

Deloitte Opening Remarks
3 June 2004
IASCF Trustees Public Hearings

Chairman Volker, members of the Trustees, it is a pleasure to be here before you today discussing your review of the IASCF constitution. Before I begin summarizing Deloitte's main observations and recommendations, I thought it would be best that I make clear Deloitte's position on a couple of fundamental issues.

Deloitte Touche Tohmatsu Global Position Statement

Deloitte Touche Tohmatsu strongly supports the development of a single set of globally accepted accounting standards that will enhance the efficiency of the capital markets around the world and increase the quality and comparability of information reported by entities in many jurisdictions. These standards should be principle-based in order for information to be presented in the manner most useful for users around the world and developed by an independent, private sector standard setter. We believe that the International Accounting Standards Board is the organisation best positioned to achieve this aim and therefore we strongly support the IASB.

Convergence

Critical to the process and acceptance of a single set of global accounting standards is the convergence of existing country standards. As discussed previously, the convergence of accounting standards around the highest quality requirements should be the aim to improve the quality of financial reporting around the world. This will improve the quality of reporting, be responsive to globalization, and result in companies having access to capital at a lower cost, thereby improving the efficiency of global capital allocation. Users benefit through the greater transparency and comparability of companies located or listed in different jurisdictions. Conversely, unless we can accomplish a single set of standards, we will not be responsive to the needs of the public, widen the expectation gap and fail on an important agenda item because of self interest groups.

Global convergence of accounting standards can only occur if all regulatory bodies, and yes Deloitte, place an appropriate importance and sense of urgency on achieving this goal. Everyone involved in the financial reporting process has a role in the convergence process (e.g. accounting firms, regulators, politicians, standard setters, and others). Possibly we should develop criteria or "principles of behavior" on part of constituencies and periodically the trustees should be transparent in their view of the actual behavior of those constituents. The worldwide system of reporting should be based on open and transparent accounting, free from national distortions and pressures.

Comments

There are two matters related to the issues raised in the 22 March 2004 document issued by the IASCF that I would like to focus on in my opening remarks.

First, Deloitte is generally supportive of the current constitution, but believes there are certain due process issues that should be addressed. Our concerns about due process are heightened by the momentous shift to IFRS by over 7,000 of the world's biggest

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companies in Europe alone. We are pleased the IASB is undertaking the review of its due process and encourage the trustees to be highly involved in that process and in performing a review of the IFRIC process.

Let me stress that these process issues do not directly flow from the constitution itself, but they are causing sufficient concern as to undermine certain elements of the constitution. They are causing a perception that the IASB does not give sufficient consideration to comments from constituents and that the IASB may be failing to recognize fully the practical application and auditability issues relating to the implementation of its standards. These are very critical issues. Failing to recognize auditability only serves to further undermine public trust in financial reporting.

For example, the IASB is considering broadening the use of fair value measurement for everything from traded financial instruments to privately negotiated insurance contracts and revenue contracts. While there has been debate about the merits of using fair value measurements, even if all would agree its justified conceptually, it has not been used primarily because fair value information is not available when markets are not liquid and transactions are not observable. Constituents have raised concerns over whether fair value amounts can be measured with sufficient reliability to warrant recognition or be audited with sufficient rigor. We at Deloitte are not convinced that the concerns about the disadvantages of moving towards fair values will be fully understood, considered or seriously debated by the IASB. Fancy standards that can not reasonably be applied correctly by preparers that are generally producing wrong results with hindsight is not helpful. Further, it is adding extraordinary costs to the reporting process.

We support principle-based accounting standards, but are concerned that the IASB in its desire to converge with US GAAP is moving towards a rule-based model instead of preserving and enhancing the principle-based model it inherited from the IASC. Solid principles, occasionally supplemented should be adequate. Deloitte expressed similar concerns, at times, during the process of development of US GAAP—although not as forcefully as we should have. We believe that the use of arbitrary rules and exceptions to principles suggests that the principles should have been more fully developed or supplemented with supporting principles.

Our second major comment is that we do not believe it should be the role or responsibility of the IASCF to engage in educational activities and therefore these should not be mentioned in the constitution. Engaging in these activities will inevitably distract the IASB and its staff from its primary objective of setting timely, clear and principle-based accounting standards. It may also give effect to the application of guidance that is not subject to proper due process. We believe more confusion will be caused by the IASCF undertaking these activities than will be alleviated. In addition, we note the experience of other standard setters that have tried these activities and found them not be profitable ventures. I encourage the Foundation to draw on the adverse experiences of others and stay clear of this area. It can best be handled by each relevant geography in a manner that is best suited for the specific environment. Of course, as the IASB and

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IFRIC become aware of practice implementation issues, communications regarding such matters would be helpful in the local education processes.

Deloitte's other comments specific to the questions you raise are included in our letters to the IASCF dated 11 February 2004 and 20 May 2004. I would be happy to respond to any questions you have on these or other issues.