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Dear Mr Nagaoka and Mr Sonoda

**SAICA SUBMISSION ON THE CONSULTATIVE REPORT ON *THE REVIEW OF THE IFRS FOUNDATION'S GOVERNANCE***

In response to your request for comments on the IFRS Foundation's consultative report on *The Review of the IFRS Foundation Governance*, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA). Please note that SAICA is not only a professional body, but also secretariat for the Accounting Practices Board (APB), the official standard-setting body in South Africa. The SAICA comment letter results from deliberations of the Accounting Practices Committee (APC), which is the technical advisory body to the APB.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

**Sue Ludolph**  
**Project Director – Accounting**

cc: Moses Kgosana (Chairman of the Accounting Practices Board)  
Prof Alex Watson (Chairman of the Accounting Practices Committee)

# **SAICA SUBMISSION ON THE CONSULTATIVE REPORT ON *THE REVIEW OF THE IFRS FOUNDATION GOVERNANCE***

## **GENERAL COMMENTS**

While we support some of the current proposals to improve the IFRS Foundation's Governance, we believe that some of these proposals should be the responsibility of the Trustees and not the Monitoring Board. Accordingly in some areas we believe there is scope to reconsider who should be responsible for the actions/improvements proposed and the extent of the Monitoring Board's involvement.

We believe the roles and responsibilities of the Trustees and the Monitoring Board should be distinct. This would require the Monitoring Board to maintain its monitoring role, and accordingly we do not support the Monitoring Board being involved in roles that are currently those of the Trustees.

Our responses to the specific questions are set out below.

## **SPECIFIC COMMENTS**

### **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.*

While we agree with the Monitoring Board's proposal to urge concrete efforts to deepen the pool of candidates for IASB membership, we are also of the view that as IFRS becomes more widely used internationally the issue of having sufficient technically qualified candidates should be addressed. We believe however that the efforts to deepen the pool of candidates should be the responsibility of the Trustees with this being monitored/overseen by the Monitoring Board.

### **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 that these roles should be separated, but that the Trustees should be responsible for clarifying and separating the roles and responsibilities of the IASB Chair and the CEO of the IFRS Foundation and not the Monitoring Board. There should be a clear distinction between these roles, whereby the IASB Chair is responsible for standard setting activities and the CEO responsible for the day-to-day management and administration of the Foundation. At present the Constitution does not deal much with the role of the Foundation, as opposed to that of the IASB, and therefore any change would need to clarify the role and function of the Foundation as distinct from the IASB.

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### **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 that clearer division of staff responsibility should be considered to achieve effective functioning and governance of the IASB and the Foundation. Again, as in our response to the previous questions, this could be formalised by the Trustees distinguishing between roles, responsibilities and reporting structures and not the Monitoring Board. In some cases staff might have different reporting responsibilities and this should be dealt with in any changed arrangements. For example, staff dedicated to the IASB's operations should report to the IASB on technical issues, but to the Foundation on administration functions, such as human resource issues. It should also be made clear that the Foundation reports to the Trustees who oversee their activities. However, even if a clearer division of responsibility was not made, we are not of the view that the current arrangement appears to create any conflicts of interest.

### **Question 4**

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

We are of the view that the relative geographical composition of the Trustees should not be fixed, but should be reconsidered periodically to reflect changes in the relative size of the Gross Domestic Product (GDP) in various countries, economic circumstances and conditions. We believe the Monitoring Board should consider who are the current users and intended users of IFRS, as well as continental representation in the appointment of Trustees.

### **Question 5**

- *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.*

We believe that the approach followed to appoint Trustees and criteria for candidacy should be transparent. However, we believe the specifics of the actual nomination process, including discussion and names of nominees should remain confidential, with only the names of appointed candidates being published.

The Monitoring Board, as a collective, should not be involved in the nomination process as they are responsible for appointing the Trustees. However, individual members of the Monitoring Board should be allowed to nominate a candidate.

We agree that further clarification of the criteria for the Trustees' candidacy would help stakeholders' confidence, as this would improve transparency and the criteria would be expected to be as objective as possible.

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### **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?*
- *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?*
- *Do you agree that rotating members should be selected through IOSCO? Please provide reasons for your agreement/disagreement.*

We believe that capital market authorities are the appropriate representatives to have on the Monitoring Board. However, as indicated in our response to question 4 above in relation to the composition of Trustees, we are of the view that the Monitoring Board's composition should be reconsidered periodically to reflect changes in GDP in various countries and the global economy.

We support the proposal to expand the Monitoring Board's membership. However the mix should be representative of the capital markets, GDP, economic conditions, and emerging markets. Consideration should be given to jurisdictions applying IFRS, but financial contribution should not be a major consideration, particularly if an emerging economy is to be invited to be a member of the Monitoring Board.

We support rotating membership, as this would expand the composition and increase public interest representation. In addition we believe all membership should be for a specified period (e.g. 5-8 years). This would allow changes in markets and the economy to be considered in the composition of the Monitoring Board. The appointment for a specified period should not restrict re-appointment, but should not be automatic.

### **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 agree that the Monitoring Board should continue to endeavour to make decisions by consensus. However, a majority vote may be necessary in some instances as the Monitoring Board expands, seeing that in these circumstances it may be more difficult to achieve consensus.

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### **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?*

We believe that the Monitoring Board meetings should be open, thus advocating transparency. There is scope for the Monitoring Board to improve its communication about its activities, such as providing a summary of its deliberations on the IASB's website. This would eliminate the need to appoint Monitoring Board observers or hold formalised dialogue or establish an advisory body. We do not support an advisory body being established as this would just create a further layer of governance, which is undesirable.

### **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.*

It appears that the current standard setting process is working adequately to involve the relevant stakeholders and all relevant public policy objectives. This is evident by the consultations and governances over the development and implementation of new standards (through publication of a discussion paper and an exposure draft for comment, roundtable discussions, outreach programmes, etc) and the IASB meeting with the Trustees to discuss their work plan.

### **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 could enhance the understanding of its activities by publishing on the IASB's website the dates, venues and agenda of upcoming meetings and a summary of the main decisions taken during its meetings.

### **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 support the proposal for the Monitoring Board to have the explicit ability to place an item on the IASB agenda or be involved in setting the IASB agenda. The responsibility of the Monitoring Board is to monitor the Trustees and not to control or direct the IASB on the resolution of accounting matters. This is necessary to maintain the independence and objectivity of the IASB. However, this does not preclude the Monitoring Board from requesting an item being placed on the agenda as would any other interested party.

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### **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?*

We believe the IASB should be able to operate independently from those who provide the necessary funds. This means that the providers of funding should not regard this as a right to unduly expect the IASB to accommodate their views. As the focus on IFRS is on capital markets, this market should be a major contributor to funding. In addition, parties involved in proposing Trustees and members of the Monitoring Board should be expected to be part of the funding in order to participate in the structures. Thus, for example, the International Organization of Securities Commissions (IOSCO) should contribute to the funding by requiring its member bodies to contribute, with these member bodies in turn requiring entities listed on their stock exchanges to contribute to the funding; alternatively, for those trading on the various stock exchanges to contribute to the funding.

### **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 believe that the selection of the IASB chair should remain the responsibility of the Trustees. The Monitoring Board's involvement should be limited to commenting on the criteria to be used for selection.

### **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.*

We believe that the Trustees should be responsible for ensuring that the proper balance in the composition of the IASB is achieved. The Monitoring Board's involvement should be limited to observation and monitoring of the Trustees.

### **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.*

Based on the comments above, we do not support the proposal of increasing the role of the Monitoring Board, therefore eliminating the need for a permanent secretariat. As a result no additional financial contributions from stakeholders would be necessary. If a permanent

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secretariat was established, we believe it should be financed by the members of the Monitoring Board.

**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 that there may be a need for reviews, but the timing should be aligned with the Foundation's mandated Constitution reviews. As the monitoring process is fairly new areas of possible improvement and weaknesses may be identified.

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