

Final Report on the Review of the IFRS Foundation's Governance

IFRS Foundation Monitoring Board

9 February 2012

EXECUTIVE SUMMARY

The Monitoring Board of the IFRS Foundation (Foundation) in 2010 undertook a review of the Foundation's current governance arrangements to assess whether they promote the primary mission of the International Accounting Standards Board (IASB) of developing high quality, understandable, enforceable and globally accepted accounting standards, and provide for both the accountability and independence of the IASB. In February 2011, the Monitoring Board published and sought public comment on proposed governance improvements set forth in a consultative report¹. The Monitoring Board also held four regional roundtables to provide for interactive and thorough engagement with stakeholders on the contents of the consultative report².

While the Monitoring Board's consultation elicited a range of views with respect to each element of its proposals, certain aspects regarding the governance framework emerged as being fundamental to the key stakeholders that are critical to the acceptance of International Financial Reporting Standards (IFRSs) as global accounting standards.

IASB Independence, with Accountability to the Foundation's Objectives

Stakeholders share the Monitoring Board's view that the independence of the IASB is critical to the credibility of IFRSs. The governance structure should provide for a standard-setting environment that is independent of vested interests. At the same time, the long-term viability of IFRSs as global accounting standards depends on the IASB exercising its independence in a manner that serves the public interest by remaining accountable to investors, markets, and other market participants.

In striking a balance between independence and accountability, the Monitoring Board proposed that its membership continue to be confined to authorities responsible for setting the form and content of financial reporting standards used in their respective jurisdictions' capital markets. Commenters agreed that the Foundation's mission with respect to financial reporting standards aligns with the mandate of authorities who serve as the guardians of investors' interests and the integrity of capital formation and, accordingly, most expressed support for the Monitoring Board's proposal.

¹ The consultative report is available at:
https://www.iosco.org/monitoring_board/pdf/Review_of_the_IFRS_Foundation_Governance_Report.pdf.

² Summaries of the roundtable discussions and comment letters received are available on the Monitoring Board website (http://www.iosco.org/monitoring_board/).

In addition to improved diversity of capital markets authorities, some commenters believed that the Monitoring Board should provide for more direct representation of a broader range of constituencies, for example, by opening membership to investors and other stakeholders in IFRSs. However, the Monitoring Board did not pursue this recommendation from commenters, as it reflected misunderstanding regarding the Monitoring Board's purpose. The purpose and *raison d'être* of the Monitoring Board is to create a link between the Foundation and those public authorities responsible for determining the form and content of financial reporting standards for use in capital markets. Via this link, public authorities are more readily able to discharge their responsibilities by monitoring the functioning of the standard-setting process, thereby promoting the confidence required by these bodies to authorize the use of IFRSs in global capital markets.

In order to better reflect the global nature of today's capital markets, the Monitoring Board proposed to expand its membership. Commenters broadly supported the expansion.

The Monitoring Board shares commenters' views that the diversity of stakeholders in IFRSs should be represented in standard-setting deliberations and oversight. In this regard, the Monitoring Board supports the Trustees' intentions to strive continually for improvements in, and vigilant oversight of, due process as set forth in the Trustees' strategy review, and will monitor this objective through its dealings with the Trustees. Further, the Monitoring Board believes that nomination procedures for Trustees and IASB members should continue to ensure diversity in representation of IFRSs' stakeholders.

Monitoring Board for Oversight, not Operations

Commenters and roundtable participants emphasized their support for the Monitoring Board—consistent with its name—acting as a monitor of the Trustees' oversight of the IASB's operations, in particular with the aim of ensuring that they serve the public interest and remain accountable to investors, markets, and other market participants. These stakeholders cautioned that the Monitoring Board's role remains that of a monitor. Commenters regard the Monitoring Board to be a guardian of public interests and buffer against vested interests; at the same time, they expressed concern that its direct role in the Trustees' oversight or IASB operations could serve to undermine the independence of standard-setting and introduce certain regional, cultural and political biases.

In terms of Trustee oversight and IASB operations, the Monitoring Board's consultative report, while not setting forth any proposals, solicited input as to whether the Monitoring Board should have an increased role with respect to the IASB's agenda or IASB Chair selection. While some commenters thought the Monitoring Board could take a more explicit role in these functions, most observed that IASB Chair selection appropriately fell within the

remit of the Trustees and that agenda-setting is an operational matter reserved solely for the IASB, after appropriate consultation and subject to procedural oversight by the Trustees. While the Monitoring Board agrees with these constituents, it also believes that capital markets authorities must be confident that the processes for IASB Chair selection and agenda-setting make it possible for the IASB to fulfill capital markets' demands for high quality standards. The Monitoring Board sees opportunity for improved communications and procedures in relation to the IASB agenda and chairmanship, without infringing on the IASB's independence.

Increased Transparency and Understanding of Governance Functions

Responses to the review highlighted a degree of miscomprehension about the Monitoring Board's and Trustees' purposes and activities. To increase understanding and introduce greater clarity, stakeholders' needs for further transparency of Monitoring Board and Trustee operations emerged as an area for improvement.

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After considering stakeholder feedback, the Monitoring Board intends to proceed with the following enhancements to the governance framework, grouped below by applicable level within the Foundation's governance structure (with parenthetical references to the related discussion in this report).

Decisions in Relation to the Monitoring Board

1. Monitoring Board Membership. (M-1) In evaluating expansion of its membership, Monitoring Board members reaffirmed that the purpose of the Monitoring Board is to provide the link between the Foundation and authorities that are responsible for setting the form and content of financial reporting for use in their jurisdictions' capital markets. This link enables these authorities to monitor the functioning of the governance structure, facilitating fulfillment by the authorities of their mandates with respect to financial reporting standards used in capital markets. To improve the effective utilization of the Monitoring Board in this regard, the Monitoring Board decided to:

- 1) Continue to confine membership to capital markets authorities responsible for setting the form and content of financial reporting;

- 2) Expand membership to include additional authorities primarily from major emerging markets and also establish a mechanism to allocate rotating seats in consultation with the International Organization of Securities Commissions (IOSCO); and
- 3) Refine the existing membership criterion regarding a strong commitment to “supporting the development of high quality international accounting standards” to call for demonstration of this commitment through domestic use of IFRSs in the jurisdiction’s capital market and participation by the jurisdiction in Foundation funding. To become and/or remain a member, all permanent members must meet that criterion, and will be assessed for their eligibility on a regular basis.

2. Consensus-based Decision-making. (M-2) Noting its positive experience to date with the existing decision-making system, the Monitoring Board concluded that it would continue to operate by consensus.

3. Involvement of Other Public Authorities and International Organizations. (M-3) Recognizing the importance placed by other authorities on the strength of the Foundation’s governance framework, the Monitoring Board decided that the Basel Committee on Banking Supervision (BCBS) will continue to serve as an observer, with a clearer definition of the role and nature of an observer. In future, the Monitoring Board may re-assess whether improved interaction with other authorities with an interest in the Foundation’s governance is called for and, if so, what options could provide for such improvement without compromising the Trustees’ and IASB’s independence, their accountability or the Foundation’s primary mission.

4. IASB Agenda Referrals. (M-5) The current provisions of the Memorandum of Understanding (MoU)³ between the Foundation and the Monitoring Board will be maintained, allowing the Monitoring Board to refer issues to the Trustees and IASB Chair for their consideration. The Monitoring Board and Trustees will agree upon an appropriate feedback mechanism to ensure that all levels of the governance framework are fully aware of each other’s concerns and reactions. An improved understanding of the appropriate feedback mechanism should assure constituents that the Monitoring Board does not intend to infringe upon IASB independence.

At the same time, such a mechanism will assist capital markets authorities and the Trustees in holding the IASB accountable to the Foundation’s mission. This is because the Monitoring Board believes that any technical financial reporting matter referred to the IASB under the Monitoring Board’s consensus operating model would necessarily represent an urgent matter

³ The MoU is available at: http://www.iosco.org/monitoring_board/pdf/Monitoring_Board_Mou.pdf.

that, left unaddressed, would be detrimental to investors and therefore unresponsive to the Foundation's primary mission. In all cases, it is understood that the Monitoring Board will neither influence the decision-making process nor challenge the decisions made by the IASB with regard to substantive standard-setting.

Finally, recognizing recent changes to improve the IASB's agenda consultations, the Monitoring Board, in consultation with the Trustees' Due Process Oversight Committee, intends to assess implementation and outcomes under the revised agenda-setting process.

5. IASB Chair Selection. *(M-7)* Consistent with the current MoU provisions on consultation regarding major Trustee functions, the Monitoring Board will agree with the Trustees on the criteria and process for IASB Chair selections. Agreement on the criteria and process will provide capital markets authorities confidence that IASB Chair selections will position the IASB to fulfill capital markets' demands for high quality standards.

To improve public understanding, the documented criteria and process will be made public.

The IASB Chair selection process will provide explicitly for Trustee consultation with the Monitoring Board on the Trustees' short list of candidates against the pre-established criteria. The final selection, following consultation with the Monitoring Board, remains the province of the Trustees.

6. Framework for IASB Composition. *(M-8)* Consistent with the current MoU provisions on consultation regarding major Trustee functions, the Trustees will consult the Monitoring Board when they develop the framework to ensure diversity of the IASB. The Trustees will retain sole discretion as to selection of IASB members under that framework.

7. Transparency of Monitoring Board Functions. *(M-4)* To improve public awareness and understanding of its functions, the Monitoring Board will publish more timely written records of its public meetings and communicate its activities to a wider audience.

8. Foundation Funding. *(M-6)* Recognizing the importance of stable, sufficient funding to independence, the Monitoring Board and Trustees will continue to consult with regard to funding arrangements, with the Trustees retaining primary responsibility for funding and the Monitoring Board encouraging efforts in jurisdictions to meet funding contributions.

9. Monitoring Board Secretariat. *(M-9)* Noting the sufficiency of such arrangements to date, the member serving as Monitoring Board Chair will continue to provide all secretariat functions.

10. Periodic Governance Reviews. (O-1) In coordination with the Foundation's five-yearly Constitution⁴ reviews, the Monitoring Board will conduct periodic reviews of the governance structure. The Monitoring Board believes that alignment and coordination of its reviews with the Trustees' Constitution reviews will provide an efficient means to ensure continuing relevance of and improvements in the governance framework.

Decisions in Relation to the Trustees

1. Trustee Composition. (T-1) Through the existing process for approval of Trustee appointments, the Monitoring Board will continue to monitor the diversity of geographical and professional backgrounds of the Trustees collectively.

2. Trustee Selection Process. (T-2) Documentation of the criteria and process for Trustee nominations and appointments will be improved and made publicly available, to improve public understanding of the Trustees' and Monitoring Board's roles and activities.

Decisions in Relation to the IASB

1. IASB Composition. (I-1) The Monitoring Board will encourage the Trustees to ensure that its search for IASB candidates is sufficiently robust to identify IASB members with diverse geographical and professional backgrounds, while retaining professional competence and experience as the primary qualification.

2. IASB Management Structure and Segregation of Staff Functions. (I-2 and I-3) The Monitoring Board will encourage the Trustees to ensure clear division of responsibilities and reporting lines between staff supporting the IASB's standard-setting functions and those assisting the Trustees in oversight functions.

Additionally, the Monitoring Board recommends that the Trustees consider changes to the Constitution to remove the title of Foundation Chief Executive Officer (CEO) from the IASB Chair.

The IASB Chair should retain full responsibility for all standard-setting matters, including resources. The Trustees should assess the functions currently allocated to the Foundation CEO and reassign functions to ensure segregation of responsibilities for IASB operations from any oversight or funding matters which may create an actual or perceived conflict of interest in standard-setting.

⁴ The Constitution is available at: http://www.iosco.org/monitoring_board/pdf/Constitutionfinal.pdf.

3. Stakeholder Involvement in Standard-Setting. (O-2) To continually monitor the Trustees' oversight of appropriate consultation during the IASB's standard-setting process, the Monitoring Board will receive regular reports on the activities and findings of the Trustees' Due Process Oversight Committee.

INTRODUCTION

The past several years have seen a rapid increase in the number of jurisdictions using IFRSs around the world, and more jurisdictions are expected to make similar decisions in the coming few years. Prompted by the growing interest among stakeholders, the Monitoring Board decided in April 2010 to commence a project to review the governance structure supporting IFRSs as a set of high quality, globally accepted accounting standards. The Monitoring Board, through its working group created for this task⁵, conducted an assessment of the current three-tier governance structure, whereby the standard-setter, the IASB, is overseen by the Foundation, and the Foundation, in turn, is subject to public oversight by the Monitoring Board.

The fundamental question for the review was whether the current governance structure effectively promotes the standard-setter's primary mission of setting high quality, understandable, enforceable and globally accepted standards as set forth in the Constitution of the Foundation, and whether the standard-setter is appropriately independent yet accountable. As a matter of coordination with the concurrent strategy review by the Trustees of the Foundation, the Monitoring Board's review focused 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' review placed emphasis on the operational aspects of governance, particularly the standard-setter's due process.

On 8 February 2011, the Monitoring Board published a "Consultative Report on the Review of the IFRS Foundation's Governance"⁶ for a two-month public consultation until 7 April 2011. The report set forth a series of proposals as well as alternatives under consideration, and provided specific questions to invite focused responses from the public. With the view to reaching out to a wide range of stakeholders, the Monitoring Board also conducted in March 2011 public stakeholder meetings at four venues (Brussels, Tokyo, Kuala Lumpur, and Palo Alto), each of which was attended by stakeholders with diverse national and professional backgrounds.

In response to the consultation, the Monitoring Board received a total of 80 comment letters from a variety of constituents including accounting professionals, industry associations, investors, national standard-setters and regulators around the world. Original comment letters received are accessible on the Monitoring Board website⁷, while an overview of all the

⁵ Chaired by Masamichi Kono from the Financial Services Agency of Japan (see Annex for the list of members).

⁶ See *supra* footnote 1.

⁷ https://www.iosco.org/monitoring_board/ (except for one comment letter which reached the secretariat after its announcement on 13 May that the letters received thereafter would not be posted on the website).

comments can be found in a summary of comments published on 9 September 2011⁸.

The Monitoring Board has gone through extensive deliberations taking into account both the comments received through the public consultation process and the views expressed at various other occasions, aiming at developing a set of recommendations to help improve the governance of the Foundation. In this document, the Monitoring Board puts forward its decisions resulting from such deliberations, accompanied by brief descriptions of how the Monitoring Board reached its conclusions, which serve as feedback to the comments received on the respective topics.

The Monitoring Board's decisions will be implemented in various ways. Some decisions are referred to the Trustees for consideration and, if implemented, will be reflected in the Foundation's Constitution. Others will be reflected in the MoU between the Trustees and the Monitoring Board or in the Monitoring Board's Charter⁹. Some decisions are intended to deliver operational improvements that do not require changes to the governing documents. Still other decisions will require further development by the Monitoring Board in order to make them operational. One such example is the definition of the "use of IFRSs," a criterion for assessing eligibility to become and/or remain a permanent member of the Monitoring Board. The Monitoring Board has developed an action plan for implementation of the decisions reached; the action plan can be found in the Appendix to this document.

The Monitoring Board and the Trustees of the Foundation have communicated closely with each other in carrying out their respective review projects. This document constitutes an integral part of the joint package of the decisions taken by respective bodies to improve various aspects of the Foundation's governance. The coordination between the two bodies will continue as the Monitoring Board and the Trustees proceed with implementation of these measures in the next phase.

⁸ "Summary of Comments to the Consultative Report on the Review of the IFRS Foundation's Governance" (https://www.iosco.org/monitoring_board/pdf/20110908%20Final%20Draft%20Summary%20of%20Comments.pdf).

⁹ The Charter is available at: http://www.iosco.org/monitoring_board/pdf/Monitoring_Board_Charter.pdf.

DECISIONS ON RECOMMENDATIONS

A. IASB

I-1. IASB composition

- (a) In preparation for the selection of IASB members, make the pool of candidates as broad-based as possible to ensure IASB membership from diverse geographical and professional backgrounds.
- (b) While diversity in geographical and professional backgrounds is important, in selecting IASB board members, priority will be placed on the nominees’ professional competence and experience in dealing with IFRSs.
- (c) Where appropriate, consider making flexible use of part-time IASB board members, as provided for in the Constitution.

There were many strong arguments that while it was important to ensure diversity in geographical and professional backgrounds, priority should be placed on nominees’ professional competence and experience in dealing with IFRSs. Many respondents also supported the idea of deepening the pool of candidates at the time of the selection, so that appropriate diversity could be achieved without losing the primary objective of selecting individuals with the highest level of technical competence. The Monitoring Board decided to maintain the original proposals to reflect these views. Although there were many suggestions to limit IASB board members to individuals from jurisdictions using IFRSs, the Monitoring Board found such an approach in conflict with the above intention to focus on the individuals’ merits, and also contrary to the Constitution’s intentions with regard to IASB composition. The Monitoring Board decided to reiterate that the Trustees and IASB Chair had the power to consider part-time board members where appropriate. The Monitoring Board also observed that there are benefits of ensuring diversity at the staff member level.

I-2. Reorganization of the IASB’s management structure

- (a) The IASB Chair also having the title of Foundation CEO appears to create misunderstanding, and should be reconsidered. In order to preserve the IASB’s independence on standard-setting and managing its own technical agenda, the Trustees should reorganize the management structure so that the IASB Chair could concentrate on standard-setting, both in substance and appearance.

- (b) The organization structure should also clearly segregate the standard-setting responsibilities of the IASB Chair and the oversight functions of the Foundation Chair.

Many respondents agreed that the dual role of the IASB Chair and Foundation CEO created concerns about conflict of interest, whether in substance or appearance, and also that the expansion of the use of IFRSs around the world had made it physically difficult for one person to assume these two roles. Meanwhile, some stakeholders shared the view that the current system worked well without causing any problems. The Monitoring Board concluded that the source of concerns was the title “CEO”, and would request that the Trustees reconsider it, and also consider whether the management structure should be organized to ensure that the IASB Chair concentrates on standard-setting and is given no role with respect to the Trustees’ oversight activities. However, the Monitoring Board decided that the specific measures to implement such a move should be left for the Trustees to consider, consistent with the division of responsibilities under the current three-tier governance structure.

I-3. Separation of staff responsible for standard-setting and other functions

- (a) Clarify reporting lines of the staff in accordance with the segregation of responsibilities between standard-setting and oversight functions.
- (b) When clear division of responsibilities is not practical for specific areas, certain safeguard measures should be put in place (in a transparent manner) to alleviate any concerns that may arise from any perceived conflict in responsibilities.

Many respondents supported the separation of staff with responsibilities for standard-setting from those participating in oversight functions. A smaller number, while not disagreeing conceptually, were of the view that the record to date raised no issues. Some respondents opposed the change for fear of it inviting higher cost and inefficiency to an organization that was not large enough to adopt a governance model suitable for large companies. The Monitoring Board nevertheless decided to recommend that the reporting lines of the staff should provide for separation of standard-setting and oversight staff.

B. Trustees

T-1. Trustee composition

- (a) Maintain the current system of review of the Trustees’ composition and, through the Monitoring Board’s participation in the nomination and appointment process, review how this process is put into practice and continue to monitor the diversity of geographical and professional backgrounds of the Trustees.

While acknowledging the recent improvements in the Foundation’s Constitution with regard to the Trustees’ diversity, views regarding their sufficiency differed among the respondents. Some respondents highlighted that geographical balance was more important with respect to Trustees than IASB board members. The Monitoring Board decided to continue monitoring recent improvements in diversity via its participation in Trustee appointments, including consultation on the nomination process and approval of final appointments. Some respondents also suggested that the Trustees should represent jurisdictions using IFRSs, but the Monitoring Board decided not to link a Trustee’s selection to the use of IFRSs in the candidate’s home jurisdiction following the same rationale with respect to IASB board members.

T-2. Trustee selection process

- (a) The process and criteria for the selection of the Trustees will be documented and made public.
- (b) Due consideration will be given to changes that may be required to the criteria from time to time.
- (c) The Monitoring Board will continue to participate in the process, including by agreeing with the Trustees on a set of criteria, and approving Trustee candidates.

Many respondents thought that the selection process for the Trustees was not visible enough for those not involved in the process and more transparency was needed to increase stakeholders’ confidence in the process and the selected Trustees. On the other hand, some respondents argued that there was no need for further transparency and expressed concern about the impact on a candidate’s privacy and possible disincentive against becoming a candidate. The view of the Monitoring Board was that an appropriate level of transparency of the selection process could be achieved without violating an individual candidate’s privacy.

On a similar note, a large majority of respondents agreed that further clarification was needed about the criteria for selection, while some suggested that the criteria remain sufficiently flexible to reflect changing circumstances. Considering the responses from stakeholders, the Monitoring Board decided to recommend that the selection process, as well as the criteria, should be made more transparent through documentation and publication.

With regard to the Monitoring Board’s participation in the selection process, many respondents supported the current arrangements provided for in the MoU, while other views ranged from supporting a more pivotal Monitoring Board role on the one hand to less involvement on the other. Considering the broad spectrum of views expressed by different respondents, the Monitoring Board decided to maintain the current model of participation in the selection process, whereby it engages in the development of the criteria and approves Trustee candidates.

C. Monitoring Board

M-1. Monitoring Board membership

- (a) Full membership of the Monitoring Board will continue to be confined to capital markets authorities, defined as those authorities responsible for setting the form and content of financial reporting for use in the capital markets in respective jurisdictions.

(Note) Involvement of prudential authorities in the Foundation’s governance is addressed at M-3.
- (b) New members (a maximum of four and not necessarily all added immediately) will be chosen, primarily from major emerging markets, against a set of criteria, which will include objective indicators such as market capitalization and those set out in (c) below.
- (c) To become a member of the Monitoring Board will require domestic use of IFRSs in the relevant jurisdiction and financial contribution by the jurisdiction to the setting of IFRSs. A description of the criteria for evaluating the use of IFRSs in a jurisdiction will be developed and documented.
- (d) Eligibility of all permanent members will be assessed on a regular basis. To remain a member, all permanent members must meet the criteria set out in (a), (b) and (c) above. The Monitoring Board will start its first assessment of existing members’

eligibility to remain members in early 2013.

- (e) The specifics regarding the transition to expanded membership and the regular review for all permanent members will be developed and documented, together with the criteria for assessing the use of IFRSs.
- (f) Two rotating seats will be created and filled following a selection process and criteria developed by the Monitoring Board in consultation with IOSCO.

A large majority of respondents agreed with limiting the Monitoring Board membership to “capital markets authorities” defined as those authorities responsible for setting the form and content of financial reporting in the capital markets in respective jurisdictions. The respondents frequently cited the consistency of this criterion with the primary mission of the Foundation as expressed in the Constitution. Some respondents suggested that this qualification should be implemented with flexibility in identifying the appropriate authority to represent a given jurisdiction; the Monitoring Board notes that this notion is already implicitly incorporated in the current Charter. Meanwhile, some respondents strongly disagreed with the limitation and argued that the Monitoring Board should be represented by a broader range of public policy interests in IFRSs, or, even further, by all the stakeholders with interests in IFRSs. The Monitoring Board, while paying due attention to the calls for easing the limits, in particular to include prudential and other authorities, decided to confine membership to “capital markets authorities”, one reason being the difficulty in drawing any plausible line to identify those authorities eligible for membership other than the one currently used.

Most respondents agreed with the direction to expand the Monitoring Board membership, and there was no clear opposition with regard to introducing permanent seats and rotating seats. Some respondents considered objective factors such as capital market size as appropriate criteria and, while many respondents called for an increased diversity to be achieved through selecting new members primarily from emerging markets, some argued for the inclusion of additional non-emerging markets, as well. Of those who commented on the proposal to include the use of IFRSs and funding contribution in the set of membership considerations, most respondents were supportive of the idea. Some cautioned that the link between membership and funding should not undermine governance but rather should be viewed as an indicator of the jurisdiction’s support for the Foundation’s stable, independent financing. Some respondents suggested future reevaluation of the Monitoring Board members.

The Monitoring Board decided to maintain its initial proposals regarding expansion of membership and to include domestic use of IFRSs and participation in funding as membership criteria. It further decided that all permanent members must meet the criteria to

remain a member and be reviewed regularly to assess their eligibility. The first assessment of eligibility will start in early 2013. During early 2012, the Monitoring Board intends to develop and document in its Charter a definition for the criterion “use of IFRSs.” The Monitoring Board also will put in place a process for expansion of its membership. This process will include identification of candidates for membership, admission of new members meeting the membership criteria, and consideration of arrangements for involvement as transitional participants by certain candidates. Finally, the Monitoring Board will develop the modalities of regular reviews of all members against the membership criteria, including the consequences of not meeting them.

Most of those respondents who commented on the introduction of rotating seats supported the selection of such members through IOSCO. The smaller number of opposing views generally corresponded to those calling for the Monitoring Board membership to extend beyond capital markets authorities. The Monitoring Board decided to maintain the original proposal and will consult with IOSCO to develop the process and criteria for selecting rotating members.

M-2. Consensus-based decision-making

- (a) Maintain the current consensus-based decision-making system.
- (b) The system may be subject to review as the Monitoring Board’s composition and roles and responsibilities change in the future.

The comments received from stakeholders generally favored keeping the current model of decision-making by consensus, as opposed to introducing alternative models such as qualified majority voting. The size of the Monitoring Board, even after the proposed expansion up to eleven members, would seem relatively small compared to other international organizations operating on the basis of consensus. Further, this review would not result in a drastic change in the roles and responsibilities of the Monitoring Board. Considering such factors and noting its positive experiences to date, the Monitoring Board concluded that it should maintain the current consensus-based decision-making system, unless further expansion of the size as well as the roles and responsibilities required a change in the future from a practical point of view.

M-3. Involvement of other public authorities and international organizations

- (a) Maintain the current observer status of Basel Committee on Banking Supervision.
- (b) The role and nature of an observer will be clearly defined.

- (c) The Monitoring Board will continue to explore the most appropriate and expedient means to engage prudential and other authorities in the governance of the Foundation.

Most respondents broadly supported the Monitoring Board's increased interaction with other parties with a stake in IFRSs, but views varied significantly as to the scope and the mechanism to achieve it. While there were some strong calls for the involvement of prudential authorities in the monitoring process, a larger number of respondents cautioned that financial stability should not be regarded as a primary objective of financial reporting, and that inputs from such standpoint should be made to the standard-setter through other existing channels. Considering the diversity of views and also the possible undesirable effect any changes to the current set-up would have on stakeholders' perceptions, the Monitoring Board concluded that the status quo should be maintained. Meanwhile, the Monitoring Board would continue to explore in the future whether improved interaction with prudential and other authorities on governance issues is called for and, if so, what options would provide for such improvement.

M-4. Enhancing transparency of the Monitoring Board

- (a) Enhance visibility and transparency of the Monitoring Board, including by improving timeliness of the publication of transcripts of public meetings and increasing the use of press releases.

There was broad-based, strong support for enhancing transparency of the Monitoring Board's activities in the context of ensuring public accountability of the Foundation. While there could be a variety of means to improve its visibility, the Monitoring Board decided to start with some of the typical methods of communication with stakeholders at large.

M-5. IASB agenda referrals

- (a) Maintain the current set-up where the Monitoring Board may refer issues to the Trustees and IASB Chair, who together will ensure that these issues are addressed in a timely manner.
- (b) Develop with the Trustees a feedback mechanism to ensure that, if the Monitoring Board refers an agenda item to the IASB, in response to the Monitoring Board's referral and in the event that the IASB determines not to take up the referred issue,

the IASB will demonstrate to the Trustees and the Monitoring Board that adding the matter to the IASB agenda would be inconsistent with the standard-setting responsibilities established in the Constitution.

- (c) In all cases, it is understood that the Monitoring Board will neither influence the decision-making process nor challenge the decisions made by the IASB with regard to its standard-setting.
- (d) The Monitoring Board will continue to carefully observe the outcome of the ongoing improvements in the IASB's agenda-setting process and will take due account of such improvements in its periodic reviews.

A large majority of respondents opposed the Monitoring Board's direct involvement in the IASB agenda-setting, primarily due to concerns about the possible damage it would incur on the standard-setter's independence. They argued that the current set-up allowed the Monitoring Board to refer matters to the IASB for consideration while requiring the standard-setter to give clear feedback to the Monitoring Board, which as a whole had already given the Monitoring Board sufficient power to require the IASB's serious consideration of particular issues without introducing compulsory power. On the other hand, some respondents expressed strong support for the Monitoring Board's more direct involvement in the IASB's agenda-setting to reflect public interest perspectives. However, these respondents shared the view that ensuring the standard-setter's independence was critically important, and would only be in favor of such intervention in very rare cases with high levels of urgency.

Based on the understanding that the IASB had recently improved its agenda-setting process in order to take into consideration a wide range of stakeholders' views and that it was undergoing public consultation on the next working agenda, the Monitoring Board decided that the current set-up should be maintained, and the actual implementation of the improved agenda-setting process should continue to be overseen in consultation with the Due Process Oversight Committee. Apart from the routine agenda-setting process, the Monitoring Board also decided to incorporate improved feedback provisions, as a safeguard for unforeseen contingencies, to enable the Monitoring Board and Trustees to ensure responsiveness of the IASB to urgent matters relating to standard-setting attention. This will better position all parties to serve their assigned role in supporting the Foundation's objective of developing high quality, globally accepted standards that are helpful for investors and other market participants to make economic decisions. The Monitoring Board's consensus-based decision-making limits the invocation of enhanced feedback to extremely rare and urgent cases where all Monitoring Board members agree an item warrants referral. The Monitoring Board will continue to follow the principle that it will not undermine the independence of the

IASB's decisions with respect to agenda- and standard-setting.

M-6. Foundation funding

- (a) Clarify that the Trustees are primarily responsible for this issue, with the Monitoring Board overseeing the Trustees' performance in this regard.
- (b) Greater clarity should be provided by the Trustees in consultation with the Monitoring Board on the criteria for funding contributions by jurisdictions to the Foundation.
- (c) Jurisdictions using IFRSs are strongly encouraged to make their utmost efforts to meet expected contributions based on a certain allocation mechanism, depending on their situations.
- (d) The Monitoring Board may reach out to relevant public authorities to encourage their contributions.

There was full agreement on establishing a more stable and independent funding model, and most respondents argued that the Trustees were primarily responsible for improving the funding model. Respondents generally did not provide guidance as to the design of the improved funding model. The Monitoring Board decided to follow the overwhelming support to hold the Trustees responsible for the improvement, and placed itself in the position to oversee their performance. The Monitoring Board also decided to refrain from recommending certain models, and to encourage respective jurisdictions using IFRSs to make their utmost efforts for the collection of funds, while leaving the specifics of the actual mechanisms for them to decide. The Monitoring Board also called for greater clarity in the calculation of expected funding contributions for respective jurisdictions.

M-7. IASB Chair selection

- (a) Maintain the current set-up whereby the Trustees have the ultimate responsibility for selecting the IASB Chair.
- (b) The Monitoring Board will agree with the Trustees on a set of criteria for selecting potential candidates, which will be documented and made public.
- (c) The Monitoring Board will submit to the Trustees its assessment of a short list of candidates against the criteria, for the Trustees' reference.

- (d) The Monitoring Board and the Trustees will document and publish the general arrangement for the selection process.

Most respondents expressed strong objections against the Monitoring Board having a more prominent role in the selection of the IASB Chair based on concerns that it might undermine the IASB's independence. On the other hand, there were some strong calls for enabling the Monitoring Board to be involved in the selection process at an early stage. Considering the majority views opposing the Monitoring Board's prominent involvement in the selection process for the IASB Chair, and the stakeholders' broad support for the current three-tier governance structure underlying such views, the Monitoring Board decided to maintain the current structure where the Trustees have the ultimate responsibility in selecting the IASB Chair. Meanwhile, the Monitoring Board also decided to respond to calls for it to have some involvement in the selection process at an early stage by requiring its agreement on the criteria and allowing it to submit to the Trustees its assessment of a short list of candidates against such criteria. The Monitoring Board places a high level of importance on the independence of the standard-setter, and thus decided to explicitly require documentation and publication of both the criteria and the general arrangements for the process, so as to address stakeholders' concerns through improved transparency.

M-8. Framework for IASB composition

- (a) Require that the Trustees consult the Monitoring Board when they develop a framework to ensure diversity of the IASB reflecting IASB composition as set forth in the Constitution.
- (b) The consultation will cover the development of a general framework and does not extend to the Monitoring Board's involvement in the ongoing selection process itself.

A large majority of the respondents thought that the Monitoring Board should consult with the Trustees when the Trustees develop a framework to ensure appropriate balance in the composition of the IASB. However, they opposed the Monitoring Board's direct involvement in the appointment of individual IASB board members given the need to maintain the IASB's independence. The Monitoring Board decided to follow such views and will not be involved in the selection process for individual board members.

M-9. Monitoring Board secretariat

- (a) Secretariat functions will continue to be provided by the jurisdiction chairing the Monitoring Board.
- (b) The use of existing alternatives (*e.g.*, relying on the IOSCO secretariat) may be pursued if practical difficulties arise from future changes in the Monitoring Board's composition and roles and responsibilities.

Most of the respondents did not see the need for a permanent secretariat at this stage, claiming that the size and expected roles and responsibilities of the Monitoring Board, even after this review, would not justify the possible increase in cost anticipated from establishment of a new secretariat. Many comments instead suggested relying, where necessary, on existing alternatives, such as the IOSCO secretariat. The Monitoring Board decided to maintain the current system where the Chair jurisdiction provides the secretariat functions with support from other members as necessary.

D. Other

O-1. Periodic governance review

- (a) Conduct a formal review of the features of the governance structure perceived to be in need of improvement, with an interval of five years to coincide with the Foundation's periodic review of its Constitution.
- (b) The regular reviews do not necessarily preclude ad-hoc, interim reviews in response to imminent needs.
- (c) Eligibility of permanent members will be reviewed every five years against the membership criteria as indicated earlier under "M-1. Monitoring Board membership, (d)".

There was broad support for periodic review of the governance structure, preferably at the same time as the Trustees' Constitution reviews. Some comments called for flexibility in the timing as well as the scope of such reviews. The Monitoring Board decided to accept these suggestions as a means of including some flexibility into the review system. The Monitoring Board also decided to introduce a periodic review specifically focusing on the eligibility of all

permanent members to maintain fair representation as described earlier in connection with the expansion of the Monitoring Board membership. The first review will start in early 2013.

O-2. Stakeholders’ involvement in standard-setting

- (a) The Monitoring Board will receive regular reports on the activities of the Trustees’ Due Process Oversight Committee, including the committee’s consideration of the IASB’s efforts to ensure appropriate compliance with due process in standard-setting.

While not many comments were received on this subject, the views of the respondents varied from those agreeing that the voices of stakeholders were sufficiently heard to those calling for further engagement with relevant stakeholders. A few respondents also mentioned the need to take into account relevant public policy objectives. Considering that the suggestions focused on operational aspects, in particular proper implementation of due process (*e.g.*, public consultation, outreach activities, field testing, and impact assessments), the Monitoring Board decided to focus on how to ensure proper oversight of due process and decided to call for regular reporting by the Trustees’ Due Process Oversight Committee.

Annex: List of Working Group Members (as of December 2011)

Zarinah Anwar Securities Commission Malaysia
(representing IOSCO Emerging Markets Committee)

Pierre Delsaux/Jeroen Hooijer European Commission

Masamichi Kono (Chair) Financial Services Agency of Japan

Eduardo Manso Ponte Comisión Nacional del Mercado de Valores of Spain
(representing IOSCO Technical Committee)

Ethiopsis Tafara US Securities and Exchange Commission

Secretariat:

Takashi Nagaoka Financial Services Agency of Japan

Makoto Sonoda Financial Services Agency of Japan

Appendix: Action Plan for Implementing the Decisions

- By mid-2012**
- Consider details of Monitoring Board decisions and develop text for inclusion in governing documents on:
 - criteria for permanent membership, including the definition for the “use of IFRSs”;
 - specifics of transitional membership, including eligibility assessment; and
 - specifics of regular review for all permanent members, including consequences of not meeting the criteria.
 - Finalize development, in consultation with IOSCO, of the specific criteria and process for selecting rotating members. (To be implemented as soon as practicable.)
- By end-2012**
- Complete any amendments to governing documents (*i.e.*, Charter, Memorandum of Understanding, and Constitution).
 - Determine candidates against the membership criteria for new permanent membership seats.
- Early 2013**
- Start the first assessment of existing members’ eligibility to remain members.
- By end-2015**
- Complete the second governance review, in coordination with the Trustees’ third regular review of the Constitution.