



Financial Reporting Standards Committee

Response to Monitoring Board consultation

Preamble:

The European Accounting Association is a Europe-wide organization for researchers in accounting, and its Financial Reporting Standards Committee is mandated to bring relevant research to the attention of standard-setters. In this particular case, however, we are not proposing to provide research inputs but rather opinions, in the spirit in which the consultation is framed.

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

On the one hand, no-one could disagree with any attempt to make sure that the IASB can call on as deep a range of candidates as possible. On the other hand, the question seems to imply that there may be a failing in this respect currently. We are not sure that is the case. We acknowledge that the 2001 Board was heavily weighted towards people who had participated actively in the G4+1 group of Anglo-Saxon standard-setters. Over time this has changed, and the Trustees have also specified geographical quotas. We would note that ability to communicate effectively in English is a requirement that is not always met currently. We would also note that the IASB does not include any significant academic input. Our analysis of the changes in Board membership 2001-2010 suggests the following changes have been made (note that the number of categories exceeds the number of Board members since most Board members have experience in more than one category):

Previous Experience	2001	2010
Standard-setter	6	4
Auditor	8	8
Preparer	5	3
User	2	3
Regulator	0	3
Academic	2	1
Anglophone	10	8
Non-anglophone	4	7

[Source: Walton, P. (forthcoming) An Executive Guide to IFRS, John Wiley]

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 that the roles should be split. In effect the IFRS Foundation is the oversight body, and is there to protect the IASB from interference, It seems inconsistent therefore that the Chairman of the IASB should be CEO of the IFRS Foundation because that creates a link that the structure would appear to be aimed at avoiding. However, as discussed below, we think it is worth reconsidering the inter-relationships between the different parts of the structure.

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.

It is difficult for those who do not work within Cannon Street to know whether this poses any problems. Currently the IASB is supposed to look at the costs and benefits of a proposed standard. We could see a case for this evaluation to be made by a separate staff unit which operated as part of the oversight function of the Foundation. If clear separation is necessary, this could presumably be done by concentrating staff within different parts of the Cannon Street offices.

Question 4:

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

We think that the inter-relationship between the Trustees and the Monitoring Board should evolve dynamically. It is important that the IASB is protected as far as possible from political interference. It is not clear that the Trustees so far have been able to do this. The future structure could be different but should be capable of shielding the standard-setter.

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?

Leaving aside questions of whether there is a continuing role for a separate Trustees body, we are not aware of any dissatisfaction with the current process. We note that too high a level of transparency could provide a disincentive to candidates being willing to be considered.

- 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 are not aware that stakeholders lack confidence in the structure.

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?

Research shows that institutions for the control of markets and financial reporting have evolved in different ways in different countries, especially as between Anglo-Saxon countries where reporting to investors has been a dominant feature over a long period, and Code Law countries where financial reporting has been focused on a wider set of constituents and different regulatory organs. It seems likely that this is always going to be a problem for an international institution, already visible in that the SEC is a member for the United States but the European Commission is the EU member, as opposed to the European Securities and Markets Authority. The better approach might be to use a standard-setting device - providing a principle and allowing flexibility in how this applies country by country.

We would also emphasise that the IASB has issued the *IFRS for SMEs* which addresses specifically the needs of companies that do not offer securities on the capital market. There should be people on the Monitoring Board who understand the reporting environment of such companies.

- 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?

It seems to us that there is a feeling amongst the growing number of countries that are adopting IFRS that they have no ownership of the institution. The structure needs to evolve to reflect the growing number of countries, and those who have abandoned their sovereignty for accounting standards should have some formal role in oversight.

Candidate countries should be selected on the basis of providing an appropriate mix based on the relative size of their market and the constituent companies. The way in which they have adopted IFRS and their contribution to funding should be threshold issues as to which countries are considered.

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

IOSCO could certainly play this role. However, some members of our committee believe that this disadvantages countries where the stock market regulator plays little role domestically in standard-setting. One possibility would be to appoint a selection committee, rather as has been done for appointing Trustees. Another alternative would be a significant re-structuring with a large council on which every country that adopted IFRS and contributed to the funding of the IFRS Foundation would sit, and a merged Monitoring Board/Trustees, selected from within that Council on the basis of a representative mix of market size and size of companies.

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.

In the experience of the members of the committee, a consensus-based system is not necessarily different from a qualified majority, because in a consensus system, the minority can feel eventually obliged to vote with the majority to preserve the appearance of unanimity. However, this is not necessarily the case. In standard-setting there are often difficult decisions between alternatives that are difficult to evaluate. In such circumstances a committee looking for unanimity can be blocked more easily, and this can lead to ineffectiveness. We therefore support a qualified majority vote.

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?

If there is a need to involve more international institutions, then it would be sensible to expand the number of observers. However, we are not aware of any such need beyond eventually the World Bank, the OECD and the UN to the extent that they are all concerned in different ways with supporting the roll out of IFRS. They could alternatively be voting members.

We think there is a strong case, as indicated above, for having a structure that provides more place for countries that have adopted IFRS. Some of our members prefer the ‘General Assembly’

model outlined above, but in the absence of such a model then the Monitoring Board should explore either an annual meeting of interested countries or an advisory council to provide a forum for countries to express their views.

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.

The internet has been well exploited by the IFRS Foundation to make due process ever more transparent and it is difficult to know what could be done more than is already done. A problem that presents itself is that interested parties have to be prepared to monitor the IASB continuously to know when an issue concerns them. Many people do not take the trouble or rely on someone else to inform them, and complain when they have failed to take note of a relevant change. In our view this is likely to remain the case, whatever measures are taken.

As regards 'all relevant policy objectives', this depends on how 'relevant' is interpreted in this case. If this is a gesture towards the issue of financial stability, we think that the IASB should continue to focus on the needs of the capital markets. However, there should be an evaluation that formally reviews the likely costs and benefits of a proposed standard including its impact on public policy areas not linked to investors.

Question 10:

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

In our view it would enhance understanding if Monitoring Board meetings were accessible over the internet, and minutes of the meetings were published on the internet in a timely fashion. However, we would query how likely it is that 'the public' has any interest in the Board's 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.

While in principle we believe that the IASB's agenda should be set by its governance body, and not by the standard-setters themselves, we do not see that this is a very operational approach. The IASB has the ability to defer items that are formally on its agenda (e.g. intangible assets) or to accelerate items (e.g. netting arrangements).

We think accountability is enhanced if the decision to put something on the agenda or not is made either by the Trustees or the Monitoring Board. Such decisions might be seen as 'political' and should be better taken by those who are the interface with the political world. At the same time such an arrangement need not prevent the IASB making its own suggestions. However some thought would need to be given as to how to manage the workflow and prioritisation of items.

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?

As indicated above, some of us think that a 'General Assembly' model if adopted should be linked to contribution to the costs of the IFRS Foundation. Failing that, and assuming a continued focus on governance by market regulators, then these regulators should organise a levy on listed companies, as is done in the US to fund the FASB.

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.

As indicated above, it seems that the presence of the Monitoring Board makes a significant part of the Trustees' role redundant. Since the Monitoring Board already has to approve appointments, it would make more sense for them to be given a short list, with or without a recommendation.

- 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 understood the Monitoring Board already did this.

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.

There is some danger that if the composition of the IASB is over-specified it will become very difficult to find good candidates. As we understand it, the FASB over time has faced problems about finding board members because of the nature of the job, and the disruption to career that is a consequence. If the composition of the IASB is specified in more detail, this will constrain the choice even further, and may result in appointing candidates who satisfy the criteria but are not high quality. We note that even within the existing IASB there are members who cannot express themselves clearly in English, which nullifies their presence.

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.

With the caveat that some of us would prefer to see the functions of the Monitoring Board and the Trustees merged, if the Monitoring Board is to interface more publicly with IASB constituents, it will need the means to do that.

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.*

The role of the IASB and the role of international financial reporting have evolved significantly in the past and if one assumes that will continue, there should be a regular re-evaluation of the organization.

Question 17:

- Do you have any other comments?

We note that although the current membership of the IASB includes at least two people who have experience as academics, it contains no-one who has extensive research experience. We would recommend that more attention be given to harnessing research when setting standards, and that this be reinforced with at least one senior researcher on the board, and preferably two, drawn from different research traditions.

Peter Walton
Chairman – FRSC
4 April 2011