

Mr. Tsuguoki Fujinuma and
Mr. Robert Glauber, *Interim Co-Chairmen*
IFRS Foundation
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Dear Mr Fujinuma and Mr Glauber

Public Consultation: Status of Trustees' Strategy Review

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Foundation Trustees' Report: *IFRSs as a Global Standard: Setting a Strategy for the Foundation's Second Decade*. We commend the IFRS Foundation Trustees for the openness, thoroughness and timeliness of this review and the efforts that have been made to engage with constituents and encourage participation in this important activity.

We wish to highlight the following issues relating to governance that we see as fundamental to the success of the Trustees' review and the concurrent and independent review of the IFRS Foundation's governance being undertaken by the Monitoring Board.

The governance of the IASB is critical to achieving the G20's goal of a single set of high-quality global financial reporting standards, and we see the Report through this lens.

It is important that the governance structure fosters high quality by achieving a proper balance between accountability, effective oversight and legitimacy of the IASB on one hand and its technical independence on the other. In our letter of 25 March 2011 to the IFRS Foundation Monitoring Board, we expressed support for the three tiers of governance, under which:

- the Monitoring Board provides political legitimacy and accountability by acting as the link, via competent market authorities and/ or regulators, to national governments in jurisdictions using or committed to using IFRSs and provides oversight of and pro-active advice to the IFRS Foundation;
- the IFRS Foundation Trustees oversee the day-to-day activities of the IASB and related standard-setting activities and promote the transparency of the organisation; and
- the IASB acts as an independent standard-setter, operating within a clearly defined and documented system of due process.

We see the three tiered structure operating *as one*. While we understand that the Monitoring Board is independent of the IFRS Foundation, we urge the IFRS Foundation Trustees to

acknowledge and articulate how the Monitoring Board fits into the IASB governance structure, playing a critical role in the delivery of high-quality global financial reporting.

We encourage the IFRS Foundation Trustees to establish a clear vision of how best to leverage the skills and experience of those with expertise in financial reporting around the world throughout the standard-setting process. National and regional groups of standard-setters have knowledge, skills and experience that can and should be utilised in the IFRS standard-setting process and we encourage the IFRS Foundation Trustees to put formal working arrangements in place. These arrangements should contribute to making IFRSs a truly global set of financial reporting standards.

Finally, as the Trustees set a strategy for the IFRS Foundation's second decade, we think it important to consider issues that might be dealt with by the enhanced governance structure proposed in the Report: ones that require a global consensus before detailed standard-setting activities commence. The next ten years are likely to witness financial reporting in a technologically interconnected world that may change what is expected of financial reporting and financial information. The growing demands for 'integrated reporting', corporate social reporting, and reporting financial information directly on the Internet signals that the demands of users are changing and challenges the current financial reporting framework. The IASB and the IFRS Foundation, as the oversight body of the global financial reporting standard-setter, are well placed to identify changes in user needs meet future challenges to the financial reporting framework,

Our detailed responses to the invitation to comment questions are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 207 007 0884 or Joel Osnoss in New York at +1 212 492 3910.

Yours sincerely,



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Appendix

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

Purpose of financial reporting standards

A1 In carrying out the IFRS Foundation's mission as the standard-setting body, the IASB should develop financial reporting standards that provide a faithful presentation of an entity's financial position and performance. Those standards should serve investors and other market participants in their economic and resource allocation decisions. The confidence of all users of financial statements in the transparency and integrity of financial reporting is critically important to the effective functioning of capital markets, efficient capital allocation, global financial stability and sound economic growth.

We think it useful for the IFRS Foundation to develop a Mission Statement, which would identify the public interest to which it is committed and the building blocks of that mission.

'Public interest' is a very broad concept with no clear boundaries. The International Federation of Accountants and the European Financial Reporting Advisory Group have each identified attributes of what serving the public interest involves, but neither has succeeded in determining definitively what the 'public interest' is.

We think that the best way forward would be to identify the primary audience of IFRS general purpose financial reports as the 'public interest' to which the IFRS Foundation's efforts are directed primarily. Our view continues to be that the focus on the needs of capital market participants is the primary objective of IFRS financial reporting and that investor-focused financial reports provide timely and relevant information to the financial markets and enable the market to identify issues of concern appropriately. Any Mission Statement developed by the IFRS Foundation Trustees should be based on this foundation.

Further, any Mission Statement should be grounded in the mandate given by the G20 Leaders in 2009: that the IASB should develop 'a single set of high quality global accounting standards'. We note that the key elements of a high-quality, principles-based accounting standard were outlined in the Global Public Policy Symposium's White Paper *Principles-based Accounting Standards* (January 2008). Those elements are: faithful presentation of economic reality; responsive to users' needs for clarity and transparency; consistency with a clear Conceptual Framework; based on an appropriately-defined scope that addresses a broad area of accounting; written in clear, concise and plain language; allows for the use of reasonable judgement.

We note that the Report suggests formalising "existing informal arrangements in a manner that includes regular and joint meetings with specifically designated organisations (such as IOSCO, the Basel Committee on Banking Supervision, the Financial Stability Board, the IMF and the IAIS)." We support formalising the principle that the IASB should have regular bilateral and multilateral contacts with specific international organisations as part of the standard-setting process. However, which organisations should be involved will vary over time and among projects. As such, we would not seek to identify specific organisations in the IFRS Foundation's governing documents. The specific organisations should be identified as part of the agenda-setting process (without limiting the ability to engage others later as a project progresses).

We agree that the IASB “should work with regulators and other stakeholders, to the maximum extent possible, to enable other authorities to require the display of financial information outside the general purpose financial reports in a way that meets other public policy objectives without compromising transparency.” (Report, p9)

Adoption of IFRSs

A2 As the body tasked with achieving a single set of improved high quality global accounting standards, the IFRS Foundation must remain committed to the long-term goal of the global adoption, in their entirety and without modification, of IFRSs as developed by the IASB. Convergence may facilitate adoption over a transitional period. Convergence, however, is not a substitute for adoption. Adoption mechanisms may differ among countries and may require an appropriate period of time to implement but, whatever the mechanism, they should enable relevant entities to have an audit opinion stating full compliance with IFRSs as issued by the IASB.

We agree with the principle that incorporating IFRSs in every jurisdiction’s financial reporting framework by whatever means without amendment is the aim. While we agree that convergence is a possible route to adoption of IFRS, any jurisdiction ‘converging so as to adopt’ should be encouraged to provide a timetable/ roadmap for such an exercise. We also agree that the benefits of incorporating IFRSs as issued by the IASB are partially lost if a jurisdiction favours convergence rather than adoption. We would expect the Monitoring Board and other IOSCO members to use their best efforts to persuade jurisdictions to incorporate IFRSs into their financial reporting framework rather than to ‘converge’ those frameworks to IFRSs.

Further, we agree with the IFRS Foundation Trustees about the negative consequences associated with creating ‘national or regional variants of IFRSs.’ This is an example of when the Monitoring Board has an important role to play in promoting IFRSs as a ‘single set of high quality financial reporting standards’. In our letter to the Monitoring Board of 25 March 2011, we said that the Monitoring Board “should be instrumental in the promotion of a single set of high quality global financial reporting standards, the benefits of which can only be achieved if the interpretation and application of IFRSs worldwide are consistent with the principles in those standards. As liaison with IOSCO and capital market authorities worldwide, we would encourage the Monitoring Board to promote, through these constituency groups, actions that support the interpretation and application of IFRSs consistent with the principles in those standards on a global basis.” Where jurisdictions vary from the aim of incorporating IFRSs as issued by the IASB (i.e., make changes in their jurisdiction in the incorporation of IFRSs), the IFRS Foundation should seek to understand why such changes were thought necessary: whether they are matters of local preference or historic GAAP or whether they identify previously unidentified issues worthy of further consideration. A full understanding of the facts and appropriate action by the IASB to address issues previously unidentified should aid achieving the objective of a single set of high-quality global financial reporting standards without national or regional variants.

In our view, this is an area in which the IFRS Foundation Trustees must be pro-active, through their contacts with Governments and public authorities responsible for financial reporting and capital markets. As we noted in our comment letter of 24 February 2011, the IFRS Foundation Trustees should have “a visibly ambassadorial role in liaison with policy-makers in IFRS

jurisdictions and potential IFRS jurisdictions, ensuring that lines of communication remain open and accessible to the IASB. Such contacts would include governments, those responsible for incorporating/ endorsing IFRSs for use in the jurisdiction and those responsible for the enforcement of those standards in those jurisdictions.”

We are concerned about the use of the term ‘goal’, since it implies that incorporating IFRSs as issued by the IASB in all jurisdictions is something within the IFRS Foundation’s control, when clearly it is not. This concern reinforces our view that the Monitoring Board must be involved in the decision to incorporate IFRSs into the financial reporting framework in a jurisdiction and should be seen to be part of the solution, delivering political legitimacy to the incorporation decision.

Finally, we think that the IFRS Foundation Trustees’ comment that adoption mechanisms should allow for ‘an audit opinion stating full compliance with IFRSs as issued by the IASB’ is inappropriately focused on the audit. Any means of incorporating IFRSs as issued by the IASB into a jurisdiction’s financial reporting framework should permit management to assert that the financial statements have been prepared in accordance with IFRSs as issued by the IASB and consequently allow for such an audit opinion.

A3 With co-operation from national and international market and audit regulators, the IFRS Foundation should seek full disclosure where adoption of IFRSs is incomplete or there is divergence from the full set of IFRSs as issued by the IASB. The Foundation should seek a mechanism to highlight instances where jurisdictions are asserting compliance with IFRSs without adopting IFRSs fully.

Transparency around how IFRSs are incorporated in a jurisdiction’s financial reporting requirements would be beneficial to all capital market participants. We think that this is an appropriate task for the IFRS Foundation Trustees to undertake, with input from other constituents and the IASB, as it does not compromise the IASB’s standard-setting activities, and it avoids the IASB’s resources being used for non-standard setting activities.

This exercise would also assist the IFRS Foundation Trustees to identify jurisdictions that they might wish to influence, either directly or through the Monitoring Board, to incorporate IFRSs as issued by the IASB into their financial reporting framework in the spirit of A2, above, or to understand why a jurisdiction has varied from the aim of adopting IFRSs as issued by the IASB.

Here again, the Monitoring Board has an important role to play. In our comments to the Monitoring Board of 25 March 2011, we said that if “diversity in an interpretation or application of IFRSs among capital market authorities is identified, the Monitoring Board should encourage the capital market authorities concerned to raise such issues with the IFRS Interpretations Committee.”

Scope of standards and IFRS activities

- A4 *In the near term, the primary focus of the IFRS Foundation and the IASB should remain on developing standards for private sector entities (i.e. both publicly traded entities and SMEs). Taking into account the necessary resource requirements, the Foundation and the IASB will consider developing standards for other entities and for other purposes at a later date.*

We agree that the primary focus of the IFRS Foundation and the IASB should remain on setting financial reporting standards for private sector entities, for the time being. This principle is embedded in the IASB's *Conceptual Framework for Financial Reporting (2010)*.

The IASB should continue to assist, to a reasonable extent, the work of the International Public Sector Accounting Standards Board. This is consistent with our letter of March 2009, in which we said: "The IASB's primary function at present is 'private sector' financial reporting standards. ... We believe that, in the medium-term at least, there are many issues requiring attention in private sector financial reporting and the IASB should not have the constitutional distraction of having to address public sector issues." We also see benefit in the IASB working closely with the International Auditing and Assurance Standards Board.

We encourage the IFRS Foundation and the IASB to consider, within the next five years, and express a view on the extent to which IFRSs should be applied to private-sector not for profit organisations. This part of the private sector is significant in all jurisdictions that have incorporated, are in transition to or are considering incorporating IFRSs into their financial reporting framework. As such, they are within the IASB's 'private sector' scope, and should be addressed in the organisation's second decade.

Consistency of application and implementation

- A5 *In pursuing its mission, the IFRS Foundation has a vested interest in helping to ensure the consistent application of IFRSs internationally. The Foundation should pursue that objective in the following ways:*
- The IASB, as the standard-setter, should issue standards that are clear, understandable and enforceable.*
 - The IASB will provide guidance on its standards that is consistent with a principle-based approach to standard-setting. All application guidance and examples must be necessary to understand the principles.*
 - The IASB will work with a network of securities regulators, audit regulators, standard-setters and other stakeholders to identify divergence in practice. Where divergence in practice could be resolved through an improvement in the standard or an interpretation, the IASB or the IFRS Interpretations Committee will act accordingly.*
 - The IFRS Foundation, through its education and content services, should undertake activities aimed at promoting consistent application.*
 - The IASB, in partnership with relevant authorities, will identify jurisdictions where IFRSs are being modified and encourage transparent reporting of such divergence.*
 - The IFRS Foundation will seek the assistance of the relevant public authorities to achieve this objective.*

We agree that the IASB should issue standards that are written in clear, concise and plain language, understandable and capable of rigorous and consistent enforcement. We agree that the IASB should provide such guidance as is necessary for the promotion of consistent application and implementation of those standards. Such application and implementation guidance should demonstrate the application of the principles in the IFRS and should not seek to provide examples for all possible circumstances.

We encourage the IFRS Foundation Trustees to give clarity to what they consider to be ‘divergence’ from IFRSs. In our view, divergence is the departure from or mis-application of a principle in IFRSs. It is however, appropriate to acknowledge that the appropriate application of a principle to different facts and circumstances may appropriately lead to quite different financial reporting. This should not be seen as ‘divergence’.

We recall the IFRS Foundation Trustees’ attention to comments on application guidance made in the Global Public Policy Symposium’s White Paper *Principles-based Accounting Standards* (January 2008):

Just how much application guidance a standard should contain is also a matter that requires careful consideration. In thinking this challenge through, some have questioned what the standard-setter’s target audience should be when drafting principles-based standards. Clearly, one’s views on how concise a standard can be is impacted by whether one views the target audience as an audit partner in the national office of a large accounting firm, the controller of a small private company, or a relatively unsophisticated investor. It would seem to make sense that if reasonably well-informed preparers, acting in good faith, must frequently seek out significant advice to be able to apply the standard in the manner intended by the standard-setter, then the standard will have failed to achieve the criterion of clarity. (p. 6)

Just as the IFRS Foundation should operate at the political/ policy level to promote incorporation of IFRSs as issued by the IASB and full transparency about departures from IFRSs, it is appropriate that the IASB (and the IFRS Interpretations Committee, as appropriate) cooperate at the technical level with securities regulators, the audit profession, national standard-setters and other stakeholders to identify technical issues in IFRSs that warrant further standard-setting activity (be it amendment of the IFRS or an Interpretation). These contacts are, to some extent, in place already, but it is important that they be recognised and encouraged. We also recall our comments on the IFRS Foundation Trustees’ review of the Interpretations Committee, in which we said that the “Committee’s members will often be among the first to encounter such issues [i.e., departures from IFRSs] in practice and will be in a position to assess the alternatives and suggest/ develop solutions.” We comment on the role of the Interpretations Committee further in our response to Issue C4, below.

However, there appears to be some duplication of the Trustees’ role defined in A2/ A3 and the objective in this section that the IASB, “in partnership with relevant authorities, will identify jurisdictions where IFRSs are being modified and encourage transparent reporting of such divergence.” As the IFRS Foundation Trustees are expected to be the ordinary interface with ‘relevant authorities’ acting in their capacity as enforcers of financial reporting standards generally – as opposed to discrete technical issues – we think this particular activity is properly in the Trustees’ area of interest. We would suggest deleting the final bullet in A5 to avoid this confusion.

B. Governance: independent and publicly accountable

B1 The independence of the IASB in its standard-setting decision-making process, within a framework of public accountability, must be maintained.

The governance of the IASB must facilitate production of high-quality financial reporting standards that will stand the test of time. To enable the IASB to produce such high-quality standards, it must be allowed to assess different points of view and weigh different arguments without political interference so as to achieve the best possible answer,

The existence and application of a rigorous, clearly-defined and documented system of due process that is transparent and operates throughout the life-cycle of a project, from agenda-setting through post-implementation reviews, is an essential element for demonstrating that the IASB carries out its activities in an independent manner. This due process must ensure that the financial reporting standards' principles are operational, cost-effective to apply and meet the needs of investors. To achieve this level of quality requires active and regular interaction with key constituents throughout the standard-setting process. The IASB must act, and must be seen to act at all times within the spirit as well as letter of these procedures.

B2 The current three-tier structure (Monitoring Board, Trustees, IASB) is appropriate for the organisation's mission. Within that governance structure, the Monitoring Board, the IFRS Foundation and the IASB should enhance their interaction and procedures where appropriate to reinforce the principles of transparency, public accountability and independence. In doing so, the roles and responsibilities of each element of the organisation's governance should be clearly defined.

We support the three-tier structure of the IFRS Foundation's governance in which:

- the Monitoring Board provides political legitimacy and accountability by acting as the link, via competent market authorities and/ or regulators, to national governments in jurisdictions using or committed to using IFRSs and provides oversight of and pro-active advice to the IFRS Foundation;
- the IFRS Foundation Trustees are responsible for the governance of the IASB and related standard-setting activities, promote the transparency of the organisation, and buffer the IASB from political, sectoral and regulatory interference; and
- the IASB, as an independent standard-setter operating within a clearly defined and documented system of due process, accountable to the IFRS Foundation Trustees, sets high-quality International Financial Reporting Standards.

We support enhancing the interaction between the IFRS Foundation Trustees and the IASB and improving further the procedures surrounding how this is done. By 'enhancing' we understand the IFRS Foundation Trustees to mean that the Trustees, and their operating sub-committees (e.g. the Due Process Oversight Committee), will meet their IASB counterparts at regular and appropriate times such that the IFRS Foundation Trustees can offer pro-active advice rather than *ex-post* comments or remedies. The improved procedures should be documented not only in the IASB's Due Process Handbook (as appropriate) but also in a Trustees' Handbook, so that

constituents can understand all aspects of the oversight and governance and how it supports and reinforces the activities of the IASB.

B3 Consistently with point B2, the IFRS Foundation Trustees should further clarify how they discharge their oversight responsibilities.

We have in the past suggested that the IFRS Foundation Trustees clarify and document how they discharge their oversight and governance responsibilities, and urge the IFRS Foundation Trustees to produce a Trustees' Handbook, as explained above. It is essential for the legitimacy of those procedures that a draft of this Handbook is exposed for public comment (as were the Due Process Handbooks of the IASB and the Interpretations Committee).

We note and support the enhanced role of the Due Process Oversight Committee, in particular the intention to embed the Trustees' oversight activities as a contemporary activity throughout the life-cycle of a standard-setting project rather than as a terminal activity. Not only should this result in a more visible role for the Committee, but should enhance the IASB's processes, as it will be able to benefit from the Committee's collective experience and advice.

When developing their oversight procedures, the Due Process Oversight Committee should pay particular attention to the 're-exposure' decision, on which we comment in more detail in our response to issue C1, below.

We agree that the IFRS Foundation Trustees should work with the Monitoring Board to develop improved procedures in several areas related to the Monitoring Board's monitoring of the IFRS Foundation Trustees' activities, including clearer criteria for the nomination of Trustee candidates. As with the Trustees' oversight activities, the Monitoring Board's procedures should provide for timely and appropriate contacts, rather than ex-post remedies. Such procedures should be documented in the Trustees' Handbook.

B4 Elements of the governance structure should provide regular public reports to demonstrate their effectiveness.

We agree with this principle, in particular the idea that *all* elements of the governance structure should make public reports. This implies that the Monitoring Board, in addition to the IFRS Foundation Trustees, the various operating sub-committees of IFRS Foundation Trustees and the IASB, should report to stakeholders. The reports should be accompanied, where appropriate, by documentation supporting the activities.

The Monitoring Board, the IFRS Foundation Trustees and the operating sub-committees of the IFRS Foundation Trustees should document the criteria or procedures against which they assess effectiveness if this reporting is to have any substance.

C. Process: ensuring that its standards are of high quality, meet the requirements of a well-functioning capital market and are implemented consistently across the world

C1 A thorough and transparent due process is essential to developing high quality, globally accepted accounting standards. The IASB's due process is and should continue to be reviewed and further enhanced regularly, benefiting from regular benchmarking against other organisations and from stakeholder advice.

As stated above, the quality and the acceptance of the IASB's standards are based in part on the rigor of the due process supporting the development of IFRSs. We support the IASB's efforts over the past two years or so to enhance its outreach activities, utilising a wide range of forums, to engage with as many interested constituents as possible. The level of participation in such activities demonstrates that there is greater involvement of stakeholders in the development of IFRSs, something that is an important ingredient to both high quality and global acceptance. We agree that the IASB's due process should continue to evolve and that the IASB should be able to make enhancements as it thinks necessary.

An area in which improvements to the IASB's Due Process Handbook are necessary is re-exposure of proposed IFRSs. We are concerned that the IASB has been tempted to avoid re-exposure during a project by posting a 'Staff Draft' of a proposed IFRS on the relevant project Internet page in place of full re-exposure. An example of this approach was ED/2010/01 *Measurement of Liabilities*, in which the IASB exposed parts of the proposed standard, without the scope, definitions and recognition criteria to which this guidance was expected to be applied. After severe criticism from constituents, the IASB issued a 'Working Draft' of the remainder of the proposed IFRS, but did not issue a formal invitation to comment on that document. In our comment letter to the IASB, we criticised this approach, concluding that "we do not believe that the Board has adhered to the spirit of due process". We were not alone, and as a result of severely critical comments the project was deferred entirely. We do not believe that abbreviating due process in this way leads to high-quality financial reporting standards nor does it serve the public interest.

We support the commitment in the Report to continued improvement in the due process, based upon regular and systematic benchmarking against other standard-setting and regulatory organisations.

We agree that amendments to the IASB's Due Process Handbook should be exposed for public comment.

C2 The framework for the IFRS Foundation Trustees in their oversight of the IASB's due process should be clarified. The Trustees' Due Process Oversight Committee should review and discuss due process compliance regularly throughout the standard-setting process and at the end of the process before a standard is finalised. The Committee should report regularly on these activities to the IFRS Foundation Trustees and in its annual report.

As we have stated elsewhere in this response, it is important that the IFRS Foundation Trustees clarify all aspects of its oversight activities (not restricted to the oversight of due process) and to

document these in a public document. Benchmarks and assessment criteria should be documented as appropriate. As this framework will form the basis for the Trustees' oversight activities and, presumably, would form the basis for the Monitoring Board's assessment of the IFRS Foundation Trustees' discharge of their oversight responsibilities, the document should be exposed for public comment.

C3 Building on the existing due process framework and in an effort to improve the usability of financial information, the IASB should undertake the following:

- Clear demonstration of how priorities on its agenda are set: In the agenda-setting process and after the required public consultation, the IASB should provide full feedback. This will assist in demonstrating how the IASB's priorities are set.*
- Agreed methodology for field visits/tests and effect analyses: The IASB should work with relevant parties to develop an agreed methodology for field visits/tests and effect analyses (more often referred to as cost-benefit analyses or impact assessments).*
- Integration of XBRL into the standard-setting process and the development of relevant XBRL taxonomy extensions: In order to take into account the impact of technology, the development of the IFRS XBRL taxonomy should be integrated into the IASB's due process. In addition, the IFRS XBRL taxonomy should be expanded to include a relevant number of extensions to the existing base taxonomy.*

We note and reiterate our support for the forthcoming consultation on agenda topics and priorities. We urge the IASB to identify, to the extent possible, likely effects of potential projects. We agree that engaging stakeholders in the development of agenda priorities will enable the IASB to address the most pressing financial reporting issues. Furthermore, it will strengthen public confidence in the standard-setting process.

We support the proposals that the IASB should provide a feedback statement explaining how it accounted for the views of the Monitoring Board and the Trustees (acting within their constitutional mandate and responsibilities), the IFRS Advisory Council, national and regional standard-setters and other stakeholders when setting their technical agenda and ranking the projects in order of priority. As with other elements of the IASB's due process, the IASB should review progress on its agenda-setting process with the Trustees' Due Process Oversight Committee.

We note that field visits and tests are seen as part of the 'comply or explain' approach being introduced by the IASB, and that there is a requirement for effect analyses for major projects. We agree that the IASB should clarify further the role of these elements of the IASB's due process, in particular because it is (at present) unfeasible to expect the IASB to be able to assess the effects of a proposed IFRS in all jurisdictions requiring or permitting IFRSs. The IFRS Foundation Trustees believe that the organisation could benefit from receiving guidance in developing an agreed methodology for field testing and effect analyses. We note that the European Financial Reporting Advisory Group is currently consulting its constituents on a Discussion Paper *Considering the Effects of Accounting Standards*. The IFRS Foundation Trustees may wish to consider the feedback received on these proposals before making their own proposals for developing an agreed multilateral methodology for field testing and effect analyses.

We agree with the principle that consideration of XBRL taxonomy issues should be integrated into the development of IFRSs. However, while we agree that the IASB should consider the

impact of its decisions on how IFRSs are represented in the XBRL taxonomy, we would not wish to see XBRL taxonomy issues driving the technical debate. The IFRS Foundation Trustees' Due Process Oversight Committee must act with especial care and diligence in this rapidly-developing area.

C4 To support the IFRS Foundation's interest in consistent application of IFRSs and within the IASB's standard-setting mandate, the Foundation and the IASB should undertake the following actions:

- using an agreed methodology, undertake post-implementation reviews to help identify implementation issues.*
- establish formal co-operation arrangements with securities regulators, audit regulators and national standard-setters to receive feedback on how IFRSs are being implemented and to encourage actions aimed at addressing divergence.*
- refine the scope of the IFRS Interpretations Committee's activities to ensure consistency of interpretation, without undermining the commitment to a principle-based approach to standard-setting.*

We support the IASB's intention to undertake post-implementation reviews on recently-issued IFRSs. However, we would prefer that such reviews encompass unintended consequences in addition to reviewing important issues identified as contentious during the development of the pronouncement as well as reviewing any unexpected costs or implementation problems encountered. We agree that a clear and transparent methodology for undertaking these reviews is necessary.

We see two possible approaches to conducting such reviews. At present, we see benefits and potential problems with both approaches and encourage the IFRS Foundation Trustees to explore each approach (and there may be others) before concluding on a particular approach. Under one model, the Interpretations Committee would play a larger role in this process than suggested by the Report. We draw the Trustees' attention to our comments in response to the Interpretations Committee's review, in which we suggested that the Committee should be able to make a significant contribution to post-implementation reviews. With their practical experience and first-hand knowledge of areas of difficulties and conflict, they could act as a steering group or assessment/ triage centre as issues are assessed for inclusion in any amendment project of the IFRSs affected.

An alternative model would place the post-implementation review somewhat later in the standard-setting process, after the initial round of implementation issues has been identified and addressed by the Interpretations Committee or through the Annual Improvements Process (potentially a year or two after implementation of the IFRS). Under this approach, the IFRS Foundation Trustees would establish a separate committee (similar to the Due Process Oversight Committee) that would be responsible for conducting post-implementation reviews. Being composed of IFRS Foundation Trustees (with staff independent of the IASB), this committee would be independent of the IASB and would report directly to the Foundation. In performing a post-implementation review, the committee might engage national standard-setters, the audit profession, users and/or securities supervisors to assist in collecting information. However, the findings of the post-implementation review should be the sole judgements of the committee. Findings of this committee would be of two types – (i) further implementation issues that the

IASB may consider for adding to its or the Interpretation Committee's agenda and (ii) ways to improve the setting of future standards.

We support the IASB's active engagement with securities regulators, audit oversight bodies, and national standard-setters to identify implementation issues. The auditing profession itself will also be well-placed to advise the IASB (and not only through the Interpretations Committee). In addition, other IFRS stakeholders, including preparers and investors should be encouraged to identify and report implementations issues. The IASB should continue to seek innovative ways of encouraging informal feedback to gather information in this area, in much the same way as it has used technology to increase engagement during the standard development phase.

We look forward to a more comprehensive assessment of reform options for the Interpretations Committee, in light of the consultation on many aspects of the Committee and its work that concluded earlier in 2011. While not disagreeing with any of the principles suggested by the Trustees, we would wish to see more detailed proposals before we comment definitively.

C5 The IFRS Foundation and the IASB should encourage the maintenance of a network of national and other accounting standard-setting bodies as an integral part of the global standard-setting process. In addition to performing functions within their mandates, national and other accounting standard-setting bodies should continue to undertake research, provide guidance on the IASB's priorities, encourage stakeholder input from their own jurisdiction into the IASB's due process and identify emerging issues.

We agree, although we would not necessarily limit the network to accounting standard-setting bodies, but to all those bodies with an interest in financial reporting, including the accounting profession and academics.

We encourage the IFRS Foundation Trustees to establish formal working relationships with national and regional standard-setters, through memoranda of understanding between those bodies and associations and the IASB. National and regional financial reporting standard-setters have knowledge, skills and experience that can be utilised in the IFRS standard-setting process. In our view, it is important that jurisdictions that have incorporated IFRSs into their financial reporting framework continue to have an active role in the international financial reporting arena and assist in the development and promotion of high-quality, globally accepted financial reporting standards, are proactive in identifying new and emerging financial reporting issues and ensure that their jurisdiction's interests are suitably addressed in the development of those standards. In addition, national and regional standard-setters would work to minimise potential variations by working closely with the IASB and other national standard setters.

The maintenance of expert resources embedded in IFRS jurisdictions is a critical component of the effective and consistent adoption and implementation of IFRSs. We see the establishment and/ or maintenance of such relationships as interconnected with the discussion of research capacity in issue C6, below.

C6 To provide thought leadership in the field of financial reporting, the IASB should establish, or facilitate the establishment of, a dedicated research capacity.

It is critical that the IASB should have access to current research as it develops IFRSs. We would support establishing a liaison group within the IASB focused on research activities and responsible for coordinating a global research network. It would be beneficial to the IASB if there was a truly global research network, capable of drawing on research wherever it was being undertaken. Before establishing such a function, the IFRS Foundation Trustees should examine how other standard-setters and similar bodies work with each other and with the academic community so as to build on their experience.

A diversified approach to the research capabilities should lead to such resources being used throughout the standard-setting process, including assessing the effects of a possible financial reporting standard, assisting with outreach activities during a standard's development, field testing and providing empirical evidence as part of post-implementation reviews. In essence, the various networks (those in C5 and C6) should be partnerships with the IASB, assisting the IASB's standard-setting activities through their access to local sources of information, leading to financial reporting standards based on high-quality global research.

A diversified approach to the IASB's research capabilities is another way to increase participation in the standard-setting process, in particular stimulating discussion at the beginning of a project so that the best possible solution is developed rather than being identified after an IFRS is issued. There are experienced resources in countries around the world, ready and willing to be involved in the IASB's research activities. The IASB should seek to utilise these resources where they exist and capitalise on the experience they can bring to the process of setting global financial reporting standards.

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

D1 The funding system must maintain the independence of the standard-setting process, while providing organisational accountability.

We agree. As we noted in our letter to the IFRS Foundation Monitoring Board (25 March 2011), achieving a funding mechanism that is adequate, proportional and sustainable is fundamental to ensuring the independence of the IFRS Foundation and the IASB.

D2 The existing base of financing should be expanded to enable the IFRS Foundation to serve the global community better and to fulfil the strategy described above. Specifically, funding should be proposed by the IFRS Foundation Trustees to be on a long-term basis (at least three to five years), be publicly sponsored, be flexible to permit the use of differing mechanisms and to adjust to budgetary needs, be shared among jurisdictions on the basis of an agreed formula (consistent with the principle of proportionality) and provide sufficient organisational accountability.

We continue to support a funding requirement allocated based on an independent measure, such as gross domestic product or relative market capitalisation in IFRS jurisdictions (including those jurisdictions that permit IFRS for secondary listings). That this funding be on a long-term basis

is reasonable. In our view, local capital market authorities should be responsible for determining how best to raise the funding requirement allocated to them. We stress that the method of funding should maintain and be seen to maintain the independence of the IASB from national and regional governments, the accounting profession and individual preparer entities.

This is an area in which the IFRS Foundation Trustees and the Monitoring Board must coordinate their efforts if a truly sustainable funding mechanism is to be achieved. Monitoring Board members have a critical role to play in helping to make the case in their jurisdictions for such funding mechanisms.