

25 July 2005

The Hon Paul A Volcker, Chairman  
International Accounting Standards Committee Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

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Dear Mr Volcker,

## **Due Process of IASB**

Deloitte Touche Tohmatsu is pleased to comment on the IASC Foundation's Invitation to Comment *Due Process of IASB: Draft Handbook of Consultative Arrangements* (the Draft Handbook). We commend the International Accounting Standards Board for its efforts to improve its deliberative procedures, increase opportunities for consultation and enhance the transparency of its due process. We support the approach outlined in the Draft Handbook and think that it will be a useful document in explaining the approach to standard-setting adopted by the IASB.

However, we are puzzled about what the IASC Foundation Trustees hope to achieve from this exposure. Deloitte Touche Tohmatsu commented on the IASB's Invitation to Comment *Strengthening the IASB's Deliberative Process* in June 2004. Given that there was a broad level of agreement that the proposals were appropriate and that the Board has already implemented the changes, we fail to see the point of inviting comments on the Draft Handbook. This confusion is increased by the lack of any direction in the Invitation to Comment towards those areas on which the Trustees would particularly welcome comments.

## **General comments**

Our overall impression of the Draft Handbook is that it is structured in such a way that it will confuse rather than inform.

We considered recommending more elements of due process, particularly with respect to the prioritisation of items on the Board's agenda. However, on balance, we think that there is

sufficient due process in place, but the Board needs to be seen to follow the procedures already in place. We are aware of a perception among IASB constituents that constituents' views have not been addressed, or that some constituents' concerns are routinely given higher priority than others. Such perceptions damage the credibility of the Board and the acceptance of the standard-setting process.

The Draft Handbook should distinguish clearly the *components of its due process* (i.e., the principles identified in the IASC Foundation Constitution and the steps adopted voluntarily by the IASB and the IASC Foundation Trustees) from *operational practices*. We think this distinction is vital because much of the document is explanatory, describing the Board's day-to-day operations and how it puts its due process requirements into effect. We think that the Board should have greater freedom to change *operational* aspects of its due process without extensive consultation—for example, to improve efficiency in light of experience.

Thus, the document needs to be reordered fundamentally. It should first state those principles identified by the IASC Foundation in the Constitution and the steps adopted voluntarily by the IASB and the Trustees; second, how those principles and additional steps relate to the standard-setting process; and third, how these are made operational. Stages two and three are complimentary and there is scope for combining much of the material presented in Part III *The six stages of standard-setting* and Part IV *How the due process is applied*. This reordering should make it clear to all interested parties those parts of the *Handbook* that can be changed only through operation of the IASC Foundation Trustees (through its own due process) and those parts that can be the subject of continuous improvement by the IASB.

A subsidiary concern is that, by documenting its operational practices to the extent that it is proposing, the IASB has hamstrung itself and has condemned the staff to spend more time explaining why the operational approach was varied in a particular situation, to the detriment of the standard-setting activity itself. We realise the IASB's desire to explain the standard-setting process and how it ensures that it does not operate within a vacuum to its constituents, but we think it must also avoid creating a regime in which compliance with detailed procedures becomes more important than applying the principles of due process espoused in the Constitution.

#### ***Criteria for re-exposure***

In our view, the omission of any discussion of the criteria that Board members use when deciding whether to re-expose a proposal is a fundamental flaw in the document. We urge the Board, in the strongest possible terms, to document those criteria. The decision whether to re-expose is often misunderstood by constituents and describing the process would go a long way in reducing this confusion.

#### **Specific comments**

In the event that the IASC Foundation Trustees proceed with the Draft Handbook in some form, we have made detailed comments on the proposals in the Appendix to this letter. Many of these comments demonstrate the difficulties and areas for misunderstanding that the Trustees and Board are creating unnecessarily by trying to describe operating procedures in detail.

We appreciate the opportunity to provide our comments. If you have any questions concerning our comments, please contact the undersigned in Oslo at +47 23 279 253.

Sincerely,

Ingbret Hisdal  
**Chairman, IFRS Strategy Board**

## **Appendix**

### **Detailed comments on *Due Process of IASB: Draft Handbook of Consultative Arrangements***

#### ***Part III***

*Paragraph 18.* The Trustees have the opportunity to ‘ensure compliance’ throughout the process, but with what? To what level of detail are the Trustees to be involved?

*Paragraphs 19-26.* This section would be improved if the IASB was more disciplined in its language. The distinction between the ‘agenda’, ‘active agenda’ and ‘research projects’ is still not clear. This distinction has been an ongoing source of confusion for IASB constituents since 2001. The IASB should take this opportunity to explain the distinction.

*Paragraph 35.* This paragraph uses the term ‘major projects’ but nowhere is this defined. It would be useful for constituents to understand how the Board might distinguish between a ‘major project’ and another type of project.

*Paragraphs 36 and 43.* We think that it would be better to say that the staff ‘collects, analyses and summarises’ comment letters received. The current drafting, ‘collects, summarises and analyses,’ suggests that the staff prepares its analysis from summarised comments. Again, greater attention to drafting would alleviate constituents’ concerns.

#### ***Part IV***

*Paragraphs 52-57.* The Board should explain how it prioritises items on its agenda and what factors it considers when making this assessment.

*Paragraphs 59-61.* A subheading is needed here: it is difficult to see how the matters discussed in these paragraphs relate to ‘resource constraints’.

*Paragraph 75.* We do not think that this paragraph is accurate. Our understanding, gained by observing Board meetings, is that the Board votes on particular issues throughout its deliberations or re-deliberations. However, the staff does not begin to draft an exposure draft or International Financial Reporting Standard until it has presented a summary of all decisions at a public meeting and the Board votes on that summary as an accurate reflection of its decisions. In addition, it is at this point that Board members are asked who among them is likely to dissent (*paragraph 81*) and are asked to work with the staff in preparing their dissenting opinion.

*Paragraph 81.* The last sentence suggests, quite incorrectly, that the IASB liaises only with other accounting standard-setters. It has a comprehensive group of bodies with which it liaises throughout the development of an IFRS and the Draft Handbook should recognize this.

*Paragraph 109.* The list of information does not include project updates, the columnar comparison of an ED to the effect of the Board’s re-deliberations, or the provision of ‘other useful information’ that is a feature of several project pages.

*Paragraphs 110-115.* These two sections should be given greater prominence in the document, especially the section on the Trustees’ oversight role, which is poorly understood by most constituents. In addition, the information in paragraphs 113-115 and Appendix IV

should be discussed in greater detail—either in this document or another issued by the Trustees.

### **Matters not raised in the Draft Handbook**

#### *Transition periods*

The document does not address how the Board determines the appropriate transition period for a new IFRS and we believe that it would be helpful to constituents if the Board articulated its approach. We think that, given that several IFRS jurisdictions (including Australia and Europe) have an endorsement process, the IASB should be sensitive to these when setting the time between when an IFRS is issued and when it is effective.

#### *Technical amendments*

In the June 2005 issue of *IASB Update* the Board announced that it would develop a ‘technical corrections policy’ to facilitate addressing issues ‘when it is clear that the words in a Standard are not properly conveying the Board’s intentions even when considered with the Basis for Conclusions and any related guidance.’ The announcement stated that these corrections would not be Standards but a separate series of official pronouncements.

We are very concerned that this is a well intentioned policy that will raise as many concerns as the lacunae it hopes to address. We urge the Board to reconsider the alternative of issuing an omnibus exposure draft on an annual basis, possibly with a short exposure period, rather than pursue the policy announced in June.

