



**The Japanese Institute of
Certified Public Accountants**

4-4-1, Kudan-Minami, Chiyoda-ku, Tokyo 102-8264, Japan

Telephone: +81-3-3515-1130 Fax: +81-3-5226-3356

Email: international@sec.jicpa.or.jp

<http://www.hp.jicpa.or.jp/>

February 24, 2011

The Trustees
IFRS Foundation
1st Floor, 30 Cannon Street
London EC4M 6XH
United Kingdom

**Comments from JICPA on Paper for Public Consultation:
*Status of trustees' strategy review***

Dear Trustees:

We at the Japanese Institute of Certified Public Accountants (JICPA) are pleased to comment on the International Financial Reporting Standards Foundation (IFRS Foundation) paper for public consultation: *Status of trustees' strategy review*.

The G20 Summit, held in November 2010 in Seoul, South Korea, issued the report "Framework for Strong, Sustainable and Balanced Growth," re-emphasizing the importance of the achievement of a single set of improved high-quality global accounting standards. We hope that the strategy review, at this time, would lead to further meaningful discussions.

The IFRS Foundation undertook a review of its Constitution in 2009, and finalized it in 2010. It has recently implemented initiatives to enhance the transparency of its activities, including full public disclosure of its meetings, and the publication of reports on the progress of its efforts to enhance the effectiveness of the monitoring function. We highly appreciate these efforts.

We hope for the development and application of a single set of high-quality, understandable, enforceable, and globally accepted financial reporting standards, in order for all listed companies in the world to prepare high-quality, transparent, and comparative financial statements. We strongly advocate the purposes set by the IFRS Foundation and the International Accounting Standards Board (IASB). In this respect, we acknowledge that it will inevitably be necessary to ensure that individual countries apply these standards, and develop these into practices, in a consistent manner.

We also encourage the IFRS Foundation to develop the strategies with consideration of the comment to “Consultative Report on the review of the IFRS Foundation’s Governance” released by the Monitoring Board on February 7, 2011, and currently open for public comment. With these points in mind, we make the following comments, in response to the questions raised.

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

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?

The current objective should not be subject to revision.

1-1 We believe that the current objective, to provide “high quality, transparent and comparable information in financial statements...” to help investors and other participants in the world’s capital markets make economic decisions, should be maintained. In addition, the IASB should place priority, for a while, on the development of IFRSs for international listed companies. On the other hand, it might be worthwhile to consider, as appropriate, the possibility for future development of accounting standards for non-listed companies and not-for-profit entities.

1-2 IASB should set as the ultimate goal to have the IFRSs adopted worldwide as a single set of accounting standards, or converged as identical standard, and should develop IFRSs after careful consideration whether these are operational in practice, in order to ensure consistent application of the standards across the world.

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?

Accounting standards should not be influenced by immediate economic conditions. Rather, transparent financial statements that faithfully reflect an entity’s financial position, prepared in accordance with appropriate accounting standards help proper decision-making in public policy. Financial crisis wasn’t triggered by the accounting standards. To achieve the objectives of the current Constitution, we believe that the process for setting the accounting standards should be kept strictly independent from public policy objectives.

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

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?

We believe that it is not necessary, for the time being, to change the three functional tiers, as described above.

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 public authorities?).

4-1 The role of the Monitoring Board is defined, and provides a formal link between the Trustees and public authorities. While it is not necessary to have direct links between the IFRS Foundation Trustees and individual public authorities, in order to improve the effectiveness of the role, we believe that specific steps should be articulated as to the operational aspects.

4-2 The Trustees have taken steps in the past to reinforce the oversight process and public accountability. However, we note that there are many concerns at a global level about operational effectiveness, such as ensuring the due process of the IASB. We believe that the Trustees need to define a more specific method to assess the due process of the IASB.

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?

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 the IASB work programme?

5-1 For the prioritization of the agenda-setting process, sufficient hearings and consultations with the constituents should be conducted in advance, and reasons for the proposed prioritization should be disclosed.

5-2 The IASB conducts field visits, outreach activities, public hearings, round-table meetings, and impact analyses, before issuing final standards. We believe, however, that it will be necessary to enhance the assessment of the impact of the application of the IFRS before the issuance of exposure drafts or final standards. We also believe that a post implementation review should be conducted to determine whether the IFRS is applied appropriately; and that there is an appropriate process to incorporate the results of the assessment. (A process is mentioned in "How we consult," but there is no description of how it is actually done.) A transparent and specific methodology should be developed for the post-implementation review.

5-3 In our opinion, it will be necessary to deal more adequately with concerns about the verifiability of estimates, etc., from an auditing perspective (e.g., to hold more meetings with auditors).

5-4 Please see the Appendix (below) for items to be considered regarding the process of agenda-setting, the consultations, and post-implementation review.

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?

6-1 We support principle-based approach of IFRSs. However, difficulties are anticipated in applying consistently the current IFRSs to all listed companies in Japan.

To ensure consistent application of IFRSs in practice, the IASB should consider enhancing the application guidance, implementation guidance, and illustrative examples, as well as the IFRIC Interpretations. It may also be effective to issue certain documents to promote a further understanding of the IFRSs. The roles of the local standard-setters across the world might also be re-considered through this process.

6-2 Divergence from country to country may emerge if there are differences in the basis for the presentations and the disclosures reflected in the XBRL IFRS taxonomy in each countries. In light of this, we believe that it will be useful IASB to monitor the development of XBRL taxonomies in each country to ensure consistent application of the IFRS's in practice.

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

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

7-1 Japan has contributed funds to the organization on a pay-as-you-go basis. While more than 100 countries have adopted IFRSs, many of those countries have not provided financial contributions. We do not think that it is appropriate for a standard-setter of global accounting standards to receive most of its funding from only a small number of countries.

7-2 Firstly, each country, applying IFRS should specify who, within its nation, is responsible for providing the funds (e.g., a regulatory body, standard-setter, etc.).

Secondly, to require IFRS applicants to contribute on a Pay-As-You-Go basis, each country should consider its system. An example may be a commitment where IFRS applicants are publicly identified and are required to make financial contributions on a Pay-As-You-Go basis based on pre-defined formula.

7-3 Thirdly, to promote funding from users, the Trustees should consider disclosing the funding contributions and overall situation via websites, etc.

7-4 Although it is critical to secure sufficient funding, there should be sufficient consideration, to avoid any circumstances which may lead to the impairment of independence in accounting standard-setting.

【Appendix】

8-1 We understand that some of the issues included in agendas may require limited modifications, based on legal system in certain jurisdictions. To ensure high quality of the standards, we believe that explanation should be given as to why it is appropriate, for international accounting standards, to reflect those limited modifications.

8-2 While IFRSs may be viewed as general standards, there are some standards, such as IFRS 4 Insurance Contracts, that relate closely to specific industries, so far. In developing these standards, the IASB consults with a wide range of technical experts from specific industries, such as insurance, etc.

We are concerned, however, that these hearings may not have been sufficiently conducted in terms of interested parties, other than specified industries. Those standards may also have impact on entities other than in the specific industries in question. Therefore, we believe that such hearings should include the participation of a wider range of industries, with explanations of possible business implications of such standards.

8-3 Disclosure is an important part of financial statements, and its objective is to provide information useful to users of financial statements in making economic decisions. We acknowledge and support the enhancement of disclosure requirements. However, there may be some items within the current or proposed disclosure that are too complex or excessive. Therefore, we believe that overall disclosure burden should be reviewed in conjunction with the development of requirements for new disclosures. We believe that when reviewing disclosure, this should be determined carefully, comparing and evaluating the benefits of the information disclosed and the related total costs arising from the disclosure, including costs and/or workload to be incurred by preparers and auditors; to ensure that too complex and/or excessive disclosure will not be required.

We hope that you will find our comments of assistance in developing your strategy for the next decade.

Yours truly,



Shozo Yamazaki

Chairman and President

The Japanese Institute of Certified Public Accountants