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Topic	<b>Summary of the Monitoring Board and Trustee reviews discussions at the June 2011 Advisory Council meeting</b>
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## Overview

1. During the June 2011 meeting of the IFRS Advisory Council, Makoto Sonoda, on behalf of the Monitoring Board, and Robert Glauber, on behalf of the IFRS Foundation Trustees, provided an update on the status of the reviews that they are conducting.

### *Monitoring Board's governance review*

2. Makoto Sonoda on behalf of the Monitoring Board (MB):
  - (a) The MB published a report on its Governance Review on 7 February, which was open for public comment until 8 April. During the comment period, they held four round tables. During the public comment period, the MB received 80 comment letters. The MB's Working Group will meet in Brussels next week.
  - (b) Comment overview:
    - (i) Generally, most basic comments were on the relationship between the Trustees and the MB.
    - (ii) The MB and the Trustees issued a joint statement in which they said that a joint package with recommendations for improvement will not be issued until the end of August..
  - (c) General overview of comments:

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This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council of the IASB.

The views expressed in this paper are those of the authors.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretation Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

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- (i) Question 2—many of the respondents agreed with separating the Chair and the CEO of the IASB (some pointed out that the title of CEO should be changed because it is misleading).
  - (ii) Question 6—regarding composition of the MB. Should membership of the current MB be expanded? Should they remain a mix of permanent members primarily from major emerging markets? Many of the respondents supported expanding the membership, particularly for broader geographical representation. Many respondents supported using objective criteria for selecting members. A large majority of respondents did not support expanding membership to prudential regulators, but some strongly supported engaging with prudential regulators.
  - (iii) Question 11—what do you think the involvement of the MB in agenda-setting should be? Many commentators did not support the expansion of the MB’s involvement into the agenda-setting of the IASB beyond what is already permitted.
  - (iv) Question 13—do you think that the MB should have a larger involvement in the selection of the IASB Chair? Strong objections; commentators do not believe that the MB should have an expanded prominent role in the process of selecting the Chair. Selecting the IASB Chair should be the responsibility of the Trustees.
3. A Council member asked if there was an indication of how strong the feeling was by giving numbers, because it is difficult to get a handle on how strong the responses were. Mr Sonoda said that it is very difficult to separate comments into agreement or disagreement, because some responses were not very clear. On question 2, about 60 respondents strongly or partially agreed with the proposal. On question 11 it was difficult to differentiate, but there were fewer than 10 commentators who agreed.
4. A member commented that the intention to work jointly with the Trustees is a critical step in the right direction. He also asked whether the comments would be made public, which they are. The MB is also preparing to publish a feedback

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statement. Finally he asked whether the MB and the Trustees are independent from each other. He thought that they crossed paths and had decided to have some sort of cross-coordination. Mr Sonoda responded that all comments are open on the MB's website and the MB and the Trustees are working closely together. Under the current three-tier structure, the Trustees should monitor the standard-setter (the IASB), and the Trustees are monitored by the MB. Consequently, basically the MB does not have direct involvement with the IASB.

5. Another member said that a Memorandum of Understanding governs the relationship between the MB and the IFRS foundation. Any changes in this will have to be worked out between the IASB and the MB.

***Trustee strategy review***

6. Robert Glauber, Samuel A. DiPiazza and Harvey Goldschmid represented the Trustees at the meeting. Mr Glauber gave an update on the strategy review in which the Trustees are currently engaged. Part of that is outreach, which involved round tables around the world. This meeting is a great opportunity to present to a multi-perspective group. He will therefore frame the issues before the Council goes into break-out sessions.
7. At present, more than 120 countries permit or require IFRSs. In the future, more are to follow. This year is crucial—the year in which we will move to the end of the convergence with the US. It is the year during which the US will decide whether and how they will adopt IFRSs. China, India, and Japan are looking at what the US does.
8. Why has the IASB had so much success? This is due to the people involved and to the fact that they have produced high quality standards. We all see the value of the independent accounting standard-setter.
9. We live in a world of inter-connected capital markets. Progress on US convergence has contributed meaningfully to the development of high quality standards.

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10. Challenges:
  - (a) a number of countries that have not adopted;
  - (b) inconsistency of implementation in various jurisdictions;
  - (c) IFRS needs to be adopted consistently;
  - (d) continuing the process of enhancing our governance and oversight structure; and
  - (e) the need to be sensitive to effective oversight and responsibilities.
11. Goals for the review:
  - (a) Consolidate gains we have made over next few years.
  - (b) Plan for second decade.
  - (c) We are working closely with Monitoring Board in our review.
12. What is in our paper?
  - (a) Mission:
    - (i) The primary purpose is to serve investors and other market participants.
    - (ii) Adoption in some form, by some mechanism, in all countries is our end goal—convergence is a useful step towards adoption.
  - (b) Governance structure
    - (i) The standard-setting process is independent and public.
    - (ii) We have a three-tier structure, which most commentators believe works well.
  - (c) Process:
    - (i) Steps to enhance the oversight role and due process of the IASB.
    - (ii) Have a due process committee of Trustees.
  - (d) How we are financed:

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- (i) The finance system needs to provide resources but also needs to keep the IASB's independence.
  - (ii) We need flexibility in financing mechanisms.
13. Mr DiPiazza said that the real hard work is what you do in the second decade to get these standards adopted throughout the world. Doing this strategy review has helped us be very explicit in what we are going to do. What has to be done is to improve the processes.
14. Mr Goldschmid said that this is our chance to bring it home. Hearing from the Council about the strategy review will be very interesting.
15. A Council member commented that the break-out groups should also consider the Monitoring Board review.
16. The Council was split into four small groups. The Council later reconvened and the leaders of the groups reported back on their group's discussions.

**Report back**

17. The results of the break-out groups were reported back in a full Council session. The main messages from the break-out groups were as follows.

*Group 1*

18. Sei-Ichi Kaneko reported back on the discussions. He said that the group agreed that transparency is the goal of our mission. However, views were divided regarding the definition of 'investors' in standard-setting: equity investors or lenders, long-term investors vs. short-term investors. A recommendation is to define the investors better. The Monitoring Board should not have a say in the day-to-day running of the IASB. Some group members said that the appointment of the IASB Chair should be an exception. The group agreed that the Monitoring Board should have to approve the appointment of the Chair. One view was that the both the Monitoring Board and the Trustees should vote on the Chair. The view was also expressed that there should be more formal

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inclusion of the Monitoring Board in the selection of the Chair. The group thinks that it should be increased in size; an increase to 11 members would be appropriate. The Monitoring Board should be composed of both former members and emerging market members. The group disagreed with this arrangement, with some believing that members should be selected based on the size of the capital market that they represent.

19. The group agreed that the Trustees should have more active involvement in oversight. To get involved, Trustees must understand the issues and what is being discussed. To do so, they should seek help from IASB staff.
20. The group also agreed that advances in research are necessary to select agenda items. Opinions divided on how to do this because of costs and the time factor.
21. The group suggests that all jurisdictions using IFRSs should contribute financially to the process.

*Group 2*

22. Kenneth Sullivan presented the results of the group's discussions. On governance, the group discussed the role of Monitoring Board towards the G20. The group sees the G20 as an important form of governance, but not as a substitute for the governance function. The role of the Monitoring Board was discussed. It requires a more active engagement role.
23. Scope of strategic review—the strategic review by the Trustees is not ambitious enough. The Trustees need to take an overall look and they need to advance their status in the emerging world.
24. The group also discussed the issue of publishing dissenting views of IASB members.
25. Review of application and implementation—application and implementation is part of the securities regulators' job. The issue is to what degree does adoption of IFRSs as a framework take place—there is also an issue in protecting the IFRS brand. There is a need for a strong conceptual framework. The IASB should try to prepare an IFRS compliance register by each nation that is

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adopting. Then the IASB can agree that a country that claims to have adopted IFRSs has indeed adopted. There are issues about how to become aware of the level of compliance and of how to monitor it. What is the process if you find non-compliance with IFRSs?

26. Financing—taxing investors. Getting revenue from the publication of education material. There was recognition of the IASB for trying to optimise finance received through education material, which should be supported.
27. The group also arrived at the position that it really supports the IASB's desire to have a broad-based model for financing, where the base is wide enough that there is no dominant contributor. Funding is currently on a GDP basis, which is a good starting point. The group thinks that no single country should have a dominant power—the end goal is getting a broad base of funding from many contributors.

*Group 3*

28. Gerben Everts reported on behalf of the group. Do we need to refer to stability in the mission? The group thinks so. However, this should not allow regulators to intervene in the standard-setting process. Prudential regulation is important and transparency is essential. Instead of the word 'all' in front of users, the group want to use 'these'. An extension of the scope with reference to users would be useful.
29. Governance—a possible suggestion would be to separate the staff and management responsibilities within the IASB. The IASB has a responsibility to ensure the independence of the whole organisation. With or without the Monitoring Board? It would make a difference; we need the system of checks and balances.
30. Process—the due process oversight committee is very important. Diversity of views is good. It should be a proactive approach that reaches out to all types of constituents. If part-time IASB membership would be an option, this is already being done by other standard-setters.

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31. Other issues that the groups discussed. How far through the value chain should you go through for the Trustees? We need to have a more common stance on what the post-implementation review is. How to limit the workload of the Board?

*Group 4*

32. Patrice Marteau reported for the group. On finance—whatever the channel to get money, at the end, the companies using IFRSs should pay. The accounting standards are of high quality and it is expected that companies should pay for that. Trustees need a transition period before implementing the system—it is complex and applies to a wide group of countries. The countries need time to take in the process. It is a good idea to base the levy on GDP. It should not be limited to the countries using IFRSs today. The group recommends remaining flexible on the choice made by the country; it depends largely on the organisations in each country. Recommendations for financing: when the group thought about companies, it was thinking of listed companies. Private companies should also be thought about. Accounting provides information to users and investors—we were especially thinking about some investment companies.
33. Process. When thinking about the agenda-setting process—there was a call for a larger role for the Trustees in this process. The group welcomes the due process oversight committee and stresses the importance of this committee. The Council wants a more active role in due process oversight. Quality of implementation is very important, because the IASB has to market the system to companies. There is a need to demonstrate the importance of quality.
34. XBRL. There is need to be careful—it is a delivery system. Need to revisit this issue.
35. Governance. The group is happy with three-tier system. There is a need for clarification of the responsibilities of each group to ensure that there is no confusion.



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36. Mission. The way the mission has been defined is well balanced. The main sentence in paragraph A1 of the Trustee report needs to be reinforced. Convergence is not a substitute for adoption and this needs to be reiterated in the review.

*General discussions*

37. Mr Glauber said that there is a benefit in having small groups discuss these issues.
38. Vice-Chair Charles Macek said that something that came out in all the groups is how important independence is for maintaining the integrity of whole organisation. Another issue that also came out is reinforcing the transparency of the organisation.
39. The Chair, Paul Cherry, said that by and large the Council seems very supportive of the overall position of the Trustees. The groups supported the mission of focusing on investors. Some of the groups say that it could be clearer what you mean by investors. On governance—no one disagreed with the approach taken and one group said that having the Monitoring Board added value. In terms of process, he sensed that the group would like to have more active involvement of the Trustees in the organisation. In terms of financing, not much new information—the goal is the broad-based technique. There needs to be flexibility.
40. Mr DiPiazza said that there had been some discussion in his group on whether the areas of discussion may have been an overreach. Some people thought that it had been an overreach when the Monitoring Board had asked whether their involvement should be increased. This is a strategy review, so everything should be on the table. The idea was to see whether financing could be looked at in a completely different way. He was not offended that these questions were asked. This was a very constructive process and was simply raising the question of what our mission is, and what our public interest is. The group came to the conclusion that investors are our key target and that this answer would not have come about if the question had not been raised.

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41. A Council member commented that one topic was whether or not the regulators should be involved in the process of standard-setting. One of his group members was interested in having that happen, because regulators are interested in transparency of the financial information as well. If we defined the investors in the mission, then it could be argued that the regulators should have a seat at the Board.
42. Another member commented that he would also be careful about the XBRL issue.
43. This view on the XBRL issue was echoed by another member. One of the features of the Trustee report that were viewed as very positive was that it was going towards more checks and balances. He said that investors need to be defined. He thinks that in many paragraphs of the report, you have many positive things that you can build on in the future.
44. Mr DiPiazza said that he meant investors as a more of a primary group, not at all to the exclusion of others. He thought that it was right that there should be many different stakeholders. He thought that the Trustee report should be read in the way that it was written, and it was written very carefully. Furthermore, the Trustees stand by what they wrote.
45. A member said that we need to be careful about securities regulators having the last word on things. They do not technically represent all regulators. In this environment, there is no single regulator that can raise its hand and say that it has this covered.
46. A member commented on also opening up the MB to prudential regulators. The MB should be the real area for the capital markets authorities. You should draw the line for potential members somewhere. If you open it up, you will have a long queue.
47. Another member asked what exactly is the public interest. What he thought was very important was that the IASB needs to work with regulators, national standard-setters and so on. Maybe the process is more important than the actual wording.

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48. Vice-Chair Mr Macek said that if you read the critical sentence A1 in the Trustee report, the very end of that sentence is to help resource allocation. It is the absence of information on leverage that raises problems with gearing. That sentence is broad to include other stakeholders.
49. The Chair thanked the Trustees and the Monitoring Board for giving the Council the opportunity to discuss the reviews. He thought that there was acknowledgement that the Trustees and the Monitoring Board have tried hard. The Council will be very careful about scope creep and is willing and ready to work with the Monitoring Board.