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

February 7, 2011

EXECUTIVE SUMMARY

In April 2010, the IFRS Foundation Monitoring Board commenced a review of the governance structure supporting International Financial Reporting Standards (IFRSs) as a set of high quality, globally accepted accounting standards. The current structure comprises three levels, whereby the standard-setter, the International Accounting Standards Board (IASB), is overseen by the IFRS Foundation, and the IFRS Foundation, in turn, is subject to public oversight by the Monitoring Board. The fundamental question for the review is whether the current governance structure effectively promotes the standard-setter's primary mission of setting high quality, globally accepted standards as set forth in the Constitution of the IFRS Foundation, and whether the standard-setter is appropriately independent yet accountable.

In November 2010, the Trustees of the IFRS Foundation embarked on a public consultation on their Strategy Review which, among other issues, also explores governance and accountability. As a matter of coordination, the Monitoring Board review focuses primarily on institutional aspects of governance, particularly the composition and the respective roles and responsibilities of the Monitoring Board, Trustees and IASB. By contrast, the Trustees' review will place emphasis on the operational aspects of governance, particularly the standard-setter's due process.

The purpose of the Monitoring Board's consultative report is to invite public comment. In the report, the Monitoring Board sets forth a series of concrete proposals as well as alternatives under consideration, summarized in the box below. While the proposals may require additional deliberations on the exact processes for implementation, they are expected to be implemented as soon as practicable.

The report deals first with the overall governance structure—focusing primarily on the IASB and the Trustees. As regards the composition of the IASB, while acknowledging the efforts recently made by the Trustees, the report recommends that the IASB undertake further concrete efforts to improve identification of qualified candidates to ensure that the IASB Board membership includes more diverse geographical and professional backgrounds. It further recommends separation of the dual roles of IASB Chair and CEO of the Foundation, and making clearer separation of staff dedicated to standard-setting from staff working on other Foundation activities including IASB oversight. With regard to the Trustees, the report recommends continued review of the diversity of their geographical and professional backgrounds. It also proposes to devise a more formal procedure and clearer criteria for both the nomination of candidates and appointment of the Trustees.

The report then reviews the composition, roles and responsibilities of the Monitoring Board. The Monitoring Board, comprising five public authorities predominantly from the developed markets, agreed at its inception to reconsider its membership in the short term to ensure it reflected ongoing acceptance of IFRSs and developments in global capital markets. The report

contains a proposal to expand the membership to include more capital markets authorities responsible for setting the form and content of financial reporting in their respective jurisdictions, with a focus on increased representation from major emerging markets, while limiting the overall size of the body to ensure efficiency and effectiveness. This could be achieved by adding [four] permanent seats primarily for authorities from major emerging markets and [two] rotating seats for authorities from markets not represented in the Monitoring Board membership. (Figures in square brackets are indicative.)

As a related matter, to improve communication with other relevant public authorities, *inter alia* prudential regulators, and to ensure proper consideration of their views, the report seeks comment on options, such as expanding the number of observers on the Monitoring Board or creating an advisory body to the Monitoring Board comprised of other relevant public authorities. The report also proposes a number of measures to improve the transparency and accountability of the Monitoring Board.

Regarding the roles and responsibilities of the Monitoring Board, the report sets forth alternatives with respect to its involvement in the IASB's agenda setting, as well as in the nomination of the IASB Chair. To support the operations of the Monitoring Board under an expanded membership and with broadened roles and responsibilities, the report calls for exploring the possibility of establishing a permanent secretariat.

This consultative report will be open for public comment for a period of two months, during which the Monitoring Board plans to arrange public meetings with stakeholders in Asia, Europe and the Americas. It encourages all interested parties to submit comments in response to the questions accompanying the proposals and options herein. The comment letters received will be made available to the public, and a corresponding feedback statement on the results of the consultation will be made public after the completion of the consultation process. Thereafter, an action plan for implementation of the proposals will be developed and published by early in the third quarter of 2011.

The following are the specific preliminary proposals and possible options discussed in the report, and associated questions.

Summary of proposals and options, and associated questions

<u>IASB:</u>

(1) Undertake concrete efforts to improve identification of candidates to ensure IASB membership from diverse geographical and professional backgrounds in order to provide for further objectivity and impartiality of the decision-making process, while maintaining professional competence and practical experience as the primary qualifications.

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.*

(2) Separate the roles of the IASB Chair and the CEO of the Foundation to safeguard the independence of the standard-setting process led by the IASB Chair and to

avoid undue conflicts of interest as the CEO of the Foundation manages all the other aspects of the Foundation's functions, including IASB oversight.

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.*

(3) Consider clearer division of responsibility between staff dedicated to the IASB's operations and staff dedicated to the Foundation's administrative and oversight functions.

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.*

Trustees:

(1) Continue to review the diversity of geographical and professional background of the Trustees so as to provide for objectivity and impartiality of the decision-making process.

Question 4:

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

(2) Devise formal procedures and clearer criteria for the nomination of candidates and appointment of Trustees accountable to the stated objectives for the IFRS Foundation.

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.*

Monitoring Board:

(1) Expand the membership to [eleven] members to include more capital markets authorities responsible for setting the form and content of financial reporting in respective jurisdictions, focusing on increased representation from major emerging markets. [Four] new members primarily from major emerging markets would be added on a permanent basis and [two] additional seats would rotate amongst authorities not permanently represented. The use of IFRSs in a jurisdiction and the contribution of the jurisdiction to the funding of the IFRS Foundation should be

considered in selecting members.
(Note: Figures in square brackets are indicative.)

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.*

(2) Consider whether any types of decisions taken by the Monitoring Board would justify deviation from the current consensus-based decision-making system.

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.*

(3) With a view to increasing the involvement of other public authorities and international organizations, consider either:

a) extending the observer status to groups of prudential authorities and international organizations;
b) holding more formalized dialogue with public authorities and international organizations; or
c) establishing an advisory body composed of prudential authorities and international organizations.

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?*

(4) Enhance publication of written records of Monitoring Board deliberations, increase the use of press releases, and strengthen the exposure of Monitoring Board members' views to the media and wider audiences.

Question 10:

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

(5) Consider if the Monitoring Board's current ability to refer matters to the IASB for

consideration, requiring feedback, is sufficient, or whether an explicit role should enable the Monitoring Board to place an item on the IASB agenda.

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.*

(6) Explore possible options to establish a non-voluntary, transparent and stable public funding platform for the Foundation.

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?*

(7) Enhance the Monitoring Board's involvement in the nomination of the IASB Chair by enabling the Monitoring Board to provide a set of criteria for selecting potential candidates and evaluate certain candidates on the short list against the criteria during the selection process. Additionally, consider whether the Monitoring Board's role should also involve consultation on the Trustees' final decision and/or playing any further roles.

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.*

(8) As regards other IASB members, explicitly include in the Monitoring Board's responsibilities consultation with the Trustees as they further develop the framework to ensure proper balance in the composition of the IASB.

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.*

(9) Explore the possibility of establishing a permanent secretariat for 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.

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.*

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.*

Question 17:

- *Do you have any other comments?*

I. INTRODUCTION

1. Objectives of the review

In April 2010, the IFRS Foundation Monitoring Board commenced a review of the governance structure supporting IFRSs as a set of high quality, globally accepted accounting standards. From its inception, the governance structure of the IFRS Foundation has emphasized elements critical to the successful global acceptance of IFRSs—*accountability* and *independence*. Both of these elements are essential attributes required of the standard-setting process at the IFRS Foundation. The Foundation's mission, as laid out in its Constitution, is to:

> …develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. These standards should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions[1].

The significance attributed to the IFRS Foundation's governance framework underscores how important the IASB and IFRSs have become to today's global capital markets. The IASB has developed into a global accounting standard-setter whose standards have become part of legislation or accepted practice in many jurisdictions[2]. The widespread use of IFRSs has led to demands—by investors and regulators alike—that IFRSs be developed through a process that is both accountable to those who rely on IFRSs, and independent of undue outside influence that might undermine the degree to which financial statements prepared using IFRSs offer high quality, transparent and comparable information. The oversight structure supporting the standard-setting process should reflect the role those standards play.

A single set of high quality, globally accepted accounting standards offers a certain analogy to a universal language, or *lingua franca*, serving a wide range of different industries and entities, and a great variety of different types of investors and other stakeholders of financial statements, operating in many different countries and across jurisdictional boundaries. The fundamental question that underpins this governance review is whether current governance arrangements promote the IASB's primary mission of developing high quality, globally accepted accounting standards, and in a way that best serves investors in their dialogue with

[1] IFRS Foundation Constitution, Article 2 (a).

[2] Since the transition of International Accounting Standards (IASs) to IFRSs in 2001, more than one hundred jurisdictions have either required or permitted the use of IFRSs. With the momentum gathered through the adoption by the European Union and others in 2005, the use of IFRSs has spread over the world at a remarkable pace, now with all remaining major economies having established time lines for direct adoption of the standards or convergence of the local standards with IFRSs. Developments envisaged in the next couple of years as reported include: adoption in Canada and Republic of Korea, and beginning of a convergence process in India in 2011; and adoption in Argentina and Mexico, and full/significant convergence in China, Malaysia and Singapore in 2012. In addition to accepting IFRSs for cross-border purposes, the United States has announced that there will be a decision in 2011 about possible incorporation for US companies, whereas Japan has indicated that a decision will be made around 2012 on possible mandatory application in 2015 or 2016. Convergence projects for national standards in those countries with IFRSs have been underway in recent years.

public companies. The governance review also addresses the interests of other stakeholders in IFRSs.

To promote this mission, the Monitoring Board believes the governance structure of the IFRS Foundation must be accountable primarily to the needs of capital providers while also taking into account other uses of financial statements prepared in accordance with IFRSs. It must also preserve the independence of the standard-setting process from undue outside influence of any particular political, financial or economic constituency. The adequacy of the governance structure to be reviewed below by the Monitoring Board is measured by reference to the degree to which it supports these two essential elements—*accountability* and *independence*.

Accountability:

Capital markets are predicated on confidence and transparency. Transparent financial statement disclosures engender the confidence of the users of financial information. The quality of those disclosures begins with the integrity of the financial reporting framework on which they are based. The degree to which the governance structure provides for the integrity of a financial reporting framework is measured in terms of its accountability to investors, markets and market participants.

An important dimension of accountability concerns the relationship between the IFRS Foundation and the capital markets authorities responsible for setting the form and content of financial reporting in jurisdictions applying IFRSs, as represented through the Monitoring Board. Accountability is further demonstrated by an inclusive and transparent due process allowing all stakeholders the possibility to contribute to the IASB's standard-setting process. This due process must ensure that the standard-setting process delivers improvements in the quality of financial information, while striking an appropriate balance between costs and benefits. The standard-setting process must also give due consideration to the need for consistency in the financial reporting framework, as this may impact the comparability of financial information over time.

Independence:

The legitimacy of IFRSs among investors and other stakeholders of financial reporting depends on the independence of the IASB. Investors and other users of financial statements will not have confidence in IFRSs as an accounting framework if they question the IASB's independence on technical issues.

While it is fundamentally a question of the state of mind of the individuals comprising the IASB, a number of structural factors nonetheless promote, and are crucial to, any standard-setter's independence. Among these, the Monitoring Board believes that the relationships among the Monitoring Board, Trustees and IASB, in addition to promoting accountability, should at all stages serve to support the independence of the standard-setting body, while at the oversight level the Trustees and Monitoring Board should act as a buffer between the IASB and any undue external pressures that may impair its independence. The responsibilities allocated to the IASB as well as the Trustees and the Monitoring Board are designed to secure an environment for independent decision-making and actions of the

standard-setter, in line with its overarching mission and its primary accountability to investors and other stakeholders.

Composition of Bodies within the Governance Structure

The composition of the Monitoring Board and the Trustees, and the selection process for the members of IASB, are critical components of accountability and independence, given a now more geographically diverse base of investors, and the growth in the number of capital market participants using IFRSs. In this regard, the Monitoring Board comprises authorities that serve as guardians of public interest, charged with overseeing the development and use of accounting standards in their jurisdictions. To promote global acceptance of IFRSs, Monitoring Board membership should be representative of the world's capital markets. Likewise, the composition of the Trustees is intended to reflect both the diversity of the world's capital markets and the diversity of those who use IFRSs, with the Trustees themselves drawn from a variety of different geographical and professional backgrounds, including auditors, preparers, financial statements users, academics, and government officials serving the public interest. Reflecting the emphasis on technical expertise, IASB members are selected primarily because of their professional competence and practical international business and market experience. These members currently include auditors, preparers, regulators, users and academics.

This review examines the suitability of the composition of bodies within the governance structure and seeks to identify areas where this can be improved, with a particular focus on whether the composition at each key level—the Monitoring Board, the Trustees and the IASB—is appropriate for each body to discharge its respective responsibilities and enables it to contribute sufficiently to a well-designed governance structure directed towards accountability and independence.

Governance Responsibilities

The Monitoring Board recognizes that, even with the right governance structure and appropriate composition of the respective bodies, both accountability and independence are dependent on the way in which the bodies within the structure interact in practice. Realization of the objectives set forth in the IFRS Foundation Constitution, and the promise of high quality, understandable, enforceable and globally accepted financial reporting standards, require a clear allocation of responsibilities among the Monitoring Board, the Trustees, and the IASB.

This review examines the allocation of responsibilities among the governance bodies, with a particular focus on whether responsibilities at each key level—the Monitoring Board, the Trustees and the IASB—contribute sufficiently to a well-designed governance framework directed towards accountability and independence.

IFRS Foundation Strategy Review

Concurrent with this review, the Trustees are also conducting a Strategy Review that evaluates, among other subjects, aspects of governance and accountability[3]. The Monitoring

[3] The IFRS Foundation released on November 5, 2010, a public consultation document inviting views

Board has asked the Trustees to report on operational aspects of governance, in particular the due process of the IASB and IFRS Interpretations Committee. In particular, the Trustees are being asked to identify changes to (a) the *due process* for public input and public feedback in relation to standard setting and (b) the *operation* of the IASB throughout the standard-setting process. While the Monitoring Board's governance review addresses the appropriate allocation of responsibilities to the IASB, the Trustees are asked to contribute to this review in identifying improvements in how the IASB fulfills those responsibilities. Hence, the issues concerning the assessment and possible improvement to the standard-setter's due process will be covered primarily by the Trustees. The Monitoring Board and the Trustees will continue to communicate with each other as their respective projects progress, with a view towards achieving an integrated package of proposals that will improve the current governance framework.

2. Public Consultation

A high-level Working Group established by the Monitoring Board has undertaken the review in accordance with the parameters above[4]. In addition to meeting internally, the Working Group has reached out to a wide range of capital markets authorities and other stakeholders in various regions for inputs in the course of discussion. This report is a result of this work.

The following section of this consultative report reviews the current governance arrangements and describes, in the form of proposals or possible options for further consideration, a number of potential improvements. The section looks into the overall governance structure focusing on the IASB and the Trustees first, followed by discussions regarding the Monitoring Board. A set of specific questions is provided for each group of items as appropriate, with a view to inviting input from stakeholders. Section III concludes the report by considering possible steps to take hereafter.

II. REVIEW OF THE GOVERNANCE STRUCTURE

1. Alignment of the governance structure to the objectives of the IASB

The current governance structure of the IFRS Foundation is laid out in the Constitution of the IFRS Foundation. It involves an independent standard-setting body, the IASB, overseen by the Trustees of a not-for-profit corporation, the IFRS Foundation, who are in turn accountable to a body of public capital markets authorities, the Monitoring Board.

This structure is designed to respond to two different objectives: ensuring that the process of standard-setting is independent of undue external pressure so as to promote investor confidence in the objectiveness of the standards; and securing public accountability of the standard-setter, so as to make it answerable to affected parties.

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from international stakeholders. It laid out four strategic fronts for review: mission, governance, process and financing. *Paper for Public Consultation*, "Status of Trustees' Strategy Review," November 5, 2010 (www.ifrs.org/NR/rdonlyres/FD229996-AD48-4CBC-8A7A-F33E4A640270/0/StrategyReviewdocforpublicconsultFINAL.pdf)

[4] Chaired by Masamichi Kono from the Financial Services Agency of Japan (see Annex for the list of members). *Press release*, July 2, 2010 (www.iosco.org/monitoring_board).

The Trustees, who both collectively and individually act as the Foundation's interface with the outside world, are expected effectively to insulate the standard-setting body from outside interference, thus safeguarding its independence. The Monitoring Board, which was formed to provide a formal link between the Trustees and relevant public authorities, is expected to serve as the key mechanism through which the Trustees maintain their accountability to the public. A detailed description of the current three-tiered governance structure of the IFRS Foundation is provided in the Appendix.

As mentioned earlier, the Monitoring Board believes that the fundamental question to be answered in the governance review is whether the current arrangement effectively promotes the mission of the standard-setter, which should be assessed against the two essential attributes required of the standard-setting process: *accountability* and *independence*. As its stated objective, the IASB is "to develop, in the public interest, a single set of high quality, understandable, enforceable, and globally accepted" standards that require "high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions." In this context, the standard-setter needs to be accountable to investors and other stakeholders and have in place a robust process for considering their views in the standard-setting process. Capital markets authorities also have a strong interest in ensuring the standard-setter's accountability with respect to their public policy objectives, and a number of authorities have an interest in making sure the standard-setting process affords an opportunity to take account of other policy objectives, including, financial stability.

The current governance system places a strong emphasis on ensuring the independence of the standard-setting decisions, and also attempts to give due consideration to relevant public policy objectives mainly through conferring with the Monitoring Board on an as-needed basis, and also through dialogue with relevant authorities. Such arrangements reflect the shared understanding that the standard-setter needs to pay due attention to a variety of legitimate public policy objectives in its elaboration of accounting standards.

2. IASB and the Trustees

2-1. Overall governance structure

Considering that the IASB and the IFRS Foundation have been established and subsequently developed their roles and public confidence as independent private entities, it is *not* recommended that they be either directly composed of government representatives or directly selected by governments. At the same time, it is critical to retain the accountability and legitimacy of the standard-setting process to the Monitoring Board, as a representative of relevant government authorities, given the increasingly broad and diversified global stakeholder community. It is in this context that the Monitoring Board does not propose a revamp of the three-tiered governance structure, but proposes improvements designed to enhance the legitimacy and accountability of the standard-setting process while retaining the necessary level of independence.

2-2. Composition and structure of the IASB

2-2-1. Composition of the IASB

The composition of the IASB is one of the key factors that assure the objectivity and impartiality of its decisions, which is the foundation for public confidence in the standards. Most recently, the composition was reviewed in the course of Part 1 of the Constitution Review, which resulted in an increase in Board members from fourteen to sixteen to improve geographical distribution. The current Constitution also requires the composition of the IASB to demonstrate diversity in the profession and expertise of the members so that a broad perspective could be brought into the standard-setting process. However, these initiatives should not rule out discussions on additional measures such as increasing further the number of Board members, drawing out more specific allocation of professional background of candidates, and considering part-time members as a means to potentially enhance the involvement of those with practical experience with IFRSs.

Given that the changes have been made after going through a broad-based public consultation process, the current framework deserves some time for assessment. Also, measures to specify the allocation by different attributes of the members may inadvertently result in undesired rigidity, which could be self-defeating. Further, considering the ultimate objective of the standard-setter to develop a set of high quality accounting standards, the balance in the allocation of different backgrounds should not be pursued at the expense of losing technical expertise. To this end, the Monitoring Board believes that efforts should be made to improve the process for identifying technically qualified candidates for IASB membership from across the broadest possible geographies and professional backgrounds representing IFRSs' diverse stakeholders. Such a process should result in the diversity sought for the 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.*

2-2-2. Dual role of the IASB Chair

The Constitution provides that the Chair of the IASB should also be the CEO of the IFRS Foundation. It is understandable to a certain extent that such a dual role could work as an efficient bridge between the standard-setter and its governing body, in that the CEO of the Foundation with full knowledge of the actual operation and technical needs of the IASB would be well-positioned to facilitate informed decisions by the governing body. However, considering that both roles require full-time commitment, and the fact that the Chair of the IASB needs to travel around the globe frequently to maintain close communications with stakeholders, it would be excessive for an individual to cover both functions effectively. Such a dual function could raise questions over the independence of the IASB, and may give rise to undue conflicts of interest between the overseer and the subject of oversight; for example on the issues of budget allocation. Regardless of the potential merits it may provide, the possibility of such an arrangement raising doubts as to the independence and proper governance of the IASB could shake the foundation of the governance structure and could potentially seriously undermine confidence in IFRSs. It is thus recommended that the

Trustees consider formally separating the role of the IASB Chair from that of the CEO of the Foundation, so that the Chair could concentrate on activities directly related to standard-setting, while leaving day-to-day management and administration of the organization to the CEO. The Trustees would also need to consider appropriate reporting lines between the Chair and the CEO, and the terms of the CEO's attendance to the Board meetings, in order to avoid introducing a system of dual control.

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.*

2-2-3. Function of the staff

All the activities undertaken by the entire IFRS Foundation other than those handled by the Trustees and the IASB members are managed by the staff of the Foundation[5,6]. An improvement that could be made with regard to the staff is a clearer division of responsibility between staff supporting the technical activities of the IASB and staff working for the Foundation's administrative and oversight functions. It could be considered as an extension of the above argument to separate the roles of the IASB Chair and the CEO of the Foundation to safeguard the independence of the standard-setting process and to avoid conflicts of interest, real or apparent. The two measures should be coupled together to ensure an effective governance of the IASB by the Foundation.

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.*

2-3. Oversight role and functions of the Trustees

The Trustees' oversight role could be more clearly defined and made visible to the public, further building on their cumulative efforts to date. For example, the role of the Trustees in securing non-voluntary and stable public funding sources and controlling the funding and expenditures of the Foundation is particularly important. While these responsibilities are clearly established in the Constitution, increased transparency into the processes followed by the Trustees as they execute their charge is warranted. Further improvements that could be made would include reviewing, documenting and publishing the Trustee nomination process so as to enhance the understanding and confidence of various stakeholders. This is required to ensure proper representation of a wider range of interests in the decision-making process by the Trustees. It should also be noted that the Trustees may wish to improve their

[5] In addition to the day-to-day management of and support for standard-setting, activities undertaken by the staff include: the creation of an XBRL taxonomy for IFRS; the production of training materials and organization of conferences and workshops; and the protection of the IFRS brand; among others.

[6] The number of the Foundation and IASB technical staff counts around 120, drawn more than from 25 nationalities.

communication of and transparency into their oversight activities. The Trustees are expected to play a pivotal role in the oversight of the IASB, as well as in securing stability of the standard-setter's finance, and the public may need better insight into the Trustees' performance. The Monitoring Board, in turn, should improve the transparency of its oversight of Trustee activities.

2-3-1. Composition of the Trustees

The composition of the Trustees is the key to guaranteeing the proper functioning of the Foundation's internal governance, which in turn underpins the appropriate performance of the standard-setter. It is acknowledged that the Foundation has been making efforts on securing an appropriate diversity of the Trustees in various aspects and, as a result, the Constitution specifically elaborates on the regional distribution of the Trustees. It also requires an appropriate balance of professional backgrounds of the Trustees as a group. Considering that there can be no absolute membership composition that is evergreen, the distribution among different regions and professions should be reviewed on a regular basis, for example in connection with the five-yearly Constitution reviews. A diversity of membership that consistently reflects changes and developments surrounding stakeholders would form a basis for the objectivity and impartiality of the Trustees' decision-making process. On such bases and given the broad acceptance of IFRSs underway across jurisdictions, the Monitoring Board would support the Trustees' continued review of the diversity of geographical and professional backgrounds of the Trustees to achieve a better balance of its member allocation. As the Constitution provides guidance rather than requirements with respect to an appropriate balance of professional background, it is quite important that the actual appointments follow such guidance. Further, as the Monitoring Board approves all Trustee nominations, it will continue to consider appropriate diversity as part of the approval process.

Question 4:

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

2-3-2. Nomination process of the Trustees

Currently, the Constitution requires that the Trustees are nominated following a process agreed between the Trustees and the Monitoring Board. The Monitoring Board is entitled to recommend candidates and otherwise consult with the Trustees during the nomination process. It is further required that the Trustees consult with international organizations of auditors, preparers, users and academics. However, despite such Constitutional arrangements, the process of the Trustees' nomination seems not to be well understood by those who are not directly involved. It would therefore be useful to document and publish the formal procedures for the nomination of Trustees, including clear criteria for candidacy. Actual nomination procedures should be transparent to the extent possible, but should also be designed with due consideration for the protection of candidates' privacy.

Question 5:

(1) 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?

(2) 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.

3. Monitoring Board

There have been questions raised as to whether the current composition as well as the roles and responsibilities of the Monitoring Board provide sufficiently for the IFRS Foundation's accountability and reflect public policy objectives where appropriate, without undermining independence in standard-setting. Questions have also been raised about the visibility and transparency of the Monitoring Board's activities despite public accessibility to past meetings and press release communications.

3-1. Composition of the Monitoring Board

The Monitoring Board, comprised of five members and one observer, serves as a mechanism for formal interaction between capital markets authorities and the IFRS Foundation, thereby facilitating the ability of capital markets authorities that allow or require the use of IFRSs in their jurisdictions to effectively discharge their mandates relating to investor protection, market integrity and capital formation. As discussed earlier, this layer of oversight by relevant authorities has been designed to foster independence of the standard-setting process, provide a venue to convey public policy considerations on an appropriate and timely basis, and ensure public accountability. Given the infeasibility of a single, global market authority, the Monitoring Board attempts to provide representation across authorities in overseeing a global accounting standard-setting body.

Under the structure as it stands, the Monitoring Board is composed largely of capital markets authorities from developed markets—only one member from the Emerging Markets Committee (EMC) of IOSCO represents the interests of emerging market jurisdictions directly. This composition, which clearly favors developed markets, as well as the limited size of the membership, which restricts representation of interests from a vast majority of jurisdictions with a stake in IFRSs, needs to be amended. The improvement in representation could be achieved through several prisms, including geography and market development, but also by establishing partial rotation of its membership.

3-1-1. Inclusion of capital markets authorities with a focus on major emerging markets

The primary purpose of the Monitoring Board is to serve as a mechanism for formal interaction between capital markets authorities and the IFRS Foundation, thereby facilitating the ability of capital markets authorities that allow or require the use of IFRSs in their jurisdictions to effectively discharge their mandates relating to investor protection, market integrity and capital formation. Accordingly, the Charter describes members as: "capital markets authorities that are responsible for setting the form and content of financial reporting in their jurisdictions." Given that the Monitoring Board is responsible for helping to ensure the public accountability of the IFRS Foundation and reinforcing the public interest oversight function of the IFRS Foundation, in order to function properly it would need to be composed of those authorities that bear identical or similar responsibilities in the national context.

Therefore, the improvement should take the form of expanding the membership to include a larger number of relevant authorities with the same kind of responsibilities with respect to financial reporting as the current members, with an emphasis on major emerging market jurisdictions and increased regional diversity.

The Monitoring Board recommends that its membership be expanded to include a certain number of relevant authorities, primarily from major emerging markets, as permanent members and to provide for a fair and equitable process for rotating membership. Such a procedure should be developed urgently by the Monitoring Board in consultation with IOSCO, which could be a suitable platform for selecting the members subject to rotation, given the organization's almost complete representation of capital markets authorities charged with addressing the interests of domestic stakeholders in IFRSs.

The representation of different authorities could in general improve as the number of membership expands. However, it is critical in designing the new composition to give due consideration to the size of the group which must balance the need for inclusive representation against effective discussion and efficiency in decision making. Since there is no uniformly applicable norm to follow, an appropriate size should be pursued for the Monitoring Board in consideration of its unique role, in order not to undermine the efficiency and flexibility in reaching decisions in response to rapid developments in the oversight of elaborating and implementing accounting standards in a fast-changing capital market environment. For the Monitoring Board, considering that it needs to reach prompt decisions on issues such as appointment of Trustees on a frequent basis and in confidence, the size of the membership should remain in the order of ten to fifteen at the maximum.

Based on such considerations, the Monitoring Board recommends that the membership of the Monitoring Board be expanded to [eleven] members with additional membership of [four] relevant authorities primarily from major emerging markets and [two] rotating members from all other markets. This would result in a total of [seven] permanent members from major markets, two members representing the IOSCO Technical Committee and Emerging Markets Committee, respectively, and [two] rotating members drawn from IOSCO members, which would bring the total to [eleven] members—more than double the current membership.

(Note: Figures in square brackets with regard to the number of Monitoring Board members in this section and elsewhere are indicative.)

3-1-2. Other considerations

Other factors that need to be taken into account in the selection of the membership include, for example, the use of IFRSs in the jurisdiction and the contribution of the jurisdiction to the funding of the IFRS Foundation. Considering the importance of the role and the responsibilities of the Monitoring Board, it would be appropriate to require those who aspire to be members of the Monitoring Board to demonstrate a certain level of commitment to the use of the standards. Similarly, financial contribution to the standard-setting process would also need to be considered, although prescribing a certain level of mandatory financial contribution as a criterion for eligibility of the membership to the Monitoring Board may conflict with the fundamental objective of independence in the standard-setting process.

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?

(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?

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

3-1-3. Form of decision making

One additional issue that warrants further consideration would be the form of decision making at the Monitoring Board. The Monitoring Board Charter currently requires the Monitoring Board to make all decisions by consensus. While the proposed increase in membership size will affect the efficiency of decision-making, since many international organizations with much larger memberships appear to operate effectively by consensus, at least in normal times, the increased size of the membership alone would not necessitate a wholesale departure from the consensus model. Also, with current technology, it is difficult to envision that the Monitoring Board members would not be accessible to take a position in the event of a sufficiently urgent situation. However, the Monitoring Board invites constituent feedback on whether they believe that alternative voting requirements, such as by a qualified majority, should apply in exceptional circumstances and what types of circumstances those might be.

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.*

3-1-4. Inclusion of prudential regulators and other public authorities

While the current structure of the Monitoring Board limits its membership to "capital markets authorities" as mentioned earlier, the recent global financial crisis highlighted calls for increased involvement of prudential regulators in the accounting standard-setting process. More broadly, consideration of public policy objectives such as financial stability in standard-setting has drawn more focus.

The Monitoring Board has previously expressed its support for IASB engagement with a wide variety of stakeholders through the standards deliberation process[7]. Opportunities for robust

[7] See, for example, the July 7, 2009 Monitoring Board press release, which "encourage[d] the IASB's

input into standard-setting contribute invaluably to the quality of the final standard, including consideration on implications the standard may have to uses of financial statements beyond by capital providers. The Trustees' oversight of the appropriateness of the IASB's due process arrangement should continue to assess whether the IASB consults sufficiently with constituents as part of due process. Public authorities with interest in accounting standards should continue to be among the constituent group with which the IASB actively engages. In this way, the IASB can more readily take into account other public policy uses of accounting standards. Input by a public authority into standard-setting should be available, irrespective of the authority's position *vis-á-vis* the Monitoring Board.

Membership of the Monitoring Board should reflect the oversight body's role and responsibilities. The key responsibilities of the Monitoring Board include approval of Trustee appointments and oversight of the Trustees as they, in turn, fulfill their oversight responsibilities over the IASB. Financial reporting standards are primarily designed to provide accurate information to users of capital markets. Relevant authorities currently composing the Monitoring Board represent those authorities responsible within each jurisdiction to ensure that appropriate accounting standards are used for financial reporting, and to undertake that proper implementation of such rules underpins fair and transparent capital markets.

It is in this context that the Monitoring Board does *not* recommend the inclusion of individual prudential or other public authorities as members in the Monitoring Board. Moreover, it would be difficult to clearly draw the membership criteria for such a broad range of authorities.

Currently, the BCBS's observer position is the Monitoring Board's only formal mechanism for engagement with non-members, apart from the Trustees. There is legitimate argument for extending formal channels for engagement to other groups of prudential authorities and other international organizations. These may include the FSB, the IAIS, the IMF and the World Bank, for example. The engagement could take a number of forms, including increased observer positions or the creation of a formal advisory group. The continued observer status of the BCBS should be evaluated in light of any future, formal arrangement for engagement by the Monitoring Board with non-members.

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?*

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*

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willingness, to establish an enhanced technical dialogue on financial institution reporting issues with a cross section of stakeholders" and stated that "information derived from an enhanced dialogue with stakeholders engaged in and affected by financial institution reporting issues could contribute positively to the development of improved IFRSs in these areas."

all relevant public policy objectives are taken into account? Please provide reasons for your agreement/disagreement.

3-1-5. Additional measures—enhanced transparency

While it is proposed to change the composition and the size of the Monitoring Board membership, additional measures could be taken at the same time to improve its accountability and provide more transparency to the activities of the Monitoring Board, with a view to enhancing understanding of and confidence in governance of the work of the IFRS Foundation. One possibility is to enhance transparency by making more readily and extensively available materials concerning Monitoring Board deliberations. 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. The Monitoring Board recognizes that further steps should be taken to provide transparency into its oversight activities, for example by improving website accessibility to information, increased use of press releases to clarify the Monitoring Board's views, and greater exposure of members' views regarding matters of Monitoring Board oversight to the media and wider audiences.

Question 10:

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

3-2. Roles and responsibilities of the Monitoring Board

A properly functioning governance model requires clear delineation of the respective oversight responsibilities of the Monitoring Board and those of the Trustees. Under the current governance structure, primary roles and responsibilities borne by the Monitoring Board include: (a) participating in the Trustee nominations process and approving Trustee nominees; (b) reviewing the adequacy and appropriateness of Trustee arrangements for financing the IASB; (c) reviewing the Trustees' oversight of the IASB's standard-setting process; (d) conferring with the Trustees regarding their responsibilities, in particular in relation to the regulatory, legal and policy developments; and (e) referring to the Trustees matters of broad public interests related to financial reporting.

These current arrangements are sufficiently broad to enable discussion between the Monitoring Board and the Trustees on a wide range of topics, including oversight of agenda setting, IASB due process and changes in IASB membership. The Monitoring Board has considered whether such allocation of responsibilities between the two oversight bodies should be further clarified or supplemented to provide for Monitoring Board involvement in more specific matters. Views differ on specific ways in which the Monitoring Board could enhance its involvement, as well as the degree to which it should be involved, and it would be useful to explore their feasibility and appropriateness. However, it should be noted that, whatever options are taken, the Monitoring Board is of the unanimous view 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.

3-2-1. Agenda setting and other issues regarding IASB operations

The Memorandum of Understanding between the Monitoring Board and the Trustees contemplates that Monitoring Board, representing authorities charged with setting the form and content of financial reporting, may on occasion identify accounting matters that it believes the IASB should consider addressing, for example through standard-setting. At the same time the Monitoring Board recognizes that, in the interest of the IASB's independence, its role is not to direct the IASB on the resolution of accounting matters. The terms of Article III. B of the Memorandum of Understanding sought to provide a mechanism for authorities to refer to the IASB matters that the authorities believed warranted attention, but in a manner that would not compromise the independent standard-setting process[8].

The Monitoring Board has considered whether its role with respect to IASB consideration of accounting matters, including agenda-setting, could be improved. One option may be to clearly draw out an explicit role for the Monitoring Board to place an item(s) on the work agenda for the IASB. Views on the Monitoring Board's involvement regarding the agenda may depend on how closely one relates the process of standard-setting to that of agenda-setting. Some take a view that placing an item on the IASB's technical agenda would not impair independence, as long as all aspects of due process and final decision-making during deliberation of the standard remain solely the responsibility of the IASB. Others believe that agenda-setting should also 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. Any expanded role of the Monitoring Board regarding the IASB's agenda should follow careful assessment of the needs and benefits of such involvement as opposed to the potential costs, including actual or perceived implications to the IASB's independence. The Monitoring Board requests public comment on this topic.

The current framework provides the Monitoring Board the authority to review the adequacy and appropriateness of Trustees arrangements for financing the IASB, as well as to confer with the Trustees on the Foundation's annual budget. The Monitoring Board may consider ways to further support proper funding and allocation of the Foundation's financial resources, taking care always that no undue influence is asserted over the IASB's decisions and

[8] Article III. B reads as follows:
The IASCF Monitoring Board may refer accounting issues to, and will confer regarding these issues with, the Trustees and the IASB Chair.

i. The Trustees will work with IASB to ensure these issues are addressed in a timely manner.
ii. If the IASB determines that consideration of the issue(s) identified by the IASCF Monitoring Board is not advisable or that the issue(s) cannot be resolved within the time frame suggested by the Monitoring Board, the Trustees should:
    1. call on the IASB to undertake all reasonable efforts to consider issue(s) in a manner that is consistent with the public interest, taking into account the protection of investors;
    2. call on the IASB to explain its position through the Trustees regarding the IASB's position on the issue(s); and
    3. promptly notify the IASCF Monitoring Board of the IASB's position.

operations.

Given the IFRS Foundation's current level of contributions received and the potential resulting constraints on the standard-setter's operations, securing a stable and independent funding model is highly important. The parties involved should place priority on exploring possible options to establish a non-voluntary, transparent and stable public funding platform for the Foundation[9].

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.*

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?*

3-2-2. Nomination of the IASB Chair

While the general provisions in the Memorandum of Understanding enable consultation between the Monitoring Board and Trustees on appointment of Board members, in the interest of transparency and accountability, the Monitoring Board's role in such activities should be more clearly established. The Monitoring Board does *not* recommend introducing a direct role for the Monitoring Board in the appointment of IASB Board members. Such a role may appear to infringe upon independence and erode public confidence in the standard-setting body if public authorities either directly approved or exercised veto rights in the appointment or removal of IASB Board members. Instead, the Monitoring Board proposes that its responsibilities explicitly include consultation with the Trustees as they further develop the framework to ensure proper balance in the composition of the IASB as mentioned earlier.

While the Monitoring Board does not anticipate explicit involvement in Board member appointments generally, its role should differ for the nomination of the IASB Chair, who is central to ensuring accountability of IASB operations. The Monitoring Board recommends that its responsibilities specifically include the ability to either provide or approve a set of criteria for the IASB Chair, to which the Trustees' independent selection process would be held accountable. Once approved by the Monitoring Board, this set of criteria, reflecting the leading characteristics sought in a Chair, should be made publicly available.

In addition, the Monitoring Board's role in Chair appointments should include an opportunity to communicate to the Trustees its assessment of candidates against those criteria, once the Trustees have determined a short list of leading candidates. One approach would be for the Monitoring Board's involvement in Chair selections to end with feedback on the short list of

[9] The preamble of the Memorandum of Understanding indicates that the Trustees and the Monitoring Board shared the desire "to help strengthen (the Foundation's) independence by supporting the establishment of a non-voluntary, transparent and stable funding platform" for the Foundation.

candidates. In this way, though the Trustees would consider Monitoring Board input, final decisions on Chair appointments would remain with the Trustees.

Alternatively, the Monitoring Board's role could be expanded to include approval of the final candidate, as is the case with Trustees. In assessing how far the Monitoring Board should be involved in the nomination process, due consideration should be given to consistency with the three-tiered governance structure in addition to the risk of creating an appearance of exercising excessive control over the IASB. The Monitoring Board's involvement in Chair appointments should be transparent through disclosure of a pre-established set of procedures and incorporated into the Trustees' public communications during its nomination process.

Question 13:

(1) 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.

(2) 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.

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.*

3-2-3. Creation of a permanent secretariat

To support its activities, the Monitoring Board intends to explore the possibility of establishing a permanent secretariat[10]. The necessity for such an arrangement should be underpinned by considerations on issues such as: the need for clear separation from the secretariat of the IFRS Foundation to ensure the independence of the standard-setter; additional funding requirements and potential sources; location of secretariat staff headquarters and regional outreach; and the relationship of the secretariat with the rotating chairmanship of the Monitoring Board. The Monitoring Board could also look at possible synergies in creating a permanent secretariat shared by the Monitoring Board and the Monitoring Group responsible for overseeing the governance of the IFAC, on the basis that there are certain overlaps of member organizations[11].

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*

[10] The Charter of the Monitoring Board states that the Chair of the Monitoring Board shall provide the group's secretariat services (Article 3(B)).

[11] There is no provision on secretariat functions in the Charter of the Monitoring Group, and the Chair of the Monitoring Group provides the group's secretariat services in practice.

the standard-setter? Would you support this proposal even if it would require additional financial contributions from stakeholders? Please provide reasons.

III. CONCLUSION—NEXT STEPS

1. Next steps and suggested timeline

Developing a governance structure that meets the needs of a diverse group of stakeholders in a global standard-setting body is challenging. The success of a single set of high quality, globally accepted accounting standards depends in part on the existence of and public confidence in its governance structure. In the interest of current users of IFRSs, and anticipating decisions on acceptance of IFRSs by major market jurisdictions already on the calendar for 2011-2012, the Monitoring Board intends to finalize its proposals for reform by early in the third quarter of 2011, following the public consultations now initiated. It also wishes to ensure clarity and transparency in communicating with the broad range of stakeholders in the course of finalizing its proposals.

As seen above, some of the Monitoring Board's recommendations are concrete proposals, while others are laid out as possible options for further consideration. The Monitoring Board encourages stakeholders to provide comments to the questions posed above, and on any other related matters. This consultative report will be issued for public comment for two months until 8 April, 2011. In order to facilitate the public consultation process, the Monitoring Board also plans to organize public meetings with stakeholders during the consultation period in Asia, Europe, and the Americas. Comments received will be made available on the website of the Monitoring Board, supported by IOSCO, for reference by all interested parties[12]. The Monitoring Board intends to subsequently publish a corresponding feedback statement after the completion of the consultation process, which would summarize the comments received and provide a basis for conclusions, including how views expressed through the public consultation were considered. The Monitoring Board will further develop an action plan for implementation of the proposals by early in the third quarter of 2011.

The Monitoring Board recognizes the importance of coordination with the Trustees, particularly in the context of their Strategy Review. The Monitoring Board and the Trustees will continue to communicate with each other as their respective projects progress, with a view towards achieving an integrated package of proposals for improving the governance framework[13].

2. Follow-up of the implementation

Following the activities in the above timetable, the Monitoring Board will conduct a follow-up review of the implementation of any decisions reached. Further, the Monitoring

[12] http://www.iosco.org/monitoring_board.

[13] Most of the proposals discussed above require extensive work by the Trustees to be implemented, especially in the form of revising the Constitution. Any proposals to change the responsibilities or composition of the IASB, the Trustees or the Monitoring Board would need to be laid down in the Constitution to take effect. The Monitoring Board would also need to work with the Trustees on a revision of the Memorandum of Understanding pertaining to the establishment of the Monitoring Board.

Board recognizes that the maintenance of a well-designed governance structure requires regular review to ensure that the process is aligned and well-adapted to an evolving environment. The Monitoring Board recommends that a formal follow-up process be conceived jointly by the Trustees and the Monitoring Board. A possible option is to clearly incorporate in the Memorandum of Understanding the requirement for a formal review of various features of the governance structure on a periodic basis with due input of a broad range of stakeholders. While appropriate intervals between regular reviews could vary among different aspects of the governance framework depending on their nature, the Monitoring Board considers an interval of five years, taking into consideration the timing of the Foundation's periodic Constitution reviews, to be an appropriate standard to start with.

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.*

3. Other

Question 17:

- *Do you have any other comments?*

Appendix: Governance Structure of the IFRS Foundation

1. IFRS Foundation and the Constitution[14]

The IFRS Foundation, formerly the International Accounting Standards Committee (IASC) Foundation, was established in April 2001 as a parent body embracing under it two major functions: the IASB, responsible for actual setting of IFRSs; and the Trustees, in charge of ensuring the governance of the whole organization. The Foundation is an independent, not-for-profit private corporation incorporated in the state of Delaware in the United States, funded primarily by voluntary contributions from major stakeholders. The IASB is an independent accounting standard-setter founded in April 2001 to succeed its predecessor, the IASC. The IASB and the permanent secretariat of the Foundation are located in London, UK. The structure and operations of the Foundation is governed primarily by its Constitution.

The Constitution, originally approved by the former IASC in May 2000, experienced a major revision in 2002, which reflected changes that had taken place since the formation of the IASC Foundation. Following the requirement that the Trustees should review the Constitution every five years, the Trustees has subsequently completed two rounds of mandatory reviews to date.

- The first review was completed in 2005. It introduced an increase in the number of Trustees to improve geographic balance, changes to have the composition of the IASB to reflect a broader range of perspectives and skills including practical experience, and changes to ensure that the IASB followed appropriate due process procedures and provided time and channels for consultation, along with other changes.
- The second mandatory review was commenced in 2008 and was undertaken in two parts, aiming at enhancing public accountability, stakeholder engagement and operational effectiveness. The first part was front-loaded in an effort to make immediate improvements to the governance and public accountability of the IASB and to provide for changes to the IASB's composition. The first part of the review was thus concluded in 2009, which established a formal link to the public authorities through the Monitoring Board, as well as expanded the size of the IASB while ensuring broad international basis for its membership. The second part, completed in 2010, focused on the remaining aspects of governance, including further improvements to accountability and due process.

2. Structure and role of the Foundation—the Trustees and the IASB

The Trustees[15]

The Constitution states that the governance of the IFRS Foundation primarily rests with the Trustees. Their major responsibilities include, among others:

- appointing the members of the IASB, the IFRS Interpretations Committee (Interpretations Committee)[16], and the IFRS Advisory Council (Advisory Council)[17],

[14] www.ifrs.org/The+organisation/Governance+and+accountability/Constitution/Constitution.htm

[15] Constitution, Articles 4 to 17, et al.

[16] Constitution, Articles 39 to 43, et al.

[17] Constitution, Articles 44 to 46, et al.

and terminating those appointments on certain grounds;
- reviewing annually the strategy of the IFRS Foundation and the IASB and its effectiveness;
- approving annually the budget of the IFRS Foundation and determining the basis for funding;
- establishing and amending operating procedures, consultative arrangements and due process for the IASB, the Interpretations Committee, and the Advisory Council; and
- exercising all powers of the IFRS Foundation except for those expressly reserved to the IASB, the Interpretations Committee and the Advisory Council.

The 22 individuals, approved by the Monitoring Board for their appointment as the Trustees, as a group demonstrate a diversity of background both geographically and professionally. According to the Constitution, the regional distribution is clearly set at: six from Asia-Oceania; six from Europe; six from North America; one from Africa; one from South America; and two from anywhere, provided that the overall geographical balance will be maintained. The Constitution also prescribes that an appropriate balance of professional backgrounds should be provided, which includes auditors, preparers, users, academics, and officials serving the public interest. Normally, two of the Trustees are to be selected from senior partners of prominent international accounting firms.

The accountability of the Trustees is ensured mainly through a commitment by each Trustee to act in the public interest as well as their commitment to report to and engage with the Monitoring Board. Further, the Trustees are required by the Constitution to undertake a review of the entire structure of the IFRS Foundation and its effectiveness every five years. The effectiveness of the Trustees themselves in exercising their functions is assessed internally by the Due Process Oversight Committee, which is a standing committee of the Trustees. The committee develops proposals and measurement targets for the Trustees, monitors the achievement of those targets, and makes regular progress reports. All meetings of the Trustees (as well as those of other bodies of the Foundation) are open to the public[18] and are webcast, with meeting notes made available as observer notes.

The IASB[19]

While the Trustees oversee the entire operation of the Foundation, they are not involved in any technical matters relating to the standards: complete responsibility for the preparation and issuing of IFRSs lies with the IASB. It also has a full discretion in developing and pursuing its technical agenda, subject to consultation with the Trustees and the Advisory Council, and three-yearly public consultation[20].

As the result of the first part of the second Constitution Review, the membership of the IASB would be increased from fourteen to sixteen by July 2012 at the latest. Current members appointed by the Trustees count fifteen. As in the case of the Trustees, the Constitution requires the membership to demonstrate a prescribed geographical allocation: four from Asia-Oceania; four from Europe; four from North America; one from Africa; one from South

[18] Exceptions may apply at the Trustees' discretion including for those on administrative matters.

[19] Constitution, Articles 24 to 38, et al.

[20] First of such a public consultation shall begin no later than end-June 2012.

America; and the remaining two from anywhere, subject to maintaining overall geographical balance. The IASB members need to represent the "best available combination of technical expertise and diversity of international business and market experience." They are also expected to bring into the standard-setting process recent practical experience among auditors, preparers, users and academics. No individual can be both an IASB member and a Trustee.

A strong emphasis is placed on the IASB's following a thorough, open and transparent due process for accountability. It is required to publish an exposure draft on all projects and normally publish a discussion document for public comment on major projects, and normally publish a basis for conclusions with an IFRS or an exposure draft. It can shorten the thirty-day minimum period for public comments only in exceptional circumstances and with support from 75 per cent of the Trustees. With the view to enhancing stakeholder engagement, the IASB undertakes a range of outreach and stakeholder communication activities around the world, establishes enhanced dialogue with relevant authorities, and holds roundtables at key locations after the comment period. Meetings are open to the public and are webcast.

3. Structure and role of the Monitoring Board[21]

The Monitoring Board was created in January 2009 as a non-legal entity, with an aim to "provide a formal link between the Trustees and public authorities," so that the public accountability of the Foundation would be enhanced. The Constitution characterizes the relationship between the Monitoring Board and the Foundation as such that "seeks to replicate, on an international basis, the link between accounting standard-setters and those public authorities that have generally overseen accounting standard-setters." It is expected that this framework will enable, "capital markets authorities that allow or require the use of IFRSs in their jurisdictions to more effectively carry out their mandates regarding investor protection, market integrity, and capital formation[22]." In addition to the Constitution, the Monitoring Board is bound by its Charter and a Memorandum of Understanding with the Foundation.

The Memorandum of Understanding describes the members of the Monitoring Board as "capital markets authorities," representing "authorities responsible for setting the form and content of financial reporting in the majority of the world's capital markets." As such, under its Charter, the Monitoring Board currently consists of five members: the European Commission; the IOSCO Emerging Markets Committee; the IOSCO Technical Committee; the Japan Financial Services Agency; and the US Securities and Exchange Commission. In addition, the BCBS is given an observer status. This composition, however, was expected from the outset to be reconsidered in the future to potentially include other capital markets authorities.

Being the overseer of the standard-setting organization from the public interest perspective, the role and responsibilities of the Monitoring Board include, among others:

- participating in the Trustee nominations process and approving Trustee nominees;
- reviewing the adequacy and appropriateness of Trustee arrangements for financing the IASB;
- reviewing the Trustees' oversight of the IASB's standard-setting process, in particular

[21] Constitution, Articles 18 to 23, et al.

[22] A conventional phrase used in the *Note to Editors* section of the Monitoring Board's press release.

with respect to its due process arrangements;

- conferring with the Trustees regarding their responsibilities, in particular in relation to the regulatory, legal and policy developments that are pertinent to the Foundation's oversight of the IASB; and
- meeting with the Trustees to discuss issues needing timely considerations.

The Monitoring Board makes decisions on a consensus basis, and makes its views public mainly through its press releases posted on the IOSCO website. Part of its meetings with the Trustees is open to the public.

Annex 1: List of Working Group Members (as of January 2011)

Zarinah Anwar	Securities Commission Malaysia (representing IOSCO Emerging Markets Committee)
Pierre Delsaux	European Commission
Masamichi Kono (Chair)	Japan Financial Services Agency
Steven Maijoor	Netherlands Authority for the Financial Markets (representing IOSCO Technical Committee)
Ethiopis Tafara	US Securities and Exchange Commission

Secretariat:

Takashi Nagaoka	Japan Financial Services Agency
Makoto Sonoda	Japan Financial Services Agency

Annex 2: Glossary

BCBS	Basel Committee on Banking Supervision
FSB	Financial Stability Board
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IASCF	IASC Foundation
IFAC	International Federation of Accountants
IFRSs	International Financial Reporting Standards
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions