



# Australian Government

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## Financial Reporting Council

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Dear Sir/Madam

The Financial Reporting Council (FRC) is pleased to provide comments on a number of issues raised in the Monitoring Board's Consultative Report on the Review of the IFRS Foundation's Governance.

The FRC is the peak body responsible for ensuring the effectiveness of the financial reporting framework in Australia. Its key functions include the broad oversight of the accounting and auditing standards setting processes for the public and private sectors, monitoring the effectiveness of the auditor independence requirements, and advising the Minister on these matters.

We have a wide range of stakeholders including a broad spectrum of preparers and users of financial statements, the Commonwealth as well as State and Territory governments, and other government bodies such as standard setters and regulators. Key stakeholder bodies are represented on the FRC as members. In addition, the Australian and New Zealand governments have established cross-appointment arrangements to promote closer economic relationships between the two countries. The FRC accordingly has a New Zealand representative as one of its members.

Before providing comment on what we consider the main issues raised in the report, I emphasize Australia's continuing commitment to the concept of high-quality global accounting standards, as represented by International Financial Reporting Standards (IFRS). Australia currently contributes A\$1 million per year to the IFRS Foundation, and regularly encourages other jurisdictions who have not yet adopted IFRS to progress to that goal.

Australians actively participate in all levels of the IFRS process except the Monitoring Board, and would like you to consider this possibility.

Australia believes that using IFRS as its accounting standards has served it well. While there are improvements to the standards that need to be made, many of these have been acknowledged and are in the process of being implemented. There are others that are desirable from Australia's point

of view, and we will be suggesting those be included on the future IASB work programme. But overall IFRS are providing Australian corporations and other reporting entities with high-quality accounting standards, and there are no serious calls to reverse the original decision to adopt.

The FRC welcomes all efforts to improve the quality of IFRS and the institutional structure supporting them. This includes the current initiatives to improve the process and structures for setting IFRS launched by the Trustees and the Monitoring Board. We note that it would be desirable to coordinate the two reviews, to avoid confusing stakeholders and ensure compatible outcomes.

Particular issues on which we would like to comment follow:

#### *Separation of IFRS Foundation CEO and staff from the IASB*

We agree that it is important to ensure that an appropriate structure is in place to guarantee the independence of the IFRS Foundation's oversight function with respect to the IASB and to avoid conflicts of interest. Appointing a separate IFRS Foundation CEO appears to be a sensible move to achieve this outcome.

We also agree that there should be clearer division of responsibility between IASB and IFRS Foundation staff. To this end, detailed staff arrangements should be developed between the IFRS Foundation and the IASB to ensure efficiency and avoid unnecessary overlap.

#### *Monitoring Board membership*

The FRC agrees that membership of the Monitoring Board be expanded beyond current parameters, and that the inclusion of additional major emerging market representatives is desirable. I note that in implementing this proposal a definition of 'major emerging market' should be provided.

However, the correct choice of member organisations is an essential step in achieving the objective of increasing public accountability. As we have stated in our submission to the Trustees' review, it would not seem appropriate to include bodies on the Monitoring Board representing jurisdictions that have not adopted IFRS or not at least undertaking a formal process of convergence and consideration of IFRS adoption.

The Consultative Report states that one of the key proposals is to include more authorities responsible for setting the form and content of financial reporting in their respective jurisdictions. We note that this may not always be those entities which are members of IOSCO, and restricting the selection of some Monitoring Board members to IOSCO members (as proposed under Question 6) may not achieve this outcome. Indeed, in our opinion, this would constitute too narrow a group to achieve the public oversight role for the Monitoring Board.

For example in Australia's case, responsibility for determining policy with respect to financial reporting is shared between the Government, Australian Treasuries, the FRC and the Australian Accounting Standards Board, none of which are securities regulators or IOSCO members.

Without wishing to imply that all of these bodies would be appropriate choices as Monitoring Board members, we would nevertheless urge as a general point that it would be better to have more flexible criteria with respect to the selection of members, and recognise that for many jurisdictions bodies that are not IOSCO members may be appropriate candidates for Monitoring Board membership. The inclusion of members with a wide range of public sector regulatory experience, for example, would add depth to the internal governance structure and enable the consideration of a

broader range of public policy objectives. It is evident that this flexibility has already been applied with respect to its current members, not all of whom are IOSCO members.

Should it be decided to continue, at least for the time being, to select mainly securities regulators as Monitoring Board members, we would propose that the requirement that such regulators be securities regulators that allow or require the use of IFRS in their jurisdictions should be relaxed to include other regulators such as the Australian Securities and Investments Commission which may not have these powers.

Ensuring the appropriate geographical and professional diversity of the IASB, the IFRS Foundation and the Monitoring Board membership are also worthy objectives. Assuming the appropriate criteria are applied to selecting the members of the Monitoring Board, we do not support the establishment of an advisory board or creating more layers in an already crowded governance structure. However, this should not preclude increased interaction between the Monitoring Board and key public authorities and international organisations, as discussed in more detail below.

The decision-making procedures used by the Monitoring Board should guarantee operational effectiveness in the light of its expanded membership. However, given the need to have broad-ranging support for the institution, the consensus-based approach should be maintained for the time being and reviewed at a later opportunity.

#### *Agenda setting*

The FRC agrees that it is entirely appropriate for the IASB to have complete independence when it comes to setting specific accounting standards.

However, we also believe it is appropriate for the public interest to have a role in influencing the strategic focus of the IASB's activities. There are currently processes in place allowing a range of stakeholders such as the Trustees, the IFRS Advisory Council and the general public (through roundtable meetings) to provide input to the IASB agenda. The Monitoring Board can do so indirectly, through its ability to raise accounting issues with the IASB through the Trustees, while its members can participate directly by using the processes mentioned above.

The FRC believes that the agenda-setting arrangements in place work satisfactorily. However, we believe that it would be desirable to introduce more transparency into the process, for example by requiring the IASB to publicly outline a strategic plan such as the one being considered by the FRC in its next meeting on 18 April 2011.

#### *Increased engagement with other entities, including prudential regulators*

We agree that increased engagement on the part of the Monitoring Board with other entities is desirable, noting that the appropriate type and level of interaction with certain entities such as prudential regulators is already occurring on the part of the IASB. We consider that this group should include international political representatives, as this would strengthen the public accountability of the Monitoring Board and the IASB institutions. Apart from the entities mentioned in the paper, it may perhaps be appropriate to include the G20, as it is currently the leading international body overseeing the regulation of financial markets. As set out above we do not consider that this interaction needs to be formalised through an advisory body or other similar entity, as this would only serve to further complicate the current three-level governance structure.

## *Funding*

As stated in our submission to the Trustees' review, the FRC is of the view that public funding from jurisdictions proportional to their GDP is the ideal model for the funding of the IFRS Foundation. However, we acknowledge that very large jurisdictions, such as the EU and US, are likely to prove problematic in this regard in the short term. It is important that the power of the purse string not be seen to be able to give larger members the ability to dictate the treatment of specific accounting issues and hence we consider the existing role of the Trustees in this regard as important.

With respect to the question about a permanent secretariat for the Monitoring Board, we believe that this should be subordinate to the need to secure adequate funding for the IASB, unless the lack of such a secretariat seriously impedes the Monitoring Board in carrying out its functions.

## *Other issues*

The FRC largely agrees with the other matters and solutions proposed by the Monitoring Board, especially with respect to trustee and IASB membership, enhanced transparency for Monitoring Board discussions and decisions, and a somewhat enhanced role for the Monitoring Board in the appointment of the IASB Chair.

Yours sincerely

A handwritten signature in cursive script that reads "Lynn Wood".

Lynn Wood  
FRC Chairman

CC:

FRC Members

Australian Accounting Standards Board

New Zealand Accounting Standards Review Board