IFRS Foundation Monitoring Board Review of the IFRS Foundation's Governance

Asian Roundtable, Kuala Lumpur

22 March 2011

Summary of Discussion

Background

A Roundtable was held in Kuala Lumpur, Malaysia on 22 March 2011 to discuss the *Consultative Report on the Review of the IFRS Foundation's Governance*, and to obtain preliminary feedback from stakeholders. 45 participants from 8 countries[1] participated in the discussions. Participants comprised a mix of securities regulators, government bodies, prudential regulators, accounting firms, accounting standard setters and academics.

Masamichi Kono, Chairman of the Working Group for Governance Review of the IFRS Foundation, presented the objectives of the governance review and outlined the key proposals and options identified in the Consultative Report. Participants generally welcomed the consultation process that was taking place globally, and congratulated the Monitoring Board on the Report.

A summary of the key issues discussed during the Roundtable are as follows:

Monitoring Board

Role of the Monitoring Board

- Participants highlighted the need for greater clarity on the role of the Monitoring Board vis-à-vis the Trustees, and to ensure that the Monitoring Board's role does not extend into the Trustees' territory. In carrying out its role, it would be important for the Monitoring Board to focus on the objectives of independence and accountability for standard-setting arrangements, and to ensure that the proposals and initiatives are in alignment with these objectives.

- In the area of IASB agenda-setting, some participants questioned the need for the Monitoring Board to be involved in this aspect. Where the Monitoring Board is involved in the IASB's agenda-setting, there ought to be sufficient transparency on how items are included on the IASB agenda.

[1] Australia, China, India, Indonesia, Korea, Malaysia, New Zealand and Singapore

- A participant raised the question whether the Monitoring Board ought to get involved in the IFRS Interpretations Committee, given that accounting standards are becoming more principles-based and the role of the Interpretation Committee may become more significant in the future.

- One commentator expressed a lack of clarity on the nomination and appointment process of the Trustees, and the role of the Monitoring Board in this regard.

- One participant highlighted the need to distinguish between the role of the Monitoring Board and IOSCO. It was highlighted that IOSCO already has a very effective channel in providing input to the IASB standard-setting process through its Standing Committee 1 on Multinational Disclosure and Accounting.

Composition of the Monitoring Board

- Participants generally expressed support on the proposal to expand the membership of the Monitoring Board to cater for a diverse set of views. In particular, they highlighted that membership of the Monitoring Board should be expanded to smaller emerging markets. One participant highlighted that representation by emerging markets on the Monitoring Board should be on a permanent rather than rotating basis.

- In increasing the membership of the Monitoring Board, participants however highlighted the importance of ensuring that the efficiency of the decision-making process is not impaired.

- In order to take into account a wide range of views without over-expanding the membership of the Monitoring Board, there was a suggestion for the Monitoring Board to interface with subject-matter experts through formalised dialogues or for these experts to take on an advisory role when discussing specific issues.

Involvement of other authorities and stakeholders

- Participants observed that the composition of the Monitoring Board comprises primarily of capital market regulators. It was acknowledged by one participant that while not all capital market regulators have responsibility over accounting standards, capital market regulators have a vital role to play in the Monitoring Board as they represent the public interest of investors.

- There was a suggestion that the representation of the Monitoring Board should also include prudential regulators, given that in some countries, the banking sector may be a primary driver of the economy. There was also another suggestion to consider having the investor community represented on the Monitoring Board.

- A comment was made that it may be useful to have representation from the tax regulator or a body that represents the tax authorities in order to better align accounting and tax-related issues.

- A participant highlighted that the involvement of other public authorities and international organizations can be done by way of holding more formalised dialogue, rather than by expanding the number of observers.

Nomination process

- It was highlighted that it would be important that the nomination of Monitoring Board members takes place in a transparent and fair manner.

- It was suggested that four factors be taken into consideration in the membership selection i.e. adoption of IFRSs in the jurisdiction, contribution of the jurisdiction to the funding of the IFRS Foundation, the country's GDP and size of the capital market.

Decision-making

- Some participants commented on the decision-making process of the Monitoring Board, and how conflicts of interest between the Monitoring Board and the Trustees, should they arise, be resolved.

- One participant observed that given the proposal to expand the membership of the Monitoring Board, achieving decisions via consensus may be difficult, and that qualified majority voting would be more practical in this context.

<u>IASB</u>

Membership

- Expanding membership to emerging markets would encourage greater acceptance of IFRS as a global standard. In particular, one commentator highlighted the need for greater participation from individual markets in Asia.

Agenda

- Aside from increased representation, it was highlighted that one of the key challenges faced by emerging economies is the ability to shape the agenda of the IASB, and to have issues relevant to emerging markets included in the agenda.