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IFRS Foundation Monitoring Board

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

Dear Members of the IFRS Foundation Monitoring Board:

The Institute of International Finance appreciates the opportunity to respond to the questions posed in the Consultative Report. The Institute also participated in, and gave additional oral comments at, the Americas Roundtable held on March 28, 2011 at Stanford University. We welcome the consultation as we believe the governance of the IFRS Foundation is crucial in promoting high-quality, global accounting standards as well as ensuring the independence and accountability of the standard setting process. The Appendix to this letter sets out our detailed responses to the questions posed in the Consultative Report.

Should you have any questions about this letter or the views expressed, please contact the undersigned (dschraa@iif.com) +1 202 857 3312) or Carol Wong (cwong@iif.com +1 202 857 3633).

Very truly yours,

A handwritten signature in black ink that reads "David Schraa". The signature is fluid and cursive, with a long horizontal line extending to the right.

Cc: Mr. Ethiopas Tafara, Director, Office of International Affairs, Securities and Exchange Commission
Mr. James Kroeker, Chief Accountant, Securities and Exchange Commission

Appendix

Question 1 - Do you agree with the proposal to urge concrete efforts to deepen the pool of candidates for LASB membership from diverse geographical and professional backgrounds? Please provide reasons for your agreement/ disagreement.

In principle it is highly desirable from the point of view of an international organization to include additional Emerging Market representation. It is also important to consider diverse professional backgrounds, including people with experience in auditing firms, in-house accounting services, academics and from the investor community, keeping the focus of course on the basic criterion of high professional competence and deep (and perhaps diverse) experience as a requirement of Board members.

Having said this, it is recognized that the Board is relatively small, must be focused on professional, competence, and could not be fully representative of all interested groups in the sense of drawing from each as a background in a rigid or quota-driven manner. The goal should be that the Board members have broad experience, that the Board collectively be drawn from many different backgrounds over time, and that members have not only the technical competence required, but also a willingness to listen to the needs of users, preparers, different industries, and different regions.

The willingness and ability to conduct meaningful and deep outreach with an open mind will serve to compensate for the Board not being fully representative of all groups at all times.

It should also be recognized that the Board has been somewhat impeded by a perception that it represented only one group of Anglophone accountants in the past, however competent its individual members were. Whatever views are on this, and without wishing to suggest any sort of quota system, the Board's selection must be driven by sustaining its legitimacy, and its independence, as well as its competence, and so the issue of distribution must be taken into account, as indeed it has been recently.

Question 2 - Do you agree with the proposal to separate the roles of the LASB 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.

Greater clarity is required as to the roles and goals intended here before a definitive view can be provided. The Foundation should be independent of the Board if it is to succeed as an overseer; on the other hand the Chairman of the Board should control allocation and management of the Board's resources, and it is understood that the present situation is in some respects designed to achieve that control.

Question 3 - Do you agree that clearer division of responsibility between staff dedicated to the LASB 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.

Whether there is an adequate separation of roles of the staffs is a question of fact that requires objective analysis and investigation; we do not see it as a matter of opinion. Therefore, the point should be investigated as a question of fact and resolved accordingly. In our very fragmentary encounters with the staffs, we have had the impression that roles were appropriately allocated.

Questions 4 and 5 - Please provide comments on any aspects of Trustee composition or appointments that you believe the Monitoring Board should consider. 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.

As a general matter we support greater transparency of the criteria and process for Trustee nominations. The Monitoring Board's role is largely to assure the good performance of the Trustees of their duties, and hence the Monitoring Board has a significant stake in the selection of Trustees. The Monitoring Board should be able to review and give opinions on Trustee nominations, without, however, having a veto, which might be perceived as introducing a political dimension into the selection of Trustees that would be damaging to the image of the whole IFRS structure.

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?

It is understood that there is a strong feeling that Monitoring Board members should continue to represent the securities and markets authorities of major countries, to the exclusion of other regulators. We understand the reason for this and would not dispute it at this juncture, given the importance of stable and well-understood governance of the IASB as a prerequisite of adoption of IFRS in the remaining major countries, and the perception of many in the debate that this is an essential part of attaining the right balance between independence and accountability.

Be that as it may, the viability and legitimacy of a Monitoring Board composed only of capital markets regulators depends on how effective the *liaison process* can be made with the prudential, insurance, and macroprudential authorities, all of whose roles and responsibilities have become more demanding and more important after the financial crisis.

If the IASB must be independent as well as accountable, it is also true that it is no longer viable for accounting issues to be considered in the abstract or in isolation from debates about the structure and content of financial-services regulation globally.

The need for global regulation of an increasingly global market is one of the strongest reasons for the impetus behind international accounting standards, and for the renewal both in the official and the private sectors of a sense of the criticality of high-quality global standards.

It is of course recognized that financial reporting, is primarily designed as a means to communicate financial performance and strength to investors, and therefore will not on its face necessarily meet the needs of prudential or insurance regulators, who may of course impose additional requirements or regulatory filters.

Nevertheless, it is vital that prudential, insurance, and macroprudential perspectives be given a full and fair hearing, along with other parties, such as investors. The actual institutional arrangements are of secondary importance. The point for purposes of this question is that the composition (and procedures) of the Monitoring Board must be evaluated in terms of whether those perspectives are being heard. Defense of the present composition of the Monitoring Board is premised on the special traditional role of markets regulators in governing accounting, and the desire to minimize non-accounting motivations in setting standards. That is an important aspect of the independence-and-accountability problem, and defensible if it works without undue exclusion of the perspectives of others (including the deficiencies of accounting standards they may point out). If, however, it should turn out that its purpose is the defense of certain assumptions or viewpoints, rather than defense of independence and accountability, then the present composition will not be viable over time. See also the response to questions 8 and 9 on the means of involving other regulatory disciplines.

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 do not have strong views on the decision-making process of the Board, provided it is well understood and transparent.

Questions 8 and 9 - 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? 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.

As already indicated, the appropriate involvement of other public authorities and international organizations is critical to the defining the role and the legitimacy of the IASB and its governance structures in the post-crisis world.

It is striking that the consultative paper does not address the role of the new macroprudential bodies that are emerging globally (FSB) and locally, in EU, US and other national structures focused on macroprudential regulation and financial stability. This is a serious gap that should be addressed. It is understood that many in the accounting community do not want the quest for “stability” to influence the definition of accounting standards that are intended to provided accurate information to investors and facilitate the capital-formation process.

As a general matter, “stability” concerns should not be used to manipulate accounting standards, and financial stability per se is not the primary aim of accounting, or one that accounting can achieve.

That said, the IASB and its governance structures must be sensitive to the concerns of the new macroprudential authorities, as to those of the prudential and insurance regulators. Among other things, their views have been and are likely to continue to be important to improving accounting standards in the sense of making them fully reflective of the management and economics of businesses and providing investors as unbiased a view as possible on those businesses, especially longer-term businesses such as insurance and traditional banking. Of course, consideration of the views of such authorities would not change the mission of the standard setters to establish high-quality, generally applicable accounting standards.

Moreover, the legitimacy of the accounting process, and sustaining the case for its continuing independence necessitate assuring all constituencies that the IASB and its governance bodies are evaluating all evidence of intended and unintended effects, and doing a comprehensive analysis of all issues. The long-term independence of the accounting process will depend on the success of the IASB and its governance structure in this difficult task.

The exact means of achieving this interaction with other public authorities are less important than the commitment to doing so; thus, we would not be dogmatic about the three options suggested in Question 7. Nevertheless, we would have a *prima facie* preference for maintaining the observer status of the Basel Committee and extending it to the IASB and to the FSB, or perhaps an appropriate subcommittee thereof. Such observer status would be appropriate for these bodies, which have direct international regulatory roles and competences. We would not envision extending it to other bodies such as the IMF, World Bank, or OECD, which have other kinds of international responsibilities, though, of course, their observations should be entertained as well when offered.

Question 10 - What are the appropriate means and venues for the Monitoring Board to enhance the visibility and public understanding of its activities?

The Monitoring Board’s means and venues need better explanation, but, for the professional stakeholders, it should be sufficient to have clear agendas, announced well in advance, and opportunities to provide feedback as appropriate.

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 consider that it would be necessary for the Monitoring Board to have the explicit power to force an agenda item onto the Board’s agenda. The Board should remain independent with respect to managing its agenda, though, of course, it should entertain the views of all stakeholders, including the Monitoring Board, in making the inevitable trade-offs that are required in setting the 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?

It seems evident that the funding arrangements will, without some kind of international agreement, need to be different in accordance with the legal structures and traditions of each country. This will not simplify life for the Trustees, but they should be ever vigilant in seeking means to assure more stable, long-term and broad-based funding.

Given the constraints of the present system, the Trustees should consider putting the issue of assured, stable funding of an independent IASB on the agenda of the G20, which is the sole international agency that could that could make arrangements for internationally agreed, stable funding that would assure the long-term independence and viability of the IASB.

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.

There is no magic to procedures for selection of the IASB Chairman; however, if the concept behind the Monitoring Board's role is that it ought to oversee the procedural and substantive quality of the work done by the Trustees (and indirectly the IASB), then there is an argument for a role focused on making sure the Trustees follow procedures and generally meet their own standards of good process, rather than a direct veto or other intervention which, inevitably, some observers and stakeholders might see as politically motivated, whatever the facts of the situation might be. Thus, the legitimacy of the Monitoring Board's and Trustees' roles may argue for a more restrained role for the Monitoring Board, though one need not be dogmatic about it, and any reasonable procedure should be acceptable at the end of the day.

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.

It would seem appropriate for the Trustees to consult with the Monitoring Board in the discharge of their duties. Such consultation should not blur responsibilities if the Trustees' role in making the consultation is purely a solicitation of input and not a solicitation of directions.

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.

Whether the Monitoring Board needs a secretariat to carry out its responsibilities is a ministerial question best left to the Monitoring Board itself. As the constituent members of the Board have their own staffs, this may not, a priori, seem necessary.

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.

Question 17 - Do you have any other comments?

Regular, public reviews of the overall governance structure and the roles of the various bodies at no more than five-year intervals seem advisable for a highly visible, independent international structure, the governance and accountability of which have often been misunderstood. This would contribute to safeguarding its independence by contributing to the credibility of its accountability.

An integral and essential aspect of periodic reviews of the governance, independence, and accountability of the IASB and its governance structures should be a review of how well they are managing the process of taking input from all private-sector stakeholders (issuers, investors, and auditors), and how effective they have been at managing and responding to issues that may have been raised by other agencies, especially the prudential, insurance, and macroprudential regulators.