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Tom Seidenstein  
Director of Operations and Secretary  
IASC Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Sir,

### **Identifying Issues for the IASC Foundation Constitution Review**

Deloitte Touche Tohmatsu is pleased to comment on the International Accounting Standards Committee Foundation's (the IASCF's) Invitation to Comment.

We support moving towards one set of global accounting standards that are set by an independent private sector standard setter. We also believe that such independence should be a feature of both the trustees and the International Accounting Standards Board (IASB). As a result of this we broadly support the current constitution but believe there are certain due process issues that should be addressed. We believe that these issues are causing a perception that the IASB does not give sufficient consideration to comments from constituents and fails to recognize fully the practical application issues relating to the implementation of its standards. We address these due process issues later in our letter.

We believe that this review is an important step in demonstrating the commitment of the trustees to consultation and encourage the finalisation of the review and announcement of the findings in the near future so that the needed changes can have timely impact, especially given current plans many countries have to implement the standards as soon as 2005.

### **Constitution**

#### **Trustees**

As indicated above, we broadly support the current constitution and in particular the criteria for the appointment of trustees. We believe these criteria could be enhanced by amending the Constitution to include a specific requirement to consult with various international organisations that have an interest in IFRS when considering the appointment of the eleven-at-large trustees. We do not believe any specific organisations should be named in the

constitution in this regard as they will evolve and change from time to time and should be considered at the time appointments are made. We believe this will assist in creating a perception that the trustees are generally accepted by constituencies of IFRS and will result in a more transparent process that would be an improvement over the current requirements of merely calling for nominations. We are, however, supportive of retaining the current references to specific organisations and in particular the International Federation of Accountants regarding the remaining eight trustees. Additionally in discharging their responsibilities the trustees should be faithful to the spirit of paragraph 21 of the constitution and paragraph 5 of the annex to the constitution in ensuring that Board members are not dominated by any individual characteristic.

## Board

We note that the constitution requires that seven of the IASB members are expected to have formal liaison responsibilities with national standard setters. Although the names of these liaison standard setters have not been specified, the particular number used appears to indicate a consideration of national standard setters that is unlikely to change. We strongly support the notion of consultation contained in these requirements, but believe that the constitution should be sufficiently flexible in this regard to cater for the changing dynamics around the use of IFRSs and other developments in accounting standard setting around the world. We also believe that the Constitution should not refer to specific standard setters either directly or by reference to the expected number of liaisons, nor even that the liaison bodies should be limited to standard setters.

In order to facilitate the achievement of appropriate balance among the Board members and a fresh perspective on financial reporting, we believe there should be further restrictions on the terms of Board members. We believe that the terms of both Board and senior staff members should be limited to a maximum period of, perhaps, six or eight years. This would give sufficient time for Board members to understand the issues and operating procedures, support independence of thought and reduce the possibility there would be a stagnation of new ideas. In addition we believe that there should be a limit on the number of career standard setters at the Board. This would accommodate for example the current changes being made in Europe and the emergence of growing economies such as China.

## Standards Advisory Council

We believe that in order to enhance the interaction between the Board and members of the Standards Advisory Council (SAC) the Constitution should be amended to require that the Chairman of the SAC not be a member of the Board (this would reflect the manner in which the meetings are conducted at present). We are of the opinion that the SAC would be most successful if it provided a forum for senior members of organisations interested in IFRS to provide comment to the Board and to provide an opportunity for these comments to be discussed by other SAC members and the Board. We reiterate, however, that the success of these proposals is dependant upon Board members willingness to consult and not merely informing constituents of Board affairs and decisions.

## **Due Process**

### **Trustees**

We observe that some perceive that the trustees are not performing an effective oversight function in reviewing the broad strategic issues affecting accounting standards, and believe this perception arises from a lack of visibility of the trustees in performing their duties. In order to address these perceptions we would suggest that the trustees need to consult more widely and take a more proactive role in reviewing the IASB's due process and performance, and in communicating between the IASB and outside parties. In particular, the trustees should develop more formal liaisons with a greater number of constituents and hold public feedback sessions on any issues arising out of such liaisons and meet on a more regular basis with the IASB (and with the majority of the IASB members). Through these meetings the trustees will be in a better position to demonstrate that the Board is accountable to the multiple constituencies of IFRS and how the Board has achieved the constitutional objectives as laid down in paragraph 2 of the constitution.

### **Board**

We believe that the Board's due process would be enhanced by extending comment periods on proposals, to allow greater time for translation and consideration particularly by those for whom English is not a first language. Proposed standards should be re-exposed in cases where they have changed considerably from the original proposal, even if the changes were identified as a possibility in the original exposure document. We believe the due process would be improved if consultation occurred with smaller project specific subgroups and greater use was made of round tables and public forums on specific issues. In addition we believe that, once finalised, standards generally need to have a lead time of one year before application to enable constituents to understand fully and prepare to implement the requirements.

The Board is believed in many quarters to not adequately consider the practical application issues related to its standards. This could be addressed by ensuring that Board members appointed have sufficient practical experience to enable them to weigh the different qualitative framework characteristics in reaching conclusions. We strongly believe that the Framework provides the base on which any standard should be developed and against which all standards should be judged. This is important as it allows users of the standards to apply the standards in the correct context and to anticipate potential changes. Due to the importance we attach to the Framework, we believe that the various conceptual issues that have been identified by the Board and others are of sufficient import that an urgent project reviewing the Framework is warranted. In addition, in considering any issue for inclusion in a proposed standard we believe the Board should carefully consider whether the requirements are capable of being applied and whether they are susceptible to effective auditing.

The above perception may also be overcome if the Board engaged in processes that facilitated public scrutiny of its deliberations. Although the Board meetings are open to the public, they would be far more accessible, particularly to those whose first language is not English, if the Board papers and proposed exposure drafts and standards were publicly available prior to the meetings at which they are discussed.

Once appointed, it is important for Board members to maintain an awareness of IFRS issues around the world. We believe that to be successful board members must demonstrate that they are listening to the constituents' concerns. This we propose should occur by Board members travelling to constituents and meeting with them in public meetings to develop an understanding of their concerns both as to developing issues and those relating to implementation of current standards, as well as to communicate perspectives and feedback as to the Board's response to these issues. These meetings would include, but not be limited to, liaising with key national standard setters. In addition we believe that the Board members should spend whatever time is not spent at the above meetings providing guidance and direction to the staff.

#### Staff

We believe that the criteria we have mentioned above, when considering prospective Board members, should equally apply when appointing staff members, including limitations on the number of years served. In addition, there should be a greater focus on appointing staff members who have recent experience of implementing IFRS. We believe this could be achieved by a greater use of fellowships. We are also of the view that the limit on the number of career standard setters mentioned above should apply at senior staff level.

#### International Financial Reporting Interpretation Committee

We believe that there is considerable confusion as to International Financial Reporting Interpretation Committee's (IFRIC) role and that clarification in this area is needed. We recommend a separate review of IFRIC, and would welcome the opportunity to comment. We do, however, believe that IFRIC should not be used to conduct Board projects or act as a steering committee. We would propose in that review the IFRIC model should be reconsidered. Various current models such as the US Emerging Issues Task Force or the UK Urgent Issues Task Force appropriately altered to suit a global interpretation body could be considered. We would also support an urgent review of the role of the IFRIC Chairman and the manner in which the IFRIC interacts with the IFRIC Chairman, the Board and staff.

#### Agenda Prioritisation

Whilst we understand the burden that the current wave of adopting IFRS in 2005 has placed on the Board, we believe consideration should be given to greater consultation regarding agenda prioritisation. In considering future projects the board should also be mindful of the pace of changes required in implementing the requirements of standards both arising from past changes and future proposals. We further believe that the Board could demonstrate a greater commitment to consultation and improve the perception in this area by adopting a full due process procedure in considering agenda projects and prioritisation. This may be in the form of regular surveys of the SAC members on the appropriateness of the agenda.

## Conclusion

We believe the due process issues touched on this letter are sufficiently important to warrant further discussion in a meeting with representatives of the Trustees. Further, we believe that the Constitutional Review lends itself to a public forum to air the various points of view and that the outcome will be enhanced if a roundtable or hearings are included as part of the process. If you have any questions concerning our comments, please contact Ken Wild in London at (020) 7007 0907.

Sincerely,

Deborah Touch Robinson

