

Michel Prada, *Chairman*
International Financial Reporting Standards Foundation
30 Cannon Street
London
United Kingdom
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30 November 2015

Dear Mr Prada

Request for Views: Trustees' Review of Structure and Effectiveness: Issues for Review

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Financial Reporting Standards Foundation's (the IFRS Foundation's) Request for Views *Trustees' Review of Structure and Effectiveness: Issues for Review* ('the consultation').

In general, we think that the IFRS Foundation's Constitution, its organisation and governance structures have been effective in the period since they were last reviewed. Consequently we support the overall approach to the consultation: concentrating on the particular areas of maintaining and enhancing the relevance of IFRSs, supporting the consistent application of IFRSs and ensuring that the governance and financing of the IFRS Foundation are appropriate. Our detailed comments on all aspects of the consultation are in the Appendix; however we wish to note certain matters in particular:

- We recognise that the not-for-profit sector is part of the private sector and is significant in all jurisdictions that have incorporated, are in transition to or are considering incorporating IFRSs into their financial reporting framework. As such, not for profit organisations are within the IASB's 'private sector' scope. However, we think that there is still much work for the IASB to accomplish in the for-profit sector and it is not appropriate at this time to divert scarce resources to the NFP sector at this time. On the other hand, we would support the IFRS Foundation Trustees assuming oversight of the activities of the International Public Sector Accounting Standards Board (oversight but not standard-setting, which would remain with IPSASB), because many public sector entities are active in capital markets (in particular the public debt markets) and are often subject to the same market regulators as private sector entities.
- We disagree with the proposal to reduce the size of the IASB to 13 members. As a practical matter, reducing the size of the Board would make it increasingly difficult to conduct outreach and meet with constituents. More importantly, the IASB needs sufficient technical and standard-setting experience to have the ability to challenge the staff (and constituents) effectively. We would support increasing the 'at large' seats to three, which could be used to bring to the IASB table IFRS constituents or skills not currently represented.

- We agree with the approach to the IASB's role in the development of corporate reporting more broadly advocated in the consultation: that the IASB should remain fully aware of developments across the whole range of corporate reporting and can take steps, if and when appropriate, to maintain the relevance of IFRS within that range. In particular, we encourage the IASB to continue to follow and contribute to the work of the International Integrated Reporting Council and <IR>.
- We encourage the IFRS Foundation and the IASB to consider the effects of digital and other disruptive technologies on general purpose financial reporting and the scope of IFRSs. We think technology has the potential to affect how financial information is processed and how Standards are developed and written. It is not the technology *per se* that the IASB needs to think about, but how technology might affect behaviour.
- Whilst we think that the current due process is working well generally, we have a serious concern about the quality control over due process documents and issued IFRSs. In our detailed responses, we suggest a number of quality-enhancing activities that could improve the end product of the IASB's work.

Finally, we think that what is missing from this Consultation is a sense of context, how the IFRS Foundation Trustees sees their current priorities in relation to a wider and more long-term view of financial and corporate reporting generally, and how and whether its structure and processes support that view. It is appropriate that this longer-term outlook is supported by periodic consultations. The IFRS Foundation Trustees (and the IASB) need to make regular assessments of their long-term vision and what they see as the financial and broader corporate reporting issues on the horizon, together with a stress analysis of their current activities and priorities.

Our detailed responses to the questions in the request for views 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) 20 7007 0884.

Yours sincerely



Veronica Poole
Global IFRS Leader
Deloitte Touche Tohmatsu Limited

Appendix

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?*

1. Before deciding that the IFRS Foundation or IASB should extend their current remit, the IFRS Foundation Trustees should consider whether such an extension of its responsibilities serves the public interest, and in particular the interests of capital market participants. To us, the absence of capital market participants is a strong indicator that the activity is outside the IFRS Foundation's responsibilities as defined in paragraph 2(a) of the Constitution ("...[to] help investors, other participants in the world's capital markets and other users of financial information make economic decisions").

Not-for-profit sector

2. We recognise that the not-for-profit sector is part of the private sector and 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. That said, we think that there is still much work for the IASB to accomplish in the for-profit sector and it is not appropriate at this time to divert scarce resources to the NFP sector. Consequently, we think that the IASB should continue to focus on developing financial reporting standards to facilitate information for participants in global capital markets.

Public sector – Oversight

3. With respect to the oversight of the International Public Sector Accounting Standards Board, we are on record as supporting the IFRS Foundation being responsible for the oversight of IPSASB. In our comments to the IPSASB Governance Review Group, dated 30 April 2014, we wrote:

We support bringing the International Public Sector Accounting Standards Board within the governance framework of the International Financial Reporting Standards Foundation. In our view, the oversight and monitoring provided by the IFRSF Trustees and Monitoring Board would mitigate the threat of the politicisation of public sector accounting standard-setting.

Bringing IPSASB within the governance framework of the IFRS Foundation would reduce the overall cost of international accounting standard-setting. It would also allow both private- and public-sector standard-setters to follow the same due process, which is the best guarantee that International Public Sector Accountings Standards will be of high-quality, promote transparency and improve accountability of governments.

A single oversight and monitoring framework would mean that the scope of private- and public-sector financial reporting standards would be set by the same oversight body, thus ensuring that there would be consistency about which standards apply to any given reporting entity. We are concerned that some public sector items, liabilities in particular, are not reported in any balance sheet.

We think that the IFRS Foundation Trustees would be able to provide appropriate oversight of the work of the IPSASB, given that at least half of the Trustees have public sector or public policy experience. We acknowledge that it will be necessary for the IFRS

Foundation to follow its own due process to amend its Constitution, oversight and monitoring arrangements to achieve this function.

4. In our view, the public interest test outlined above for bringing the oversight and monitoring of the IPSASB under the IFRS Foundation is met. Many public sector entities are active in capital markets (in particular the public debt markets) and are often subject to the same market regulators as private sector entities.
5. We acknowledge that the IPSASB Governance Review Group issued recommendations in March 2015 that the IPSASB should continue under IFAC auspices, and that a Public Interest Committee be established as a 'unitary' overseer – i.e., oversight body and public authority interface combined. The PIC would be distinct from the Monitoring Group (the public authority interface for the IAASB). The PIC's members are the International Monetary Fund, the World Bank, the OECD and International Organisation of Supreme Audit Institutions (INTOSAI). We see a remarkable omission that IOSCO, which has a reasonable claim to represent the debt market regulators, is not identified as a standing member.
6. To us, the Governance Review Group's recommendations were sub-optimal. Both the IASB and IPSASB are developing financial reporting standards in the public interest and for entities that are (or may become) active in public capital markets. To us it is logical that the *oversight* of both Boards be the same, for the reasons set out in 2014. At the date of this letter, 12 of the 22 current IFRS Foundation Trustees have a primary background of either a market regulator or investor protection, and one other has been Auditor General of a G7 economy. Thus, the shared competencies of the IFRS Foundation Trustees could easily be adapted to accommodate the requirements of overseeing the IPSASB, for example adding development banks and supreme audit institutions to the potential backgrounds of Trustees.
7. For the avoidance of doubt, we do not advocate combining the standard-setting responsibilities of the IASB and IPSASB. The IPSASB would continue to develop IPSASs.
8. Notwithstanding the recommendations of the IPSASB Governance Review Group noted above, we encourage the IFRS Foundation Trustees and the IPSASB Public Interest Committee to open discussions to effect this change, which we see as being very much in the public interest.
9. Such an extension of oversight responsibilities would need to be discussed with (and likely approved by) the Monitoring Board, which could at that time be invited to consider inviting INTOSAI, the World Bank and/ or IMF to participate on the Monitoring Board as Observers.
10. The extension of the IFRS Foundation's oversight responsibilities to public sector accounting standards might also open a source of funding for that oversight from the International Treaty Organisations.
11. In summary, we encourage the IFRS Trustees to explore and assess properly the feasibility of extending the scope of the IFRS Foundation's work to address NFP activities but within the context of the current resource constraints. That assessment needs to recognise the need for the IASB to continue to focus on private sector, for-profit standards together with the medium- to long-term objective of bringing the oversight of the IPSASB under the IFRSF Trustees. That said, we see benefits of having any global NFP standard-setter using the same due process as the IASB (and IPSASB) and being overseen by the IFRSF Trustees (for reasons that are similar to our reasons for bringing IPSASB under the IFRSF oversight).

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?*

The boundary of financial reporting

12. As we noted in our comments on the IASB's Exposure Draft 2015/3, *Conceptual Framework for Financial Reporting*, there is no consensus on what constitutes financial reporting. Given this fact, it is not surprising that trying to define the boundary of financial reporting is the focus of much debate.
13. We agree that whether to extend the boundary of the Board's work to encompass alternative performance measures falls within a grey area, as it is uncertain whether alternative performance measures (APMs), including some non-financial metrics, are part of or separate from general purpose financial statements.
14. We also agree that whether the IASB wishes to develop guidance of any kind on APMs is their decision, but that the IFRS Foundation Trustees have a duty to ensure that the IASB has made a fully informed decision and that the wider consequences of such a decision have been considered fully. We note that the forthcoming Discussion Paper on Principles of Disclosure will have a section dedicated to this topic. This seems to us to be a good place to encourage debate.

Wider corporate reporting

15. With respect to the IASB's role in the development of corporate reporting more broadly, for IFRSs to remain relevant, the IFRS Foundation and the IASB should continue to follow and contribute to the work of the International Integrated Reporting Council and <IR>; the 'clear and concise' reporting and disclosure initiatives that are underway in various jurisdictions; and to continue to promote linkages between the management commentary and the financial statements, which is integral to the IASB's 'communication principle' in the proposed Conceptual Framework.
16. Consequently, we agree with the approach advocated in the consultation, that the Board 'remains fully aware of developments across the whole range of corporate reporting and can take steps, if and when appropriate, to maintain the relevance of IFRS within that range.'

Q3 *Do you agree with the Foundation's strategy with regard to the IFRS Taxonomy?*

Q4 *How can the IASB best support regulators in their efforts to improve digital access to general purpose financial reports to investors and other users?*

IFRS Taxonomy

17. We agree that maintaining the IFRS Taxonomy is important, in particular the focus on the critical objective of retaining the integrity of the IFRS information. We are encouraged that the Foundation's taxonomy work is not being constrained to XBRL and that it is assessing ways to tag and structure data that facilitates access to general purpose reports across different technology platforms.
18. The IFRS Foundation Trustees need to ensure that the IFRS Taxonomy is developed and maintained in a disciplined manner and that it reflects appropriately the standard-setting positions developed by the IASB. Whilst the IFRS Taxonomy should not determine the

technical decisions of the IASB, we think that developing the IFRS Taxonomy updates simultaneously can be very useful in assessing the clarity of the drafting of those decisions.

19. The IFRS Foundation should continue to work with regulators to ensure that any electronic version of an IFRS general purpose report retains all the credibility brought to it by IFRS. In addition and given the degree of similarity between IFRSs and IPSASs and the increasing interest in the public sector for digital reporting (as part of the U.S. DATA Act and Standard Business Reporting projects in various countries), we encourage the IFRS Foundation to cooperate and share experience with the IPSASB about how to tag and structure financial information intelligently within a digital report. Further, we encourage the IFRS Foundation to continue to undertake research in this area and support the work being undertaken on filing requirements.

IFRS Foundation intellectual property

20. We think that the IFRS Foundation would be better to focus on cost-effective and efficient utilisation of its intellectual property rather than developing applications itself for commercial purposes, which compromises the public-interest aspect of its work.
 21. Although licensing intellectual property to commercial vendors at commercial rates has appeal, licensing the taxonomy would be analogous to licensing IFRS. Access to the IFRS Taxonomy is necessary for preparers, regulators, and users to be able to create and read tagged data. The IFRS Taxonomy needs to be easily accessible and currently sits on a site maintained by the IFRS Foundation. Additionally, it will often be accessible on a regulator's site. It would be almost impossible to stop a commercial user from using a freely available good.
 22. It would also be counterproductive, because we think the IASB should be encouraging the integration of its Taxonomy into management information systems, to facilitate the creation of tagged data, and investor systems to facilitate the consumption of the data.
 23. There might be some scope for licensing the taxonomy management systems and other software that the IASB creates for its own use of the Taxonomy. However, commercial exploitation of tools created to meet the primary needs of the IASB should be a secondary consideration.
 24. See also our response to Q14.
- Q5 *Do you have any views or comments on whether there are any other steps the IASB should take to ensure that it factors into its thinking changes in technology in ways in which it can maintain the relevance of IFRS?*
25. We think technology has the potential to affect how financial information is processed and how Standards are developed and written. It is not the technology *per se* that the IASB needs to think about, but how technology might affect behaviour. We encourage the IFRS Foundation and the IASB to consider the effects of digital and other disruptive technologies, e.g., Big Data developments and real-time reporting, on general purpose financial reporting and the scope of IFRSs. Whilst comparability between companies is likely to continue to be important, the role of periodic reporting may change. There needs to be an awareness of such developments so that the organisation is able to respond in an appropriate and proactive manner.

Implications for the IASB

26. In relation to the IASB's activities, the question is how technologies will, or should change behaviour associated with the development of financial reporting standards, and the how financial information is communicated and used. The issues to be considered include:
- will people want, and rely on, periodic (quarterly, half-yearly, annual) reporting or want more continuous reporting?
 - will preparers want to continue to tell their story (i.e. structure the information in a periodic report) through their eyes and will investors want more raw data and less of the story from management? For example, will the annual report, income statements and the balance sheet become redundant?
 - should the IASB continue to set Standards on a topic-by-topic basis? and
 - will access to the Standards and Interpretations still rely on "bound volumes" of topic-based Standards?
27. Although technology is an enabler, it is not the only factor at play. The IASB has no power to change the frequency of reporting. That is a matter for securities markets regulators and/ or stock exchanges. But if a regulator was to introduce more formalised continuous reporting, such as weekly reporting of sales or some performance metrics, how would this affect the type of financial reporting standards required?
28. The IASB does have some experience of this type of change on which it could build. We have observed some securities regulators putting greater emphasis on electronic filing, with more structured filing requirements. The development of the IFRS Taxonomy is clearly the response to this shift, and demonstrates that the IASB has been able to support the changes.
29. We continue to encourage the IFRS Foundation to monitor developments in the areas of corporate reporting and governance generally, in particular the role of developments such as <IR>. We think it highly likely that decision making in the future will be based explicitly on a wider data set, one in which some non-financial information will be as important as financial data.
30. Consequently, we support establishing a more formal mechanism (at IASB or Staff level) to monitor and assess changing technology and to provide advice on whether and if so how the IFRS Foundation and/or the IASB should respond to, and where appropriate exploit, those changes. As a first step, we think the IASB should look inside to its own staff. Our observations of, and interactions with, staff involved with the development of the IFRS Taxonomy suggest that they have a good awareness of many of these issues.
31. We encourage the IFRS Foundation's intention to undertake research in this area and assess how the development of IFRSs and the IFRS Taxonomy should respond to those changes. We will be providing comments on the IFRS Taxonomy Due Process consultation in due course.

Primary Strategic Goal 2: Global adoption of IFRS

32. We continue to support the development of a single set of high quality global accounting standards and think that activities and procedures established by the IFRS Foundation and the IASB since 2012 support achieving this goal.
33. Although the establishment of the Accounting Standards Advisory Forum is included as part of Primary Strategic Goal 1, we see it as equally important to developing a single set of high quality global accounting standards. We support the ASAF and think that its role could be developed further such that it becomes a significant resource for the IASB and the staff as they develop IFRSs.
34. Similarly, we support the involvement of the International Forum of Accounting Standard Setters/ World Standard Setters in the IASB's work. We think that national standard setters could be utilised better by the IASB in the research phase of projects, especially as national standard-setters will have deep knowledge of issues pervasive in their jurisdiction that could inform the IASB's work.
35. We have observed several examples of national standard-setters being used effectively within the disclosure initiative—from Italy, the UK and New Zealand. We encourage an expansion of their use. We think that other standard setters will be particularly important in assessing the likely effects of new proposals, as they are developed—i.e. research, field testing and effects analysis at all stages of an IFRS's development. On a related matter, we continue to encourage the IASB to implement the recommendations of the Report of the Effects Analysis Consultative Group.

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?*

36. In the context of this review, we assume that the Trustees use the terms application and implementation as they relate to how an individual entity, preparer, regulator or auditor interprets ('applies') an IFRS in particular facts and circumstances.
37. Consistent application needs careful consideration. IFRSs, being 'principles-based' standards, provide a framework to make valid and supportable judgements and choices given the facts and circumstances of a particular transaction or event. Provided that the judgements made are faithful to the objective of the IFRS and apply the principles in the IFRS, such differences should be tolerated. If unacceptable inconsistencies are identified and arise from a lack of clarity in, or conflicts within or between IFRSs, the IASB has the necessary tools available to rectify poor practice.

Due process and related matters

Quality control and drafting

38. The IFRS Foundation has developed a comprehensive due process for the development of IFRSs. Whilst we think that the current due process is working well generally, we do have a serious concern about the quality control over due process documents and issued IFRSs. We suggest that a number of quality-enhancing activities could be implemented to improve the end product of the IASB's work.
39. Consistently with our forthcoming comments to the IASB's Agenda Consultation, we think that quality control in drafting proposals is important and we support an extensive fatal flaw review, in particular on major standards. In those comments, we emphasised that the purpose of such a review should not be to challenge the Board's technical decisions, but to ensure that the articulation of those decisions in the IFRS is capable of consistent interpretation and application in practice. We see this as a more efficient investment of time and resources (both of the IASB and its constituents), drawing on the practical experience of constituents, to ensure that an IFRS is of high quality before it is issued, than doing this post-issuance. This suggested approach should also help in the process of implementing an IFRS in a particular jurisdictions, and avoid much time- and resource-consuming post-issuance amendments.
40. As we will be emphasising in our letter on the Agenda Consultation, we have concerns about the quality of some of the drafting that has emerged from the IASB recently, as evidenced by matters such as:
- The extent of the drafting changes from an exposure draft to the final Standard;
 - The high number of comments that the IASB receives on fatal-flaw reviews;
 - The extent of the drafting changes between pre-ballot drafts and the final Standards, and the fact that those changes are not the subject of any additional external review;

- Editorial corrections and minor amendments being made to newly issued Standards to clarify wording; and
 - Issues being raised with the Interpretations Committee because the IFRS is not clear or contradicts another IFRS or Interpretation.
41. The Board has resisted undertaking public fatal flaw reviews. We are not convinced that a public process would be an effective way of improving the drafting. However, we are concerned about the level of change that takes place between the pre-ballot draft and the final Standard. The process the Board has for addressing the drafting suggestions that networks like Deloitte make during the fatal flaw review is not transparent. It is our recent experience that matters raised as fatal flaws often continue in the IFRS as issued, only to come back as questions submitted to the Interpretations Committee.
42. We think that the Board is exposing itself unnecessarily to the risk that changes from the pre-ballot draft will introduce wording that will cause problems when the Standard is implemented. We urge the Board to consider mechanisms for obtaining external input on these changes. It need not be an additional fatal-flaw review of the Standard, but could be a targeted review of specific wording. It should be up to the Board to decide on the extent of any such review, but there should be transparency around those decisions and the internal procedures being undertaken. Because the internal processes are not transparent we are not able to comment on them, but the problems we observe with the outputs from those processes (the final Standards) suggest that changes in these final stages are required. Our principal message is that the final phases of preparing a document for issue should emphasise quality over self-imposed deadlines.

Effects analyses

43. We are on record as supporting the principle that effects analysis should be an element of the standard-setting process throughout the life cycle of a standard-setting project and note that the work of the Effects Analysis Consultative Group should assist the Board to issue high quality, evidence-based effects analyses to accompany their Standards. As noted above, we continue to support the IASB in implementing its recommendations.

Implementation and interpretation activities

44. We encourage the IFRS Foundation to encourage the IASB to involve auditors, securities markets regulators and other experts in discussions when issues arise during the implementation of an IFRS.
45. We see the Interpretations Committee as a significant participant in the ongoing maintenance of IFRSs generally, and in maintaining convergence between IFRSs and U.S. GAAP, especially for Revenue and other standards for which there is a high degree of convergence. There needs to be proper coordination between the Interpretations Committee and the U.S. Emerging Issues Task Force whenever converged principles are at issue. This is a matter for the IFRS Foundation and the U.S. Financial Reporting Foundation Trustees to sponsor and monitor.
46. The proposed reduction in the number of Interpretations Committee meetings would seem to be contrary to this objective, and only fuel the criticisms of which we are aware in practice that the Interpretations process is seen as slow and unresponsive. Our observation is that,

when the Interpretations Committee discusses the staff papers analysing a request, matters are frequently sent back to the staff for further analysis which means that it will be at least two months before the request is discussed again. This suggests that either there is a problem with the initial analysis or the Committee does not have sufficient time to discuss the issue in a particular meeting. Meeting less frequently does not seem to be the answer to either problem. If anything, it suggests that either the committee should meet more frequently or it should have longer meetings to enable it to resolve some of those matters during the meeting rather than sending the issue straight back to the staff, making the committee more effective.

47. We support the IASB's approach to Post-implementation Reviews, and encourage issues identified to be addressed and responded to effectively and efficiently.
48. Finally, we note that IASB can occasionally react defensively when 'weaknesses in a new IFRS' are identified that may lead to inconsistent application and/ or the need to revise a recently-issued IFRS. In our view, these situations should not be viewed as 'criticisms of the standard-setter' but should be seen positively and treated as an opportunity to serve the public interest by strengthening and improving the IFRS, leading to more consistent implementation and application.
49. We therefore commend the formation and activity of the Revenue Transition Resource Group and the IFRS 9 Impairment Transition Resource Group, which we see as innovative and potentially highly-effective ways of facilitating consistent and high-quality transition and implementation of new IFRSs. They add an independent voice in assessing uncertainties raised in relation to a new standard. It could be that the uncertainty reflects the lack of familiarity inevitably associated with a new Standard, which benefits from the discussions of the Transition Resource Group. Or it could be a problem with the Standard, either because of how it is drafted or because an issue was not anticipated when the Standard was developed.
50. We would support appointing such groups, in particular, for major standards that address complex areas in which the Board has developed previously untested solutions, or for which the Board's outreach while developing an IFRS suggests that such a group would facilitate consistent and high-quality transition and implementation. Further, we think that such expert panels (which is how we see the transition resource groups), if established in advance of issuing the final IFRS, could usefully participate in fatal flaw reviews. It is better to prevent problems with the drafting of an IFRS from happening in the first instance.

Primary Strategic Goal 4: IFRS Foundation as an organisation

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?

51. As far as matters within the control of the IFRS Foundation are concerned, the three-tier structure of the organisation is and continues to be appropriate.
52. Although a distinct and independent body, the Monitoring Board should be encouraged to do more to improve its transparency. In particular, greater objective evidence that the Monitoring Board are providing effective challenge to the IFRS Foundation Trustees about their oversight of the IASB, and also how the members of Monitoring Board are working 'to promote the continued development of IFRSs' in their jurisdictions would be welcome. In the brief public interactions between the IFRS Foundation Trustees and the Monitoring Board, the discussions seem to be uni-directional.

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?

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?

Geographical distribution of Trustees, etc.

53. We support providing greater flexibility for Trustee appointments as proposed in paragraph 81, for the reasons given in that paragraph.

Professional backgrounds

54. Think that the current specification of the professional backgrounds of Trustees is appropriate, although if oversight of the IPSASB is undertaken (as we proposed in our response to Question 1), we note that candidates with a more direct public sector background, including senior positions in development banks and supreme audit institutions, would be desirable.
55. We support the efforts of the Trustees to achieve a better gender balance on the IFRS Foundation (and the IASB).

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

56. Given the relative maturity of the IFRS Foundation, we agree that normal reviews of the entire strategy and effectiveness of the organisation should commence, at the latest, five years after the previous review has been completed.
57. This should not preclude urgent reviews, such as the one conducted in 2008 that led to the establishment of the Monitoring Board in January 2009, should such be thought necessary.

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?*

58. We disagree with the proposal to reduce the size of the IASB to 13 members, preferring 14 as at present. Whilst we agree that ASAF has a role to play in the development of IFRSs and the work of the IASB more generally, we do not see evidence that ASAF has proved its effectiveness as an 'outreach body' sufficiently to assume a part of the IASB's outreach role. In our view, the IASB should continue to have primary responsibility for engaging with its stakeholders.

59. It is arguable that the IASB's decision making would be just as effective with any number between 10 and 20. The research on this matter suggests that 8 is too low, but does not find any ineffective decision making between a range of 9 and approximately 20. As a simple practical matter, reducing the size of the Board will make it increasingly difficult to conduct outreach and meet with constituents. The IASB needs to maintain sufficient technical and standard-setting experience to have the ability to challenge the staff (and constituents) effectively. In particular, the IASB is lacking recent audit practitioner experience and needs more members experienced in standard-setting. This could be achieved by increasing the 'at large' seats from two to three, which could be used to bring to the IASB table IFRS constituents or skills not currently represented.

60. We agree with the proposals in paragraph 88, making section 25 and 27 of the Constitution consistent, by conforming paragraph 27 to the words used in paragraph 25.

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?*

Q13 *Do you agree with the proposal to amend Section 31 of the Constitution on the terms of reappointment of IASB members as outlined above?*

61. We do not oppose the proposal in paragraph 94(b), giving discretion to re-appoint a Board Member for a further term of 'up to five years'.

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?*

Funding generally

62. As we noted in 2011, achieving a funding mechanism that is adequate, proportional and sustainable is fundamental to ensuring the independence of the IFRS Foundation and the IASB.

63. There is no easy answer to the IFRS Foundation's funding model and agree that, whilst not ideal, the current three pillar system of funding, with publicly-sponsored contributions, private contributions, and self-generated income from the sales of publications and related activities, is a pragmatic approach to funding the organisation.

64. Operating globally as it does, the IFRS Foundation is and must be sensitive that a funding approach adopted in one jurisdiction may be contrary to funding principles in another. We are aware that the contribution to the IFRS Foundation by the European Commission, made

via the European Community Budget, has been criticised by some in the U.S. Congress because the Community Budget is subject to scrutiny and voting in the European Parliament. Thus, it is seen as violating Section 109(i) of the Sarbanes-Oxley Act.

65. In 2011 we commented that we supported '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.' Recent experience has only reinforced our views as to the funding model that is needed.
66. As a private sector, public interest entity, the IFRS Foundation must be sensitive to the extent of self-generated income. To this end, the IFRS Foundation should explore whether the IFRSs (including the Basis for Conclusions and Illustrative Examples) should be available for free, in return for a more stable central/ government funding component. This would not preclude licensing its intellectual property to commercial entities who would bundle it with other value-adding content.

Contributions from the accounting networks

67. Deloitte is one of the major professional services networks and contributes annually to the IFRS Foundation. We have contributed in varying (increasing) amounts since the IFRS Foundation was established in 2001.
68. In the Deloitte network, the decision to contribute to the IFRS Foundation, and the amount of that contribution, is made at the Global CEO level. The contribution is assessed wholly from a public policy point of view, including the expectation that Deloitte, as a leading network in the global accounting profession, supports the development of high quality global accounting standards.

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?*

69. We have no other matters to raise that we have not raised elsewhere in our response.