

30 March 2011

Mr Steve Ong  
Director  
Hong Kong Institute of Certified Public Accountants  
37/F Wu Chung House  
213 Queen's Road East  
Hong Kong

By E-mail: [commentletters@hki CPA.org.hk](mailto:commentletters@hki CPA.org.hk)

**CPA Australia Ltd**  
ABN 64 008 392 452

**Greater China**  
20/F Tai Yau Building  
181 Johnston Road  
Wanchai  
Hong Kong


**Phone** +852 2891 3312

**Fax** +852 2832 9167

**Email** [hk@cpaaustralia.com.au](mailto:hk@cpaaustralia.com.au)

**Website** [cpaaustralia.com.au](http://cpaaustralia.com.au)

RECEIVED  
30 MAR 2011

BY: 

Dear Mr Ong

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

Thank you for the opportunity to comment on the Monitoring Board's Consultative Report on the Review of the IFRS Foundation's Governance (the Report). CPA Australia has considered the Report and our comments follow.

CPA Australia is one of the world's largest accounting bodies and represents the diverse interest of more than 132,000 members in finance, accounting and business in 111 countries throughout the world. Our vision is to make CPA Australia the global professional accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

#### **General comments**

CPA Australia notes that the Report does not propose a revamp of the three-tiered governance structure, but instead proposes improvements. Our recent submission to the Trustees of the IFRS Foundation Strategy Review included our strong encouragement to the Trustees to examine the current governance structure with particular reference to the governance structures that were put in place as part of the International Federation of Accountants (IFAC) Reforms of November 2003. We encourage the Monitoring Board and the Trustees to look at this together as part of a longer term plan. In the meantime we acknowledge that some commentators might believe there is a need for some short term reforms and a need to finalise such reforms by early Quarter 3 2011. We are disappointed that the short term plans of the Monitoring Board and the Trustees' proposals could not be exposed in a single document and we would strongly encourage both to work together in the future. Nevertheless, we accept the need for the Monitoring Board to reach decisions on its proposals. At the same time, the Monitoring Board will need to be cognisant of the decisions from the Trustees Strategy Review.

Our response to matters on which specific comment is requested is included in the attached Appendix A. Our earlier response to the Trustees of the IFRS Foundation Strategy Review is the attached Appendix B.

If you have any questions regarding this submission, please do not hesitate to contact Mark Shying (CPA Australia) at [mark.shying@cpaaustralia.com.au](mailto:mark.shying@cpaaustralia.com.au) or Deborah Leung (CPA Australia) at [deborah.leung@cpaaustralia.com.au](mailto:deborah.leung@cpaaustralia.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Deborah Leung'. The signature is fluid and cursive, with a large initial 'D' and a long horizontal stroke at the end.

Deborah Leung FCPA (Aust.)  
General Manager – Greater China  
CPA Australia

## Appendix A Response to Questions for Consideration

### 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.**

CPA Australia agrees with the proposal so long as the proposal is focused on building the best standard-setting board by deepening the pool of technically qualified candidates from diverse geographical and professional backgrounds. .

### 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.**

CPA Australia does not agree with the proposal. We are not aware of any issues that demonstrate there is in fact a lack of independence and proper governance of the IASB.

### 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.**

CPA Australia is not aware of any problems arising from the current structure that would require a changed approach to the division of responsibility.

### Question 4:

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

CPA Australia does not envisage that the duties of the Trustees extend to financing (see our response to Question 12 below). We agree with the Report that a diversity of membership of the Trustees that consistently reflects changes and developments surrounding stakeholders would form a basis for objectivity and impartiality in the decision-making process. However, to be effective we believe that the number of Trustees should be of a number that is large enough only to ensure appointment of those with sufficient expertise and representation from capital market authorities. Further, we strongly encourage membership of be majority weighted to current IFRS adopters or those committed to adoption of IFRS in the short to medium term, given the experience that adopting and implementing IFRS brings.

### Question 5:

- i. **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?**
- ii. **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.**



CPA Australia agrees that greater transparency in processes is consistent with enabling an increase in confidence that the activities of the IFRS Foundation and its standard setting operations and where relevant its support operations are properly responsive to the public interest. We believe that having the Monitoring Board responsible for the appointment of the Trustees increases the confidence of stakeholders.

**Question 6:**

- i. **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?**
- ii. **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?**
- iii. **Do you agree that rotating members should be selected through IOSCO? Please provide reasons for your agreement/disagreement.**

CPA Australia believes that membership of the Monitoring Board should continue to be confined to relevant capital markets authorities and that would include the authorities from the three largest capital markets. We believe it is always appropriate to have the Emerging Markets and Technical Committees of International Organization of Securities Commission (IOSCO) as permanent members and that the extending of membership to the Financial Services Agency of Japan and the US Securities and Exchange Commission is appropriate now. However, we do not agree with the appointment of the European Commission to a permanent position as the EC is not a capital markets authority. Its position would go to the other major capital markets authority. Further, we call on IOSCO to develop a platform for selecting the members subject to rotation and the optimum number. We believe that the size of the Monitoring Board should be no more than ten members, and to be majority weighted to members from countries that are IFRS adopters or are committed to adoption of IFRS in the short to medium term to ensure appointment of those who will enable the Monitoring Board to meet its primary purpose of serving as a mechanism for formal interaction between capital markets authorities and the IFRS Foundation.

**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.**

As we envisage a Monitoring Board with a membership of up to ten, CPA Australia supports the replacement of the current voting requirements with the requirement for a super majority.

**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?**

CPA Australia supports the participation in the activities of Monitoring Board as an observer of the Basel Committee on Banking Supervision and we suggest that observer participation could be extended to include others (e.g., International Association of Insurance Supervisors, The World Bank, and/or The Financial Stability Forum). However, we do not support their inclusion as Members.

We acknowledge that the perspectives of financial reporting, prudential reporting and other forms of reporting focused on financial stability share some common features and that the work of the IASB on financial instruments, fair value measurement, derecognition and consolidation is in part responsive to that. However, we do not support further reconciliation of the different perspectives. We consider that regulations dealing with prudential reporting and financial stability (including the imposition of minimum capital requirements) for banks and similar organisations while relevant to regulation of certain sectors of the economy should not distract from the objectives of financial reporting. For these reasons, we do believe observer participation appropriate.

**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.**

CPA Australia believes that the recent outreach activities of the IASB, in the area of hedging in particular, should be commended for improving the opportunities for involvement of a broader range of stakeholders and should set the bar for future projects. Outreach was seen to take place all the way through the process, and not just when an Exposure Draft was issued. Further, we have seen an increase in the use of field testing, particularly in relation to the insurance project. We encourage a continuation of global outreach activities and field testing for all major projects as a way of adequately involving stakeholders.

**Question 10:**

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

CPA Australia is supportive of the introduction of measures that will bring about greater transparency in processes and the examples contained in the Report appear appropriate.

**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.**

CPA Australia agrees with the Report's statement "...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 consider the terms of Article III.9.B of the Memorandum of Understanding provide an appropriate mechanism for the promotion



of independence of the standard setter as it gives the Monitoring Board the right to suggest that a particular project be taken up by the IASB, but not the right to require action. Therefore, we do not support any change to this approach.

**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?**

CPA Australia agrees with the Report that securing a stable and independent funding model is highly important as we consider that the current funding structure of the IASB is not appropriate. Some form of government funding on a global basis should be developed. We consider that governments should commit to a minimum funding period (say three years) in order to provide some certainty over funding. One would expect that if a country adopts IFRS (or bases their standards on IFRS) the governments or the relevant organisation that set accounting standards would be responsible to pay for the development of these standards.

**Question 13:**

- i. **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.**
- ii. **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.**

CPA Australia does not think it necessary to expand the role of the Monitoring Board to include approval of the final candidate for the IASB Chair. We are not aware of any problems arising from the current approach that would require a change and we are concerned that expanding the role of the Monitoring Board in this way could appear to infringe upon independence and erode public confidence in the standard-setting body and the Trustees.

**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.**

CPA Australia supports the Monitoring Board proposal that its responsibilities explicitly include consultation with the Trustees as they further develop the framework to deepen the pool of technically qualified candidates from diverse geographical and professional backgrounds and thereby ensure proper balance in the composition of the IASB.

**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.**

CPA Australia encourages the Monitoring Board to explore the possibility of the creation of a shared permanent secretariat to service the Monitoring Board and the Trustees.

**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.**

Yes, CPA Australia agrees that there is a need for regular reviews and that the interval of five years would be appropriate. However, as stated in our letter we encourage the Monitoring Board and the Trustees to undertake a longer term review of the governance structure with particular reference to the governance structure put in place as part of the IFAC reforms of November 2003.

**Question 17:**

**Do you have any other comments?**

CPA Australia believes that there may be possible synergies from merging the Monitoring Board and the Monitoring Group (a group that is part of the IFAC governance structure and consists of regulator bodies and related organisations committed to advancing the public interest in areas related to international audit quality). We encourage the Monitoring Board and the Trustees to explore this possibility as part of a longer-term plan.



## Appendix B Response to the Trustees of the IFRS Foundation Strategy Review

22 February 2011

Robert Glauber  
Vice Chairman  
IFRS Foundation  
30 Canon Street  
London EC4M 6XH  
United Kingdom

Submission via IFRS Foundation website

Dear Mr Glauber

### Consultation Document: Strategy Review

Thank you for the opportunity to comment on the IFRS Foundation Consultation Document: Strategy Review (Review). CPA Australia, The Institute of Chartered Accountants (the Institute) and the National Institute of Accountants (NIA), (the Australian CPA Australia) have jointly considered the above Review and our comments follow.

The CPA Australia represent over 190,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government, academia throughout Australia and internationally.

### General comments

We support the Strategy Review process and would encourage the revision of the objective of the Constitution to better align it with the objective of general purpose financial reporting as articulated by the international Accounting Standards Board and the Financial Accounting Standards Board. Further, we would encourage an examination of the current three-tier governance structure with particular reference to the governance structure used by the International Federation of Accountants through its Monitoring Group and the Public Interest Oversight Board.

Our response to matters on which specific comment is requested is included in the attached Appendix.

Representatives of the Australian Accounting Profession



[cpaaustralia.com.au](http://cpaaustralia.com.au)



The Institute of  
Chartered Accountants  
in Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)

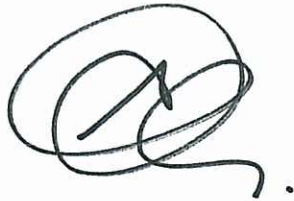


[nia.org.au](http://nia.org.au)



If you have any questions regarding this submission, please do not hesitate to contact Mark Shying (CPA Australia) at [mark.shying@cpaaustralia.com.au](mailto:mark.shying@cpaaustralia.com.au), Kerry Hicks (the Institute) at [kerry.hicks@charteredaccountants.com.au](mailto:kerry.hicks@charteredaccountants.com.au) or Tom Ravlic (NIA) at [tom.ravlic@nia.org.au](mailto:tom.ravlic@nia.org.au).

Yours sincerely



**Alex Malley**  
Chief Executive Officer  
CPA Australia Ltd



**Graham Meyer**  
Chief Executive Officer  
Institute of Chartered  
Accountants in Australia

**Andrew Conway**  
Chief Executive Officer  
National Institute of  
Accountants

Representatives of the Australian Accounting Profession



[cpaaustralia.com.au](http://cpaaustralia.com.au)



The Institute of  
Chartered Accountants  
in Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)



[nia.org.au](http://nia.org.au)

***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 objective of the Constitution should be revised to better align it with the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) Conceptual Framework for Financial Reporting *Chapter 1 The Objective of General Purpose Financial Reporting*<sup>1</sup> The Chapter 1 objective has as its focus a primary user group – existing and potential investors, lenders, and other creditors which would include employees, suppliers, other trade creditors, and the advisers of investors. It states that while other parties such as regulators and members of the public other than investors, lenders and other creditors (e.g., customers) and governments also may find general purpose financial reports useful, those reports are not primarily directed to these other groups. Further, it is focused on financial information rather than financial statements, which in our view is an important distinction due to the increasing use of XBRL around the world.

Specifically, paragraph OB2 of the revised Chapter 1 says:

“The objective of general purpose financial reporting\* is to provide

---

<sup>1</sup> The IASB and FASB intend to examine the application of their Framework to Not-for-profit entities (Phase G). Prior to any revision to the Constitution we believe it appropriate that the Trustees ascertain the IASB and FASB timeline for finalisation of Phase G.

**Representatives of the Australian Accounting Profession**



[cpaaustralia.com.au](http://cpaaustralia.com.au)



The Institute of  
Chartered Accountants  
in Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)



[nia.org.au](http://nia.org.au)



financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.”

**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?**

The CPA Australia acknowledge that the perspectives of financial reporting and financial stability share some common features and that the work of the IASB on financial instruments, fair value measurement, derecognition and consolidation is in part responsive to that. However, we do not support further reconciliation of the two perspectives. While gaining an understanding of the common features is useful, we believe it important to understand the differences.

We understand financial stability as the environment in which financial intermediaries, markets and market infrastructure facilitate the smooth flow of funds between savers and investors and, by doing so, help promote growth in economic activity (Reserve Bank of Australia 2011 *About Financial Stability*). In contrast, Chapter 1 of the IASB and FASB Conceptual Framework for Financial Reporting states the objective of financial reporting, as noted in Question 1. Further, it is noted in OB10 that:

“Other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups.”

**Representatives of the Australian Accounting Profession**



[cpaaustralia.com.au](http://cpaaustralia.com.au)



The Institute of  
Chartered Accountants  
in Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)



[nia.org.au](http://nia.org.au)



It is important to keep in mind that general purpose financial reports do not provide all of the information and those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks. Further, general purpose financial reports are not designed to show the value of a reporting entity, but they do provide information that the primary users might use to estimate the value.

Therefore, we consider that regulations dealing with financial stability (imposing minimum capital requirements) for banks and similar organisations while relevant to prudential regulation should not distract from the objectives of financial reporting

***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?**

The CPA Australia believe it appropriate that the current three-tier structure be reviewed for possible improvement. While we believe it appropriate to have the Emerging Markets and Technical Committees of International Organization of Securities Commission (IOSCO) as members we do not think it is necessarily appropriate that membership always is extended to the Financial Services Agency of Japan and the US Securities and Exchange Commission. We support the participation in the Monitoring Board as an observer of the Basel Committee on Banking Supervision and we suggest that observer participation could be extended to include others (e.g., International Association of Insurance Supervisors, The World Bank and/or The Financial Stability Forum).

**Representatives of the Australian Accounting Profession**



[cpaaustralia.com.au](http://cpaaustralia.com.au)



The Institute of  
Chartered Accountants  
in Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)



[nia.org.au](http://nia.org.au)



We strongly encourage membership of each tier in the governance structure to be majority weighted to current IFRS adopters or those committed to adoption of IFRS in the short to medium term, given the experience that adopting and implementing IFRS brings. This may assist in the area of 'political endorsement' of the arrangements.

We note that the governance structure used by International Federation of Accountants (IFAC) includes the Public Interest Oversight Board (PIOB). The work of the PIOB includes to:

- review and approve the terms of references of the standards boards that it oversees, their respective Consultative Advisory Groups (CAG) and the Compliance Advisory Panel (CAP);
- evaluate the standard-setting Boards' due processes;
- oversee the work of and approve the nominations of the Nominating Committee to the standard-setting Boards, the CAGs and the CAP; and
- suggest projects to be added to the Board's work program.

Further, the IFAC Monitoring Group (a group that is similar to the IFRS Monitoring Board) has the role of selecting PIOB members and a review function associated with the PIOB budget and provides a forum for which its members could monitor the PIOB's oversight work.

The CPA Australia would strongly encourage an examination of the current three-tier governance structure with particular reference to the governance structure used by IFAC as described above.

## Representatives of the Australian Accounting Profession



[cpaaustralia.com.au](http://cpaaustralia.com.au)



The Institute of  
Chartered Accountants  
in Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)



[nia.org.au](http://nia.org.au)



**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)?**

See our response to Question 3 above.

*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?**

Independence is a desirable feature of standard setting. We see no reason why the agenda setting process should not be open to formal public discussion/consultation.

Recent outreach activities, in the area of hedging in particular, should be commended and should set the bar for future projects. Outreach was seen to take place all the way through the process, and not just when an ED was issued. Further, we have seen an increase in the use of field testing, particularly in relation to the insurance project. We encourage a continuation of global outreach activities and field testing for all major projects.

**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?**

**Representatives of the Australian Accounting Profession**



[cpaaustralia.com.au](http://cpaaustralia.com.au)



The Institute of  
Chartered Accountants  
in Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)



[nia.org.au](http://nia.org.au)



The CPA Australia agree that consistent application and implementation presents a challenge. We also note that with principles-based standards there may be more than one way by which a transaction can be accounted for. We understand that some regulators do not like this outcome. We think it important that the IASB when making a standard or reviewing a standard is as cognisant as possible as the ways in which the standard will be applied. This should include consideration of whether the standard as proposed leads to reliable measures that can be properly audited by an auditor with the relevant audit skills and industry knowledge.. However, we would not like to see this result in a departure from principles-based standard setting.

There will be times when it is appropriate for the IASB to develop more guidance on a range of matters in order to ensure consistency when this is appropriate. This will be called for by constituents typically during due process for a particular proposal. Therefore, it may not be necessary for this type of reference to be included in a constitutional document.

## Representatives of the Australian Accounting Profession



[cpaaustralia.com.au](http://cpaaustralia.com.au)



The Institute of  
Chartered Accountants  
in Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)



[nia.org.au](http://nia.org.au)

***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?**

We consider that the current funding structure of the IASB is not appropriate. Some form of government funding on a global basis should be developed. We consider that governments should commit to a minimum funding period (say three years) in order to provide some certainty over funding. One would expect that if a country adopts IFRS (or bases their standards on IFRS) the governments or the relevant organisation that set accounting standards would be responsible to pay for the development of these standards.

***Other issues***

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

We do not have any other issues for consideration at this time.

**Representatives of the Australian Accounting Profession**



[cpaaustralia.com.au](http://cpaaustralia.com.au)



The Institute of  
Chartered Accountants  
in Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)



[nia.org.au](http://nia.org.au)