

30 November 2015

Ms. Yael Almog  
Executive Director  
IFRS Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

**Re: Comment on Request for Views – Trustees’ Review of Structure and Effectiveness:  
Issues for the Review**

1. The Financial Accounting Standards Foundation (the “FASF”) and the Accounting Standards Board of Japan (the “ASBJ”) (hereinafter collectively referred to as “we” in this letter) welcome the opportunity to provide comments on the IFRS Foundation’s Request for Views on *Trustees’ Review of Structure and Effectiveness: Issues for the Review* (the “RV”). Depending on nature of the questions in the RV, only the FASF, the ASBJ or both the FASF and ASBJ provides comments on individual questions.
2. Of issues being asked in the RV, we are providing comments, particularly highlighting the following matters:
  - (a) Whether to expand the mandate of the IFRS Foundation: In this letter, we call for a cautious approach in considering whether to expand the mandate of the IFRS Foundation (Please see our responses to Questions 1 and 2 of this letter.)
  - (b) Measures to encourage the consistent application of IFRS: In this letter, the ASBJ proposes specific suggestions as to what the IFRS Foundation or the IASB can do to promote global acceptance of IFRS in the future, including how the IASB’s due process could be improved (Please see our response to Question 6 of this letter.)
  - (c) The composition of Trustees of the IFRS Foundation and IASB members: Although we agree with some of the proposals, we do not agree with other proposals, especially the proposal to reduce the size of the IASB to 13 (Please see our responses to Questions 8 to 9 and 11 to 13 of this letter.)
  - (d) Financing: In this letter, the FASF encourage the IFRS Foundation to make its best efforts to ensure that the IASB maintains resources sufficient to develop a set of globally accepted high quality standards (Please see our response to Question 14 of this letter.)

3. In addition, although the Foundation is not asking for comment on its strategy in this consultation document, we believe that it is important for the IFRS Foundation to review the current strategy to assess if it continues to be appropriate, taking into account the changing environments. Specifically, we recommend in this letter that the IFRS Foundation acknowledge that ‘convergence’ remains an important factor to consider in promoting the comparability of financial information and achieving the long-term goal of a single set of high quality accounting standards (Please see our response to Question 15 of this letter.)
4. Additionally, although the FASF generally agrees with the proposal to change the focus of the Trustees’ public consultation, the FASF believes that it is critical for the IFRS Foundation and financial reporting community as a whole to remain conscious of whether a structural overhaul would be necessary or appropriate, taking into account changing environments (Please see our response to Question 10 of this letter.)
5. For our comment on specific questions in the RV, please refer to the Appendix of this letter.
6. We hope that our comments will be helpful for the IFRS Foundation’s future consideration. If you have any questions, please feel free to contact us.

Yours sincerely,



Masaji Miyako

Managing Director

Financial Accounting Standards Foundation



Yukio Ono

Chair

Accounting Standards Board of Japan

CC: Mr. Michael Prada, Chairman of the IFRS Foundation Trustees

Mr. Hans Hoogervorst, Chairman of the International Accounting Standards Board

**Comment on Specific Question in the RV****Primary Strategic Goal 1: Development of a single set of standards****Q1 – Scope: Should the IASB develop Standards for other entities?**

Considering the consequences referred to above, what are your views on whether the IASB should extend its remit beyond the current focus of the organisation to develop Standards; in particular for entities in the private, not-for-profit sector?

10. We do not believe that the IASB should extend its remit beyond the current focus of the organisation. In our view, the IASB should maintain the current focus of its activities on financial reporting of a private sector. We will explain the reasons in the following paragraphs.
11. Firstly, there has already been an established accounting standard-setting mechanism for the public sector (as explained in the RV), and we do not think it has significant flaws. Hence, we do not believe that changing the entire mechanism (as opposed to improving the current mechanism) would be a cost-effective solution for the financial reporting community, including the IASB.
12. Secondly, we think that the objectives of financial reporting in the not-for-profit sector are significantly diverse both nationally and internationally, and the usage of financial reports is also diverse; thus, it would be extremely challenging, if not impossible, to try to develop an international financial reporting model. In addition, if the IFRS Foundation were to include not-for-profit sector financial reporting into its mandate, we believe that the Foundation would arguably need to establish another board dedicated for this purpose because different experience and skill-sets would be necessary for the deliberation and the IASB's capacity has already been fully absorbed within the agendas for private profit-sector entities. We think that this would require a significant amount of investment. In our view, trying to extend the IFRS Foundation's mandate would give rise to the need to reconsider its funding model, as the current funding model is primarily based on the presumption that the primary beneficiaries of the IFRS Foundation's activities are stakeholders of financial reporting of private profit-sector entities.
13. Lastly, in its consultation document on *2015 Agenda Consultation*, the IASB stated its view that the IASB cannot address all issues that stakeholders are calling for, owing to resource constraints, and that appropriate prioritisation would be essential. Considering

the possible ramifications as well as the primary mission for the IFRS Foundation and the IASB to serve the world's capital markets, we believe it inappropriate to extend its mandate to other areas, while acknowledging that something are still yet to be carried out for financial reporting in the private sector.

<b>Q2 – Scope: Wider corporate reporting</b>
--

Do you agree with the proposal that the IASB should play an active role in developments in wider corporate reporting through the co-operation outlined above?
---

14. We believe that the current level of IASB activities regarding developments in a wider corporate reporting (including, the development of the framework of the integrated reporting) is generally appropriate.
15. Having regards to the possibility that the development of the integrated reporting framework could have significant ramifications to financial reporting in the private profit-sector entities, we do not believe it appropriate for the IASB to simply remain on the sidelines; instead, it would be helpful for the IASB to maintain a strong liaison relationship with the International Integrated Reporting Council. At the same time, we do not believe that the IASB should significantly intensify the level of its involvements in this area, considering that the developments of integrated reporting are still at an early stage, and it is unclear as to how much effects it would have on financial reporting, following the development of the framework.

### **Primary Strategic Goal 3: Consistency of application and implementation**

<b>Q6 – Consistency of application and implementation</b>
---

What are your views on what the Foundation is doing to encourage the consistent application of IFRS? Considering resourcing and other limitations, do you think that there is anything more that the Foundation could and should be doing in this area?
---

16. The ASBJ appreciates the IFRS Foundation's initiatives that seek to encourage the consistent application of IFRSs. However, the ASBJ believes that it is important for the IFRS Foundation and the IASB to continue improvement of the standard-setting procedures, because robust procedures would result in IFRSs being more readily embraced in the world, and IFRSs would be consistently applied without undergoing modifications thereto. Specifically, the ASBJ suggests the following:

- (a) ASAF meetings: The ASBJ very much appreciates the opportunities for the ASAF members to discuss contemporary issues at the ASAF meetings. However, in some cases, significant (or directional) decisions have already been made by the IASB before the ASAF meetings, and the ASAF members simply receive reports of the IASB's decisions. Although it is not realistic for the IASB to seek inputs from the ASAF members on every single issue, it would be highly desirable if the IASB ensures that inputs are sought from the ASAF members before it makes significant decisions. The ASBJ believes that it would be helpful for the IASB in speeding up the entire standard-setting process and reduce the risk of national variations in IFRS.
- (b) Due-process: Although the IASB has strengthened its due process significantly, there is still room for improvement. Having compared the process with that of other bodies (including the ASBJ), the ASBJ suggests the following:
- (i) Enhanced transparency of the standard drafting process: The ASBJ suggests that the IASB consider enhancement of transparency in the drafting process. The ASBJ conducts its deliberations on the proposed Japanese accounting standards, making them available to the public observers of the meeting. The ASBJ has found that this disclosure of the drafting process contributes to providing opportunities with stakeholders to confirm if some words are fatally inappropriate and reduces the risk of misunderstandings between major stakeholders when the Standards are issued. Although the ASBJ acknowledges a flipside of promoting transparency, the ASBJ is of the view that the benefits of making the draft Standard available to the public before the Standard is issued would outweigh the cost of doing so. As an example, it might be appropriate for the IASB to convene a public discussion based on the near-final draft after the pre-ballot drafting process is finalised.
- (ii) Voting requirements for tentative decisions and approval of documents: The ASBJ understands that a requirement of too strict voting requirements would slow down the IASB's standard-setting process, and could be detrimental to the standard-setting process. However, the ASBJ questions if the current voting requirements remain appropriate, considering the increased acceptance of IFRS across the globe. The ASBJ has the view that agenda and topic decisions should require more than a simple majority of members in favour, to ensure that the final outcome would be more readily accepted by a wider range of stakeholders. For the same reason, the ASBJ thinks that the Exposure Drafts,

IFRSs and Interpretations of IFRSs should require at least a two third approval as opposed to the current voting requirements (which requires approval of 9 out of 14 Board members).

- (c) Post-implementation review: The ASBJ appreciates the IASB’s initiative in carrying out post-implementation review (PiR) of Standards. However, it is not always clear how the IASB selects a Standard for PiR, and what actions are taken based on the feedback received. It would be helpful if the IASB clarifies the procedures regarding PiR.

#### **Primary Strategic Goal 4: IFRS Foundation as an organization**

<b>Q8– Trustees: Geographical distribution</b>
--

What are your views on the overall geographical distribution of Trustees and how it might be determined? Do you agree with the proposal to increase the number of ‘at large’ Trustee appointments from two to five?
---

17. The FASF generally agrees with the proposal to increase the number of ‘at large’ Trustee appointments from two to five, because the proposal would allow the geographical representation of the Trustees remains up to date. Considering the recent trend of increased economic prominence of the Asia-Oceania region, it would be necessary for the IFRS Foundation to maintain and increase the representation from the region so that the geographical distribution of Trustees continues to be appropriate.
18. At the same time, however, the FASF believes that the geographical distribution is not the only factor to consider. In deciding the nominations, other factors should also be considered. Please see our response to Question 9.

<b>Q9– Trustees: Balance of professional background</b>
---

What are your views on the current specification regarding the provision of an appropriate balance of professional backgrounds? Do you believe that any change is necessary, and if so, what would you suggest and why?
---

19. As stated in our response to Question 8, the FASF does not believe that geographical distribution is the only factor to consider, although it agrees that this is an important factor.

20. The FASF agrees that the IFRS Foundation should not specify a quota for relating to the professional background of Trustees, because it would unduly limit the selection process. However, the FASF believes that factors, such as (a) areas and degree of strength of professional background of individuals and (b) the level of maturity of capital markets from which they are to be represented should be duly considered when selecting Trustees, because it would promote advancement of the IFRS Foundation’s mission to develop a set of high quality international standard.

<b>Q10– Trustees: Focus and frequency of reviews of strategy and effectiveness</b>
Do you agree with the proposal to change the focus and frequency of reviews of strategy and effectiveness, as set out above?

21. On one hand, the FASF generally agrees with the proposal to change the focus (from the structure to the strategy and effectiveness of the organisation) of the Trustees’ public consultation for the following reasons:

- (a) Compared with its still fledging stage following inception of the IFRS Foundation, structural issues requiring a wide range of inputs from stakeholders’ via public consultation have significantly decreased.
- (b) Having considered the establishment of the IFRS Foundation Monitoring Board (the “Monitoring Board”) and on-going operation of other advisory committees (such as the IFRS Advisory Council), relatively small-scale structural improvements (if any) could be initiated through discussion between the Monitoring Board and Trustees in consultation with other advisory committees without the need to conduct public consultation.

22. On the other hand however, the FASF believes that it is critical for the IFRS Foundation and financial reporting community as a whole to keep abreast of whether a structural overhaul would be necessary or appropriate. This is because the genesis of the current international accounting standard-setting model is still not too distant past, and it may be necessary to adjust the model taking into account the changing environments.

23. As for the proposed change regarding the frequency of public consultation by Trustees, we do not find good reason to lengthen the interval from the current arrangement of every five years (to say, six or seven years), because we believe five-year is generally understood to be a reasonable interval period.

<b>Q11– IASB: Size of the IASB</b>
------------------------------------

Do you agree with the proposals to reduce the size of the IASB as set out in the <i>Constitution</i> from 16 members to 13 and the revised geographical distribution?
---

24. We understand the argument that a reduction in the size of the IASB may contribute to more effective communication between Board members because in general, fewer peoples would facilitate a more fluid dialogue and nourishing greater sense of responsibility amongst the members.
25. However, we do not agree with the proposal to reduce the size of the IASB to 13 for the following reasons:
- (a) The current IASB’s composition works well. In principle, it would be unnecessary to make changes to areas when things are not found to be flawed.
  - (b) Over recent years the Asia-Oceania region has been experiencing rapid speed of economic growth. In addition, this region consists of a greater number of jurisdictions than others, and maintains significant diversity in business customs in itself. Hence, reducing the number of Board members would not be helpful to reflect diverse views from this region, and would rather be detrimental to the pursuit of the IFRS Foundation’s goal of the global adoption of IFRS.
  - (c) Although we very much appreciate the operation of the ASAF, we think that role of the ASAF members (as advisors to the IASB) and that of the IASB members (as members of the decision-making body) are significantly different. Thus, we do not believe that the creation of the ASAF constitutes a compelling reason to decrease the size of the IASB.
26. Accordingly, taking into account of the roles of the IASB members, we suggest that the IFRS Foundation reduce the number of the IASB members in line with the current IASB member representation, such that the number of the Board members from Europe and North America should be reduced to three while the current number (four) should be maintained with regard to Board members from Asia-Oceania.

<b>Q12– IASB: Balance of background on the IASB</b>
---

Do you agree with the proposal to delete Section 27 and to amend the wording of Section 25
--



of the *Constitution* on the balance of backgrounds on the IASB?

27. We agree that the IFRS Foundation should periodically review the requirements of the IASB members set forth in the *Constitution* as selection of the appropriate members is critical for the success of the IASB's activities. However, we are not sure if the proposal is appropriate. We highlight the areas that we consider important as follows:
28. Firstly, we are not sure what is intended with the proposed addition of 'market and/or financial regulators' to the IASB members' background requirements, because market and/or financial regulators play at least two different roles; namely, (a) rulemaking in relation to financial reporting requirements and (b) review of financial reports and taking enforcement actions when deemed necessary. Enforcers may have greater insights into the shortcomings of financial reporting requirements and areas in which financial statements (including those of smaller entities that financial analysts do not cover) are susceptible to manipulation. On the other hand, rule-makers may have greater insights into the dynamics of financial reporting developments and politics in relation to the development of standards. Yet, the two strengths are distinctly different in nature. Thus, we suggest that the IFRS Foundation clarify the intent before finalising its deliberation of the proposed changes.
29. Secondly, we suggest that the Trustees review if the current mixture of practical experience of the IASB members appropriately achieves the objectives of section 27 of the *Constitution*. Having understood that the section is intended to help achieve the appropriate representation of diverse views from the financial reporting community during IASB discussion, some raised a question as to whether the objective has been sufficiently achieved. For example, there was a view that preparers' views were sometimes rather too soft, and were not adequately represented in the discussion.
30. Thirdly, we suggest that the IFRS Foundation clarify the intent of section 29 of the *Constitution*. Section 29, among others, requires each of the IASB members to agree to have regard to the IASB's *Conceptual Framework* in deciding on and revising standards. However, it is not clear what is intended with the requirement. Especially, some questioned to what extent the requirement does (or does not) allow the IASB members to depart from the *Conceptual Framework* in voting for or against the Standard. Considering that some expressed a view that the *Conceptual Framework* should be regarded as a 'living document' during the course of deliberation with regard to a review of the *Conceptual Framework*, we wonder if an excessively stringent requirement may inhibit an appropriate change in due course.

31. Finally, we believe that other factors, such as (a) areas and degree of strength of professional background of individuals and (b) the level of maturity of capital markets of the geographical area the individual is to represent, should be duly considered when selecting IASB members and relevant sections of the *Constitution* should be amended accordingly because such factors are considered to be conducive to the development of high quality international standard.

**Q13– IASB: Terms of Reappointment of IASB members**

Do you agree with the proposals to amend Section 31 of the *Constitution* on the terms of reappointment of IASB members as outlined above?

32. We agree with the proposals to amend Section 31 of the *Constitution* on the terms of reappointment of IASB members because it would help the IFRS Foundation ensure the effective and efficient transition from of IASB members.

**Q14 – Financing**

Do you have any comments on the Foundation’s funding model as outlined above? Do you have any suggestions as to how the functioning of the funding model might be strengthened, taking into consideration the limitations on funding?

33. First and foremost, the FASF believes that the IFRS Foundation should make every possible effort to ensure that the IASB maintains resources sufficient to develop a set of globally accepted high quality standards (including financial resources to conduct outreach activities across the globe). Thus, the FASF strongly encourages the IFRS Foundation to continue its fundraising initiatives to promote its five principles agreed by the Trustees.

34. Second, in order to fulfil its accountability more properly, the FASF believes that the IFRS Foundation should strive to better explain to the Monitoring Board and its contributors how the funds are used when budgets are established and after its financial accounts for a period are closed.

35. Lastly, although the FASF generally supports the IFRS Foundation’s initiative to investigate ways in which the Foundation can increase revenue from self-generated income, the FASF calls for careful approach in this pursuit. Considering that the IFRS Foundation’s publications have the nature of “public goods” and they become valuable

only when they are used or referred to, the FASB does not believe that the Foundation should focus too much on this initiative. The FASB worries that the Foundation's initiative to charge fees for its publications may instead deter stakeholders from using or referring to the publication, which would clearly contradict its stated mission.

## Other issues

<b>Q15 – Others</b>
Should the Trustees consider any other issues as part of this review of the structure and effectiveness of the Foundation? If so, what?

36. Although we understand that the IFRS Foundation does not intend to seek inputs on its strategy (including its primary strategic goal to pursue the global adoption of IFRS), we would like to reiterate our view that the convergence of accounting standards (especially with the US Financial Accounting Standards Board) is often an important consideration in standard-setting process as it increases the international comparability of financial information for users. Taking into account the current financial reporting environment and that it does not appear that the US will adopt IFRSs in the near future, we recommend that the IFRS Foundation acknowledge that the 'convergence' remains an important factor to consider in achieving the long-term goal of a single set of high quality accounting standards.