



**The Japanese Institute of
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Mr. Gerrit Zalm
Chairman of the Trustees
IASCF Foundation
1st Floor, 30 Cannon Street
London EC4M 6XH
United Kingdom

**Comments from JICPA on *Review of the Constitution:*
*Public Accountability and the Composition of the IASB – Proposals for Change***

Dear Mr. Zalm,

We at the Japanese Institute of Certified Public Accountants (JICPA) are pleased to comment on the International Accounting Standards Committee Foundation (IASCF) discussion document: *Review of the Constitution: Public Accountability and the Composition of the IASB – Proposals for Change*. We support the overall proposals set out in the discussion document: the creation of a Monitoring Group and expanding the International Accounting Standards Board (IASB) and geographical considerations for IASB members.

However, we believe that the role, mandate, and limits of the Monitoring Group should be articulated in the IASCF constitution so that the IASCF and the accounting standard-setting of the IASB would not be influenced by geographically-disproportionate securities regulators. At the same time, we also call for public consultation of a draft Memorandum of Understanding (MoU) describing the terms of reference of the relationship between the Monitoring Group and the Trustees, as well as the steps to be taken, including the publication of agendas and minutes and open meetings of the Monitoring Group.

We provide our comments on each question listed in the discussion document as follows:

Questions related to the Monitoring Group

Q1:

Do you support the creation of a link to a Monitoring Group in order to create a direct link of public accountability to official institutions?

We support the proposed creation of a link to a Monitoring Group.

As International Financial Reporting Standards (IFRSs) are required or permitted for use in over a hundred jurisdictions and the IASB is evolving into the global accounting standard setter, the responsibility of the IASCF and IASB has grown more considerably than ever. Therefore, we believe that it would be preferable to establish a formal link to securities regulators whose aims are to promote the development of sound capital markets and to protect investors.

However, it is foremost that the standard-setting process is completely independent of the influence of particular national securities regulators, and we share concerns expressed by other constituencies that this independence would be compromised or impaired. There is a need to establish a mechanism to avoid influences on the global standard-setting exercised by geographically-disproportionate regulators due to some political considerations, which have been observed before. As already stated above, we propose such steps as the publication of agendas and minutes and holding open meetings of the Monitoring Group.

Q2:

The proposals contemplate a Monitoring Group comprising representatives of seven public authorities and international organisations with a link to public authorities. While recognising that the Monitoring Group is an autonomous body, the Trustees would welcome comments regarding the Monitoring Group's membership and whether other organisations accountable to public authorities and with an interest in the functioning of capital and other financial markets should be considered for membership.

We support the proposed membership of the Monitoring Group.

We are aware that paragraph 21 of the proposed amendments to the Constitution states “*Initially*, the Monitoring Group shall comprise:” and that paragraph 22 states “The Monitoring Group shall *reconsider* its composition from time to time.” We believe that members of the Monitoring Group would be augmented, as appropriate, in the future.

Q3:

The Trustees will remain the body primarily responsible for the governance of the organisation and the oversight of the IASB. Their responsibility to a Monitoring Group will enable regulatory and other authorities responsible for the adoption of IFRSs to review the Trustees' fulfilment of their constitutional duties. Does the formulation of the Monitoring Group's mandate and the Trustees' reporting responsibilities, as described in the proposed Section 19, appropriately provide that link, while maintaining the operational independence of the IASC Foundation and the IASB?

As paragraphs 4 and 5 describe, we observed that the oversight function of the IASB by the IASCF and the IASB's due process has been reinforced for the last few years. Accordingly, we support the idea set out in paragraph 17 that the governance function of the IASCF should remain primarily with the Trustees.

We are concerned that the mandate of the Monitoring Group would expand depending on its operations, because the description of the mandate is not fully clear in paragraph 18. In particular, we consider that it is inappropriate for the Monitoring Group to be authorised to recommend candidates as Trustees because the mandate of the Monitoring Group should be limited. The role of the Monitoring Group should be confined to a monitoring and review function of the activities of the IASCF and the selection of Trustees, as described in paragraph 16. The mandate and due process of the Monitoring Group should be stated and the Monitoring Group should be restricted to have only a veto in terms of selections of Trustees.

Also, we strongly support a public consultation of the draft MoU before its completion, as the IASCF recommends in paragraph 16. We are concerned how the transparency of activities of the Monitoring Group would be ensured because this is not clearly stated in the discussion document. We reiterate our response to question 1 that steps such as making meetings open to the public should be taken.

The Monitoring Group should not be involved in the standard setting process and the power of agenda setting should rest with the IASB.

Q4:

Given the proposed creation of a Monitoring Group, would there be a continued need for the Trustee Appointments Advisory Group in the selection of Trustees? If so, what should be the role and composition of the Trustees Appointments Advisory Group?

We have identified some organizations whose representatives are current members of the

Trustee Appointments Advisory Group and who are also proposed as members of the Monitoring Group. Considering this fact and the proposed creation of a Monitoring Group, we believe that the role of the Trustee Appointments Advisory Group would be replaced by the Monitoring Group.

Questions related to the IASB's composition

Q5:

Do you support the principle behind expanding the IASB's membership to 16 members in order to ensure its diversity, its ability to consult, liaise and communicate properly across the world, and its legitimacy?

We support the proposal that expands the IASB's membership to 16 members.

Q6:

Do you agree with the geographical formulation suggested by the Trustees?

We agree with the argument that the geographical considerations would increase the legitimacy of the IASB in jurisdictions which have adopted IFRSs. However, we are concerned that the geographical formulation might lead to IASB members awarding precedence to regional interests over global perspectives. We suggest that a mechanism be incorporated into the performance review of IASB members in order to avoid any IASB member acting as a regional representative.

Paragraph 23 states that the Constitution's emphasis on 'professional competence and practical experience' should remain paramount, but we have some concerns that this would not be properly implemented. We propose that the oversight of the selection process of IASB members be enhanced and that Trustees disclose the oversight process in publications such as IASCF Annual Reports.

Although we agree with the proposed composition of IASB members, we suggest that Trustees reconsider this in the future. For example, the International Federation of Accountants (IFAC) categorises Africa and Middle East into one group in nominating members of IFAC Board and other standard-setting boards. We propose that the reconsideration of the proposed composition should be added to the amendments to the Constitution.

Q7:

The Trustees are suggesting that the Constitution should provide flexibility on the matter of part-time membership. Do you support that proposal?

We support the suggestion that the Constitution should provide flexibility on the matter of part-time membership. We do not find a need to predetermine the number of part-time members and we consider that the proposed number of a maximum of three part-time members is reasonable. The term of IASB members is set to be five years — a relatively long period, so, as explained in paragraph 30, we believe those who have practical expertise would bring diversified perspectives to standard-setting and contribute significantly to IASB's works on the condition that their independence is ensured.

Additional comments

Enforcement by securities regulators plays a critical role in ensuring the rigorous implementation of accounting standards and high-quality financial reporting. In this sense, securities regulators assume significant responsibilities. We believe that a cooperative mechanism among regulators needs to be established to ensure the rigorous and consistent implementation as an exit (output) of accounting standards in addition to an entry (input) of accounting standards such as the oversight of selection of Trustees.

As paragraphs 10 and 11 state, the activities of the IASB and IASCF affect a wide array of stakeholders as well as regulators. Accordingly, we wish to emphasise that it is also important to communicate with other stakeholders in a timely and appropriate manner. In addition to strengthening the link with the Monitoring Group, we suggest that the Trustees improve and enhance effective communications with other stakeholders.

We hope that you will consider our comments to conclude this review.

Yours truly,

Koichi Masuda
Chairman and President
The Japanese Institute of Certified Public Accountants