

# IFRS public policy briefing.



## IASB: Setting Direction

Hans Hoogervorst, IASB Chairman, delivered a significant speech in Mexico on 7 March 2012. In it, he gave his views on how the IASB would implement the IFRS Foundation Trustees' recommendations to improve its due process, and in particular how it engages with national and regional standard-setters, securities market regulators, the accounting profession and others.

Hoogervorst noted that the most important recommendation 'was the need for the IASB to strengthen and formalise its relationships with standard-setters, regulators and the accounting profession.' Noting that all three groups were already part of an 'informal dialogue' that had been effective and had achieved much, the time had come 'to move from this loose affiliation to a more integrated supply chain based on strengthened and more formalised relationships.'

One part of this supply chain, national and regional standard-setters, would be closely involved in the development of IFRSs, sharing research, field testing and outreach activities. This close involvement is intended to improve the quality of IFRSs, decrease duplication of effort and reduce the risk of non-endorsement of the standards.

Secondly, Hoogervorst indicated that a wider network would 'provide a mechanism for all participants in this financial reporting supply chain to work together to encourage greater consistency in the implementation of IFRSs.' The network would 'provide a forum for securities and audit regulators, the profession and the IASB to discuss ways to improve consistency, and to address areas of divergence.'

### Deloitte's view:

Hoogervorst's speech gives a flavour of what he and his senior team at the IASB are developing. It is not clear at this stage what he means by network and how it will operate, especially in terms of the accounting profession and regulators.

Read Robert Bruce's column on Hans Hoogervorst's speech [here](#).

## Deloitte's Jim Quigley appointed to the IFRS Foundation

James (Jim) Quigley, former Global Chief Executive Officer of Deloitte Touche Tohmatsu Limited and a Senior Partner of the US member firm Deloitte LLP, has been appointed a Trustee of the IFRS Foundation. In addition to his Deloitte responsibilities, Mr Quigley is co-Chairman of the TransAtlantic Business Dialogue and serves as a Board member and adviser to several organisations. He is a former Trustee of the Financial Accounting Foundation (the FASB's oversight body), a former Board member of the Center for Audit Quality and has served on financial reporting advisory committees to the US Securities and Exchange Commission and the AICPA.

In addition, two other IFRS Foundation Trustees were appointed during February 2012. **Ronald Arculli** is Chairman of Hong Kong Exchanges and Clearing Limited (operators of the Hong Kong Stock Exchange) and Chairman of the World Federation of Exchanges, the international association of stock exchanges. He is also a Member of the Executive Council of the Hong Kong Government. **C. B. Bhave** is the immediate past Chairman of the Securities and Exchange Board of India (SEBI), the Indian securities and market regulator. During this time he also served as Chairman of the Asia-Pacific Regional Committee and as a member of the Executive and Technical Committees of the International Organization of Securities Commissions (IOSCO).

**Deloitte's view:**

Jim's appointment is a testament to his passion for high-quality financial reporting and his long record of service at the highest levels of international business. The appointment also reflects the eminence that the Deloitte network has achieved in the world of IFRS.

The Deloitte press release on Jim Quigley's appointment is [here](#).

**SEC Developments**

At the February 2012 meeting of the IFRS Advisory Council, James Kroeker, Chief Accountant of the US Securities and Exchange Commission provided the Advisory Council with his views on the progress of the SEC Staff's Work Plan for Global Accounting Standards. In particular, he stressed that the addition of 'a few additional months' to the Staff's timeline was 'environmental' and nothing more. The Dodd-Frank Act had placed in the SEC's 'in tray' over 100 rule-making and related requirements, requiring a level of effort unprecedented in the Agency's history. However, the Staff's report on the Work Plan was in draft and would be delivered to the Commissioners in due course.

Of particular interest were his thoughts on what incorporating IFRSs into US financial reporting might look like were the SEC to decide to move in that direction. The FASB would be responsible for endorsement of IFRSs, and the bar for departing from IFRSs as issued by the IASB should be 'relatively high.' The focus of any endorsement efforts would be on process and not outcomes. He advocated the 'substantive involvement' of national and regional standard-setters in the IASB's due process. In addition, he noted that multilateral arrangements among endorsement bodies would assist the FASB and other jurisdictions to make their endorsement judgements.

**Deloitte's view:**

Mr Kroeker's comments took care not to anticipate any direction from the SEC. At the same time, the IFRS community should know within a few more months which of the paths the SEC staff will recommend to the Commissioners.

Read Robert Bruce's column on Mr Kroeker's remarks [here](#).

**ESMA consults on materiality**

The European Securities and Markets Authority (ESMA) has been consulting on *Considerations of materiality in financial reporting* (a Consultation Paper issued in November 2011). ESMA suggests that there are differing views regarding the practical application of the concept of materiality amongst preparers, auditors, possibly users of the financial reports and, in some instances, accounting enforcers. ESMA sought comments from interested parties on their understanding of various aspects of materiality in an effort to contribute to a consistent application of this important concept in financial reporting. While the consultation paper's objective was only to seek views on the concept of materiality, ESMA indicated that responses to the consultation might lead it to consider the need of 'further developments' [i.e., regulatory activity] in this area.

**Deloitte's view:**

While we acknowledge the initiative of ESMA in opening a dialogue on this issue, we are firmly of the view that any additional guidance or interpretation of existing international accounting and auditing standards should be provided at a global level by the International Accounting Standards Board and International Auditing and Assurance Standards Board respectively under their established due process. Addressing such fundamental issues through the appropriate global standard-setters should contribute to global consistency in the application of the standards in a way that guidance issued at a national or regional level might not.

Read Deloitte's comment letter to ESMA [here](#).

### **IFRS Foundation governance reviews completed**

The IFRS Foundation Trustees' Strategy Review and the IFRSF Monitoring Board's Governance Review were released together in February 2012. The reviews mark the culmination of many months' work, and once the action steps are implemented fully, procedures will be in place for a more rigorous oversight of the IASB and increased accountability to appropriate national securities and markets authorities by the IFRS Foundation Trustees, whilst maintaining the technical independence of the IASB as a global financial accounting standard-setter.

#### ***Governance structure***

Both reviews confirm the current three-tier governance structure in which the Monitoring Board acts as the link to those public authorities responsible for determining the form and content of financial reporting standards for use in capital markets; the IFRS Foundation Trustees oversee the day-to-day activities of the IASB and promote the transparency of the organisation; and the IASB acts as an independent standard-setter, operating within a thorough, transparent, clearly defined and documented system of due process, with appropriate oversight and accountability.

The Trustees will re-organise the management structure to ensure that the IASB Chairman 'concentrates on standard-setting and is given no role with respect to the Trustees' oversight activities.' In particular, the role of IASB Chairman will be split from that of IFRS Foundation CEO.

#### ***Enhanced transparency***

The key instruments of transparency include:

- Enhanced IASB due process, especially with respect to the IASB's technical agenda and post-implementation reviews.
- Enhanced oversight of the IASB, through the IFRS Foundation Trustees' Due Process Oversight Committee.
- The IASB remains solely responsible for setting its technical agenda. The Monitoring Board retains its right to refer 'matters of broad public interest related to financial reporting for consideration by the IASB through the IFRS Foundation.' A formal feed-back mechanism will be activated in the event that the IASB does not add such an item to its agenda.
- The criteria and process for the search for and appointment of the IASB Chair will be agreed between the Monitoring Board and the IFRS Foundation Trustees and published. The appointment of the IASB Chair remains the exclusive responsibility of the IFRS Foundation Trustees.
- The criteria and process for the search for, and nomination and appointment of IFRS Foundation Trustees will be improved and published to improve the public understanding of the respective roles and activities of the IFRS Foundation Trustees and the Monitoring Board.
- The Monitoring Board has committed to publish written records of their public meetings on a timely basis and to communicate better its oversight activities.

#### ***Membership of the Monitoring Board***

Membership of the Monitoring Board will rise to eleven members and will be confined to those authorities 'responsible for setting the form and content of financial reporting' for use in their respective jurisdictions. The Basel Committee on Banking Supervision remains a non-voting Observer. Of the three national authorities currently members (the EU, US and Japan), only the EU appears to meet the criteria for permanent membership. The eligibility of existing members to remain as permanent members will be assessed in early 2013.

The Monitoring Board will continue to make its decisions by consensus.

#### ***Deloitte's view:***

The governance reviews respond to a critical element of the SEC Staff's Work Plan for the consideration of incorporating IFRSs into the US financial reporting system: whether the IASB is sufficiently independent for IFRSs to be 'the single set of high-quality globally accepted accounting standards.' The completion of these reviews is an important step for the SEC Staff in finalising their report to the Commissioners.

The Monitoring Board handled the issue of their membership deftly. By allowing Japan and the US time to decide if and how to move forward with IFRS and put independent funding systems in place, the Monitoring Board has been able to complete their review while laying down an important marker about a tangible commitment to IFRSs.

Read Robert Bruce's column on the governance reviews [here](#).

### **Key IFRS Public Policy contacts**

**Joel Osnoss**

*Global Managing Director—IFRS Clients and Markets*

[josnoss@deloitte.com](mailto:josnoss@deloitte.com)

**Veronica Poole**

*Global Managing Director—IFRS Technical*

[vepoole@deloitte.co.uk](mailto:vepoole@deloitte.co.uk)

**Colin Fleming**

*IFRS Global Public Policy*

[cofleming@deloitte.co.uk](mailto:cofleming@deloitte.co.uk)

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

"Deloitte" is the brand under which tens of thousands of dedicated professionals in independent firms throughout the world collaborate to provide audit, consulting, financial advisory, risk management, and tax services to selected clients. These firms are members of Deloitte Touche Tohmatsu Limited (DTTL), a UK private company limited by guarantee. Each member firm provides services in a particular geographic area and is subject to the laws and professional regulations of the particular country or countries in which it operates. DTTL does not itself provide services to clients. DTTL and each DTTL member firm are separate and distinct legal entities, which cannot obligate each other. DTTL and each DTTL member firm are liable only for their own acts or omissions and not those of each other. Each DTTL member firm is structured differently in accordance with national laws, regulations, customary practice, and other factors, and may secure the provision of professional services in its territory through subsidiaries, affiliates, and/or other entities.

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or its and their affiliates are, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your finances or your business. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

None of Deloitte Touche Tohmatsu Limited, its member firms, or its and their respective affiliates shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

© 2012 Deloitte Touche Tohmatsu Limited

Designed and produced by The Creative Studio at Deloitte, London. 17789A