



30 November 2009

Mr. Gerrit Zalm
Chairman
Trustees of the IASC Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr. Zalm:

re: Comments on
“Proposals for Enhanced Public Accountability”

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on “Proposals for Enhanced Public Accountability” (the Proposal), put out by the trustees of the IASC Foundation (the trustees) as Part 2 of Constitution Review. The SAAJ is a not-for-profit organization providing investment education and examination programs for securities analysts. Its certified members exceed 23,000. 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.

General remarks

The CAC applauds the extensive efforts of the trustees in reviewing the constitution which yielded material proposals regarding a variety of subjects. As IFRS are being adopted all over the world, the trustees’ initiative in developing official relationships with regulatory authorities through establishment of the Monitoring Board, and also in building an accounting standard base useful for making investment decisions by increasing the proportion of user representatives among IASB and SAC members, should be highly evaluated.

The CAC expects the Monitoring Board to be able to block political pressure on the IASB and thus protect its independence. In this regard, the CAC regrets that the EC is not yet a member of the Monitoring Board but hopes it will be soon, thus enhancing legitimacy of the Board.

The CAC takes very seriously the IASB’s policy of emphasizing investor opinions in the standard-setting process. The SAAJ has 23,000 members who earned their designation as certified members (CMAs) after rigorous education and examinations. They work for various financial institutions including securities companies, banks, insurance

companies, and investment companies. The number who work for non-financial companies as IR, accounting, or planning officers, and also as accountants and consultants is also increasing. The SAAJ surveys the opinions of its diversified membership through opinion polls and submits opinion letters to the IASB following deliberations by the CAC. In the recently issued new accounting standards regarding the classification and measurement of financial instruments by the IASB, some things have been revised in accordance with proposals in CAC's comment letter. The CAC greatly appreciates the IASB's willingness to listen to public opinion and to reflect such in the standards. However, in the CAC's view, IASB's initial proposals are often too radical. The CAC is afraid this is because the IASB is influenced by the views of a limited number of radical analysts. Analyst opinions are diversified with certain geographical biases. In reflecting analyst opinions, this should obviously be taken into account. The IASB should propose initial drafts based on well-balanced judgments, not influenced by prejudiced opinions.

Lastly, the CAC wants to comment on funding of the IASCF, although this is not an issue in reviewing the constitution. The CAC has learned with regret that the contribution from US financial institutions shrank dramatically with the onset of the financial crisis and that many countries have yet to pay their dues. Sound funding is elementary for sound development and adoption of the IFRS. Overdependence on a particular industry in a particular country is not good. A situation where there are too many free riders is not good either. The CAC asks the trustees to continue their efforts to secure stable funding based on diversified sources.

Following are comments on specific questions raised in the Proposal.

Question 1 Change name to 'IASB Foundation'

In conclusion, most CAC members are against changing the name. IASB is a well-established brand name and there is no need to change it especially since it would cost. Apart from cost, the CAC thinks "IASB" is a better name than the proposed 'IFRS Board'. International Financial Reporting Standards, or IFRS, are only a set of accounting standards. In comparing 'accounting standards' to 'financial reporting standards', we feel the former have the connotation that they are backed by strong academic theory while the latter lacks such nuance. Robust and reliable standards need to be endorsed by systematic theory. In this regard, the CAC thinks "IASB", which contains the words "accounting standards", should be preserved.

'IASC Foundation' or 'IASCF' is misleading, the acronym being borrowed from its predecessor. The CAC, therefore, makes a counter proposal to change this to 'IASB

Foundation' or 'IASBF'.

Question 2 Replace 'accounting standards' with 'financial reporting standards'

The CAC is against this proposal for the same reasons mentioned above.¹

In relation to “accounting standards” theory, currently there are no accounting scholars on the IASB (previously there were two) and only one on the SAC either (until last year there were four). The CAC is concerned about this in terms of proposing standards backed by objective theory. The CAC welcomes the greater representation of users, but this does not justify not having any academicians on the board. Lack of academicians with broad views and sound common sense may be a reason why IASB proposals are sometimes too radical and seem to lack theoretical consistency. The CAC expects the current imbalance will be rectified shortly and that IASB and SAC composition will become better balanced.

Question 11 Shorter due process (fast track)

The “30 days accelerated due process period” stipulated in the Due Process Handbook is a really necessary minimum period for an organization which has to translate an exposure draft into Japanese, confirm the opinions of 23,000 members, draft a comment letter in Japanese, and then translate it back to English for submission. However, recalling what has happened in the past year, we have to perhaps expect unexpected incidents in the future. Therefore, the CAC is not categorically against fast track but thinks the proposal flawed. The Proposal stipulates IASB shall “reduce, but not eliminate, the period of public comment”. Technically, the reduced period could be one day. For countries where English is not the mother tongue, one week is practically the same as one day considering the two-way translation required. The CAC proposes the fast-track period be at least two weeks.

Question 13 SAC

Looking at IASCF family organizations, the SAC has two prominent features. First is the substantial number of members. Trustees number 22, and IASB and IFRIC members 14 each. The minimum number of SAC members is stipulated at 30, but the current number of members exceeds 45. The second feature is that its objectives are rather vague. Trustees raise funds and make appointments. The IASB draws up IFRS

¹ The Proposal lists five places where ‘accounting standards’ are used and proposes to replace all with ‘financial reporting standards’ (page 10). It should be noted that in Annotated Constitution, no replacement is made for Article 6 (page 29).

while IFRIC writes interpretations. The constitution says SAC's objectives are "giving advice" and "informing" the IASB or the Trustees, but does not refer to concrete visible output. In order for the SAC to function better, the two features should be made advantages rather than disadvantages. After the SAC's reconstitution this year, members were explicitly told that their personal opinions were not wanted but rather the views of their constituents. To this end, members have already told their constituents of IASB developments to obtain a consensus view. By endorsing such activity, SAC members will intermediate communications between the IASB and SAC member constituents. The Proposal makes no amendments in regard to the SAC, but the CAC proposes adding a new paragraph, (d), to Article 45 (Annotated, page 48) which reads "informing its constituents how IFRS are being developed". The CAC believes this will further vitalize and strengthen the SAC.

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,



Keiko Kitamura

Chair

Corporate Accounting Committee