

**Comments on the
Status of Trustees' Strategy Review Published
5 November 2010 by IFRS**

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February, 24, 2011

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?

Comment: Yes, it should be amended. The reasons for this are set out below.

1. The current Constitution does not articulate the vision or aims of the IASCF. That is: "why do we need globally uniform financial reporting standards?"; "what benefits will globally uniform financial reporting standards bring us?"; and "what aims is the organization attempting to fulfill through globally uniform financial reporting standards?" In my understanding, the answers to these questions cannot be found in the current Constitution.

2. Regardless of type of the organization, it can be said that if the organization is not able to resolve the question of "why" - the aim of existence - clearly, it will never be able to find the answer to the question of "how" - the way it operates or its governance. This is especially the case for an international organization like the IASCF that depends on multilateral consensus. In my understanding, the current Constitution is only states "what" the IASCF engages in. Clearly stating its vision or aims and having those confirmed by all constituents as being for the common benefit of all of stakeholders are crucial to the continuing existence of the organization.

In this respect, the Charter of United Nations¹ and/or the aims of the International Organization for Standardization² represent applicable precedents.

3. If the development of IFRS has been initiated in response to the globalization of financial

¹ <http://www.un.org/en/documents/charter/preamble.shtml>

² http://www.iso.org/iso/about/discover-iso_isos-name.htm

markets, then the main role of the IASCF should be the development of the most relevant system for formulating normalized financial report standards for globalized markets.

Today, particularly in the aftermath of the 2008 global financial crisis, the merits and demerits of a globalized market have been argued about and there has been literature highlighting the demerits of globalization. Nevertheless, even if some of the stated demerits bring serious negative consequences, it is impossible to stop the wave of globalization. If so, what are needed are the methods or measures to prevent further crises and/or absorb the shock of the current crisis. For that purpose, efforts were initiated by some nations (i.e., the G20) and by some of regulatory agencies (i. e., IOSCO). However, it is possible that these efforts will focus only on seeking short-term reactive measures to the financial crisis rather than permanent solutions that address underlying issues in a more balanced and considered way.

4. In my opinion, IFRS's vision or aim should be contributing to the strengthening of the global capital markets through providing frameworks and standards for accurate reporting of financial information. At a minimum, the IASCF should clearly state its policy with respect to engaging with various constituents of the global capital markets, and the ultimate characteristics the IASCF would like to see exhibited by the capital markets.

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?

Comment: These should not be reconciled. The reasons are set out below.

1. Independence is an important feature of financial reporting standards. In many countries, financial reporting standards have historically been set by private organizations. This practice has arisen because it is understood that private bodies could eliminate the possibility of political influence and ensure the independence of financial reporting standards. Thus, maintaining independence has been the base premise of a private organization's existence.
2. Therefore, if the financial reporting standards come under political influence that brings change to financial reporting standards, the base premise for a private organization's existence will cease to exist. For this reason, I propose that it should not be reconciled.
3. However, if it is clear that a financial reporting standard is flawed, it should be remedied

regardless of public policy concerns. Therefore, in my understanding, it is most important to carefully determine whether the change of financial reporting standard has been on account of political notion or a genuine flaw itself.

If the event was due to the former, all possible measures should be adopted to avoid recurrence of similar errors.

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?

Comment: The structure and the governance of the organization should be rebuilt fundamentally. The details and the reason will be given in the comment to the next question.

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)?

Comment: Yes, further steps are required. My recommendations are set out below.

1. The brief conclusion of my suggestions are as follows:

- (a) to eliminate the Trustees, the Monitoring Board and the Advisory Committee, and
- (b) to establish a “general assembly” as the decision-making organ and a “council” or “standing committee”³ as the executive organ of the organization.

Members of the general assembly should be comprised of representatives from standard setters and other stakeholders (both public and private) of the nations/districts which already use or are going to use IFRS. Members of the council should be elected by the general assembly. The IASB and IFRIC should maintain current status except with respect to the nomination power of members. (More detail will be described below.)

2. The basis for my suggestions is as follows:

³ These appellations are given ad-lib for this comment letter.

The current structure and governance of the organization are defective in respect of ensuring the legitimacy of the organization. The organization lacks an effective structure for enabling multilateral decision making, and in this respect it has not secured “legitimacy” and “international” standards in the real senses of these terms. The IASCF has to realize that the current governance structure of the organization is too closed for an influential global standards setting body, and that some countries/districts are racing to send their representatives to the Trustees of the IASCF. In my view, this kind of circumstances is quite unhealthy to the legitimacy of the organization. In this regard, I suppose that the way of ISO⁴ might serve as good reference.

3. The IASCF introduced the system of the Monitoring Board in 2009. Although this is a praiseworthy effort, it seems, however, that the current system is not enough to secure the legitimacy because the constituent membership of the Monitoring Board is still too closed.

4. In this regard, I suggest that the IASCF demolish the Trustees and the Monitoring Board system which holds the area assignment for membership⁵ and instead establish a system which reflects the intentions of the countries/districts that are already using and are going to be using IFRS, namely a “general assembly” and a “council”.

5. From the aspect of governance based on legitimacy, it is difficult to find the positive meaning and role of the Advisory Council, because it is doubtful that a “forum” with merely 30 parties is “public” in the real sense of the term. That is, the Advisory Council is a mechanism which allows for the formulation of a biased view. For this reason, I suggest that the IASCF demolish it and incorporate its function into the general assembly.

6. In the same sense, the nominating process for IASB and IFRIC members should be more multilateral. In my suggestion, the council prepares a list of candidates for IASB membership, and the general assembly holds an election in accordance with the rule of the majority. However, the current criteria for IASB Members (Annex of the current Constitution) should be retained as is.

7. The details are as follows:

7-1. The features of the general assembly:

The general assembly shall be comprised of full-members and observers.

The powers of the general assembly shall be as follows;

- (a) to approve the nomination of council members;
- (b) to approve substantive matters, which shall be described in the authority of the general council; and
- (c) other matters appropriate to the authority of the general assembly.

⁴ http://www.iso.org/iso/about/discover-iso_isos-name.htm

⁵ Section 6 and 7 of the Constitution.

The requirements for full- members should be as follows:

- (a) requirement for national origin : the countries/districts that use IFRS; and
- (b) requirement for the number of full-members from each country/district: two, with one full-member being a representative of the national standards setter, and the other a stakeholder (which shall not be limited to the private sector).

The powers and duties of full-members should be as follows;

- (a) each full-member of the general assembly shall hold one vote which shall rank evenly with all other votes; and
- (b) full-members of the general assembly should be required to pay a membership fee.

The requirements for observers should be as follows:

- (a) any international organizations which have a stake in financial reporting standards (i.e. The Basel Committee, IOSCO); and
- (b) other organizations which have a stake in financial reporting standards (i.e. the current members of the Advisory Committee).

The powers and duties of the observers to the general assembly should be;

- (a) to attend the meetings of the general assembly, including the right to speak in relation to the issues being considered at the meeting, but not to vote; and
- (b) observers to the general assembly should be required to pay a fee for their observer status.

7-2. The features of the council.

The requirements for the members of the council should be as follows:

- (a) the members of the council shall be nominated by the general assembly,
- (b) the members of the council shall be persons who possess sufficient knowledge and experience in financial reporting and other related areas, and shall include auditors, preparers, users, scholars and others.

The council may establish a standing committee with the approval of the general assembly.

The substantive matters the council should decide upon, and submit to the general assembly for approval are as follows;

- (a) to nominate candidates for membership of the IASB and IFRIC;
- (b) to decide upon and revise the procedure and rules relating to the management of the IASB and IFRIC;

- (c) to draft the budget of the organization and allocation of the member fees; and
- (d) other matters appropriate to the authority of the council.

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?

I do not propose to respond to this question due to time limitations.

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?

I do not propose to respond to this question due to time limitations.

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?

Comment: Yes, there are. As I stated previously, I suggest extending the membership of the organization and to employing a system of membership fees. Please see part 7 of my comment for question 4.

Other issues

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

Comment: I request that the IASCF accept languages other than English when soliciting feedback. The current practice of only accepting English feedback is quite unfair for persons whose first language is not English.