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IFRS Foundation Monitoring Board

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Berlin, 11 April 2011

Dear Mr. Nagaoka and Mr. Sonoda,

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

On behalf of the German Accounting Standards Board (GASB) I am writing to comment on the IFRS Foundation Monitoring Board's Consultative Report on the Review of the IFRS Foundation's Governance (herein referred to as 'Consultative Report'). We appreciate the opportunity to submit our views. Our comments in Appendix 1 are structured according to the questions raised by the Monitoring Board in the Consultative Report and, additionally, we emphasise certain important issues in this cover letter.

The GASB takes the general view that the Monitoring Board's role should remain unchanged and its functions do not need and should not have any extension.

With regard to some issues, the Consultative Report does not make clear whether, why, or to what extent, the Monitoring Board's functions actually need improvement or extension. If the Monitoring Board believes that certain structures and processes in the Foundation are not working well, the Monitoring Board should express such view more clearly and support its view by arguments instead of raising its criticism implicitly in some of the Consultative Report's chapters and questions asked. In particular, we refer to (a) the separation of the roles of the IASB Chair and the CEO of the IFRS Foundation (question 2), (b) the Trustees' composition and oversight role (question 4), and (c) the need for a new advisory body (question 8) – which all three are issues that lack both, a clear proposal and a clear rationale.



In essence, the proposals create the impression that the Monitoring Board is looking for increased power over the Trustees and the IASB which may be perceived by the Foundation's constituents as a significant change to the Foundation's governance with an increased risk of harming the standard-setter's independence.

If you would like to discuss our comments further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr

President



Appendix 1

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.

Within chapter 2-2-1 of the Consultative Report it is noted that "... 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".

We understand this as a criticism on the current relevant process. Unfortunately, the Consultative Report does not provide any reasoning for the perceived need for improvement and the proposal. Accordingly, without further explanation we are unable to comment on this view. We believe that the IASB recruiting processes and the composition of the IASB as described in the Constitution of the IFRS Foundation are appropriate to assure the objectivity and impartiality of its decisions.

Nevertheless, in order to further strengthen the recruiting process the GASB supports creating a candidate pool, if not yet in existence, or deepening such a pool of candidates if considered necessary by the Trustees. Yet, we miss specific proposals how this strengthening could be achieved.

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 disagree with this proposal. According to the explanations given in chapter 2-2-2 of the Consultative Report, on the one hand the Monitoring Board's concerns are of a general nature und primarily relate to the issues of a potential conflict of interests and potentially negative perceptions regarding the Foundation's governance. On the other hand the Monitoring Board acknowledges to a certain extent that such a dual role could work as an efficient bridge between the standard-setter and its governing body.



As of today the GASB is neither aware of conflicts in which the independence was impaired nor perceived as such by constituents. The reason for the latter might be that the CEO role of the IASB chair is limited, i.e. driven by administration tasks, and in particular not important with regard to the Foundation's governance. Accordingly we continue to support the dual role unless either the Trustees or the chair of the IASB take the view that the dual role is too onerous.

Another reason for our disagreement with the Monitoring Board's proposal reflects the fact, that the proposal neither properly describes the current responsibilities of the CEO nor those after a separation of the two roles. Finally, we would like to emphasise that the Foundation, although very important in terms of global financial reporting, is nevertheless a very small organisation and any increase in administration management and staff needs to be supported by convincing arguments.

Question 3

Do you agree that clearer division of responsibility between staff dedicated to the IASB operations and staff dedicated to the Foundation's administrative and oversight functions should be considered, and if so would you have suggestions on how to formalize this? Please provide reasons for your agreement/disagreement.

We disagree with this proposal. In chapter 2-2-3 of its Consultative Report the Monitoring Board refers to the issue underlying question 2. Similarly, we believe that all of our comments and arguments regarding question 2 are also relevant, and even more valid, with regard to rejecting the proposal for a clearer division of responsibility between staff dedicated to the IASB operations and staff dedicated to the Foundation's administrative and oversight functions. To give an example, we consider developing the XBRL taxonomy as a standard-setting "product". A clearer division between the staff developing the taxonomy and the staff working on financial reporting standards would not be difficult but would be counter-productive.

Question 4

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

In chapter 2-3 the Consultative Report suggests that the Trustees' oversight role could be more clearly defined and visible to the public, further building on their cumulative efforts to date.



We believe that the Monitoring Board has failed to provide supporting arguments for this proposal. Furthermore, in our view the proposals on the transparency of the Trustee recruiting and nomination processes are not reasonable as these processes, like the funding processes, typically require a reasonable degree of confidentiality. In particular, regarding the Trustee recruiting, we fear that complete transparency could result in the Foundation not finding appropriate candidates. We understand that this issue is acknowledged by the Monitoring Board as in chapter 2-3-2 the Consultative Report explicitly refers to the protection of candidates' privacy.

Monitoring the Trustees' activities is the purpose of the Monitoring Board and we trust that any perceived but necessary reduction in transparency of the Trustees' actions is compensated by the Monitoring Board's oversight activities.

We fully appreciate that the Consultative Report proposes in chapter 2-3 that the Monitoring Board should improve the transparency of its oversight of Trustee activities which in our view is required.

In respect of the composition of the Trustees we noted that in chapter 2-3-1 the Consultative Report includes yet another unsubstantiated statement: "... 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". The Consultative Report is silent why there is a need for a better balance of its member allocation. Unless appropriately substantiated arguments are presented we believe that the composition of the Trustees as described in the Constitution is appropriate to guarantee the proper functioning of the Foundation's internal governance.

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.

Ad 1:

We disagree with this proposal. We believe that the current process, in particular the role of the Monitoring Board, should remain unchanged because, we are not aware of any indication that it is not working well. We wonder why the different aspects regarding the Trustee nomi-



nation process have been split up in chapters 2-3 and 2-3-1 related to Question 4 as well as chapter 2-3-2 related to Question 5.

Ad 2:

We agree with this proposal. We would support the proposal to document and publish the formal procedures for the nomination of Trustees as it may improve the constituents' understanding of the Trustees' nomination 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.

Ad 1:

We disagree with this proposal. We do not think that the Monitoring Board should continue to be solely confined to capital market authorities. As described in the Constitution of the IFRS Foundation, the Monitoring Board should represent a formal interrelation to public authorities. In the light of the application of IFRS and IFRS for SME not being limited to publicly listed preparers we believe that this formal interrelation needs to be broadened to also cover public authorities other than capital market authorities. Accordingly, the composition of the Monitoring Board should be changed in order to include representatives from non-capital market related authorities. For members representing capital markets authorities we agree with a selection by IOSCO. For representatives of other public authorities we propose a selection by the United Nations Conference on Trade and Development (UNCTAD). This responsibility could be assumed by the UNCTAD's Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR).

Ad 2:

We agree that the Monitoring Board should comprise a mix of permanent and rotating members. It seems preferable that major capital markets are represented by permanent mem-



bers, while other (smaller) markets in which IFRSs are broadly applied are represented by rotating memberships. With regard to its selection, we refer to our answer on part 1 above.

We believe that a jurisdiction's application of IFRSs and financial contribution to standard-setting should play a role in the allocation of permanent memberships but not in the allocation of rotating membership.

Ad 3:

We disagree with this proposal. For the reasons, we refer to our answer on part 1 above.

Question 7

Do you agree that the Monitoring Board should continue to make its decisions by consensus? Please provide reasons for your agreement/disagreement. Are there any types of decisions taken by the Monitoring Board for which voting other than by consensus (for example, by qualified majority) may be appropriate? If so please describe why and suggest an appropriate voting mechanism.

We disagree with this proposal. Based on the recommended expansion of membership, we think that the Monitoring Board should discontinue its consensus-driven decision making. In our view, a qualifying majority of 75 % will support the decision making capability of the Monitoring Board without harming its decision making process.

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?

Ad (a):

We disagree with this proposal. Based on our support for an expansion of the members of the Monitoring Board including representatives from non-capital market related authorities, we see no need for an expansion of the number of Monitoring Board observers.

Ad (c):

We disagree with this proposal. We believe that an additional advisory body is unnecessary. As far as there is a need for advice to the Monitoring Board, the IFRS AC should be the appropriate body. Overall, we are against developing an oversized organisation and related unnecessary administration efforts.



Question 9

Do you believe that the current arrangements for the standard-setting process adequately ensure the appropriate involvement of all relevant stakeholders and that all relevant public policy objectives are taken into account? Please provide reasons for your agreement/disagreement.

We believe that the standard-setting process has experienced significant improvements over the recent years particularly through intensified outreach activities. Considering these improvements, the GASB takes the view that the current arrangements of the Foundation regarding the standard-setting process adequately ensure the appropriate involvement of all relevant stakeholders and take all relevant public policy objectives into account.

Question 10

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

We think that publishing the minutes of the Monitoring Board meetings on the IASB website would enhance the visibility and public understanding of the Monitoring Board's activities. Additionally, the Monitoring Board's meetings should be included in the overall meetings diary on www.ifrs.org. More important, however, is not just the use of state of the art media but the content. In this regard we refer to our comment regarding question 4 – chapter 2-3-2 – where the Monitoring Board is proposing to improve the transparency of its oversight of Trustee activities which is in our view required.

Question 11

Do you believe that the current arrangements for Monitoring Board involvement in the IASB's agenda-setting are appropriate, or should the Monitoring Board have an explicit ability to place an item on the agenda, or would you consider other alternatives that would enhance the Monitoring Board involvement in the IASB agenda setting? Please provide reasons.

We believe that the current arrangements for Monitoring Board involvement in the IASB's agenda-setting are appropriate.

We fully agree with the statement, laid out in chapter 3-2, that "...the oversight roles of both the Monitoring Board and the Trustees must be designed to promote – and never undermine, either substantively or in appearance – the independence of the IASB and its standard-setting process." We believe that this principle is best applied if there is no change to the



status quo, i.e. no participation of the Monitoring Board in the agenda-setting. An explicit ability of the Monitoring Board to place items on the IASB's agenda would clearly impair the independence of the standard-setter and also raise mistrust among constituents about the Monitoring Board's intentions.

Question 12

Do you have concrete suggestions on how the Monitoring Board or the Trustees could encourage a move towards a more stable and independent funding model?

We currently have no concrete suggestions on how to achieve a more stable and independent funding model. We do, however, agree with the need for a stable and independent funding model.

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.

Ad 1 and 2:

We do not believe that the Monitoring Board should be involved in any way in the recruiting of the IASB Chair.

Question 14

Do you agree that the Monitoring Board's responsibilities should explicitly include consultation with the Trustees as they further develop the framework to ensure proper balance in the composition of the IASB? Please provide reasons for your agreement/ disagreement.

We disagree with this proposal. A consultation process between the Monitoring Board and the Trustees on appointing Board members is already established. We therefore wonder why there is a need for such a proposal. In our view there are no arguments in the Consultative Report for such a proposal other than "in the interest of transparency and accountability".



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.

We disagree with this proposal. The GASB does not support any expansion of the role of the Monitoring Board. Accordingly, we do not agree with the proposal to establish a permanent secretariat for the Monitoring Board as we don't believe that a permanent secretariat is needed for the Monitoring Board's scope of activities.

With regard to the financial effects of the Monitoring Board's proposal we would like to refer to our response to question 2, i.e. that any increase in administration management and staff needs to be supported by convincing arguments, which in our view are not given with regard to the proposed permanent secretariat.

Question 16

Do you agree with the need for regular reviews, and the interval of five years as a benchmark? Should the reviews be aligned with the timing of the Foundation's mandated Constitution reviews? Please provide reasons for your agreement/ disagreement.

We agree with the need for regular reviews and we believe that an interval of five years, as laid out in the Constitution, is an appropriate timeline. We strongly believe that the reviews need to be aligned with the timing of the Foundation's mandated Constitution reviews or even better be a part of these Constitution reviews.

Question 17

Do you have any other comments?

We have no further comments other than strongly recommending that the Trustees and the Monitoring Board align their efforts to be taken based on the feedback received on their reviews.