



April 11, 2011

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

Dear Mr. Nagaoka:

The Group of North American Insurance Enterprises (GNAIE), the American Council of Life Insurers (ACLI), the National Association of Mutual Insurance Companies (NAMIC), the Property Casualty Insurers Association of America (PCI), and the Reinsurance Association of America (RAA) are pleased to have the opportunity to respond to the Monitoring Board's consultation on the governance of the IFRS Foundation.

GNAIE is an association of insurance companies based in the US, Bermuda, and Canada. The goal of GNAIE is to ensure that international accounting standards result in high quality accounting and solvency standards for insurance companies and, to that end, to increase communications between North American based insurers and international regulators and standard setters.

The ACLI represents more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. These member companies represent over 90% of the assets and premiums of the U.S. life insurance and annuity industry.

NAMIC is a trade association representing approximately 1,400 property and casualty insurers in the United States and Canada. In the United States market NAMIC's members write more than 37 per cent of the total property-casualty premium. Although most NAMIC members in the United States use the statutory accounting promulgated by the NAIC and states, IASB and FASB standards have major effect on that statutory accounting.

PCI is an association composed of over 1,000 member U.S. non-life insurers and reinsurers, and PCI members write nearly 40% of the direct non-life insurance written in the U.S.

The RAA is the leading trade association of property and casualty reinsurers and life reinsurers doing business in the United States. RAA membership is diverse, including reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross border basis.

We support the role of the Monitoring Board to evaluate the structure, procedures, due process standards and accountability mechanisms of the IFRS Foundation and to consult with the IFRS Trustees, non-member regulators, and the public about its findings. We believe such consultation is necessary if the Monitoring Board is to substantively assist in fulfilling the due process requirements of those jurisdictions that accept or require IFRS. We appreciate the opportunity to add our voice to this consultation on governance.

## **IASB**

### *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 believe that members of the IASB should have extensive professional experience in the preparation, review and/or use of financial statements. Professional experience is more important than geographical diversity beyond that already specified in the Constitution. The IASB members should also represent a wide array of different industry experiences to ensure sufficient technical expertise to address the varied issues raised by financial statements. In the context of its future agenda the IASB should consider adding members, even if just for a limited term, who have the necessary expertise to assist on those items.

### *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.*

Yes, we agree with the proposal to separate the roles of IASB Chair and CEO of the IFRS Foundation. We believe that a separation of these functions will eliminate potential conflicts of interests between the Trustees and the accounting standard setting process. This separation would preserve the independence of the IASB while allowing the Trustees to perform their oversight role.

### *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.*

Yes, we agree that these staff functions should be separated and that staff supporting the IFRS Foundation Trustees should be independent of the IASB and the IASB Chair. In particular, the lead staff person for the IFRS Foundation Trustees should not report to, or be hired or fired by the IASB Chairman. Otherwise, the information that reaches the Trustees may be restricted or biased and that, in turn, would hinder the IFRS Foundation Trustees in their independent oversight role. The staff of the foundation should not report to the IASB chair to avoid any possible conflict of interests.

## **Trustees**

### *Question 4:*

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

No comments.

### *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?*

In our recent experience, we found the process of Trustee nominations to be relative simple to follow. The staff was extremely helpful in guiding us through the process and even asked for information we had forgotten to send. We believe the current Constitution sufficiently describes the Monitoring Board's role in Trustee appointments.

*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 feel the process is sufficient. We do not believe further criteria are needed.

## **Monitoring Board**

### *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?*

We think there is an important role to be played by financial supervisors in the Monitoring Board. As public authorities that consider requiring the use of IFRS in the preparation of prudential reports (which in emerging economies are frequently more common and understood than securities filings), financial regulators should provide consultation and evaluation of the structure and process of the IFRS Foundation at a high level. The Monitoring Board would provide an efficient means of doing so. We are, however concerned with maintaining the focus of financial reports solidly on the needs of investors and believe the actions of the Monitoring Board should primarily represent the concerns of securities regulators. Therefore, we consider making financial regulators official observers of both public and private meetings of the Monitoring Board, to be a workable compromise. This creates efficiency of communication, yet leaves financial regulators free to express their opinions by other means, without confusion as to the source or the ultimate purpose.

One serious weakness in the current structure is the inclusion of observer status for the Basel Committee on Banking Supervision (BCBS), but no comparable role for the International Association of Insurance Supervisors (IAIS). We understand there could be a decision considered to move the BCBS to a regular member. We support both organizations remaining as observers, but whatever the final decision is, the IAIS and BCBS should have equal status in the final structure.

*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?*

While we support the notion that emerging markets should have clear representation on the Monitoring Board, we question the balance that this proposal would create. A smaller number of additional emerging markets representatives should suffice. The process of selection could include a criterion of considering the balance between larger and smaller emerging market representatives.

Since there is no common rule yet on what it means to be applying IFRS, it is not yet viable to use that as a criterion. Very few countries have *fully* adopted IFRS and a measuring stick approach to the level of adoption would not be realistic.

Financial contributions should not be a requirement. Before that could be considered, the IFRS mechanism needs to decide on a method of permanent funding.

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

Yes. IOSCO has the broadest representation of securities regulators. It has an excellent due process and will be able to establish meaningful criteria for selection of the rotating members. However, we recommend that the Committee making the selection have the discretion to choose someone from outside itself or IOSCO.

*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 believe that informal consensus decision-making works well at any level of the IFRS Structure - the Monitoring Board, the IFRS Foundation Trustees, nor the IASB. We have no opinions as to what rules should apply, but believe that a formal set of procedural rules and prompt and accurate documentation of votes should be used throughout the Foundation. We support the use of a super majority of 60% as exists in the current constitution for most decisions by the Foundation and IASB. It may be desirable to formally require a near-consensus at the Monitoring Board, e.g. require 75% agreement (or some other logical high number) for certain actions.

*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 strongly support the involvement of the principal prudential regulators, and the observer status appears to be an effective way to ensure this involvement. We understand that the BCBS may be asking for membership status. We would prefer that prudential supervisors remain as

observers; but, whatever final structure is decided, we ask that the IAIS be included in the same capacity as the BCBS.

*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 should continue its commitment to public consultation embodied in this request for comment and roundtables. It also is our opinion that the majority of the Monitoring Board's discussions and deliberations should take place in public. These will maintain and raise the visibility and public understanding of its activities.

*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.*

The Monitoring Board is responsible for ensuring that IASB listens to its constituents and fully considers the impact of standards on the economy. We are concerned that items of extreme importance to some countries have been pushed onto the research agenda for many years. There are also cases where the IASB has not been responsive to a clear public view.

The Monitoring Board was established to increase public accountability. To meet this goal, we think the Monitoring Board should have an agenda review process in place, but we do not think the review considerations should be *de novo*. For example, in the event that the IASB has clearly approved a standard that is not in the public interest, the Monitoring Board should be able to intervene.

For this reason, we support the current provisions for the Monitoring Board's involvement in the agenda setting as laid out in Article III 9B of the Memorandum of Understanding, which we think strikes the right balance between the independence of the IASB and the role of 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?*

It has never been completely clear to us how the IFRS Foundation funding works. We understand the original three year commitments that were made, but the following periods have not been obvious or transparent. We are aware this is a serious issue.

*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.*

We do not support a more prominent role for the Monitoring Board in the selection of the IASB Chair. This function had been properly given to the IFRS Trustees and the Monitoring Board should ensure that the Trustees complete this function in a responsible and timely manner.

*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 do not support a specific role for the Monitoring Board in the selection of the IASB Chair.

*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 evaluation of and consultation on the structure, process and due process mechanisms of the IASB and IFRS Foundation should be key responsibilities of the Monitoring Board.

*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.*

Yes, a permanent secretariat would seem to be necessary for the efficient running of the Monitoring Board.

## **Other Questions**

*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 commend the IFRS Foundation for the work it has undertaken to open the process and ensure broad stakeholder participation. We do offer the following suggestions for improvement in the standard setting process:

- We believe that much more focus should be placed on substantive field testing of the standards before implementation. We think the post implementation reviews are a step in the right direction, but do not adequately substitute for fully tested standards.
- The new outreach and feedback processes, although still under development, may require more effort towards transparency. Public calendars of outreach activities and summaries of feedback received would go a long way to making the process more transparent and visible, and provide comfort to like stakeholders that the IASB staff is hearing the relevant issues and arguments.
- We suggest that the IASB adopt the FASB practice of posting any written comments received (solicited or not) to the project comments page.
- We also recommend that the IASB open and broadcast its informal educational sessions as has been done by the FASB. Understanding the motivations underlying a decision is helpful to stakeholders and frequently will eliminate misunderstandings going forward. As it is, the informal discussions of complex issues at public sessions of the IASB imply extensive discussions may have taken place behind closed doors.

- We recommend more discipline be added to the decision making process and documentation (see the response to question 17 below).

*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 believe that regular reviews, coordinated with the five-year review provided in the Constitution, are appropriate. We believe more frequent reviews are not necessary.

*Question 17:*

*Do you have any other comments?*

We actively monitor the work and meetings of the IASB. We remain concerned that the process of documenting and recording decisions made by the IASB is very weak and that the lack of care taken regarding recording its decision-making contributes to some of the delays in the standards development process.

We recommend that immediate action be taken to: (i) establish more discipline in the manner in which motions are brought to the IASB, (ii) require that issues and questions are restated before votes are taken, (iii) require that votes are recorded by name, and (iv) require that minutes of the meetings are distributed promptly. The staff summaries, while helpful in quick communications, are too informal and too general to serve this purpose.

We would also suggest that there be more discipline in bringing issues back for reconsideration. Most rules require that someone on the majority side must ask that a decided issue be reconsidered. The IASB process seems to have no clear rules for re-deliberation of items.

We appreciate the opportunity to respond to the consultation and would be pleased to provide any additional comments, if needed.

Sincerely,

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Director, Accounting Policy  
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## US Insurance Trade Associations Response on IFRS Governance

cc:

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