

## Consultative report on the IFRS Foundation's governance



### Introduction

The IFRS Monitoring Board (the Monitoring Board) published its *Consultative Report on the Review of the IFRS Foundation's Governance* on 7 February 2011. Comments on the proposals are due by 8 April 2011.

The report focuses on whether the current governance structure for the IFRS Foundation and the IASB<sup>1</sup> effectively promotes the IASB's primary mission of setting high quality, globally accepted standards and whether the IASB is appropriately independent and accountable.

This consultation is separate from the strategy review currently being carried out by the Trustees of the IFRS Foundation (the Trustees) (refer Briefing Sheet – *Issue 221*). The Monitoring Board and the Trustees intend to co-ordinate their review and complete an integrated package of proposals by early in the third quarter of 2011.

The Monitoring Board also plans public roundtables.

### Background

The Monitoring Board's main responsibilities are to ensure that the Trustees discharge their duties as set out in the IFRS Foundation Constitution, including oversight of the IASB's due process. The Monitoring Board also is responsible for approving the appointment or reappointment of the Trustees. Currently there are five members of the Monitoring Board: the chairs of the Emerging Markets and Technical Committees of IOSCO<sup>2</sup>, the European Commission, the Japanese FSA<sup>3</sup> and the US SEC<sup>4</sup>. Each has responsibility in their own jurisdictions for the form and content of financial reporting by listed companies.

The Monitoring Board's review focuses primarily on institutional aspects of governance, particularly the composition and the respective roles and responsibilities of the Monitoring Board, Trustees and IASB. By contrast, the Trustees' strategy review emphasises the operational aspects of governance, particularly the standard-setter's due process.

### Key proposals

- Same capital market focus with a larger membership.
- Possibility of a more direct role of the Monitoring Board in setting the IASB's agenda.
- Retaining current three-tiered structure (IASB, Trustees and Monitoring Board).
- Separation of the roles of IASB Chair and CEO of the IFRS Foundation.

The current IASB structure comprises three levels, with the IASB overseen by the Trustees, who are subject to oversight by the Monitoring Board. The Monitoring Board proposes to retain this three-tiered structure.

## Summary of key proposals

In the report the Monitoring Board proposes refinements rather than fundamental changes for the IASB and its oversight. The most significant changes are regarding the composition and role of the Monitoring Board itself, including proposals to expand its membership. The Monitoring Board also explores whether it should be involved more directly in selecting Trustees, appointment of the IASB chair and determining what projects the IASB adds to its agenda.

### Monitoring Board

In the report the Monitoring Board:

- recommends expanding the Monitoring Board membership to 11, with four new permanent members from emerging market countries and two rotating members. In addition:
  - membership would continue to consist solely of public authorities with responsibility for setting financial reporting requirements for listed entities; and
  - the criteria for membership would consider the extent of use of IFRSs in a jurisdiction and the extent of funding of the IASB;
- seeks comment on whether and, if so, how to increase the involvement of other types of public authorities such as expanding the number of observers on the Monitoring Board or creating an advisory body to the Monitoring Board comprised of other relevant public authorities, e.g. prudential supervisors and/or international financial institutions such as the World Bank;
- asks whether its role should be strengthened regarding the IASB's agenda; one proposal would be to permit the Monitoring Board to add items to the IASB's agenda;
- proposes a number of measures to improve the transparency and accountability of the Monitoring Board;
- solicits input on whether the IASB's standard-setting process adequately considers relevant public policy objectives, such as financial stability concerns; and
- explores the possibility of establishing a permanent secretariat for the Monitoring Board.

### IASB

In the report the Monitoring Board:

- recommends that the IASB improve identification of qualified candidates to include more diverse geographical and professional backgrounds;
- seeks comments on enhancing the engagement of the Monitoring Board in selection of the IASB Chair;
- proposes separation of the roles of IASB Chair and CEO of the IFRS Foundation; and
- proposes separation of the staff dedicated to standard-setting from staff working on other activities of the IFRS Foundation including IASB oversight.

### Trustees

In the report the Monitoring Board:

- recommends continued review of the diversity of the Trustees' geographical and professional backgrounds; and
- recommends devising a more formal procedure and clearer criteria for both the nomination of candidates and appointment of the Trustees, perhaps with increased involvement of the Monitoring Board in assessing candidates.

### Next steps

The Monitoring Board plans to finalise and publish an action plan for implementation of its proposals in the third quarter of 2011.

Some of the proposals may require additional deliberations on the processes for implementation. However, the Monitoring Board expects them to be implemented shortly after finalisation, which may be as soon as the beginning of 2012.

The Monitoring Board noted its intention to coordinate with the work of the Trustees in order to develop a single integrated set of proposals.

#### Abbreviations

- 1 IASB: International Accounting Standards Board
- 2 IOSCO: International Organization of Securities Commissions
- 3 FSA: Financial Services Agency
- 4 SEC: Securities and Exchange Commission

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