

## Financial Accounting Standards Foundation (FASF)

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The Trustees of IFRS Foundation  
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Dear Trustees

### Comments on "STATUS OF TRUSTEES' STRATEGY REVIEW"

We, the Financial Accounting Standards Foundation, welcome the opportunity to comment on the paper for public consultation "STATUS OF TRUSTEES' STRATEGY REVIEW", in appreciation of the efforts by the IFRS Foundation to address an extensive review of its strategy into the next decade for achieving the goal of establishing a single set of high quality global accounting standards.

Our comments are described below:

Mission: How should the organisation best define the public interest to which it is committed?

*Question 1: The current Constitution states, "These standards [IFRSs] 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." Should this objective be subject to revision?*

#### Comment:

We generally consider the objective described in the existing Constitution to be appropriate. It is natural for regulatory authorities who design public policies and preparers of financial statements interests to be; the issues of how accounting standards should be, from the perspective of coordination of policies or that of costs and facilitating global management, respectively. In addition to that of decision-making by participants in the world's capital markets and other users of financial information as described in the Constitution. However, given the infeasibility of coordinating interests of all stakeholders in developing standards, we believe that the most important thing is to focus on development of a single set of high quality, transparent

and comparable accounting standards, in line with the objectives of financial reporting as stated in the IASB's Conceptual Framework.

*Question 2: The financial crisis has raised questions among policymakers and other stakeholders regarding the interaction between financial reporting standards and other public policy concerns, particularly financial stability requirements. To what extent can and should the two perspectives be reconciled?*

**Comment:**

We understand that the financial crisis has raised questions about compatibility of financial reporting standards and other public policies. However, we believe that no reconciliation between financial reporting standards and public policies should be made. Considering that the history of accounting standard-setting has been always that of securing independency from public policies and political pressure, which has enhanced public confidence in accounting standards. While views of regulatory authorities may be considered in the process of standard-setting where appropriate, standard-setter's final decisions should be objectively independent of them.

**Governance: how should the organisation best balance independence with accountability?**

*Question 3: The current governance of the IFRS Foundation is organised into three major tiers: the Monitoring Board, IFRS Foundation Trustees, and the IASB (and IFRS Foundation Secretariat). Does this three-tier structure remain appropriate?*

**Comment**

We support maintaining the current three-tier governance structure. Establishment of the Monitoring Board from the perspective of more robust governance would deserve recognition as a means of improving communications with regulatory authorities. We do not feel great necessity for a reform of this structure, because it is only a short time since the establishment of the Monitoring Board and there is no significant problem at present. For the time being, focus should be placed on strengthening the function of this three-tier governance structure.

Creation of an additional body over the Monitoring Board would be unnecessary, even if the current three-tier structure became subject to revision as a result of reviews of the overall governance structure currently undertaken by the Monitoring Board and the Trustees of the IFRS Foundation.

*Question 4: Some stakeholders have raised concerns about the lack of formal political endorsement of the Monitoring Board arrangement and about continued insufficient public accountability associated with a private-sector Trustee body being the primary governance body. Are further steps required to bolster the legitimacy of the governance arrangements (including in the areas of representation of and linkages to regulatory authorities)?*

**Comment:**

Legitimacy of the governance arrangements should be determined on the basis of its operations through transparent, democratic process and adequate accountability, rather than whether the governing body is private or involved by regulatory authorities. Although a review of the existing arrangements of the Monitoring Board and the Trustees from the viewpoint of governance and accountability would be necessary, there is no need to consider additional measures such as strengthening linkage with regulatory authorities or asking for formal political endorsement.

**Process: how should the organisation best ensure that its standards are high quality, meet the requirements of a well functioning capital market and are implemented consistently across the world?**

*Question 5: Is the standard-setting process currently in place structured in such a way to ensure the quality of the standards and appropriate priorities for IASB work programme?*

**Comment:**

New accounting standards have significant economic impacts because financial statements are used not only by investors in their decision making but also by different types of stakeholders, including other users, preparers and regulators, based on their various needs. Given this, in order to take account of those different needs, issuance of exposure drafts should be preceded by adequate field surveys for hearing views from various stakeholders and analysing them, which are sometimes conducted after the issuance of exposure drafts in the current practice.

In addition, after issuance of final standards, post implementation surveys should be carried out to review thoroughly whether the actual effects of the standards are consistent with the advance analysis, and whether there arise any additional problems or necessary improvements are required.

*Question 6: Will the IASB need to pay greater attention to issues related to the consistent application and implementation issues as the standards are adopted and implemented on a global basis?*

**Comment:**

The timing and extent of adoption of IFRSs in each jurisdiction would depend on successful coordination with the business practice specific to that jurisdiction. We welcome further promotion of management on a global basis through increased comparability of financial data brought about by adoption of a single set of high quality accounting standards by jurisdictions all over the world. In order to ensure the broader use of IFRSs can be achieved quickly, development of interpretations on issues specific to each jurisdiction should be allowed on a more flexible basis, to the extent they would not deviate from the principles of IFRSs. From this viewpoint, a more realistic policy on interpretations of IFRSs should be established, and implementation guidance should be developed under a more flexible approach through exchanges of views among national standard-setters and accounting firms. In addition, the basic concept of more detailed and practically useful interpretations should be established, taking account of possible improvements of the Interpretations Committee where necessary. There could be some ideas such as changing the members of the Interpretations Committee from part-time to fulltime (although there would be financial restrictions) or establishing subcommittees on technical areas such as financial instruments and insurance. Enrichment of implementation guidance is also needed as well as establishment of the basic concept of interpretations.

**Financing: how should the organisation best ensure forms of financing that permit it to operate effectively and efficiently?**

*Question 7: Is there a way, possibly as part of a governance reform, to ensure more automaticity of financing?*

**Comments**

Japan has actively responded to the requests by the IFRS Foundation for financial contribution and fully accommodated them owing to the understanding and assistance of Japanese constituents. However, some countries and organizations have not sufficiently responded to the IFRS Foundation's requests and it is of concern that this will result in the failure to provide the IFRS Foundation with a stable financial basis. As such, the IFRS Foundation and the Trustees should take action to ensure those

countries and organisations faithfully fulfil the IFRS Foundation's requests.

In addition, the current amount of financial contribution requested to each country, which is determined based on the country's GDP in 2005, should be amended to reflect the most recent economic conditions, as the world economy has experienced significant changes since 2005.

Furthermore, the existence of some countries which have already adopted IFRSs but do not make the financial contributions to the IFRS Foundation is contrary to the user-pay principle and it is a problem to be corrected. We support consideration of a system that would require all countries and organisations adopting IFRSs to make non-voluntary financial contributions.

#### Other issues

*Question 8: Are there any other issues that the Trustees should consider?*

#### Comments

Achievement of broader use of IFRSs will increasingly depend on the reactions by major countries including the US. Therefore, flexible considerations of situations specific to each jurisdiction and the interpretative issues relating to them would be necessary in standard-setting. From this viewpoint, efforts are needed to ensure the opportunities (including outreach activities) to hear voices of all regions and stakeholders and to have closer discussions with national standard-setters about the direction IFRSs should take.

Sincerely yours,



Hideo Takahashi  
Secretary General  
Financial Accounting Standards Foundation (FASF)