



8 April 2011

Ref: 11/46

Mr Takashi Nagaoka
Director for International Accounting
Financial Services Agency of Japan
Email: t-nagaoka@fsa.go.jp

Mr Makoto Sonoda
Deputy Director, Corporate Accounting and Disclosure Division
Financial Services Agency of Japan
Email: makoto.sonoda@fsa.go.jp

Dear Mr Nagaoka and Mr Sonoda

The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to comment on the IFRS Foundation Monitoring Board's *Consultative Report on the Review of the IFRS Foundation's Governance* (Consultative Report).

We support the objective of the Monitoring Board to review whether the current governance structure effectively promotes the standard-setter's primary mission of setting high quality, globally accepted standards, and whether the standard-setter is appropriately independent yet accountable. This review is an important part of ensuring that the governance mechanism of the IFRS Foundation remains relevant, fit for purpose, and supports the IASB's objective of delivering a single set of high-quality global financial reporting standards.

The IAIS is the global representative of insurance regulators and supervisors of some 190 jurisdictions and has a strong history of working closely with other financial sector standard setting bodies and international organisations to promote financial stability. As such, the IAIS has a well-established and vested interest in ensuring the independence and proper governance of the IFRS Foundation and, we believe, should be represented on the Monitoring Board.

In our view, while the 3-level governance structure provides a sound basis for the governance of the IFRS Foundation this could be improved further by acting on a number of the issues and concerns raised in the Consultative Report. We are supportive of the proposal to expand membership of the Monitoring Board and provide it with sufficient secretariat resources to enable members to fulfil fully their roles and responsibilities. We are also supportive of the Monitoring Board having a larger role in the governance process, provided that any extension of duties are clearly devised and documented and are not likely to compromise the effectiveness of each of the other levels of the governance structure.

Moreover, we think it is important that greater consideration is given as to how the Monitoring Board fits into the international architecture of financial reporting and regulation, including

how it may best work together with the Monitoring Group to achieve common aims and objectives.

Further comments in respect of some of the specific questions raised in the Consultative Report are set out in the appendix below.

If there is any way in which the IAIS can assist the Monitoring Board further, please do not hesitate to contact Richard Thorpe, Chair of the IAIS Accounting and Auditing Issues Subcommittee (tel: +44 (0) 20 7066 3160; email: richard.thorpe@fsa.gov.uk) or Peter Windsor at the IAIS Secretariat (tel: +41 61 280 9196; email: peter.windsor@bis.org).

Yours faithfully

The image shows two handwritten signatures in blue ink. The signature on the left is 'P. Braumüller' and the signature on the right is 'M. Mächler'. Both are written in a cursive, flowing style.

Peter Braumüller
Chairman, Executive Committee

Monica Mächler
Chair, Technical Committee

Appendix: responses to specific questions raised in the Consultative Report

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.*

1. The IAIS is supportive of the proposal to encourage efforts to deepen the pool of candidates for the Board, although this is arguably a matter for the Trustees rather than the Monitoring Board.
2. However, the Constitution establishes a requirement that the composition of the Board should represent geographic diversity in addition to setting out that the members of the Board should fulfill certain criteria, such as technical accounting and reporting experience. As a consequence, it is not clear which is the primary consideration. This has obvious consequences for the composition of the Board as it may impact on the depth of the pool of potential candidates for Board membership, as well as the roles and responsibilities of both Board members and IASB staff. The need for technical expertise in the IASB staff should be in balance with the weight of technical expertise on the Board.
3. There is a need for Board members to have effective and substantial experience in the application of IFRS. In this context, it would also be useful to consider the possibility of the Board's membership including a proportion of part time members.

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.*

4. The IAIS can see clear arguments both for and against a separation of the roles of IASB Chair and CEO of the IFRS Foundation. The dual role provides an ability to act as a bridge between the Board and the Foundation, which may be beneficial but could also be seen to compromise independence. If the dual role is perceived as impairing the independence and objectivity of the oversight function then either the roles should be separated or action should be taken to change that perception.

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.*

5. Dedicated secretariat resources for the Trustees to support their oversight function of the IASB should be considered as a means by which the ability of Trustees to monitor and challenge the Board's non-technical decisions might be improved.
6. However, as noted above in response to question 1, the level of technical experience of the Board may have an impact on the type of IASB staff needed, which in turn could impact the availability of staff to support the Foundation's oversight functions. A less technical Board would require staff to be more technical and able to provide high quality analysis and support to the Board.

Question 4:

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

7. The IAIS believes that it is important that the oversight function reflects the global nature of the organization and its aims. It is therefore advisable that Trustees are representative of a broad set of geographical and professional backgrounds as this should help to avoid the practice or perception of any jurisdictional or industry bias.
8. It is also important that the quality of Trustees is preserved and that a regular review of the composition of the Trustees is undertaken to help to ensure that the distribution of backgrounds remains relevant to the organization.

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.*

9. The IAIS agrees with the proposal to provide increased transparency into the Trustee nomination process. A possible perception exists that the Monitoring Board has too much influence over the nomination process and it is therefore sensible for the relevant procedures to be formalized and clarified, including clear criteria for Trustee's candidacy.

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.*

10. The Monitoring Board provides a clear mechanism through which capital markets authorities can interact with the IFRS Foundation to enable IFRS to contribute to such authorities discharging effectively their mandates relating to investor protection, market integrity and capital formation. In this context, it seems advisable that the Monitoring Board should remain confined to relevant public oversight bodies, although an expansion of membership of the Monitoring Board is appropriate to enable broader representation in the near term.

11. Broader representative would help to ensure that membership is more reflective of the global nature of IFRS and the continuing expansion of its application worldwide. This would also help to ensure that a broader set of stakeholders are actively engaged in the Foundation's governance.
12. As noted above in the main body of our letter, the IAIS is the global representative of insurance regulators and supervisors of some 190 jurisdictions and has a strong history of working closely with other standard setting bodies and international organisations to promote financial stability. As such, the IAIS has a well-established and vested interest in ensuring the independence and proper governance of the IFRS Foundation and, we believe, should be represented on the Monitoring Board.
13. The IAIS is also of the view that the provision of additional secretariat resources to the Monitoring Board might help members to more fully fulfill their roles and responsibilities and that the members of the Monitoring Board should be encouraged continue to demonstrate a high level of commitment.

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.*

14. Given the purpose and size of the Monitoring Board, the use of consensus decision-making is appropriate. More formalized voting structures do not appear to offer a more appropriate mechanism for decision-making in respect of the governance role and responsibilities of the Monitoring Board.

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?*

15. As noted above, the IAIS believes that an expansion of the Monitoring Board would help to increase representation. This could be achieved either through an increase in the number of members or through the involvement of observers. The presence of observers would help to increase public participation provided that there is a mechanism for observers to be heard and provide input to meetings.
16. Increased involvement by public authorities and other international organizations might be achieved by holding more formalized dialogue or establishing advisory bodies. However, given the significance of such stakeholders in the international regulatory environment we believe that their contribution would best be realized through direct and active participation in the Monitoring Board rather than through formalized dialogue.
17. Moreover, we are concerned that the established of an advisory body might cause possible conflict or confusion with the IFRS Advisory Council. In addition, such advisory bodies could hinder the governance framework unless they were efficiently run with clear and specific mandates.

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.*

18. The IAIS believes that the Monitoring Board should not have a more prominent role in terms of selection of the Chair but should engage with, and challenge, the Trustees to ensure that the Trustees are performing their role here more effectively – i.e. on a timely basis and with due consideration of the views of stakeholders.