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Dear Sirs

Monitoring Board - Consultative Report on the Review of the IFRS Foundation's Governance

We appreciate the opportunity to respond to this important consultation issued by the Monitoring Board of regulatory authorities in connection with its review of the governance arrangements for the IFRS Foundation. This response summarises the views of member firms of the PricewaterhouseCoopers network that commented on the consultation. "PricewaterhouseCoopers" refers to the member firms of PricewaterhouseCoopers International Limited, each of which is a separate legal entity.

Our views on the specific questions raised in the Consultative Report are included in the accompanying Annex. In this covering letter we provide some overall observations on what we consider to be important issues connected with this review.

Scope of Monitoring Board and Trustees' reviews

We note that the Monitoring Board is undertaking this review at the same time as the IFRS Foundation Trustees are conducting a Review of Strategy. There is a clear linkage between the two reviews, and some significant overlap in content, notably in the area of governance.

The parallel but different review processes being operated by the Monitoring Board and the Trustees have resulted in some confusion for stakeholders. We are pleased to note the recent announcements indicating that there will be enhanced coordination of the two reviews. We suggest that subsequent consultation steps by the respective bodies be coordinated and taken simultaneously so that the combined impact of any proposals can be evaluated by stakeholders.

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We believe these two reviews, in combination, provide a timely opportunity to establish fully a sound and stable platform of public legitimacy for the IASB and the Foundation, such that stakeholders have confidence in the standard-setting process and hence in the standards themselves. We support the proposal in the Monitoring Board's report that the present three-tier structure (IASB, Trustees and Monitoring Board) should be retained. Once these current reviews are concluded, the respective bodies should be allowed a period of five years (as suggested in relation to Question 16) to operate under the enhanced arrangements before being reviewed again, without the need for further continual re-examinations of governance in the intervening period.

Capital markets focus

We support the emphasis in the consultative report on the capital markets and agree with the Monitoring Board's view that the governance structure of the IFRS Foundation should be accountable primarily to the needs of capital providers while also taking into account the needs of other users of financial statements. This is consistent with our view that the primary objective of financial reporting (and hence of financial reporting standard setting) is to report to investors and others in the capital markets so that they can make economic decisions.

The Monitoring Board provides a valuable and suitable setting for capital markets regulators to meet and discuss views on the direction of financial reporting and standard setting. As noted in our response to Question 6, we consider that any expansion of the Monitoring Board's membership should comprise an appropriate balance of capital markets regulators from emerging and mature markets.

We recognise that, whilst financial stability is not the primary role of financial reporting, it is an important consideration. We encourage the IASB to continue to exchange views with the regulatory community and, where it believes its proposals may have financial stability implications, ensure that prudential regulators are included in the consultative process.

IFRS implementation activities and local interpretations

In our response to the Trustees on their review of Strategy (dated 24 February 2011) we commented on the Foundation's implementation activities and noted that some stakeholders have observed that they would like to see the IASB involved more closely in matters related to the consistent application and implementation of the standards.

The IASB does not however have enforcement responsibilities, and we have been concerned to observe the emergence in some countries of local regulatory interpretations that are not consistent with IFRS. We believe this is an area that the Monitoring Board should discuss and where the member organisations of the Monitoring Board, particularly IOSCO, could take a lead.

We consider there would be benefit in having an international forum whereby regulators, the IASB and others can compare notes and discuss matters of application and implementation. The Monitoring Board could encourage the formation of such a body. In addition, there may



be a role for the IFRS Interpretations Committee in resolving situations where local interpretations appear to conflict with IFRS.

We would be delighted to discuss our views further with you. If you have any questions in the meantime regarding this letter, please contact John Hitchins (+44 207 804 2497), Ian Dilks (+44 207 212 4658) or Graham Gilmour (+44 207 804 2297).

Yours sincerely

PricewaterhouseCoopers LLP

Detailed responses to questions in the Monitoring Board's Consultative Report on the Review of the IFRS Foundation's Governance

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?

The Trustees amended the Constitution in 2009 to provide (for the first time) for geographical criteria for the composition of the IASB. We were supportive of this change at the time, since having members with different geographical backgrounds helps stakeholders to better identify with and communicate with Board members.

We also noted at that time that it may be helpful to revisit the criteria for IASB membership to ensure that, while technical aspects remain paramount, sufficient weight should be given also to the important liaison and communication aspects of Board members' roles.

In our view, the recent changes made by the Trustees to the size of the IASB and the composition criteria should be given a reasonable period to work and should be evaluated in due course, before introducing any further changes.

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 formalise this?

Yes. We agree there may be scope for separating or redefining some of the technical, operational and external relationship management roles.

In our comment letters in connection with the Trustees' last Constitutional Review we suggested this should be an area for consideration. The landscape for standard setting has changed enormously since the IASB was established in 2001. In addition to the technical challenges of the board's work, the operations, communications, public policy and ambassadorial aspects of the board's activities have become increasingly important and complex. It is a tribute to the current IASB personnel that they have been able to do so much with such limited resource.

In our view, the changed dynamics of the IASB (enlarged membership, with many new members) and at the same time a changed environment including the relationship with the Monitoring Board - mean that the chairperson's role and job description should be looked at afresh. We believe the Trustees should consider with the IASB as part of its Strategy Review how the IASB is structured and whether changes are needed in the future. It will be



important to consider how and by whom issues related to strategy, the overall work programme, liaison with constituents and operational capability are determined, and how those responsibilities fit with the 'technical' standard setting role.

We recognise that the Trustees have recently appointed a new chair and vice-chair of the IASB, but those appointments do not in our view address the need to deal with the issue of whether the roles of IASB chair and chief executive officer as set out in the Constitution should be separated.

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 functions should be considered, and if so would you have suggestions on how to formalise this?

Yes. We believe greater separation of the staff dedicated to IASB operations and those dedicated to the Foundation’s (particularly the Trustees’) functions would help reinforce the perception that the Trustees are exercising an oversight role.

We also consider that it would help reinforce the role and accountability of the Trustees if they could be more visible in explaining their role and activities, and by enhancing communications about those activities - for example by having a separate section of the IFRS Foundation website that highlights the work of the Trustees.

Question 4 – Please provide comments on any aspects of Trustee composition or appointments that you believe the Monitoring Board should consider.

As noted in our response to the Trustees on the last Constitutional Review, we see no compelling reason to change from the current arrangement which already requires that there be diversity on the Trustees by way of professional/organisational background and geography (six from North America, six from Europe; six from Asia/Oceania; one from Africa; one from South America; and two from any area). It is helpful for stakeholders to be able to identify with Trustees from their particular region – and this aids the two-way communication process between the Foundation and its constituencies.

We do however consider it would be worthwhile to examine whether there are important regions or countries of the world that use or intend to use IFRS that are not presently represented on the Trustees. We observe that over time, the Trustees tend to search for replacements for retiring members from the same countries, so it may be difficult for “new” geographies to be represented.



Question 5 – Do you agree with the proposal to provide increased transparency into the process for Trustee nominations? 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?

Under current arrangements, we understand that Trustee vacancies are publicly advertised, criteria regarding a diversity of backgrounds and geographies are applied, and appointments and re-appointments of Trustees must be approved by the Monitoring Board. We question whether additional measures or safeguards are needed. We believe it would be difficult to apply substantially enhanced transparency around appointments, given the need for sensitivity in the appointments process for individual candidates.

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?

Yes. We support the emphasis flowing through the Monitoring Board’s report on the capital markets and agree with the statement that *“the governance structure of the IFRS Foundation must be accountable primarily to the needs of capital providers while also taking into account the needs of other users of financial statements”*.

The Monitoring Board provides a valuable and suitable setting for capital markets regulators to meet and discuss views on the direction of financial reporting and standard setting. Capital market regulators have an important and unique perspective and should have the opportunity, via the Trustees, to express views to the IASB on the direction of accounting standards.

We recognise that, whilst financial stability is not the primary role of financial reporting and financial accounting, it is an important consideration. We would therefore support two observer seats for international prudential authorities at the Monitoring Board (the existing observer position for the Basel Committee on Banking Supervision, plus an additional position for the Financial Stability Board), but would not see them as full members. This is consistent with our view that the primary mission of the IASB is to set financial reporting standards for use in the capital markets.

We also consider it important that the Monitoring Board should continue to be comprised of members that are sufficiently senior in their organisations to represent those organisations’ points of view with authority. This is more likely to be the case if the membership is kept reasonably tight.

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? 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?

Yes. While we have no particular view on specific numbers, we believe there should be an appropriate balance in the membership of the Monitoring Board as between mature and emerging capital markets. While we agree that some increased input from emerging markets seems sensible, this should be balanced against appropriate representation from the mature markets which account for the vast proportion of market capitalisation. We agree that IOSCO is the most obvious mechanism through which to select rotating members.

We presume that, in an expanded Monitoring Board, appropriate safeguards will apply to avoid any possibility of the 'doubling up' of membership (for example it would not be appropriate for a particular national securities regulator to be represented in its own right *and* also to occupy one of the IOSCO seats).

Question 7 - Do you agree that the Monitoring Board should continue to make its decisions by consensus? Are there any types of decisions taken by the Monitoring Board for which voting other than by consensus (eg by qualified majority) may be appropriate?

Yes. We agree that decision making by consensus would seem the most appropriate mechanism, particularly in view of the Monitoring Board's role as a 'monitoring' body rather than a body that has an executive role.

The 'consensus' decision making approach would also be an argument for keeping the membership of the Monitoring Board to a manageable number.

Question 8 – To ensure increased involvement of public authorities and other international organisations in Monitoring Board activities, do you support the Monitoring Board (a) expanding the number of Monitoring Board observers, (b) holding more formalised dialogue, (c) establishing an advisory body, and on what basis?

Assuming the membership of the Monitoring Board is revised and/or expanded in accordance with the proposals in Question 6, we believe the 'new' Board should have a reasonable period in which to operate and for stakeholders to observe its effectiveness before the creation of additional structures is contemplated. We therefore would not favour the establishment of an advisory body as suggested under option (c) at this stage.

As noted in our response to Question 6, we would tend to favour option (a) – expanding the number of Monitoring Board observers to include the Financial Stability Board (as a representative body for a number of prudential authorities) in addition to the Basel



Committee. The FSB and the Basel Committee could use their existing channels and forums to obtain input from their affiliated member organisations in preparation for Monitoring Board meetings.

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?

This is a topic that the Trustees inquired about in their Review of Strategy, and on which we commented in detail in our response letter to the Trustees dated 24 February 2011.

In that letter, we emphasised that IASB should continue its efforts to maintain, as part of its due process, an open and consultative environment. In relation to public policy objectives such as financial stability, we encourage the IASB to continue to exchange views with the regulatory community (for example through its regular ‘enhanced technical dialogue’ with a range of regulatory organisations).

We believe the IASB should also include as part of its due process (and reflected in the Due Process Handbook) a step that, where it believes its proposals may have financial stability implications, it ensures that prudential regulators are included in the consultative process. This should be a two-way exchange, such that regulators are informed of the board’s thinking and, at the same time, the IASB is aware of regulatory considerations. The prudential regulators and the board would have the opportunity to think through any implications or unintended consequences of proposed changes to accounting standards, and any actions that they each might need to take to pursue their respective objectives.

We note that the IASB has already committed to consulting publicly on its work programme on a periodic basis, beginning this year. This was a key area of stakeholder comment during the last Constitutional Review and we welcome the willingness of the Trustees and the IASB to introduce this measure.

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

We would support initiatives by the Monitoring Board to provide greater transparency and understanding of its activities.

We have observed occasions when the current structure has seemed to lack clarity and simplicity (evidenced by the initial lack of clarity and coordination regarding the separate and overlapping reviews currently being undertaken by the Trustees and the Monitoring Board). Hence, while we believe the current three-tier structure (IASB, Trustees and Monitoring Board) is appropriate and should continue, the Monitoring Board’s roles and responsibilities versus those of the Trustees should be set out with greater clarity.



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?

The Monitoring Board and its member organisations are an important source of input to the IASB. As noted above, we believe the Monitoring Board provides a valuable and suitable setting for capital markets regulators to meet and discuss views on the direction of financial reporting and standard setting. The regulators have an important and unique perspective and should have the opportunity, via the Trustees, to express views to the IASB on the direction of accounting standards.

We do not agree that the Monitoring Board should be able to direct the IASB to make specific changes to standards or to add specific items to, or remove items from, its technical agenda. In order to carry out its role effectively, the IASB must be seen to be independent and not subject to undue influence. However, the IASB should consider any input received from the Monitoring Board, via the Trustees, and explain whether, and if so how, it intends to address matters raised by the Monitoring Board.

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?

As noted in our response to the Trustees’ Strategy Review, we believe that a stable funding mechanism will only be achieved if a levy-based system is devised – with amounts to be raised in specific territories allocated by reference to some appropriate criteria (share of global GDP; share of world market capitalisation; by G20 membership, etc).

Principles could be devised to guide the design of the funding regime. For example, the system should be transparent; build in inflationary rises; be independent of the political process; and be free from perceived conflicts of interest.

In our view the Monitoring Board could play a valuable role in helping to facilitate a stable funding strategy and mechanism, for example by encouraging national public authorities to assist in the setting up of levy-based systems that meet the guiding principles.

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?



Do you believe that the Monitoring Board should be given any further specific role in the selection of IASB chair? In particular, should the Monitoring Board approve the Trustees' final selection?

We believe the Monitoring Board should be consulted by the Trustees and should have the right to provide their input and insights into the process of selection of the IASB chair. We would not however favour an explicit provision that the Monitoring Board should approve the Trustees' final selection. As noted also in our response to Question 11, the IASB must be seen to be independent in order to carry out its role effectively. The other measures suggested in the consultative report, such as involvement in establishing a set of publicly disclosed criteria for the chair, should provide sufficient safeguards. In practice, we consider it unlikely that the Trustees would consider appointing an IASB chair who does not command the support of the Monitoring Board.

In addition, we do not consider that giving the Monitoring Board a specific right of approval or veto on the Trustees' final selection would be consistent with the Board's 'monitoring' role or with its 'consensus' decision-making approach.

The appointments of other IASB board members should be a matter for the Trustees.

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?

The regulatory authorities on the Monitoring Board have an important perspective and should have the opportunity, via the Trustees, to express views on the overall balance and composition of the IASB. However, the decision-making regarding the composition of the IASB and the selection of members (other than as discussed above regarding the chair) should continue to rest wholly with the Trustees.

Question 15 - Do you agree with the proposal to establish 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.

No. We question the need for a *permanent* secretariat for the Monitoring Board. We suggest the Monitoring Board consider further if appropriate administrative support and assistance could not instead be provided by IOSCO without the need to establish a separate, permanent secretariat.

We note that paragraph 3-2-3 in the consultative report states: "*The Monitoring Board could also look at possible synergies in creating a permanent secretariat shared by the*



Monitoring Board and the Monitoring Group responsible for overseeing the governance of IFAC, on the basis that there are certain overlaps of member organisations.”

In our view the two bodies have differing responsibilities and constituencies. The Monitoring Board is principally concerned with accounting standards for the capital markets. The Monitoring Group is concerned with IFAC standards which are aimed for example at all audits (not just those of listed companies) – and hence its constituencies are different.

If it is considered desirable to achieve efficiencies, given the overlap in membership between the Monitoring Board and Monitoring Group, we believe it would be preferable to first explore other means of achieving administrative efficiencies (for example holding meetings of the two groups back-to-back) before considering the merging of secretariats.

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?

Yes. As noted in our covering letter, five-yearly reviews would seem appropriate (and consistent with the period used by the Trustees for constitutional reviews). It would be helpful for stakeholders in forming their views if the processes, scopes and timetables for the reviews can be closely coordinated between the two bodies.

Question 17 – Do you have any other comments?

As noted in our covering letter, we have been concerned to observe the emergence in some countries of local regulatory interpretations that are not consistent with IFRS. We believe this is an area that the Monitoring Board should discuss and where the member organisations of the Monitoring Board, particularly IOSCO, could take a lead.

We consider there would be benefit in having an international forum whereby regulators, the IASB and others can compare notes and discuss matters of application and implementation. The Monitoring Board could encourage the formation of such a body. In addition, there may be a role for the IFRS Interpretations Committee in resolving situations where local interpretations appear to conflict with IFRS.