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Mr. Tsuguoki Fujinuma and
Mr. Robert Glauber, *Interim Co-Chairmen*
IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

22 February 2011

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' Public Consultation: *Status of Trustees' Strategy Review.*

We wish to highlight the following issues 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.

As discussed in greater depth in the Appendix to this letter, we are firmly of the view that both the IFRS Foundation and the Monitoring Board should make an explicit statement in their governing documents that the primary purpose of general purpose financial reporting is to provide financial information about the reporting entity that is useful to capital market participants (i.e., existing and potential investors, lenders and other creditors) in making decisions about providing resources to the entity. Other users, including prudential regulators, may use general purpose financial reports, but those reports are not directed primarily to address their needs. We urge the Trustees and the Monitoring Board to act together to align how the objective of general purpose financial reporting is expressed in their respective governing documents as far as possible with the objective of general purpose financial reporting as it is expressed in the IASB's *Conceptual Framework for Financial Reporting 2010*. This fundamental issue needs to be endorsed at all levels of the supervisory structure of the organisation.

With respect to the governance of the IFRS Foundation, we support the three tier structure that is currently in place, but we would wish to see changes to both the Monitoring Board and the IFRS Foundation Trustees. The Monitoring Board should be expanded to represent a more diverse population of capital market supervisors responsible for the enforcement (or endorsement) of financial reporting standards from jurisdictions using IFRSs. In addition, while general purpose financial reporting is not directed primarily to address prudential regulators' needs, standard setters should be aware of their concerns about financial reporting; thus, it may be prudent to include international institutions, including the Financial Stability Board, in the Monitoring Board's discussions to represent prudential regulators' interests.

The IFRS Foundation Trustees' role should be a pro-active one, acting on the organisation's behalf to work with jurisdictions to ensure their support of the standard-setting process and promoting the use or adoption of IFRSs. Trustees should act as a buffer between the independent standard setter and the Monitoring Board and other jurisdictional interests. This implies a more visible role than at present in the governance and oversight of the IFRS Foundation and a more 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.

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.

Yours sincerely,

Veronica Poole
Global Managing Director
IFRS Technical

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Appendix

Responses to Areas and Questions raised in the Public Consultation

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?*

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?*

We support the Objective of the IFRS Foundation as outlined in the IFRS Foundation's Constitution and, consistently with our previous positions referred to below, do not believe that fundamental revisions to this Objective are necessary. In our letter to the IASC Foundation Trustees of 31 March 2009, we suggested that the Trustees should align how the Objective is expressed in the Constitution as far as possible with the objective of general purpose financial reporting as it is expressed in the IASB's *Framework*. Now that the IASB has completed its work on Chapter 1 of the revised *Framework*, we urge the Trustees and the Monitoring Board to act together to achieve this alignment. In our view, it is fundamental that any questions about the Objective be resolved and that the Objective be embedded using consistent language not only in the IFRS Foundation's Constitution but also in the Monitoring Board's Charter, and we shall be commenting to the Monitoring Board on this matter in our response to their *Consultative Report on the Review of the IFRS Foundation's Governance*, issued on 7 February 2011.

This Objective is the foundation of the IASB's *Conceptual Framework for Financial Reporting 2010*, which states that "the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity" [OB2]. In addition, the IASB acknowledged that "Other parties, such as regulators and members of the public other than investors...may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups" [OB10]. In addition, the IASB's Basis for Conclusions noted "that the interests of investors, lenders and other creditors often overlap with those of regulators. However, expanding the objective of financial reporting to include maintaining financial stability could at times create conflicts between the objectives that the [IASB] is not well-equipped to resolve." [BC1.23]

We acknowledge that the current financial crisis has highlighted once again that there may be contradictions between capital market investor-focused financial reporting objectives and other public policy objectives that relate to financial reporting, such as financial stability. In many situations the objective of capital market supervisors and prudential regulators will be the same. But there will be times when the two will not. This conflict has been questioned at least twice in recent years (in the ED on Chapter 1 of the *Framework* (May 2008) and in the Financial Crisis

Advisory Group report (July 2009)). On both occasions, the primacy of the investor-focus was upheld. In addition, the G20 Leaders, while calling for greater cooperation between the standard-setters and prudential regulators, have not questioned the fundamental objective of financial reporting.

We continue to believe, consistently with views expressed before, 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. General purpose financial reports facilitate a dialogue between preparers and investors and must communicate economic reality in a transparent manner. In addition, those concerned about financial stability also desire reliable and transparent financial information. While financial stability is not the primary objective of general purpose financial reporting, biased reporting or obscuring information would contribute to financial instability because important information is withheld or communicated in a way that lacks transparency. Investors and prudential regulators need neutral information, reflective of the economic reality, if they are to make informed decisions.

As noted above, in many situations the objectives of capital market supervisors and prudential regulators will overlap. When they do not, there are financial statement presentation and disclosure alternatives that can be applied to give users additional useful information in a manner that does not compromise the fundamental objective of IFRS financial reporting or of individual IFRSs. In addition, prudential regulators have the ability to require supplemental information of the entities that they regulate when their needs cannot be accommodated by general purpose financial reporting.

We acknowledge that IFRSs cannot be developed without regard to the potential public policy impact that their use might have. We support and encourage the IASB and prudential regulators to use the various opportunities arising during the development and implementation of an IFRS to identify and understand any regulatory concerns and for the IASB to accommodate those concerns to the extent that they are not inconsistent with the objectives of general purpose financial reporting. The prudential regulators would then be aware of the areas in which they need to develop mechanisms to achieve those objectives that are different from those in IFRSs.

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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?*

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?*

We note that the Monitoring Board is undertaking a review on its own initiative of the overall governance model of the IFRS Foundation. We are participating in that review and will submit a comment letter to the Monitoring Board in response to their Invitation to Comment.

We continue to support the three tiers of governance for the IASB and the IFRS Foundation, with the Monitoring Board providing the link with public authorities responsible for capital markets and monitoring the work of the IFRS Foundation Trustees; the Trustees responsible for day-to-day oversight of the IASB and funding; and the IASB as an independent standard-setter. We do not think that an additional tier of oversight is desirable or necessary. However, what is necessary is that the established governance system delivers what it is intended to deliver in a transparent way. The lack of clarity about the objectives and competencies of the Monitoring Board and how (and why) these overlap the IFRSF Trustees' oversight responsibilities is of concern. The issue has existed from the inception of the Monitoring Board, and was noted in our comment letter to the Trustees of 20 September 2008.

The Monitoring Board

The legitimacy and public accountability of the Monitoring Board could be improved. The Monitoring Board is intended to provide 'a formal link between the Trustees and public authorities' [IFRSF Constitution, 18]. However, of the voting members of the Monitoring Board, only three can claim to represent directly public authorities, with the other two participating in their capacity as relevant committee chairmen. Therefore, we support expanding the membership of the Monitoring Board to include a wider representation of capital market supervisors responsible for the enforcement (or endorsement) of financial reporting standards in those jurisdictions using and those committed to using IFRS and those agencies cited by the G20 Leaders as being key to the international financial system. This would align better the current global public policy objectives as outlined by the G20 Leaders and the membership of the Monitoring Board. Under such a model, the Monitoring Board could set aside a certain number of seats for the largest capital markets, to be held on a long-term basis. Additional members could be appointed for a shorter term on a rotational basis from the Americas, Europe, Middle East and Africa and Asia/ Oceania on the basis of market capitalisation. Legitimacy and public accountability could be enhanced further by including the relevant Commissioner or Chairman of the European Commission (as at present), the Financial Stability Board and/or some of the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors.

The Monitoring Board should have a closely-defined role of *monitoring* the operational and oversight activities of the Trustees, in addition to participating in the appointment of Trustees (as now) and, because of the heightened profile of the role, the IASB Chairman. The appointment of IASB members other than the Chairman, and appointments to the Advisory Council, Interpretations Committee, Working Groups, etc. should, in our view, remain the sole responsibility of the IFRS Foundation Trustees.

IFRS Foundation Trustees

The IFRS Foundation Trustees' role should be a pro-active one, acting on the organisation's behalf to work with jurisdictions to ensure their support of (or non-interference with) the standard-setting process and promoting the use or adoption of IFRSs. They should act as a buffer between the independent standard setter and the Monitoring Board and other jurisdictional interests. This implies a more visible role than at present in the governance and oversight of the IFRS Foundation and 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.

The IFRS Foundation needs to be seen to be exercising its governance and oversight role actively if it is to be effective. In our view, the Trustees need to be involved actively as the IASB identifies candidates for its agenda, prioritises them and reviews the feedback received from constituents on that assessment. We support the *status quo* in which the Trustees do not have a detailed involvement in the IASB's agenda-setting process, but we would support the Trustees being involved to the point that they fully understand the process by which the IASB determined its agenda and set the relative priorities, such that they can present and explain it at senior levels. Such involvement would include active engagement with the IFRS Advisory Council, in a session attended by at least a quorum of the Trustees' Due Process Oversight Committee or other nominated group. The Trustees must be visible in these public forums if they are to be credible in discharging their oversight role.

This proposal would involve elevating the role of the Trustees to a time commitment equivalent to that of a non-executive/ independent director of a prominent publicly-listed company, with a similar increase in the resources necessary to support them. It would also mean that the Trustees would be expected to commit a significant amount of time to the IFRS Foundation and its activities.[1] Given the heightened profile of the IFRS Foundation as a result of the G20 mandate given to the IASB, we see this development as unavoidable. The IFRS Constitution would need to be amended to give greater clarity and rigor to paragraph 7, in particular.

[1] For example, *A review of corporate governance in UK banks and other financial industry entities: Final Recommendations*, HM Treasury, 26 November 2009 (The Walker Report), suggested a minimum expected time commitment for several non-executive directors of large financial institutions would be 30-36 days annually (Recommendation 3, paragraph 3.23).

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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?*

International Financial Reporting Standards are developed through a comprehensive due process that includes input from a broad range of constituents, including prudential regulators. This comprehensive due process is time-consuming but necessary to ensure that the standards that result are of high quality and have general acceptance.

In the future, we encourage the IASB to make better use of the 'research phase' of a project, such that any discussion paper issued would have a more comprehensive assessment of the various alternatives available and the IASB's assessment of which of those alternatives they are tentatively supporting. We think that this more rigorous approach to the research phase would lead to a better discussion paper and an exposure draft that was less likely to be the subject of significant revision during final re-deliberations.

The public consultation on the IASB's agenda and priorities is most welcomed; but it is too early to judge whether this will be effective in responding to the demands for constituent involvement that led to its establishment. It should be left to develop under the oversight of the Trustees in the medium term.

We do have concerns about the IFRS Interpretations Committee and the IASB's Annual Improvements Process, and these are reflected in our comment letters of 30 November 2010 (Annual Improvements) and 24 January 2011 (Interpretations Committee Questionnaire). We attach copies of these letters for ease of reference.

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?*

We think that the IASB should be attentive throughout the standard-setting process to issues that might hinder the consistent application and implementation of IFRSs. This can be achieved partly through the regular dialogue with capital market supervisors, prudential regulators, auditors and other constituents as noted in our response to Questions 1 and 2. We support post-implementation reviews of recently-issued IFRSs to assess whether an IFRS's objectives are being met, including consistent application, and whether revisions are necessary.

Constituents, when responding to IASB proposals, or when planning the implementation of a new or revised IFRS, would be expected to raise such issues to the IASB in a timely manner. If an issue is identified in the implementation/ transition period, the IASB has due process tools available to enable critical issues to be addressed in a timely manner. However, we acknowledge that experience has shown that not all implementation issues so identified are capable of being remedied quickly or in a manner that satisfies all IFRS jurisdictions.

We note that the IFRS Education Initiative 'reinforces' the goal of promoting the adoption and consistent application of IFRSs. We note and agree with the guiding principles of that initiative, in particular that "The [IFRS] Foundation education material and services must complement and not derogate from the complete text of IFRSs and the IFRS for SMEs." We are aware that the programme of activities and resources available through the IFRSF is primarily directed towards the IFRS for SMEs, however, the annual 'Guide through IFRS', which includes the full consolidated text of IFRSs together with extensive cross-references and other annotations is a useful resource for preparers, auditors and other users.

Financing: how should the organisation best ensure forms of financing that permit it to operate effectively and efficiently?

Achieving a funding mechanism that is adequate, proportional and sustainable is fundamental to ensuring the independence of the IFRS Foundation and the IASB. We support a funding requirement allocated based on relative market capitalisation in IFRS jurisdictions (including those jurisdictions that permit IFRS for secondary listings). In our view, local capital market supervisors 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.