



18 February 2011

Mr. Tsuguoki Fujinuma, Vice Chair

Mr. Robert Glauber, Vice Chair

IFRS Foundation

30 Cannon Street

London EC4M 6XH

United Kingdom

Dear Messrs. Fujinuma, Glauber:

**re: Comments in Response to Paper for Public Consultation,**  
**“Status of Trustees’ Strategy Review”**

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on Paper for Public Consultation “Status of Trustees’ Strategy Review” put out by the IFRS Foundation (IFRSF). The SAAJ is a not-for-profit organization providing investment education and examination programs for securities analysts. Its certified members number 24,000. The CAC is a standing committee of the SAAJ composed of 14 members, most of whom are users including equity and credit analysts, and portfolio managers, while a few others are academicians and public accountants. The CAC writes comment letters to global standard setters including the International Accounting Standards Board (IASB) and Accounting Standards Board of Japan (ASBJ), and exchanges opinions with organizations including the ASBJ and the Financial Services Agency.

**General Comments**

The CAC basically thinks that a single set of high quality, understandable, and enforceable global financial reporting standards can be developed when the IFRSF pursues its activities in line with the objectives stipulated in the Constitution and with the three-tier structure of the Monitoring Board, Trustees, and the IASB. Major securities markets regulators should be involved in the accounting standards setting process in order to reconcile diversified views and requests unique to each of their markets. However, the IASB’s authority to independently develop IFRSs should be held in the highest regard. To the CAC’s eyes, the IASB sometimes seems to deviate from the objectives in developing individual IFRS—the CAC wants the IASB to continue to develop IFRSs but with a stronger awareness of its mission. Following are our answers

to specific questions.

**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?*

The CAC thinks the current Constitution is sufficient and that there is no need for immediate revision. It thinks “investors, other participants in the world’s capital markets and other users of financial information” is a comprehensive concept that includes not only equity and credit providers but also preparers. Some CAC members opined that “high quality, transparent and comparable information” was rather abstract, but the majority thought adhering to “help investors, other participants in the world’s capital markets and other users of financial information make economic decisions” would see the objective of developing standards with “high quality, transparent and comparable information” being achieved.

*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?*

It would appear that this question is raised because there is debate as to whether prices formed in a market that has lost liquidity, such as during a financial crisis, should be accepted as fair value, bearing financial stability requirements in mind. The CAC emphasizes that the prudential regulators, not the accounting standards setters, are responsible for financial stability. Of course, the accounting standard setters should maintain close communication with the prudential regulators, but the standard setters’ utmost priority lies in providing high quality, transparent, and comparable financial information to investors. The IASB’s authority to independently develop IFRSs should be held in the highest regard.

**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?*

The CAC thinks the three-tier structure is, broadly speaking, functioning effectively. The Monitoring Board, having major capital markets regulators as members, is in a position to see to it that the IFRSs are developed to be useful for the economic decision making of various capital market participants. As the Monitoring Board was established quite recently, it is premature to make final judgment of the appropriateness of the three-tier structure.

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)?*

The CAC thinks the above concerns are irrelevant. As two members of the Monitoring Board are from the IOSCO which oversees global capital markets, it should be construed that sufficient linkage has been established between the IASCF and the capital market regulators, without any formal political endorsement. As the Basel Committee is also participating as an observer of the Monitoring Board, opinions and views can be exchanged between the IFRSF and the prudential regulators, making it unnecessary to take additional measures.

**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?*

The CAC thinks the current standard-setting process is almost appropriate and that no major structural reforms are required. However, the CAC proposes the following two

improvements. The first is to further expand outreach efforts before putting out official proposals. In the past, some of the proposals in the discussion papers were completely abandoned or reversed. The IASB's flexibility to respond to comment letters should be highly commended but, at the same time, the necessity also reveals that pre-proposal preparations, including outreach and field tests, are not always adequate. The second proposal is to disseminate information gathered from outreach activities as soon as is practical. Although outreach activities are extremely important, it is hard for non-participants to know what has been discussed. Information should be shared by various constituents.

*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?*

The CAC thinks the IASB needs to pay greater attention to consistent application and implementation issues. As each country and region in the world has its own issues and background, it is unavoidable that a certain 'range', so to speak, is formed in regard to interpretation of each individual standard. However, if the range became too wide, the IFRSs would lose credibility as a single set of global standards. The CAC feels it may be practical to give certain discretion in interpretation to local standard setters. As the IFRSs are being adopted in more countries and regions, monitoring whether local interpretations are excessive or not would also be an important mission for the IFRSF.

**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?*

It is of considerable concern that some, or rather many, countries and regions are not paying their dues. Some CAC members have even asserted that free riders' representation should be limited in one way or another. The first thing the IFRSF can do now is to explicitly stipulate "making every effort that the countries and regions a Trustee represent are paying dues" as an important performance benchmark for Trustees.

Notwithstanding the various issues in each country/region, the stock exchanges are direct beneficiaries of the global adoption of a single set of high quality accounting

standards, as they expect to see more active and voluminous trading. Therefore, development of a scheme to impose a small broad-based levy through the exchanges should be encouraged. In Japan, for example, the Tokyo Stock Exchange encourages listed companies to be members of the Financial Accounting Standards Foundation and a portion of membership fees is contributed to the IFRSF. Another possible way to secure stable income for IFRSF/IASB could be to develop an IFRS education program and use the proceeds for day-to-day operations.

If you have any questions or need further elaboration, please do not hesitate to contact Sei-Ichi Kaneko, Executive Vice President, SAAJ (s-kaneko@saa.or.jp).

Sincerely yours,

A handwritten signature in black ink that reads "Keiko Kitamura". The signature is written in a cursive, flowing style.

Keiko Kitamura

Chair

Corporate Accounting Committee