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Mr Nagaoka and Mr Sonoda

### **IFRS Foundation Monitoring Board Consultative Report on the Review of the IFRS Foundation's Governance**

We are pleased to response to the above report. Following consultation, this letter summarises the view of the BDO network<sup>1</sup>.

We are supportive of the current three tier governance model, but believe that current arrangements do not provide a sufficiently clear boundary of responsibilities between the Monitoring Board and the IFRS Foundation Trustees. It is essential that the Monitoring Board, while providing an appropriate link to market authorities and regulators, and giving robust and proactive advice to the IFRS Foundation Trustees, does not have a direct role in determining the IASB's activities. That role should be left to the Trustees, who should have responsibility for the IASB and its standard setting activities. In that way, the IASB would be, and would be seen as, an independent standard setter that is accountable to the IFRS Foundation Trustees.

In that context, we support many of the proposals set out in the report. However, consistent with our view that the Monitoring Board should have an advisory role, we do not agree with the proposal that the Monitoring Board should have the ability to place an item on the IASB's agenda, nor with the extent of suggested involvement in the appointment of the IASB Chair. We expand on these points in our responses to questions 11 and 13.

An area where the Monitoring Board may have a role to play is related to the increasing number of jurisdictions that require or permit financial statements to be prepared in accordance with IFRS. This has led some to question whether the IASB has a role to play in the consistent application of IFRS. However, as the accounting standard setter the IASB does

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<sup>1</sup> Service provision within the international BDO network of independent member firms ('the BDO network') in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium with its statutory seat in Brussels. Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and/or the member firms of the BDO network.

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not have the ability to enforce the application of its accounting standards; in any case, we do not believe that this would be appropriate.

However, we are concerned at a number of examples of instances where regulators in some jurisdictions have issued application guidance that we believe is not consistent with IFRS. We believe that, in particular given its composition, the Monitoring Board should discuss how this type of divergence can be addressed. For example, consideration might be given to forming (or encouraging the formation of) an international group composed mainly of securities regulators, with a view to discussing the application and implementation of IFRS in different jurisdictions.

Our responses to the specific questions included in the consultative report are set out in the attached Appendix.

We hope that our comments and suggestions are helpful. If you would like to discuss any of them, please contact Andrew Buchanan at +44 (0)20 7893 3300.

Yours sincerely

*BDO IFR Advisory Limited*

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## Appendix

### International Accounting Standards Board

#### *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. However, in the context of the IASB being the global accounting standard setter, it is essential that IASB Board members are of high quality and understand the objectives of financial reporting in a global context. These characteristics should be placed above the desire to expand geographic representation, if that expansion would result in a reduction in the quality of Board members.

The IFRS Foundation has, to date, used a limited number of sources to identify new Board members. We believe that it would be appropriate for a wider range of groups to be consulted, with better clarity over the characteristics expected of Board members and the process by which they are appointed.

We are not convinced at the suggestion that the IASB membership should be increased further from its current membership of 16. We believe that this could result in Board decisions becoming cumbersome and, in this context, note that the Monitoring Board considers that its own membership should be no greater than 15 (see section 3-1-1).

#### *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 formalise this? Please provide reasons for your agreement/disagreement.*

We agree with the proposal, in particular due to the demands of both roles in the context of the increasing range of IFRS constituents worldwide, and with the need for the IASB and the IFRS Foundation Trustees to both be, and be seen to be, independent without conflicts of interest.

#### *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 formalise this? Please provide reasons for your agreement/disagreement.*

We agree that there should be a clear division of responsibilities, although we believe that to a great extent this already exists. It may be appropriate to formalise an approach under

which staff involved in the IASB's standard setting process should not be involved in the oversight activities of the IFRS Foundation.

## Trustees

### *Question 4*

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

Although we support diversity in the geographic distribution of the Trustees, and a requirement for a regular review of that distribution, we believe that there should be an aim (rather than an absolute requirement) to achieve the geographic balance proposed, subject to the requirement that each Trustee should have an appropriate background and skill set. This is consistent with our views in respect of IASB Board members (see our response to question 1 above).

### *Question 5*

- a) 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 with the proposal, although the extent to which increased transparency can be achieved will necessarily depend on the extent to which the process, up to the point of the appointment of a Trustee, needs to remain confidential.

We believe that the Monitoring Board should not, itself, be involved in the nomination process in order that there is no conflict with the Trustees' existing procedures for the appointment of new Trustees. As noted elsewhere in this letter, we believe that it is fundamentally important that the Trustees are able to undertake their oversight role without the direct involvement of the Monitoring Board.

- b) 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 this would be helpful, and believe that this additional clarity should be accompanied by a clear indication of the time commitment expected of a Trustee.

## Monitoring Board

### Question 6

- 1) *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?*

Yes. Financial reporting and associated financial reporting standards are, appropriately, primarily focussed on the needs of investors and lenders in capital markets. Consequently, the Monitoring Board should be comprised of capital markets authorities that are responsible for setting the form and content of financial reporting for their respective capital markets.

- 2) *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 support the expansion of the Monitoring Board's membership to include additional jurisdictions that either use, or are committed to the use of, IFRS, as this will result in the Board being more representative of those capital market authorities. While we agree that a jurisdiction's use (or planned use or commitment to use) IFRS may be relevant, we are not convinced that a jurisdiction should be selected simply because it makes a particular financial contribution to standard setting.

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

We agree. IOSCO is the appropriate body, as it represents capital markets on a global basis and is recognised as the agency representing the G20.

### 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 make its decisions by consensus, as this is more likely to result in an inclusive approach with the views of all constituents being

represented in its decisions. A consensus approach also reduces the risk that a single member, or small group of members, can dominate proceedings.

#### **Question 8**

*To ensure increased involvement of public authorities and other international organisations in Monitoring Board activities, do you support the Monitoring Board (a) expanding the number of Monitoring Board observers, (b) holding more formalised dialogue, or (c) establishing an advisory body, and on what basis? What should be the criteria for selecting participants?*

Although the primary focus of financial reporting is, correctly, not focussed on the needs of prudential authorities, those authorities do have an interest in transparent, high quality financial reporting as this is a necessary component of financial stability.

We would support one or more representatives of prudential organisations being invited to be Observers, in particular the Financial Stability Board given its role in relation to the G20. Other organisations that might also be considered include the IAIS as well as continuation of the BCBS's position as an Observer.

In order to promote an open and constructive dialogue, we would also support the Monitoring Board engaging with prudential authorities and other international organisations that foster financial stability.

We do not consider that it is either necessary or appropriate to establish an advisory body, as the participation of key organisations as Observers combined with active dialogue, as outlined above, would be sufficient to ensure sufficient dialogue and inclusion.

#### **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 observation contained in the Consultative Report that:

*'Current disclosure of the public portion of Monitoring Board meetings through the IOSCO website and provision of agenda papers from meeting with the Trustees on the IFRS Foundation website appear insufficient in promoting public understanding of Monitoring Board activities.'*

We suggest that the Monitoring Board might consider enhancement to its current disclosure in the context of those that are provided by the IFRS Foundation and the IASB; we see no reason why the Monitoring Board should work to a lesser standard than is expected of those bodies. Other enhancements might include improvements to the Monitoring Board's section of the IOSCO website, with more obvious links being added to the IFRS Foundation website, together with more prominent use of press releases.

We are not wholly convinced by the suggestion that there should be greater exposure of Monitoring Board members' views regarding matters of Monitoring Board oversight, as this might give rise to the risk of inconsistent messages. We assume that it is intended that this greater exposure might be, for example, in the context of Monitoring Board members undertaking public speaking engagements in their capacity as such, making it clear, in the same way as IASB Board members and Staff, that views expressed are those of the individual and not of the organisation.

#### **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 agree that the Monitoring Board may, on occasion, identify accounting matters that it believes the IASB should consider. However, we are strongly of the view that the Monitoring Board should act in a way which is consistent with the IASB's due process. Consequently, it should be the IASB that decides on whether an item should be placed on its agenda, following the due process that has been established for this purpose. We believe that, if the Monitoring Board were able to direct the IASB's agenda, this would compromise the IASB's independence.

We therefore agree with the alternative view that:

*'Others believe that agenda-setting should rest solely with the IASB, though following a strong process that includes opportunity for all constituents, including public authorities, to refer matters for consideration, provides for public input into agenda priorities and requires IASB feedback on how constituent views were considered when arriving at a final technical agenda.'*

In this context, and the IASB's constitution setting out a requirement to serve the public interest and the needs of capital markets, it would appear unlikely that the IASB would ignore a legitimate concern of a major constituent; if it did, it would be expected that the Trustees would take appropriate action through the Due Process Oversight Committee.

#### **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 that contributions should be based on independent measures, such as the economic output of a jurisdiction, with levies on entities being based on relative market capitalisation levels. These should apply in jurisdictions that apply IFRS, or anticipate or are committed to applying IFRS in the future. It may also be appropriate to consider whether a jurisdiction's use (or potential use) of the IFRS for SMEs should also provide a basis for funding.

Whatever the actual funding mechanism that is used and the organisation that ultimately collects funds and remits them to the IFRS Foundation, it is essential that the independence of the IASB is maintained, with there being no question of funding being conditional on the IASB taking a particular approach to one or more issues.

#### **Question 13**

***Do you believe 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.***

While the Monitoring Board may have a role to play in the criteria for the appointment of the IASB Chair, we believe that the independence of the appointment needs to be preserved. Consequently, we do not agree with the proposal that the Monitoring Board should be directly involved in establishing a set of publicly disclosed criteria for the Chair. Instead, the Monitoring Board's input should be limited to review and comment on criteria for the IASB Chair which have been developed by the Trustees; the Monitoring Board might also provide suggestions as to how the Trustees should organise the search for, and assessment of, candidates.

The Monitoring Board might subsequently provide comments on the Trustees' assessment of candidates against the criteria that have been developed.

***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.***

Consistent with our comments above, we do not believe that the Monitoring Board's role should extend beyond the review and comment on criteria that have been prepared by the Trustees and similar feedback on the Trustees' assessment of candidates against those criteria. In particular, the Monitoring Board should not have any explicit involvement in the selection of the IASB Chair, whether directly or indirectly, as this would compromise the independence of the Trustees selection process.

#### **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 do not agree, and note that this proposal goes beyond those aspects that are included within the Memorandum of Understanding.

As noted elsewhere in this letter, we believe that the broad technical competence of IASB Board members is the primary criterion. While we are in favour of broad geographic



representation, we view this as being secondary if the overriding requirement of broad technical competence is not met.

#### **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?***

While we understand that current arrangements may make it seem desirable to establish a permanent secretariat, we do not think that this would be appropriate at this stage. Instead, we believe that any decision in this area should wait until changes to the Monitoring Board's governance arising from this review have been put in place and sufficient time has been allowed to elapse to enable a considered view to be taken of whether a permanent secretariat is in fact required.

It is not clear why any additional funding would be required from constituents. The Monitoring Board is made up of public authorities and it would have expected that any funding requirements would be a matter for those authorities themselves.

#### **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.***

While no due process arrangements can ensure the involvement of all relevant stakeholders, we believe that the IASB's due process provides all relevant stakeholders with ample opportunity to provide input in a range of different forms. We also note the IASB's significantly enhanced outreach activities over the past two years, with constituents responding positively; there has been a high level of participation.

We note that there will shortly be (the first) public consultation on the IASB's agenda and priorities. We believe that this is a positive development and that it would be premature to suggest further changes.

**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. We note that in certain respects the current IFRS Foundation and Monitoring Board reviews have given the impression that they might not be fully 'joined up'. While we would not suggest that joint reviews should be carried out, it would be helpful for future reviews to be more clearly seen to be taking place in contemplation of each other.

**Question 17**

***Do you have any other comments?***

We have no other comments.