

March 29, 2011

IFRS Foundation Monitoring Board

c/o Mr. Takashi Nagaoka

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and

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Dear Sirs,

### **Response to the Consultative Report on the Review of the IFRS Foundation's Governance**

This letter is the response of the Canadian Accounting Standards Oversight Council ("AcSoc") to the "Consultative Report on the Review of the IFRS Foundation's Governance," issued on February 7, 2011 ("the Consultative Report"). AcSoc plays the same role nationally relative to the Canadian Accounting Standards Board that the IFRS Foundation Trustees play relative to the IASB. AcSoc's members are senior individuals from Canadian business, finance, government, academe, the accounting and legal professions, regulators, and the financial analyst communities. The members have a broad perspective on the complex issues facing accounting standard setters and the global capital markets. Further information about AcSoc and its members is available at [www.acsoc.ca](http://www.acsoc.ca).

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AcSOC commends the Monitoring Board for undertaking its review of the governance structure supporting IFRSs and seeking public input through the Consultative Report. Our responses to each of the questions in the Consultative Report are set out in the attached appendix to this letter.

Our responses reflect Canada's long-time involvement in the development of a single set of high quality, globally accepted financial reporting standards and its current status as a country now completing its transition to IFRSs. Our views also reflect Canada's experience with its domestic regime for public interest oversight of the standard setting function.

We thank you for the opportunity to provide input to your review of the issues raised in the Consultative Report. We would be happy to elaborate on or clarify any of the points raised in our responses, if you require. If so, please contact the undersigned or Harry Klompas, AcSOC Secretary, at +1 416 204-3236 (email [harry.klompas@cica.ca](mailto:harry.klompas@cica.ca)).

Yours truly,



Denis Desautels, FCA

Chair,

Accounting Standards Oversight Council

*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 think that developing high quality standards for global markets requires world class technical expertise. Undue rigidity in the specified allocation of IASB membership according to various different attributes may reduce the overall level of technical expertise of IASB members. As we have previously said to the IFRS Foundation Trustees, we think that a very high level of technical expertise, including a sound knowledge of the functioning of the global capital markets, should be a clear prerequisite in their selection of IASB members. We think it would be helpful for the Monitoring Board to confirm that approach with the Trustees, while recommending at the same time that the Trustees continue to pursue their efforts to identify candidates who would also contribute to the desired diversity of the IASB.

The Consultative Report makes reference to the possibility of increasing the current size of the IASB's membership. Such a decision should rest with the Foundation Trustees. However, we note that, in responding to the Trustees' Constitution reviews, we have urged them not to expand the current IASB membership, which may already be too large for effective deliberation of technical issues.

*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 this proposal, and had made the same suggestion to the IFRS Foundation Trustees in 2009. We think that the current arrangement is inconsistent with best practice in organizational governance as it involves a conflict of interest. Some of the activities of the Foundation CEO role have a "political" aspect that may be viewed as impinging on the independence of the IASB. Those activities include fundraising and negotiating the introduction of IFRSs into countries that

have not yet adopted them. We can draw an analogy to the question of separating the positions of chair of the board of directors and chief executive officer of a business corporation. There is clear evidence that such a separation enhances corporate governance and the quality of corporate financial reporting. We also think that the growth of the Foundation and the increased level of activity of the IASB and the other Foundation departments make it difficult for one individual to devote the attention necessary to both roles.

We think that the formal division of the two roles could be achieved quite simply by amending the Foundation's Constitution to state that the CEO of the Foundation shall be independent from the IASB and, in particular, shall not be the Chair of the IASB.

*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 principle of defining divisions of staff responsibility clearly and we also support a staff structure that enhances the independence of the IASB. In our experience, relatively clear divisions of responsibility already exist at a practical level between IASB staff and Foundation staff having responsibilities for administration, fundraising, education, publications and other functions. We think it worthwhile for the IFRS Foundation Trustees to develop and publish a formal policy that precludes one individual from working for both the IASB and one or more of the other Foundation departments. That can be introduced into practice by lines of authority that ensure each individual reports directly or indirectly to either the Foundation CEO or the IASB Chair, but not both.

We think that staff responsibilities should be allocated in a way that best supports the achievement of the Foundation's overall objective. It is important for standard setters to be well informed of concerns and difficulties various stakeholders may have in the application of accounting

standards. Accordingly, some interactions between the staff of the IASB and the staff of other departments are necessary. It would also be appropriate to allow for periodic rotation of staff members between departments. However, we think that the Foundation Trustees should consider whether it is appropriate to separate the staff roles of supporting standards development and carrying out post-implementation reviews of standards (essentially the same issue has recently been considered by the US Financial Accounting Foundation Trustees).

*Question 4:*

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

We agree with the comments in the Consultative Report on this topic. We think that a balanced distribution of Trustee backgrounds is essential to the acceptance of IFRSs and the proper functioning of the Foundation. The balance should encompass geographical as well as professional and business backgrounds. We think it appropriate for the Monitoring Board to consider the overall balance of the Trustees' membership relative to their mission. We note, however, that the current Trustees have impressive backgrounds and that their predecessors did a good job of recruiting their successors as their terms ended. This gives us comfort in the functioning of the current system.

*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 agree that the process for nominating and appointing Trustees should be as transparent as is reasonably possible while protecting the privacy of individuals, as described in the Consultative Report. That is best achieved by publishing a clear description of the procedures followed and the criteria for candidacy. Any lack of transparency or clarity about the process could create an impression of a lack of independence of the IASB, both in fact and in appearance. In our view, it is important to dispel any impression that the involvement of the Monitoring Board in the nomination and appointment of Trustees is affected by public policy or political considerations that may be inconsistent with the Foundation's mandate to develop high quality accounting standards, given that members of the Monitoring Board are either government officials or directly appointed by government. We believe that any such impression would, in turn, foster an impression that the appointment of IASB members is also affected by such public policy or political considerations as a result of the Trustees' authority to nominate and approve the IASB Chair and members. However, we see no problems in practice with the current arrangements for nominating and appointing Trustees.

*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 agree that the Monitoring Board's membership should continue to be confined to capital market regulatory bodies having authority over the form and content of financial reports. The Monitoring Board would thereby be in the same position relative to the Foundation Trustees and the IASB as its members are individually relative to the standard setting bodies in their own jurisdictions. The members of the Monitoring Board are responsible in their own jurisdictions for the nature and quality of the information provided to capital markets to ensure their efficient operation, among other matters. The IASB's mandate is to develop high quality financial reporting standards that are accepted in capital markets globally. Accordingly, the mission of capital market regulatory authorities is generally congruent with that of the IFRS Foundation and the IASB.

Other public agencies with different mandates would not be in a position to represent the public interest in providing useful financial information to capital markets, even though they may represent other, quite different aspects of the broad public interest. Financial stability is an important objective but it would not be achieved by attempts to manage financial reporting requirements. We are concerned that membership on the Monitoring Board of representatives of other government or public policy agencies would engender significant concern among capital market participants that standards issued by the IASB are influenced by public policy or political considerations inconsistent with the IASB's mandate.

We agree with the proposal to increase the Monitoring Board's membership to make it more broadly representative of global capital markets. We think that eleven members would be a reasonable size, permitting broad representation from among the world's capital market authorities but not growing so large as to be unwieldy as a deliberative body.

We also think it desirable to have rotating membership so that all capital markets authorities will have an opportunity to be nominated to the Monitoring Board. We do not find in the Consultative Report a convincing argument for increasing the number of permanent members that would be specifically nominated from "major emerging markets" or a clear description of what such markets might be. It is important that the permanent members of the Monitoring Board represent

the majority of the overall global market but all of the additional members should be drawn from among the remaining jurisdictions without favouring any particular group of jurisdictions.

We think that the additional members of an expanded Monitoring Board should be selected on the basis that their jurisdictions require or allow IFRSs. Financial contribution may also be a consideration but should not be determinative. Candidates for appointment to the Monitoring Board should have not only a willingness to serve but also the time and the background to be able to contribute to the Monitoring Board's activities. We think that circumstances would tend to result in jurisdictions with larger markets, whether emerging or not, having many of the rotating membership positions. Accordingly, the Monitoring Board would need to ensure reasonable representation from the smaller markets.

We agree that the rotating members of an expanded Monitoring Board should be selected through IOSCO. IOSCO is the recognized international body of capital market regulatory authorities whose members represent most capital markets.

*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 acknowledge the desirability of achieving consensus in a group such as the Monitoring Board on as many issues as possible. However, we are concerned that a requirement for consensus among a larger membership could result occasionally in gridlock or acceptance of compromises that fall short of achieving the Monitoring Board's objectives. In this regard, we note the difficulties that international bodies have sometimes experienced in the past in making progress under a consensus approach and contrast that practice with the majority voting approach adopted in democratic legislatures. We also note the importance of being able to reach clear and effective



decisions under challenging conditions (i.e., when times are not “normal”). If the proposal to expand the membership to eleven members is adopted, we think that the Monitoring Board should adopt a super-majority voting rule under which decisions would be reached with no more than two dissenters. Formal votes should be taken only after attempts to achieve a consensus have failed. We note that strong leadership by the chair of a board or committee can often result in a consensus even when the members may have had divergent views to begin with. We do not think different voting rules would be necessary for different types of issues.

*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 think it would be very important for the Monitoring Board to clarify the purpose of any greater involvement of “public authorities and other international organizations” and to institute arrangements to ensure that such involvement is fully consistent with the stated purpose of the Monitoring Board. The question is premised on an assumption that the Monitoring Board should provide for greater involvement of such entities. That term is very broad and does not indicate what the purpose of involvement by such bodies might be and why it would be necessary.

We agree fully with the Monitoring Board’s conclusion that it should not include individual prudential or other public authorities in its membership. We recognize that various government agencies have an interest in financial reporting and should have the opportunity to make their views known to the Monitoring Board, the IFRS Foundation Trustees and the IASB. However, all parties need to be clear about the mandate and purpose of the Foundation and the IASB.

We do not see the need for any official observer positions on the Monitoring Board, provided that the Monitoring Board is sufficiently transparent in its operations and open to input from any other bodies or individuals. We see no compelling reason for giving the Basel Committee on Banking

Supervision, or any other prudential regulator, a special status relative to other international organizations that may have some interest in financial reporting issues.

Input from interested parties could be through formalized arrangements but we are not convinced that an elaborate structure and process is necessary to achieve an appropriate level of dialogue. Input can be obtained through meetings but could equally be obtained through exchanges of correspondence. The Monitoring Board should be open to input in any form from any source.

If the Monitoring Board decides that it is necessary to establish formal liaison relationships, we suggest that it issue a public call for expressions of interest from other organizations that wish to participate in such a relationship. It should specify the criteria for the kinds of entities it is interested in liaising with. It should consider adopting the following criteria for organizations it would liaise with:

- A public policy mandate.
- A preference for international scope of membership, when an international body exists and has the requisite infrastructure. This should not preclude national or regional bodies, however.
- A demonstrated interest in financial reporting issues and capacity to discuss them, as evidenced by a history of commenting on issues or participating in discussions on the subject.

*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 think that the current standard-setting process can provide for the appropriate involvement of all relevant stakeholders and consideration of all relevant public policy objectives. The current process is not perfect in design or always applied as well as it might be but the IASB and the IFRS Foundation Trustees are taking steps to make necessary improvements to current practices. In our

recent letter to the Trustees in response to their strategy review paper, we have indicated several areas in which we believe improvements by the Trustees or the IASB are required to ensure appropriate involvement by all stakeholders. Good communication is essential.

The question appears to presume that there is a common understanding on who the relevant stakeholders are and what the relevant public policy objectives are. We are not convinced that this is the case at present. To quote from our response letter to the IFRS Foundation Trustees' consultation paper on their strategic review:

“We believe that it is in the public interest to have efficient and effectively functioning capital markets. High quality, globally accepted accounting standards are a necessary, but not sufficient, contributor to the achievement of this objective. In our experience, the world's capital markets are very fragile and very sensitive to any perceived attempt to restrict the quality (relevance and representational faithfulness) or transparency of the information provided to participants in those markets. Thus, we believe that a perception that accounting standards are serving objectives other than meeting the needs of investors and other users with similar information needs will, inevitably, lead to a loss of confidence in financial reports and, thus, less efficient and effective functioning of these capital markets. We believe that this would be contrary to the public interest.

... The IASB should bring [public policy] issues to the attention of the responsible parties. The IASB should also co-operate with those other parties in resolving issues to the extent it is reasonable to do so within its own mission. However, financial reporting cannot hope to satisfy a variety of potentially conflicting objectives nor can an accounting standard setter. We note that other bodies have the overall responsibility for financial stability and also the authority and the tools to achieve it, which accounting standards setters lack. We think that financial reporting can contribute most effectively to macro-economic stability through promoting the efficient operation of capital markets, which is essentially the objective in the current Constitution. We think it would be inappropriate to dilute the IASB's current mission by adding other objectives.”

Further to these comments, we think that anyone should have access to the standard setting process but the most relevant stakeholders must be the users of financial statements in the capital markets, that is, investors and those regulatory authorities that serve their interests.

*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 the comments in the Consultative Report on this issue. The Monitoring Board should be as transparent as possible. Public meetings, broadcast on the internet and recorded for subsequent viewing, are important. So is the publication of documents on the Monitoring Board's website. We think that replicating the communication processes of the IASB would provide an appropriate basis for achieving the necessary degree of public visibility and openness. The Monitoring Board should also consider how best to coordinate communication activities with those of the IFRS Foundation Trustees and the IASB, in order to maximize the effectiveness of communications with the target audiences, which should be generally the same for all three bodies.

*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 disagree most strongly with the proposition that the Monitoring Board should have the ability to place an item on the IASB's agenda. Such a power would go well beyond the monitoring role that the Monitoring Board was created to fulfill. The Monitoring Board should not have any special role in the IASB's agenda-setting process beyond that already available under Article IIIB of the Memorandum of Understanding with the Foundation Trustees and no authority to place items on the IASB's agenda or remove them.

We agree completely with the statement in the Consultative Report "...that the oversight roles of both the Monitoring Board and Trustees must be designed to promote—and never undermine, either

substantively or in appearance—the independence of the IASB and its standard-setting process”. In 2006, the Canadian Accounting Standards Board decided to adopt IFRSs without modification with effect from 2011. However, the Board retains the authority to modify or rescind that strategy. In contemplating the circumstances in which it would exercise that authority, it arrived at a consensus that it would do so when there is incontrovertible evidence that the IASB was significantly influenced by undue and unnecessary political or public policy interference, and hence had lost its independence. Thus, it is critical to the Canadian Accounting Standards Oversight Council that the IASB be, and be perceived to be, completely independent of any form of interference from political authorities or particular interest groups, while at the same time being sensitive to the concerns of all stakeholders. Therefore, we would be gravely concerned with any power or authority of the Monitoring Board to interfere with the operation of the IASB and, in particular, its agenda setting process. Having said that, our recent comment letter to the Trustees stresses that the IASB’s agenda setting process needs significant improvements, particularly with respect to its consideration of agenda setting concerns, comments and suggestions from stakeholders, including the Monitoring Board. Accordingly, we think that the current arrangements, as set out in Article III, sections 7(vi) and 9A(ii), of the current Memorandum of Understanding between the Monitoring Board and the IFRS Foundation, provide the proper role for the Monitoring Board. As noted in our responses to several previous questions, public confidence in financial reporting standards depends on the independence of the IASB.

The Monitoring Board already has the ability to make its views on agenda issues known to the IFRS Foundation Trustees directly. Like any other stakeholders, Monitoring Board members can also make their views known to the IASB. To the extent that the mandates of Monitoring Board members and the IASB are congruent, we would expect that any input on agenda issues from Monitoring Board members would likely carry weight on its own merits. Accordingly, there is no need for the Monitoring Board to have any special role in the agenda-setting process.

*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 have commented separately to the IFRS Foundation Trustees on this issue.

We think it would be helpful if the Monitoring Board could use its influence to assist in implementing financing arrangements that satisfy the IFRS Foundation Trustees' current four criteria (broad-based, compelling, open-ended and country-specific, as described on the Foundation's website). We think a direct levy on investors, the principal beneficiaries of the standards, would be the best approach, possibly through a fee on individual market transactions or a "right to use" royalty based on the Foundation's copyright over the name "International Financial Reporting Standards". We recognize that the same approach may not work uniformly around the world, requiring pragmatic solutions in individual jurisdictions. However, it is very important that the Foundation improve the current funding situation and it will need help in achieving its objectives for long-term financing arrangements.

*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.*

We do not agree that the Monitoring Board should have any increased role in the selection of the IASB Chair. We think the current arrangements between the Monitoring Board and the IFRS

Foundation Trustees, as set out in the Memorandum of Understanding, are appropriate with regard to the selection of the IASB's Chair. Some of the approaches described in the Consultative Report would result in unnecessary intrusion into the Trustees' role and a restriction on the Foundation's independence in both fact and appearance. If the Monitoring Board fulfills its responsibilities of reviewing and then approving nominees for appointment to the Trustees and also conferring with the Trustees regarding their responsibilities, there appears to be no need for any additional involvement in the selection of the IASB Chair. Consistent with our comments above regarding the ability of the Monitoring Board to add items to the IASB's agenda, the Canadian standard-setting authorities would be deeply concerned with the independence of the IASB if the Monitoring Board had the authority to approve the Trustees' final selection of the IASB Chair.

However, we do agree that it would be helpful for the Monitoring Board to provide the Trustees with its views on a set of criteria for selecting the IASB Chair, which it can make public. Such advice can be provided within the current terms of reference of the Monitoring Board.

*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 are uncertain what this question means by its reference to "the framework". However, we think it is the Trustees' responsibility to ensure a proper balance in the composition of the IASB. They have established criteria for membership and a basis for maintaining geographic balance. We agree with the suggestion in the preamble to Question 1 that the Monitoring Board urge the Trustees to maintain a high level of technical expertise as a prerequisite for candidates, regardless of their geographic or professional background (see our response to Question 1). However, that is part of the Monitoring Board's general oversight role. We see no need for any expansion or elaboration of that role as it is currently described.

*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.*

In responding to other questions in the Consultative Report, we have not supported any significant expansion of the Monitoring Board's current role and, therefore, question whether a permanent secretariat is necessary. Oversight of financial reporting is an existing responsibility of Monitoring Board members in their own jurisdictions. We expect that the members already have resources available to them in fulfilling that responsibility, which could be partially redeployed to support the members' participation in the Monitoring Board. It is open to the members to decide for themselves what resources they consider necessary to support the Monitoring Board's activities but the Consultative Report provides no specific justification for requiring additional funding from stakeholders.

*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 regular reviews are needed and that a five-year interval is a suitable benchmark, but we think that a fundamental change of circumstances should trigger consideration by the Monitoring Board of the need to depart from the normal schedule.

We think it desirable for the Monitoring Board's review to be coordinated with the timing of the Foundation's mandated Constitution reviews. We commend the Monitoring Board for coordinating its current review with the IFRS Foundation Trustees' strategic review. It is likely that the same issues, or related issues, will arise in the two review processes and it would be



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desirable for the Monitoring Board and the Trustees to confer and come to congruent positions. Stakeholders may have a limited ability to cope with separate reviews that arise more frequently than every five years and limited patience with seemingly random, uncoordinated consultations by the two bodies. We concur with the proposal in the Consultative Report that co-ordinated actions by the Monitoring Board and the Trustees be reflected in revisions to the Memorandum of Understanding.

*Question 17:*

*- Do you have any other comments?*

We have no other comments.