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**Public Consultation on the Monitoring Board's Governance Review of the IFRS Foundation:
Response from the Revenue Watch Institute**

Submitted 8th April, 2011

Dear Mr Nagaoka and Mr Sonoda,

We write with regard to the public consultation issued by the Monitoring Board of the IFRS as part of the governance review of the IFRS Foundation.

The Revenue Watch Institute (RWI) is a non-profit policy institute and grant-making organization that promotes the responsible management of oil, gas and mineral resources for the public good. With effective revenue management, increased citizen engagement and real government accountability, natural resource wealth can drive development and national growth. RWI provides the expertise, funding and technical assistance to help countries realize these benefits.

Our work requires us to monitor corporate governance and the financial activities of corporations, taxation issues and the compliance of companies with international standards and with the law. Some of the information that we use is only available from the financial statements issued by companies.

As such, the functioning of the IFRS and its impact on the reporting of companies has direct impact upon our work, all of which is ultimately aimed at improved governance and the reduction of poverty. This is also true of many other organisations like ours that monitor the activities of companies and their impact on development. For example, we are part of the global 'Publish What You Pay' (PWYP) coalition that now has more than 600 organisations in over 50 countries.

RWI and PWYP have been engaging with the IASB since 2005. There have been many frustrations with the process, so we particularly welcome this important review.

Our responses to those specific questions posed by the Trustees in the public consultation document that we wish to address are set out below. They are in the sequence presented in the summary at the start of that document – thus our response to Question 9 is towards the end of this submission.

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.

We agree that the pool of candidates for IASB membership must be deepened to include those from diverse geographical and professional backgrounds. However, this alone will not be sufficient to address some of the weaknesses of the IASB's functioning unless the full set of users of financial information are acknowledged and representatives of are included in IASB membership.

We note that the Constitution (recently amended and effective March, 1, 2010) includes the following paragraph (see the section on Objectives of the IFRS Foundation):

“to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. These standards should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions.”

Although the Constitution includes reference to the needs of “other users”, in practice, the IASB has focussed only on those needed for “investor protection”, and perhaps even more, on filer convenience.

In defining relevant “other users” it is helpful to look at reports of the UK's Accounting Standards Steering Committee in 1975¹ and the United Nations Conference on Trade and Development in 2008². It is apparent that over that period, there remained uniformity in those considered to have an interest in the accounts of multinational corporations, who are as follows:

- The equity investor group (shareholders);
- The loan creditor group (banks and bondholders);
- The analyst-adviser group who advise the above groups;
- Business partners;
- Consumers;
- Employees;
- The business contact group;
- The surrounding community;
- Civil society organizations; and
- Governments and their institutions.

Unless the IFRS are seen to meet the comprehensive needs of the full range of user groups for financial statements, and require disclosure of all the information that can reasonably be expected to be included in financial reports to meet the public interest, pressure will arise on other regulatory mechanisms to deliver what the IFRS should be able to do.

We do not see that the IFRS is interpreting its mandate in this way to date. The Board contends that meeting the narrowly defined needs of investors will automatically address the needs of these “other users”. We, as representatives of such “other users” strongly content that this is not the case and

¹ The Accounting Standards Steering Committee, *The Corporate Report: a Discussion Paper published for comment by The Accounting Standards Steering Committee* (1975). See particularly, Section One, paragraph 1.9. <http://www.ion.icaew.com/ClientFiles/6f45ef7e-1eff-41ff-909e-24eeb6e9ed15//The%20Corporate%20Report2.pdf>.

² UNCTAD, *Guidance on Corporate Responsibility Indicators in Annual Reports* (2008). See particularly the section, “Stakeholders and their information needs”, page 6. http://www.unctad.org/en/docs/iteteb20076_en.pdf

frustration with the way the IASB is operating is resulting in other mechanisms being used to set standards. This is resulting in continued fragmentation and contradiction in reporting standards, and undermining the importance of the IFRS. Having multiple authorities develop standards and requirements in related areas will inevitably lead to less standardization and less comparability, globally.

A concrete example of this relates to the call for new standards to require companies to report key financial information on a country-by-country basis. Initial work has focused on the extractive activities.

Since we began engaging with the IASB, we have been repeatedly informed by the IASB that only benefits to investors and analysts carry any weight in the judgments about what should be included in the possible new IFRS. The enormous impact of this sector on governments, employees, suppliers and surrounding communities and watchdog civil society organisations means they too have needs for information that can only be generated by company reports, and highlights in stark relief the inappropriateness of a narrow definition of user groups that excludes them.

This example also highlights the impact of this erroneous interpretation of the public interest by the IASB. Investors have supported this call because they see that such disaggregation will give them greater information to assess risks generated by exposure to different country contexts and possible corruptions risks³. However, they have also stated their support because they see the value that such corporate reporting can contribute to generating country contexts in which improved local accountability supports better performance by governments, which in turn fosters predictable operating environments for their investments⁴.

Yet, the IASB's response to date has been that these wider public interest benefits that corporate transparency can generate, both for long term investor stewardship and the contribution to citizen well-being, are not considered valid criteria for development of such new standards. This requires a broader definition of the public interest scope of the IFRSs.

The narrowness of the IASB's interpretation of user groups and public interest, reinforced, we believe, by the limited diversity of its membership, is resulting in the generation of a range of different standards by different jurisdictions.

As stated above, Publish What You Pay's engagement began with the IASB on the call for country-by-country reporting in the extractives sector as far back as 2005. Initially the IASB response, when we were finally able to gain one, was that these requirements were not appropriate for financial reporting standards because of this focus on the broader public interest (being initially seen as contributing to governance and not buy-sell decision-usefulness) and because civil society was calling for the changes (and they were not accepted as a core user group). Civil society and investors continued to push for a new standard, and in 2007 the European Parliament passed a resolution calling for the IASB to develop a country-specific reporting rule for the extractives sector. At long last, the IASB agreed to at least

³ See, for example, Calvert's submission to the consultation on the Discussion Draft for Extractives Activities in 2010 – submission CL6.
<http://www.ifrs.org/IASCFCMS/Templates/Project/LetterList.aspx?NRMODE=Published&NRNODEGUID=%7b3B065C30-2A40-488B-9D7D-9207F3089E0%7d&NRORIGINALURL=%2fCurrent%2bProjects%2fIASB%2bProjects%2fExtractive%2bActivities%2fDPAp10%2fCL%2fCL%2ehtm&NRCACHEHINT=Guest>

⁴ See, for example, F&C's submission to the consultation on the Discussion Draft for Extractives Activities in 2010 – submission CL139.
<http://www.ifrs.org/IASCFCMS/Templates/Project/LetterList.aspx?NRMODE=Published&NRNODEGUID=%7b3B065C30-2A40-488B-9D7D-69207F3089E0%7d&NRORIGINALURL=%2fCurrent%2bProjects%2fIASB%2bProjects%2fExtractive%2bActivities%2fDPAp10%2fCL%2fCL%2ehtm&NRCACHEHINT=Guest>

consider this requirement as part of the development of a new IFRS for extractive activities. However, the Discussion Paper finally released in 2010 did not consider the broader public interest advantages or needs of all users in its consideration, and failed to endorse country-specific reporting of payments to governments. The IASB has also repeatedly pushed back the timeframe for a decision on whether to add development of this new IFRS to its formal agenda.

In frustration, the civil society movement and investors moved their attention to other potential standard setters. In 2010, US legislators passed a new law requiring company- and project-specific reporting of payments to governments by all companies registered with the SEC. In the same year, the Hong Kong stock exchange also passed rules for country-by-country reporting of payments. These are different from the US listing rules. Statements by representatives of the UK, French and German governments have supported the need for mandatory country-specific reporting requirements for extractive companies to be set by the EU, as have the European Commissioners for Internal Markets, Development and Trade. The European Commission launched a consultation on country-by-country reporting and is likely to issue its recommendations for an EU-specific standard between June-September 2011. The Organisation for Economic Cooperation and Development is also reviewing this issue.

The result is that the IASB has been effectively by-passed because it has been so slow to respond and so weak in its recommendations – this, in turn, is partly related to its dismissing the needs of users other than investors and the broader public good that such reporting would generate. To others, the needs of these other users and the benefits to the public interest are so clear that the issue has been made a priority and new requirements have been developed, overtaking the IASB as the standard setter. If this continues to happen, the very *raison d'être* of the International Accounting Standards Board and IFRS Foundation is at risk.

In summary, we are of the opinion that the public interest will only be truly served, and the legitimacy and functioning of the IFRS Foundation maintained, if the IASB:

- widens the objective of IFRSs beyond just decision-useful financial information needed to make ‘economic decisions’ and;
- accepts the importance of ‘other users of financial information’ and their particular needs and;
- includes their representatives in the IASB to ensure their needs are voiced and considered in key debates.

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 with the proposal to separate the roles of the IASB Chair and the CEO of the IFRS Foundation. This is clearly necessary to avoid undue conflicts of interest for the leadership of the Foundation and to improve the objectivity of the oversight function, the principal that we advocate to governments and companies in our work globally.

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 with the proposal to provide a *clearer division of responsibility between staff dedicated to the IASB operations and staff dedicated to the Foundation's administrative and oversight functions*. Again, this is clearly necessary to avoid undue conflicts of interest for the leadership of the Foundation and to

improve the objectivity of the oversight function, the principal that we advocate to governments and companies in our work globally.

Question 4:

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

As with the composition of the IASB, we believe the membership of the Trustees should represent the full set of ‘users of financial information’ as outlined in response to question 1, and for the reasons outlined there.

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?

We agree that there should be increased transparency into the process for Trustee nominations. We also advocate that members of each group of the ‘users of financial information’ outlined in our response to question 1 should be involved in this 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 agree that there should be further clarification of the criteria for the Trustees’ candidacy and that this should include those needed to ensure fair representation of each group of ‘users of financial information’.

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?

As with the composition of the IASB and the Trustees, we believe that the membership of the Monitoring Board should represent the full set of ‘users of financial information’ as outlined in response to question 1, and for the reasons outlined there.

- 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?

We agree that the membership should be expanded in this way. However, we also urge that membership of the Monitoring Board should represent the full set of ‘users of financial information’ as outlined in response to question 1, and for the reasons outlined there.

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

Certain representatives of the full set of ‘users of financial information’ may best be selected through other mechanisms depending on how their coordinating organisations and networks are organised, allowing them to self-select representatives.

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 do not wish to respond to this question.

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?

As per our response to question 6, we urge that that the membership of the Monitoring Board should represent the full set of 'users of financial information' as outlined in response to question 1, and for the reasons outlined there. In addition, the Monitoring Board should hold public dialogues to allow direct and public debate of key issues.

Question 10:

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

We agree with all the proposals presented here (namely, "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". In addition, as suggested above, the Monitoring Board should hold public dialogues to allow direct and public debate of key issues. We know of no mechanism by which the IASB, Trustees or Monitoring Board open themselves to direct discourse on key decisions to representatives of each of the key user groups outlined above, as well as elected representatives. Individuals may attend meetings but only as silent observers. We recommend that each body hold public hearings on key issues, and that these are interactive and discursive, as other policy setting bodies do. The proceedings of these hearings should also be open and on the public record.

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 believe that the Monitoring Board should have the right to place an item on the IASB's agenda. This would ensure that issues the Monitoring Board deems vital for the IASB to take up will actually be taken up.

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 are of the strong opinion that it is not in the public interest to have any body of the IFRS Foundation funded even in part by private corporate donations. We see this as generating a conflict of interest with preparers and those companies who derive their incomes by supporting the financial reporting of others. We rather see the need to move to public funding by all adopting countries to spread the risk of undue influence by a particular country. This should also allow longer-term financial stability.

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.

Our primary concern is that the criteria for selection of the Chair should be transparent and that representatives of all groups of 'users of financial information' are consulted in their appointment.

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 agree there should be close consultation between the Trustees and the Monitoring board in the development of the framework for the IASB. We remain unclear as the rationale and means for coordinating the two strategic reviews currently underway, and unity of vision will be crucial in improving the structure and reputation of the Foundation, especially the IASB.

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.

We do not wish to respond to this issue.

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.*

We do not at all consider that all relevant stakeholders are properly involved, nor the relevant public policy objectives taken into account in the current arrangement for the standard setting process. We have provided a full response under question 1.

However, in summary, for the Foundation to achieve its objective of making IFRSs the single, globally acceptable financial reporting standards, it is necessary that it defines the appropriate scope of IFRSs as:

(i) requiring all those kinds of financial disclosure that are needed for the public interest and can only be systematically, reliably and comparably produced through such standards, i.e. where data in the public interest can only be derived from the general ledger of the corporations subject to IFRS, this represents financial data for which the suitable medium for disclosure is the financial statements of the reporting entity and the IFRSs should be the mechanism to require this.

(ii) meeting the needs of the full range of users of financial information that can only access systematic, reliable and comparable information needed to fulfil issues of public interest when it is required by such standards.

(iii) having representatives of the full range of users of financial information in each of the main bodies of the Foundation (including the IASB, Trustees and Monitoring Board) to ensure that their needs are met.

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 with the need for regular reviews, with an interval of five years as a benchmark.

We welcome this opportunity to respond to the Monitoring Board's review and consultation paper and look forward to seeing the important shifts outlined above that are urgently needed.

Yours sincerely,



Karin Lissakers
Director
Revenue Watch Institute