I. INTRODUCTION AND SUMMARY OF CBI POSITION

1. The Confederation of British Industry (CBI) is pleased to respond to the Monitoring Board’s consultation on its Governance Review report.

2. The CBI has recently responded to the IFRS Foundation Trustees’ Strategy Review consultation, and it would have been helpful if there had been more co-ordination between the Trustees and the Monitoring Board on their respective consultations and timeframes, since there is a degree of overlap and commonality of issues being considered.

3. The CBI is pleased to share with you our response to the Trustees’ Strategy Review consultation.

4. The CBI welcomed the establishment of the Monitoring Board and its role and responsibilities on behalf of financial markets’ regulators in interfacing with the work of the IASB in developing IFRS for use by financial markets participants in their financial reporting and accountability to their shareholders.

5. Whilst regulators are a key stakeholder in the financial reporting process, they often have a distinct focus, not necessarily aligned with the information needs of shareholders - the primary users of annual financial statements. Regulators should have no particular influence over the determination of the detailed requirements of accounting standards, not least because they usually have the power to obtain any extra information they need to supplement or adjust the audited accounts. Financial stability and prudential supervision should be delivered principally through prudential regulatory regimes.

6. Accordingly, we consider that no significant change in the role and responsibilities of the Monitoring Board is required at this time.
7. Moreover the Trustees have only recently conducted a review of the IFRS Foundation Constitution, with the latest edition issued in December 2010. That Constitution already makes sufficient and adequate provision on the role and responsibilities of the Trustees, and also regarding the Monitoring Board and its relationship with the Trustees. This also includes the Memorandum of Understanding between the Trustees and the Monitoring Board, which can be kept under review between them.

8. We do not support any changes in the arrangements for the selection of the IASB Chair and other IASB Board members. This is the core responsibility of the Trustees, whose appointment under the Constitution the Monitoring Board must approve, and the Monitoring Board should not usurp the Trustees’ responsibilities, which could cause the independence of the Trustees and of the IASB Board appointments process to be called into question.

9. Likewise we do not support any formal new responsibilities or powers of the Monitoring Board over the IASB Agenda. The Monitoring Board is in a position to make its views known to the Trustees and the IASB on any issue or concern it has. In future it will also be the case that the IASB will publicly consult on its forward Agenda, and the Monitoring Board can participate in that process as well.

10. We respond overleaf in more detail to the specific consultation questions.
II  RESPONSES TO CONSULTATION QUESTIONS

PROPOSALS REGARDING THE IASB:

IASB Board membership

Undertake concrete efforts to improve identification of candidates to ensure IASB membership from diverse geographical and professional backgrounds in order to provide for further objectivity and impartiality of the decision-making process, while maintaining professional competence and practical experience as the primary qualifications.

Q.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.

On IASB board membership, although there should be a suitable geographic spread, membership should be determined by quality, skills and balance, including significant experience of preparers and investors, rather than a strict quota system linked to geographic origin.

Recruitment of part-time board members should also be considered to fills gaps in experience and background, as provided by the Constitution.

Separate the roles of the IASB Chair and the CEO of IFRS Foundation

Separate the roles of the IASB Chair and the CEO of the Foundation to safeguard the independence of the standard-setting process led by the IASB Chair and to avoid undue conflicts of interest as the CEO of the Foundation manages all the other aspects of the Foundation’s functions, including IASB oversight.

Q.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.

Following the retirement of Sir David Tweedie in June, the Trustees have chosen to appoint both a new Chair, and to create a new position of Deputy Chair, which we strongly support.

We agree that with the growth in the Foundation structure and the need for accountability to the many new countries and jurisdictions now using or planning to use IFRS, it is probably no longer appropriate that the position of the CEO of the IFRS Foundation should be filled by the IASB Chair. Perhaps the position of CEO of the IFRS Foundation, if necessary at all going forward, could be filled by the Chairman of the Trustees.

Alternatively, with the growth of the Foundation organisation and structure, it is accepted that there are and will continue to be a lot of day to day management, administrative and HR functions to be carried out. Accordingly, the CEO role could be someone someone filling the role of a CEO or Chief Operating Officer within either or both of the IFRS Foundation or the IASB Board.
Separate staff for IASB and IFRS Foundation functions

Consider clearer division of responsibility between staff dedicated to the IASB’s operations and staff dedicated to the Foundation’s administrative and oversight functions.

Q. 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 support clear management structures and responsibilities. However, provided appropriate governance structures are in place at board and management level, it is not clear that there needs to be a formal or strict division of responsibilities at staff level between the IASB and the Foundation, and flexibility will generally be appropriate to ensure cost effectiveness. We are not aware of any particular problems currently.

See also our response to Q.2.

PROPOSALS REGARDING THE TRUSTEES:

Trustee appointments

Continue to review the diversity of geographical and professional background of the Trustees so as to provide for objectivity and impartiality of the decision-making process.

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

We believe the Constitution already makes adequate provision.

Devise formal procedures and clearer criteria for the nomination of candidates and appointment of Trustees accountable to the stated objectives for the IFRS Foundation.

Q. 5.

(i) Do you agree with the proposal to provide increased transparency into the process for Trustee nominations? Please provide reasons for your agreement/disagreement.

(ii) To what extent should the Monitoring Board be involved in the nomination process?

(iii) 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 believe the Constitution already generally makes adequate provision on these issues.

The Constitution also already provides for the Monitoring Board to approve Trustee appointments. If the Monitoring Board wants to be further engaged in the Trustee Appointments process, perhaps this should be addressed as appropriate in the Memorandum of Understanding between the Monitoring Board and the Trustees, also referred to and provided for in the Constitution.
PROPOSALS REGARDING THE MONITORING BOARD:

Membership and Size of Monitoring Board

Expand the membership to [eleven] members to include more capital markets authorities responsible for setting the form and content of financial reporting in respective jurisdictions, focusing on increased representation from major emerging markets. [Four] new members primarily from major emerging markets would be added on a permanent basis and [two] additional seats would rotate amongst authorities not permanently represented. The use of IFRSs in a jurisdiction and the contribution of the jurisdiction to the funding of the IFRS Foundation should be considered in selecting members.

Q. 6.

(i) 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?

Generally, that will be the case in practice, but we would also encourage flexibility and consideration of applications on behalf of any international body with an interest in financial reporting and governance who expresses interest in participating, and provided that there is an overall balance in membership of the Monitoring Board.

At the same time, the Monitoring Board needs to avoid becoming unwieldy, if it is to be able to operate and engage with the Trustees effectively. Ultimately, whilst regulators have a legitimate interest in quality and informative financial reporting, they do usually have their own regulatory mechanisms for satisfying their information needs in carrying out their functions.

(ii) 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?

All these are relevant factors and considerations, but again we would encourage flexibility, and avoidance of being too prescriptive on strict quotas.

After all, it is meant to be a “Monitoring” Board, with the front line roles carried out by the Trustees and the IASB itself.

(iii) Do you agree that rotating members should be selected through IOSCO?

Please provide reasons for your agreement/disagreement.

See response to Q.6 (ii).
Decision - Making

Consider whether any types of decisions taken by the Monitoring Board would justify deviation from the current consensus-based decision-making system.

Q. 7:
(i) Do you agree that the Monitoring Board should continue to make its decisions by consensus? Please provide reasons for your agreement/disagreement.

Yes.

(ii) 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.

Paragraph 14 of the Constitution sets out the voting arrangements for the Trustees, including a casting vote for the Chair if necessary.

Whilst we would hope that the Monitoring Board can normally operate by consensus, the Monitoring Board itself may wish to consider with its members whether there are comparable circumstances for more formal decision making arrangements to be put in place for use in particular circumstances.

Involvement of other stakeholders

With a view to increasing the involvement of other public authorities and international organizations, consider either:
(a) extending the observer status to groups of prudential authorities and international organizations;
(b) holding more formalized dialogue with public authorities and international organizations; or
(c) establishing an advisory body composed of prudential authorities and international organizations.

Q. 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, (c) establishing an advisory body, and on what basis? What should be the criteria for selecting participants?

There is a danger in the Monitoring Board becoming unwieldy and overly bureaucratic if these proposals are implemented. As said above, it is meant to be a “Monitoring” Board.

We would prefer flexibility, and if there are stakeholders with a genuine interest in the activities of the IFRS Foundation and the IASB, they should join the Monitoring Board itself. Other relationships can be dealt with on an informal basis, and according to the circumstances.
Transparency of Monitoring Board’s activities

Enhance publication of written records of Monitoring Board deliberations, increase the use of press releases, and strengthen the exposure of Monitoring Board members’ views to the media and wider audiences.

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

All the above processes can be used and applied, as appropriate to the circumstances.

IASB and placing items on IASB Agenda

Consider if the Monitoring Board’s current ability to refer matters to the IASB for consideration, requiring feedback, is sufficient, or whether an explicit role should enable the Monitoring Board to place an item on the IASB agenda.

Q. 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 believe the current arrangements are broadly appropriate.

We are sure the Monitoring Board will make its views known to the Trustees and the IASB on any issue or concern it has.

The IASB will also publicly consult on its forward Agenda, and the Monitoring Board can participate in that process as well.

Funding of IFRS Foundation

Explore possible options to establish a non-voluntary, transparent and stable public funding platform for the Foundation.

Q. 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?

A stable, fair and proportionate financing mechanism is crucial to the effective functioning of the IFRS Foundation bodies, and we support efforts to establish more formalized funding mechanisms. If such proposals are developed, they should be subject either to public consultation or support at any rate from the major stakeholders providing the funding.

In principle, all users should contribute as well as national standard setters and regulatory authorities. This will both demonstrate support for the IFRS Foundation from its wide range of stakeholders, as well as seeking to demonstrate and underpin its independence.
**Selection of IASB Chair**

Enhance the Monitoring Board’s involvement in the nomination of the IASB Chair by enabling the Monitoring Board to provide a set of criteria for selecting potential candidates and evaluate certain candidates on the short list against the criteria during the selection process. Additionally, consider whether the Monitoring Board’s role should also involve consultation on the Trustees’ final decision and/or playing any further roles.

**Q.13:**

(i) 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.

(ii) 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.

The selection of the IASB Chair, Deputy Chair and other Board members is the key role and responsibility of the Trustees, and we consider that the Constitution makes adequate provision.

If the Monitoring Board has views on how it is consulted and kept informed on the exercise of the Trustees’ responsibilities on IASB board appointments, that should be a matter for agreement between the Trustees and the Monitoring Board, and if appropriate addressed in the Memorandum of Understanding between the Trustees and the Monitoring Board.

As regards other IASB members, explicitly include in the Monitoring Board’s responsibilities consultation with the Trustees as they further develop the framework to ensure proper balance in the composition of the IASB.

**Q.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.

See response to Q.13.

**Permanent secretariat for the Monitoring Board**

**Q.15.**

(i) 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?

(ii) Would you support this proposal even if it would require additional financial contributions from stakeholders?

Yes in principle to both questions if that is the view of Members of the Monitoring Board. However, we do not anticipate a need for a sizeable Secretariat, which would involve a significant cost and should be avoided.
OTHER QUESTIONS:

Q. [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.

This is a very broad question.

We believe that the standard setting process is appropriately structured to deliver high-quality standards. Regular and inclusive due process with constituents is a hallmark of an effective and credible standard setting process, and accordingly, we welcome the recent, significant improvements in due process arrangements and procedures. We believe that in general the IASB’s due process is now transparent, well publicised and engages a broad range of constituents in extensive and constructive dialogue.

It is also important in this context to emphasise the IASB’s objective for financial reporting, with its focus on shareholders and other capital providers as the primary user group. We support this focus. This allows financial reports to be produced which contain clear, transparent and comparable financial information, focused on investors but able to meet the primary information needs of a wide range of users, including regulators. Regulators also normally have other means at their disposal to satisfy any additional information needs in carrying out their public policy functions.

See also our response to the IFRS Foundation Trustees Strategy Review.

Q. 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.

Yes, unless a significant problem has arisen necessitating an earlier review.

Q.17. Do you have any other comments?

No.