

To the IFRS Foundation

**Comments on IFRS Foundation's
"Trustees' Review of Structure and Effectiveness: Issues for the Review"**

Keidanren welcomes the opportunity to submit comments on the IFRS Foundation's *Trustees' Review of Structure and Effectiveness: Issues for the Review*.

In Japan, as IFRS voluntary adoption becomes widespread, more than 100 companies have already announced adopting IFRS. The aggregate market capitalization of these companies is nearly one-fourth that of all companies listed on the nation's stock exchanges. To encourage more Japanese companies to adopt IFRS, it is essential to improve and raise the quality of Standards. From that standpoint, we would like to emphasize the following two points in particular:

Firstly, the IASB should not broaden the scope of its work any further. The Board should dedicate itself to developing high-quality Standards for private-sector companies, rather than engaging in the development of Standards for the public and not-for-profit sectors (see our response to Q1 below). As for integrated reporting, the IASB's involvement should be limited to maintaining the forms of cooperation with the International Integrated Reporting Council (IIRC) that are ongoing (see our response to Q2 below).

Secondly, we strongly oppose reducing the number of IASB members allocated for the Asia/Oceania region (see our response to Q11 below). In Japan an increasing number of companies are adopting IFRS, and many other Asian nations are in the process of adopting IFRS as well. Against that backdrop, it is becoming more necessary than ever to listen to the views of stakeholders in the Asia/Oceania region including Japan, in the pursuit of the global adoption of IFRS. Hence, we object to reducing the number of IASB members allocated for the Asia/Oceania region, and request that an increase, rather than a decrease, in the number of those members be considered.

Below are our responses to the specific questions.

Primary Strategic Goal 1: Development of a Single Set of Standards

Q1 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?

<Response >

We strongly oppose the IASB engaging in the development of Standards for the public and not-for-profit sectors. The IASB should dedicate itself to developing high-quality global Standards for private-sector companies.

Reasons

- As accounting standards for the public sector are developed by the International Public Sector Accounting Standards Board, there is no need for the IASB to develop Standards for that sector.
- Financial reporting requirements for the private not-for-profit sector in each country are subject to the various laws and regulations of the jurisdiction, making it difficult to develop internationally consistent standards for the sector. Furthermore, in the event of the IASB engaging in the development of Standards for the sector, a significant amount of additional funds would be needed. However, the infeasibility of raising such funds is evident, considering the funding status of the IFRS Foundation.

Q2 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?

<Response >

We strongly oppose the IASB expanding the scope of its work into a nonfinancial area. Such expansion is totally unnecessary, and the IASB should limit its involvement in integrated reporting to maintaining the existing forms of cooperation with the IIRC.

Reason

- Integrated reporting remains, and should continue to remain, voluntary disclosure by companies. Practices of integrated reporting vary from one company to another and how this reporting relates to financial one is unclear. Given those features, the IASB's active involvement in integrated reporting would run counter to the intention of IASB's financial supporters.

Q3 to 5

We do not comment on these questions.

Primary Strategic Goal 2: Global Adoption of IFRS (not covered by this review)

Primary Strategic Goal 3: Consistency of Application and Implementation

Q6 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?

<Response >

We consider that, overall, the IASB is operating through appropriate due process but has three issues that need to be addressed as listed below. Incidentally, we do not agree with the statement in paragraph 64 that “carve-outs and inconsistent application of the Standards . . . damage the brand.” As accounting standards are public goods, they are not in harmony with the notion of brand. Before worrying about brand damage, the IASB should ponder why there have been

carve-outs from IFRS by national standard-setters, and ensure that its effort to raise the quality of IFRS is not hampered by excessive attention to maintaining the brand. The three issues that need to be addressed are as follows:

- Whereas post-implementation reviews are an important step, it takes too much time to resolve matters after they were identified. When sufficient information has been obtained in the post-implementation review, there is no need to conduct research anew. To develop Standards more efficiently, we call for a more flexible approach, such as publishing an exposure draft without releasing a discussion paper.
- At the IFRS Interpretations Committee, the time frame between the submission of proposals from countries and the final decision by IFRS Interpretations Committee is excessively long. We request that its due process be improved to shorten this time frame.
- On the IASB website, it is not easy to search educational materials that help preparers and others to interpret IFRS on such matters as depreciation and fair value measurement of private equities. We request the creation of a portal where anyone can easily find those materials at a glance.

Primary Strategic Goal 4: IFRS Foundation as an Organization

Q7 Do you have any suggestions as to how the functioning of the three-tier structure of the governance of the Foundation might be improved?

<Response >

We support the IFRS Foundation's three-tier structure. Under this structure, the Foundation and the IASB should conduct personnel administration, organizational management, and Standards development independently of any involvement from particular political parties or stakeholders in specific jurisdictions.

At the same time, ongoing monitoring is needed to ensure that this three-tier structure is functioning properly. We would like to stress the following points:

- We understand that the IFRS Foundation does not involve itself in the content of the Standards being developed, but request that it thoroughly examine (1) whether the way the IASB develops Standards is in line with the IFRS Foundation's strategic goals, and (2) whether the IASB develops Standards in an efficient manner and maintains an appropriate due process.
 - (1) The IFRS Foundation is in a position to strategically encourage individual countries' adoption of and convergence with IFRS. As such, the IFRS Foundation is required to diligently promote convergence with US GAAP. However, such convergence has not been fully achieved in the core standards, namely standards on leases, revenue recognition, and financial instruments; and the convergence of the insurance contract standards has no longer been pursued as a joint IASB-FASB project. The IFRS Foundation may need to carefully analyze and assess IASB's Standards development activities like these.
 - (2) The IFRS Foundation has to pay due attention to the efficiency of the IASB's Standards development activities as well. We believe that the IASB should not be allowed to propose relaunching a project that was abandoned due to objections from market

participants, unless the environment has changed. Nevertheless, the abandoned Financial Statement Presentation project, for example, has been revived as part of a research program under the Primary Financial Statements project. To be accountable to the financial supporters, the IFRS Foundation needs to pay thorough attention to the efficiency of the IASB's Standards development activities and to the appropriateness of its due process.

Q8 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?

<Response >

We agree with the proposal to increase the number of "at large" Trustee appointments from two to five. We consider it right to increase the number of at large Trustee appointments in order to achieve a more appropriate geographical distribution in tandem with the global spread of IFRS.

In addition, the number of Trustees appointed from the Asia/Oceania region should be increased, in view of the region's growing influence on the global economy and existence of many nations that are in the process of adopting IFRS. The increase will not only enable the IFRS Foundation to reflect a more appropriate geographical balance in its operations, but also contribute to its strategy of pursuing the global adoption of IFRS.

Q9 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?

<Response >

We support the current approach of requiring an appropriate balance of professional backgrounds among the IFRS Foundation Trustees without specifying a quota for each of those backgrounds, as mentioned in paragraph 82.

We also support reviewing Section 7 of the IFRS Foundation Constitution as proposed in paragraph 82. While Section 7 sets out that "two of the Trustees shall be senior partners of prominent international accounting firms," we are not comfortable with the idea that a quota for persons with a particular background is specified.

Q10 Do you agree with the proposal to change the focus and frequency of reviews of strategy and effectiveness, as set out above?

<Response >

We agree, in general, with the proposal to (1) shift the focus of the IFRS Foundation's reviews from its organization and structure to strategy, and (2) change the frequency of the reviews from every three years to every five years.

Nonetheless, not reviewing the organization and structure at all may cause some inconvenience. We thus propose to stipulate that a review may be conducted as needed, for example, due to a change in the environment. Incidentally, we object to changing the frequency of the IASB's

Agenda Consultation in line with that of the IFRS Foundation's reviews, from every three years to every five years.

Q11 Do you agree with the proposals to reduce the size of the IASB as set out in the Constitution from 16 members to 13 and the revised geographical distribution?

<Response >

We disagree with the proposal to reduce the complement of the IASB from 16 members to 13. In particular, we are strongly opposed to reducing the number of members allocated for the Asia/Oceania region, and propose that the current 16 members complement be maintained.

- The IASB was expanded in July 2012 to 16 members, of which two became vacant in July 2014, resulting in the current 14 members. Over that period, the IASB has been operating properly without major problems. There is no reason that justifies the reduction to 13 members.
- As the reasons to propose the reduction, paragraph 90 mentions the establishment of the Accounting Standards Advisory Forum (ASAF) and other changes in circumstances. However, the ASAF was established because the increasingly worldwide adoption of IFRS required the IASB to seek the views of a wider range of market participants for developing and applying Standards. It does not make sense to reduce the complement of the IASB when the absolute volume of its work is increasing. The other factors referred to in paragraph 90 are merely the general effects of reducing the complement, and we see no reason that suggests the urgent need for the reduction to 13 members.
- Additionally, we are strongly opposed to reducing the number of IASB members allocated for the Asia/Oceania region, in view of the region's significant impact on the global economy, existence of many nations that are in the process of adopting IFRS, and divergence in corporate transaction practices from one jurisdiction to another. To pursue the global adoption of IFRS, the IASB will have to win over diverse countries in the Asia/Oceania region. To facilitate that, consideration should be given to an increase, rather than a decrease, in the number of members allocated for the Asia/Oceania region.

Q12 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?

<Response >

We disagree with the proposed amendments to the Constitution.

- If the intention is to remove the words "recent practical experience" from Section 27, the amended sentence would be too general a background requirement. On the other hand, even the words "recent practical experience" in the existing Constitution may not faithfully express the desired attributes of IASB members. It may be reasonable to define those attributes by using the words "primary practical experience," for example.
- We do not agree with the proposal that obligates the IASB, a private-sector accounting standard setter, to include members with experience at "market and/or financial regulators." We are aware that at present the IASB has some members who have worked for financial regulator, and we would have no objection to welcoming a person who has a financial

regulatory background and satisfies other qualifications. However, there is no legitimate reason to mandate the inclusion of such a person.

Q13

We do not comment on this question.

Q14 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?

<Response >

What is most needed in the area of funding is for the IASB to continue working toward the establishment of a funding model based on national financing regimes, proportional to a country's relative GDP. As IFRS is a kind of public goods, the IASB is not supposed to charge royalties and publication fees pertaining to IFRS, let alone rely on them as an important source of revenue. Charging royalties and publication fees pertaining to IFRS causes countries to back away from IFRS, thereby running counter to the strategic goal of the global adoption of IFRS.

We would like to add that, along with the effort to secure necessary funds, ongoing monitoring is needed to ensure that no unnecessary expenses are incurred (such as by continuing low-priority projects, the most notable example of which being the Primary Financial Statements project).

Other issues

Q15 Should the Trustees consider any other issues as part of this review of the structure and effectiveness of the Foundation? If so, what?

<Response >

Whereas this review does not cover the second primary strategic goal of the global adoption of IFRS, we have one request to the IASB and the IFRS Foundation in light of the recent Standards development activities of the IASB. It was extremely unfortunate that the joint IASB-FASB project failed to achieve the complete convergence of their standards on leases, revenue recognition, and financial instruments. Given that the IFRS Foundation and the IASB have the strategic goal of the global adoption of IFRS, the target level of convergence with US GAAP should not be easily lowered in the IASB's Standard development activities. We request that the IFRS Foundation and the IASB perform their duties to the fullest in order to avoid any discrepancies between IFRS and US GAAP with regard to their core standards.

Sincerely,

Business Infrastructure Bureau
KEIDANREN