



CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

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Dear Sirs:

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

The Canadian Public Accountability Board (CPAB) is pleased to comment on the IFRS Foundation Monitoring Board Consultative Report on the Review of the IFRS Foundation's Governance.

CPAB is Canada's independent audit regulator responsible for overseeing audit firms that audit Canadian reporting issuers. Canadian reporting issuers adopted IFRS in 2011. CPAB's mandate is to promote high quality independent auditing that contributes to public confidence in the integrity of reporting issuers' financial reporting. We accomplish our mandate by inspecting audit firms and audit working paper files which provides us with insights into the application of auditing and accounting standards and how they might be improved.

We commend the Monitoring Board for undertaking a review to improve the governance structure supporting IFRS. The Consultative report is well articulated and clearly lays out the key issues of independence and accountability. We support a three-tier governance model, and believe it is critical that the governance structure ensures both the independence of the standard setting process without undue outside influence, and also provides for the integrity of the financial reporting framework in the public interest.

The Monitoring Board must be seen to be independent of the IASB in both fact and appearance. We believe the Monitoring Board should not have any special role in the IASB's agenda setting process or in approving the appointment of the IASB Chair. The Monitoring Board's role should be in an

advisory and consultative capacity and not one that could be viewed as directing the activities of the IASB.

We agree with the proposal to increase the Monitoring Board's membership to make it more representative of the global capital markets. It is desirable to have a rotation mechanism such that over time all capital markets authorities have an opportunity to be nominated to the Monitoring Board.

We also agree with the proposal to deepen the pool of candidates for IASB membership, provided the individuals appointed possess the very high level of technical expertise that is required to develop high quality accounting standards for global markets. The proposal to deepen the pool of candidates should not only consider geographical diversity but also ensure that the IASB membership is able to effectively consider diversity of viewpoints, experiences and industry considerations.

We have responded below to the questions posed in the consultative report:

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.

As noted above, we agree with the proposal to deepen the pool of candidates for IASB membership, provided the individuals appointed possess the very high level of technical expertise that is required to develop high quality accounting standards for global markets. The proposal to deepen the pool of candidates should not only consider geographical diversity but also ensure that the IASB membership is able to effectively consider diversity of viewpoints, experiences and industry considerations.

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 with the proposal to separate the roles of the IASB Chair and CEO of the IFRS Foundation, we see this as an important step to improving governance. The separation of the roles will address any appearance of a conflict of interest between the role of the IASB Chair and Foundation CEO and also permit the IASB Chair to devote more time to the development of high quality financial reporting standards.

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 there should be a clear division of responsibility between staff dedicated to the IASB operations and staff dedicated to the IFRS Foundation. We understand that divisions of responsibility already exist to a considerable extent.

The Foundation Trustees should also consider whether it makes sense to separate the staff roles of supporting standards development and post implementation review of standards.

Question 4:

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

We agree on the importance of diversity of geographical and professional backgrounds in the Trustee composition. A balanced Trustee composition will also support and promote greater global acceptance of IFRS and provide a deeper pool of candidates from which the Trustees may select IASB members.

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.

We agree the Trustee nomination process should be as transparent as possible, including clarification of the candidacy criteria. Trustees should also be more visible to stakeholders with respect to their oversight role. This will improve confidence in the process and help promote the use and acceptance of IFRS.

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.

We agree the Monitoring Board's membership should continue to be confined to capital markets authorities responsible for setting the form and content of financial reports. Financial reporting standards need to ensure the fair presentation of financial statements and ensure transactions are faithfully represented in the interests of investors, which in turn will lead to the efficient and effective functioning of the capital markets. The primary focus of financial reporting standards should therefore be to meet the needs of participants in the capital markets.

However, as noted in our response to Question 8 below we also believe there should be an opportunity for the Monitoring Board to hold more formalized dialogue with other public authorities such as prudential regulators and other international organizations so that there is an opportunity for these organizations to provide input to the Monitoring Board.

We agree with the proposal to expand the Monitoring Board's membership by adding representation from a more diverse group of capital market authorities, including major emerging markets. It is desirable to have a rotation mechanism such that all capital markets authorities have an opportunity to be nominated to the Monitoring Board. Increasing the Monitoring Board membership to 11 appears reasonable and strikes the right balance so as not to make the membership so large that consensus is difficult to reach.

Additional members of an expanded Monitoring Board should be selected on the basis that their jurisdictions require or allow IFRS.

In our view IOSCO, which represents capital markets authorities worldwide, is most suited to advise on the membership of the Monitoring Board.

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.

The Monitoring Board should make decisions by consensus whenever possible, however, to require consensus for all decision making may lead to the risk that some decisions involve compromises that could undermine the overall objectives of the Monitoring Board. If the proposal to expand the Monitoring Board is accepted we would support the adoption of a super-majority voting rule to be applied in appropriate circumstances if consensus fails.

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 should be an opportunity for the Monitoring Board to hold more formalized dialogue with other public authorities such as prudential regulators and other international organizations so that there is an opportunity for these organizations to provide input to the Monitoring Board.

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 sets financial reporting standards through a comprehensive due process that allows for input from stakeholders. We support the work of the IASB, IFRS Foundation Trustees and Monitoring Board to make improvements to existing practices, many of which are discussed in the consultative report.

Question 10:

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

We believe it would be helpful for the Monitoring Board and Foundation Trustees to further clarify understanding of their respective roles and responsibilities amongst stakeholder groups. It was also evident during our participation at roundtable deliberations on the consultative report that this area requires further attention.

Enhanced transparency of the Monitoring Board's activities can be achieved by making more readily available materials concerning Monitoring Board deliberations by improving website accessibility to information, including recordings of public meetings and increased use of press releases.

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.

It is critical for the Monitoring Board to be independent of the IASB in both fact and appearance. In our view, the Monitoring Board should not have the ability to explicitly place an item on the IASB agenda. We understand the Monitoring Board already has the ability to make its views known to the IFRS Foundation Trustees directly. The Monitoring Board's role should be in an advisory and consultative capacity and not one that directs the activities of the IASB in fact or appearance.

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?

It is important for the Foundation to improve the current funding model. The funding model needs to be independent, proportional and sustainable over the long term. Models to explore might include allocation of funding requirements based on independent measures such as gross domestic product or relative market capitalisation in IFRS jurisdictions. Local capital market authorities could then determine how best to raise the funds allocated to them.

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.

We do not agree the Monitoring Board should have an increased role in the selection of the IASB Chair. Greater involvement by the Monitoring Board in the selection of the IASB Chair increases the risk of compromising the IASB's independence.

However, we agree it would be appropriate for the Monitoring Board to provide input to the Foundation Trustees on the criteria for selecting 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.

As noted earlier, we believe it would be helpful for the Monitoring Board and Foundation Trustees to further clarify understanding of their respective roles and responsibilities. Any additions to the Monitoring Board's responsibilities should not compromise the independence of 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.

Once the Monitoring Board has completed its governance consultation process an assessment should be made of its resourcing requirements and a decision on the establishment of a permanent secretariat

should be taken at such time. It is important to ensure suitable candidates for positions such as Chair of the Monitoring Board are not discouraged from taking on such a role due to resourcing constraints in their respective jurisdictions.

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 with the need for regular reviews, and believe an interval of five years is an appropriate benchmark. It also makes sense to coordinate the review at the same time as the Foundation's Constitution reviews.

Question 17:

- Do you have any other comments?

We have no other comments.

We would be pleased to discuss further any of the above comments.

Yours very truly,



Brian Hunt, FCA
Chief Executive Officer

cc. Mr. Gord Fowler, FCA
Chair, Accounting Standards Board
The Canadian Institute of Chartered Accountants