the structure is presented in a transparent way to enable stakeholders to fully understand how the IFRS Foundation and its components operate, and the responsibilities of each part of the

structure. Separation of roles and responsibilities helps to achieve transparency, but the structure is potentially confusing.

Small and Medium Enterprises (SMEs)

The IASB has developed a standard for reporting by the non-public company sector, *IFRS for SMEs*. It is important that in making appointments to the components of the IFRS Foundation, due consideration is given to knowledge and understanding of the SME sector. This is essential because reporting by the SME sector involves different considerations from reporting by the public company sector and the objectives of preparing SME financial statements are different. If there is greater confidence in the governance of the process for setting and maintaining the SME standard, then this has the potential to increase the adoption of this standard, and confidence in the standard.