Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

Sent electronically through email to FSAJ (t-nagaoka@fsa.go.jp and makoto.sonoda@fsa.go.jp)

8 April 2011

Mr. Takashi NAGAOKA
Director for International Accounting
Financial Services Agency of Japan

Mr. Makoto SONODA
Deputy Director, Corporate Accounting and Disclosure Division
Financial Services Agency of Japan

Dear Sirs,

IFRS Foundation Monitoring Board - Consultative Report on the Review of the IFRS Foundation's Governance

The Hong Kong Institute of Certified Public Accountants ("the Institute") is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned Request for Views. Our responses to the questions raised in your Request for Views are set out in the **Annex 1** for your consideration.

We appreciate the initiative of the IFRS Foundation Monitoring Board to seek views of stakeholders on whether the current governance structure effectively promotes the standard-setter's primary mission of setting high quality, globally accepted standards as set forth in the Constitution of the IFRS Foundation, and whether the standard-setter is appropriately independent yet accountable. We understand that the primary focus of the review is institutional aspects relating to governance, in particular the composition and respective responsibilities and roles of the Monitoring Board, Trustees and IASB.

In addition to this consultative report on the review of the IFRS Foundation's governance by the IFRS Foundation Monitoring Board, I understand that 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" ("Strategy Review") in November 2010. We provided our comments on the Strategy Review in our letter to the IFRS Foundation dated 24 February 2011. We believe that this 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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The salient features of our comments are:

- On candidates for IASB membership – We support widening the pool of candidates for IASB membership to include experts from diverse geographical and professional backgrounds with strong expertise in IFRS knowledge and IFRS implementation issues. We are of the view that such candidates would generally be from jurisdictions that have adopted IFRS.

- On separation of roles of the IASB Chair and the CEO of the IFRS Foundation – We agree with the proposal that the role of the IASB Chair should be separated from the CEO of the IFRS Foundation. In our view the two roles should be of equal seniority and will need to work closely together to achieve the aims and objectives of the IASB and the Trustees.

- Expansion of membership of the Monitoring Board – We support the proposal to expand the membership of the Monitoring Board and consider that membership should include representatives from both developed and emerging markets. Furthermore, we recall from the Constitution of the IFRS Foundation that the Monitoring Board will provide a formal link between the Trustees and public authorities and this relationship seeks to replicate, on an international basis, the link between accounting standard-setters and those public authorities that have generally overseen accounting standard-setters. We accordingly believe that additional members of the Monitoring Board need not necessarily be from the capital market authorities or be selected through IOSCO only, as the capital market authorities in certain jurisdictions may not be responsible for overseeing the accounting standard-setters in their jurisdictions.

- Respective roles of the Trustees and the Monitoring Board – We would recommend that the Monitoring Board and the Trustees develop a joint communication to explain the respective responsibilities of each party as there is still a lot of confusion amongst stakeholders as to the exact roles of the Monitoring Board and the Trustees. Such a communication would be an important step in enhancing understanding of their respective roles and avoiding overlap of responsibilities.

- Involvement by the Monitoring Board in the IASB's agenda-setting – Our view is that the role of the Monitoring Board in providing independent assurance over the Trustees and IASB governance and process should not be extended to being involved in setting the agenda of the IASB.

If you have any questions on our comments, please do not hesitate to contact our Steve Ong, Director of Standard Setting at ong@hkicpa.org.hk or myself.

Yours faithfully,

Chris Joy
Executive Director

Encl.

ANNEX 1

Hong Kong Institute of CPAs

Comments on IFRS Foundation Monitoring Board - Consultative Report on the Review of the IFRS Foundation's Governance

Undertake concrete efforts to improve identification of candidates to ensure IASB membership from diverse geographical and professional backgrounds in order to provide for further objectivity and impartiality of the decision-making process, while maintaining professional competence and practical experience as the primary qualifications.

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.

As the ultimate objective of the IASB is to develop high quality accounting standards, we support the proposal to widen the pool of candidates for IASB membership to include experts from diverse geographical and professional backgrounds with strong expertise in IFRS knowledge and IFRS implementation issues. We are of the view that such candidates would generally be from jurisdictions that have adopted IFRS.

Separate the roles of the IASB Chair and the CEO of the Foundation to safeguard the independence of the standard-setting process led by the IASB Chair and to avoid undue conflicts of interest as the CEO of the Foundation manages all the other aspects of the Foundation's functions, including IASB oversight.

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.

We agree with the proposal that the role of the IASB Chair should be separated from the "CEO" of the IFRS Foundation. The Chair of the IASB should lead the independent standard-setting process with the "CEO" of the IFRS managing all other aspects, including administrative affairs, of the IFRS Foundation.

In principle, we think the requisite skills for the Chair of the IASB and CEO differ significantly, where one should have strong expertise in accounting and with the other would need extensive experience in handling day-to-day operations of an organization with public interest responsibilities and numerous and demanding stakeholders. We would support the separation of roles proposed in order to facilitate the work of the Chair of the IASB in international standard-setting but do recognize that both roles will have to work closely together to ensure the objectives of the IASB and the Trustees are fully met. We would also wish to see the equivalent seniority of both posts be clearly recognized.

Consider clearer division of responsibility between staff dedicated to the IASB's operations and staff dedicated to the Foundation's administrative and oversight functions.

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.

We agree that there should be separation in the roles for the reasons provided in our response to Question 1 above even though we are not aware of any operational demarcation problems at present. The separation of roles helps to maintain clarity to the independence of the IASB, both in substance and appearance, while the Trustees can fulfill its oversight role of the IASB's standard setting. Nevertheless, we also see the need for close dialogue between the Trustees' staff and the IASB so that educational and outreach activities are coordinated.

Trustees:
Continue to review the diversity of geographical and professional background of the Trustees so as to provide for objectivity and impartiality of the decision-making process.

Question 4

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

We understand that the Trustees play a pivotal role in the oversight of the IASB, as well as in securing stability of the standard-setter's finance. We are not aware of any issue with the diversity of geographical and professional background of the Trustees that has negatively affected the objectivity and impartiality of the Trustees decision making.

Devise formal procedures and clearer criteria for the nomination of candidates and appointment of Trustees accountable to the stated objectives for the IFRS Foundation.

Question 5

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?

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.

We agree that the nomination process for Trustee membership could be make more transparent with further clarification of criteria for the Trustee' candidacy. However, we are of the view that the role of the Monitoring Board should be to perform an oversight role providing independent assurance that the processes of the Trustees and IASB are operating as designed and making recommendations to the Trustees for improvement should this be seen to be needed. Accordingly, we would not support changes that led to the Monitoring Board nominating candidates to the Trustees.

--- Based on the current structure of the IFRS Foundation (see **Annex 2**) 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 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, which would be to identify practical issues encountered in implementation and use of the Foundation's standards.

We would recommend that the Monitoring Board and the Trustees develop a joint communication on the respective responsibilities of each party as there is still a lot of confusion amongst stakeholders as to the exact roles of the Monitoring Board and the Trustees. Such a communication would be an important step in enhancing understanding of their respective roles and avoiding overlap of responsibilities.

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.

Monitoring Board:
Expand the membership to [eleven] members to include more capital markets authorities responsible for setting the form and content of financial reporting in respective jurisdictions, focusing on increased representation from major emerging markets. [Four] new members primarily from major emerging markets would be added on a permanent basis and [two] additional seats would rotate amongst authorities not permanently represented. The use of IFRSs in a jurisdiction and the contribution of the jurisdiction to the funding of the IFRS Foundation should be considered in selecting members.

Question 6

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?

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?

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

We support the proposal to expand the membership of the Monitoring Board and consider that membership should be expanded to include representatives from both developed and emerging markets in order to ensure the IFRS Foundations considers all views and concerns of constituents that adopt or are committed to adopt its accounting standards.

Furthermore, we recall from the Constitution of the IFRS Foundation that the Monitoring Board will provide a formal link between the Trustees and public authorities and this relationship seeks to replicate, on an international basis, the link between accounting standard-setters and those public authorities that have generally overseen accounting standard-setters. Accordingly, we would like to mention that expansion of membership of the Monitoring Board need not necessarily be from the capital markets authorities or be selected through IOSCO only, as the capital market authorities in certain jurisdictions may not be responsible for overseeing the accounting standard-setters in their jurisdictions.

In addition, we consider that a jurisdiction's IFRS adoption process, knowledge and expertise in IFRS, economic and capital market significance and financial contributions to the IFRS Foundation are also some of the factors to be considered for a jurisdiction's membership to the Monitoring Board.

Consider whether any types of decisions taken by the Monitoring Board would justify deviation from the current consensus-based decision-making system.

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 stated in our response to Question 6, we support the proposal to expand the membership of the Monitoring Board and consider that membership should be expanded to include representatives from both developed and emerging markets. We consider the Monitoring Board may encounter practical difficulties to make decision by consensus in case its composition is expanded to over 10 members. In that case, the Monitoring Board may consider moving to decisions being made by an appropriate majority (e.g. a majority vote or say 75%) to enhance the effectiveness of its decision making process.

With a view to increasing the involvement of other public authorities and international organizations, consider either:

(a) extending the observer status to groups of prudential authorities and international organizations;
(b) holding more formalized dialogue with public authorities and international organizations; or
(c) establishing an advisory body composed of prudential authorities and international organizations.

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?

We support, as a matter of principle, increased participation of public authorities and other international organizations in the full extent of the standard setting process. We do not, however agree that this could be best achieved through the expansion of the Monitoring Board observers or developing more formalized structures around the activities of the Monitoring Board. We would return to our stated position that the function of the Monitoring Board should remain oversight. To achieve effective oversight does not require over-engineering of the process. Consultation with other bodies must be part of the due process of standard setting and will be undertaken by the IASB and the Trustees among a broad range of stakeholders rather than being confined to a defined group of observers or a panel of advisers.

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.

We are of the view that the standards setting process should be subject to continuous review and improvements, reflecting changes in the environment. Current arrangements include wide consultation with opportunity for input from all stakeholders. We believe that current arrangements are adequate but should be kept under review. We therefore welcome change if it leads to improvement in the process rather than additional bureaucracy and complication.

We have recently made a submission dated 24 February 2011 to the IFRS Foundation with our comments on the IFRS Foundation paper for Public Consultation – Status of Trustee's Strategy Review in which we have provided our comments on the current standard setting process. Our submission can be accessed at: http://www.hkicpa.org.hk/file/media/section6_standards/standards/FinancialReporting/submission-pdf/2011/future-strategy.pdf .

Enhance publication of written records of Monitoring Board deliberations, increase the use of press releases, and strengthen the exposure of Monitoring Board members' views to the media and wider audiences.

Question 10

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

We are of the view that the Monitoring Board's meetings should be made available publicly and the Board should be totally transparent in its deliberations and processes.

Consider if the Monitoring Board's current ability to refer matters to the IASB for consideration, requiring feedback, is sufficient, or whether an explicit role should enable the Monitoring Board to place an item on the IASB agenda.

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.

Our view is that the role of the Monitoring Board in providing independent assurance over the Trustees and IASB governance and process should not be extended to being involved in setting the agenda of the IASB. In providing independent assurance there is no limitation as to what the Monitoring Board could recommend. 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. We are therefore of the view that it would be most unwise for it to be seen to influence the agenda of one of the bodies it is independently assessing.

In our view, the IFRS Advisory Council, where IOSCO and other Monitoring Board members are present should be the appropriate venue to convey views to the IASB about agenda items, rather than the Monitoring Board.

Explore possible options to establish a non-voluntary, transparent and stable public funding platform for the Foundation.

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?

We regard this matter as an important one for the Trustees, but it is not a matter for the Monitoring Board except insofar as it may comment on the need for stable funding to help ensure independence of the IASB.

In our above mentioned submission dated 24 February to the IFRS Foundation Paper, we have already made our suggestions regarding funding.

Enhance the Monitoring Board's involvement in the nomination of the IASB Chair by enabling the Monitoring Board to provide a set of criteria for selecting potential candidates and evaluate certain candidates on the short list against the criteria during the selection process. Additionally, consider whether the Monitoring Board's role should also involve consultation on the Trustees' final decision and/or playing any further roles.

Question 13

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.

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

We do not believe that the Monitoring Board should be involved in the selection of the IASB Chair, other than as a scrutineer of the process given our view that the Monitoring Board's role is to provide independence assurance to the processes of the Trustees and the IASB.

As regards other IASB members, explicitly include in the Monitoring Board's responsibilities consultation with the Trustees as they further develop the framework to ensure proper balance in the composition of the IASB.

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.

We believe that the Monitoring Board will need to understand the Trustees' processes and strategies for appointing IASB members. However, we are of the view that it should remain independent of the application of those processes and strategies or else this will erode public confidence in the IASB.

Explore the possibility of establishing a permanent secretariat for the Monitoring Board.

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.

We do not believe that the Monitoring Board needs more than a basic rotating seconded staff to carry out the role of providing independent assurance. A need for a permanent secretariat presumes an increasing level of activity for the Monitoring Board which is in itself the main consideration of this consultation. We are concerned at the increasing bureaucracy surrounding international standard-setting and its potential to divert resources from the main aim of achieving improvements in financial reporting.

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.

We are seeking continuing independent assurance from the Monitoring Board of the application of the processes of the Trustees and the IASB. We do not think that this should occur irregularly. It may be that a more formal review should be conducted as and when needed. We do not see that a fixed period is needed to prompt such a review. If the Trustees or the IASB make significant changes to procedures and processes, we would expect that the Monitoring Board would look at them contemporaneously and also, where needed, with hindsight.

Question 17

Do you have any other comments?

We have no further comments.

~ End ~

Annex 2

How we are structured