



25 July 2011

Tom Seidenstein
Chief Operating Officer
IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr. Seidenstein,

re: Comments on the Report of the Trustees' Strategy Review,
"IFRSs as the Global Standard: Setting a
Strategy for the Foundation's Second Decade "

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on the Report of the Trustee's Strategy Review, "IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade" (the Review) put out by the IFRS Foundation. 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 the Accounting Standards Board of Japan (ASBJ), and exchanges opinions with organizations including the ASBJ and the Financial Services Agency.

General Comments

The CAC praises the Trustees for putting out a comprehensive strategic review for the second decade of the IFRS Foundation. The CAC basically supports the Review but thinks there remain some areas that require improvement. The first is Mission. The Review takes adoption and convergence dichotomically as "Convergence, however, is not a substitute for adoption" (A2). The CAC thinks a more flexible approach is needed during the coming transitional period. While there is no doubt that the ultimate goal is the full adoption of IFRSs worldwide, it will be several years before we see adoption by Japan and the US, and, after that, adoption by China and India will be a challenge. In

order to facilitate adoption by these huge countries, convergence will play an important role. The second area requiring improvement is Process. The CAC thinks the IASB's standard-setting process to date has seen serious problems and that the Trustees need to more effectively oversee due process. These areas of concern and other points are discussed in more detail below.

Mission: defining the public interest to which the IFRS Foundation is committed

The CAC theoretically agrees with the observation that convergence is not a substitute for adoption (A2). The Review, however, assumes that Japan and the US “will make a positive decision on the adoption” (Summary). If these two countries allowed plenty of time and pursued a more cautious approach regarding possible adoption of the IFRSs, then convergence could be more positively regarded as a strategy to nurture environments in which the two countries could easily come to final decision for adoption.

The observation that convergence is not a substitute for adoption (A2) assumes that, after adoption, IFRSs are implemented and applied consistently worldwide. This leads to two important missions. The first is to provide extended and easy-to-understand application guidance which will facilitate the consistent application of IFRSs in every country and region. The second mission is to establish a system to monitor and check consistent application and implementation worldwide. In this regard, the CAC opined that the IASB should tackle the issue in cooperation with local standard setters¹. In this context, the CAC supports sections A3 and A5 of the Review.

Governance: independent and publicly accountable

The CAC completely agrees with the view that independence of the IASB must be maintained (B1) and that the current three-tier structure is appropriate (B2).

As the CAC clearly mentioned in its comment letter to the Monitoring Board², it is deeply concerned that some proposals in the Monitoring Board's Consultative Report seem to intend to expand the power of the Monitoring Board to such an extent that would destroy the current three-tier structure to make it a two-tiered one. The Review stresses that “The Trustees are committed to co-ordinating the conclusion of their review with the IFRS Foundation Monitoring Board” (Summary). The CAC asks the Trustees to take full consideration of the above mentioned concern in the coordination

¹ See our comment letter dated 18 February 2011, answer to Question 6.
<http://www.saa.or.jp/account/account/pdf/ikensho110218en.pdf>

² <http://www.saa.or.jp/account/account/pdf/ikensho110408en.pdf>

process.

The CAC supports the provision of regular public reports (B4).

Process: to ensure that its standards are of high quality, meet the requirements of a well-functioning capital market, and are implemented consistently worldwide

The frequent delay of projects in the past and probable significant changes between exposure drafts and final standards in major projects including Leases, Revenue Recognition, Insurance, and Financial Instruments (Impairments), are serious problems that could undermine credibility in the IASB's standard-setting process.

The CAC thinks the origin of these problems lies in the IASB's due process. Specifically, it thinks the timing of constituents' opinion gathering through outreach activities, including public hearings, is too late. Discussion Papers and Exposure Drafts based upon inadequate information tend to be too theoretical and idealistic. The CAC thinks the IASB should begin information gathering before drafting a Discussion Paper and that the Due Process Handbook should be partially revised.

The Due Process Handbook stipulates in Paragraph 106 that "Public hearings are regarded as most usefully held after the comment period, when the IASB has reviewed the views raised by constituents." The IASB should rather listen extensively to constituents' views by beginning outreach activities, including public hearings, before drafting a Discussion Paper. While the CAC thinks a Discussion Paper could be somewhat idealistic, an Exposure Draft should be very close to the final standard as indeed the term itself suggests.

The CAC's view that the IASB's due process has problems suggests that the Trustees' oversight has not been functioning effectively. The Trustees could perhaps consider employing full-time staff to help in this area. Also, it may be necessary to review the composition of the Trustees for effective oversight.

The Review declares "The framework for the Trustees in their oversight of the IASB's due process should be clarified" (C2). Such framework should include the hearing of constituents' views well in advance and clarify detailed procedures for Trustees' oversight.

In order to develop a single set of high quality global accounting standards, sustained research and development efforts are necessary. During the first decade of the IASB, significant progress has been achieved in improving IFRSs. However, as symbolized by the unfinished conceptual framework project, there is much to be done. In this regard, the CAC supports "establish a dedicated research capacity" (C6).

Financing: ensuring the organization is financed in a manner that permits it to operate effectively, efficiently, and independently

The CAC agrees that “the funding system must maintain the independence of the standard-setting process, while providing organizational accountability” (D1).

As the CAC opined in its comment letter dated 18 February, it is of considerable concern that some, or rather many, countries and regions are not paying their dues. The first thing the Trustees 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.

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