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BY FAX (2865 6776)  
AND BY POST

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

Dear Steve,

**IFRS Foundation Monitoring Board Paper for Public Consultation – Consultative Report on the Review of the IFRS Foundation's Governance ("Consultative Report")**

I refer to your letter dated 24 February 2011 on the above to our Mr. Mark Dickens which has been passed to me for my attention.

We have completed our review of the Consultative Report and are pleased to be given the opportunity to comment on the IFRS Foundation Governance Review (the "Governance Review"). The objective of the Governance Review is to help the Monitoring Board assess whether the current IFRS Foundation's governance structure effectively promotes the Foundation's ultimate objective of a single, high quality set of global accounting standards. The Governance Review focuses on the composition and the respective responsibilities and roles of the Monitoring Board, Trustees and IASB.

The Trustees are also currently considering the IFRS Foundation's objectives and strategy and issued a separate consultative paper on "Status of Trustee's Strategy Review" (the "Strategy Review") in November 2010. We provided our comments on the Strategy Review in our letter to you dated 31 January 2011. We believe that the Governance Review and the Strategy Review should not be considered in isolation of each other. In order to achieve their objectives, we believe that the reviews should be considered together at the same time in order to identify and address all the relevant issues and concerns.

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We generally agree with most of the proposals in the Consultative Report and believe they will improve the work of the Monitoring Board. The only proposals on which we have some reservations are those concerning whether the Monitoring Board should have an explicit role to be able to directly place items on the IASB agenda and whether the Monitoring Board should have a more prominent role in selection of the IASB Chairman. We believe that the Trustees, which has a role similar to that of the board of directors of a corporation, should be responsible for these detail aspects and the views of the Monitoring Board should be made to the Trustees. The Trustees should have an obligation and be accountable to the Monitoring Board.

We understand that the purpose of establishing the Monitoring Board in January 2009 after the 2008 financial crisis was to serve as a mechanism for formal interaction between capital markets authorities and the IFRS Foundation, and to ensure that there is an appropriate level of public accountability of the IFRS Foundation. We agree with the Monitoring Board's view that the representation on the Monitoring Board should be expanded to include representatives from emerging markets. This will ensure that the IFRS Foundation considers all views and concerns of constituents that adopt or are committed to adopt its accounting standards. If the Monitoring Board's composition is expanded to over 10 members, it is possible that it will no longer be feasible for it to make decisions by consensus. It may need to move to decisions being made by an appropriate majority (e.g. a 75% majority vote) and we would support this. We also believe that the membership of the Monitoring Board should not only include securities regulators but should also include other stakeholders such as investor and corporate governance groups which would provide more direct insight into their expectations and information needs.

Based on the current structure of the IFRS Foundation (see **Appendix**) which was obtained from the IFRS Foundation website, we have concerns that the structure does not appear to provide clear lines of responsibility and accountability although this may be due to the way the structure is depicted in the diagram and the use of terms such as "inform". A structure along the lines of a corporate structure could be considered by the IFRS Foundation to clearly show the reporting lines and to delineate the separate the roles of strategy development and overall governance, production of detailed accounting standards, research and development and other ancillary administrative and support functions such as a separate Compliance and Monitoring function, as suggested in our letter to you dated 31 January 2011 on the Strategy Review, which would be to identify practical issues encountered in implementation and use of the Foundation's standards. The IFRS Foundation may also wish to consider new names to clearly reflect and describe the role of each function. For example, the current use of the terms "Board", "Committee", "Council" may not be appropriate in the longer term, especially if other functional units are added in the future.

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We believe that funding of the IFRS Foundation is critical to ensure that it has adequate resources to carry out its mission. We believe that sources of funding should be more formalized so that there is a permanent and secure source of funding. Voluntary donations should not be regarded as permanent source. We would also support the need for the establishment of a permanent secretariat for the IFRS Foundation as a whole, rather than just for the Monitoring Board.

We hope that the above comments are useful.

Yours sincerely,  
For and on behalf of  
The Stock Exchange of Hong Kong Limited



Colin Chau  
Senior Vice President  
Listing Division

CC/ESA/el  
Encl.

c.c. Mr. Mark Dickens JP – Head of Listing

# How we are structured

