

Thursday, 15th January 2004

Mr. Göran Tidström
Chairman of EFRAG Supervisory Board
EFRAG
Avenue des Arts 41
B-1040 Brussels

Dear Mr Tidström,

We are pleased to comment on the “Proposals for the Enhancement of the Role and Working Process of EFRAG”.

GENERAL COMMENTS

We believe that the role of EFRAG should be strengthened as compared to that which it has had in the recent years. In particular, EFRAG should enhance its capacity to communicate effectively with European users, preparers, national standard-setters and regulators. EFRAG should strive to improve its visibility and recognition both in Europe and internationally. It should strive to deliver high quality technical views having regard to appropriate due process.

EFRAG should, both in its advisory role vis-à-vis the EU Commission and its proactive role vis-à-vis the IASB, among other things, focus on issues that have specific consequences on the financial statements of European-listed companies arising from particular business models, practices and the European environment that may be different from situations encountered in other regions of the world.

In order to strengthen EFRAG, and achieve further recognition of EFRAG by all relevant constituencies, EFRAG should become the European experts group which:

- participates actively and effectively in the selection of an appropriate agenda for the IASB and IFRIC, working in partnership with those bodies;
- works closely in partnership with CESR and European enforcement agencies (e.g. review panels), for European expertise and experience relating to the accounting standards.

In addition, the Supervisory Board should consider how to address the extensive need for implementation guidance arising as a result of more than 7,000 European companies moving to IAS in 2005. The harmonisation of accounting in Europe will not be achieved if various local standard-setters and regulators were to start issuing their own guidance and interpretations of IAS.

SUPERVISORY BOARD

We believe that the constitution of the IASC Foundation, and in particular the articles which cover the duties of the IASCF Trustees (articles 14 and 16), provides a useful model for the Supervisory Board.

The main duties of the Supervisory Board should be to:

- select and appoint TEG members, after consultation with other parties and in particular the EU Commission and key national standard setters;
- approve budgets and organise the necessary funding;
- monitor EFRAG's agenda and promote its high quality work; and
- review broad strategic issues related to future standards.

We believe that a key factor in achieving success will be the ability of the Supervisory Board to select and appoint TEG members with the appropriate skills, including technical competence and international experience, coming from a balanced spread of backgrounds.

In view of the importance of IFRS for Europe, the Supervisory Board should be well positioned to input to the nomination process of members of the IASCF Trustees, the IASB Board and IFRIC. The Supervisory Board should also aim to coordinate its actions with those of the SAC.

We would support a limit on the size of the Supervisory Board of around ten members, so as to improve its efficiency.

TECHNICAL EXPERT GROUP

The main duties of TEG should be to:

- analyse technical aspects of the IASB projects and exposure drafts at an early stage and consider economic impacts of the proposals in the various EU countries;
- arrive at technical conclusions and provide recommendations to the ARC, stating the basis for the recommendation, including an assessment of the economic consequences for the European region;
- maintain dialogue with the IASB on all significant matters, including areas of particular European interest for which it is appropriate for EFRAG to lead or initiate developments; and
- submit matters to IFRIC together with an appropriate analysis of the issues and possible solutions.

Regular dialogue between TEG and IFRIC should help prevent difficulties and reduce the potential for different interpretations as regards application of IFRS, which otherwise could compromise the level-playing field both within Europe and with the rest of the world.

There should be a strong liaison with key European national standard-setters. In this respect, there should be no prohibition on the chairmen or persons holding senior positions at those national standard-setters becoming members of the TEG.

We agree that decisions should be reached by simple majority vote. However, given the significance of a recommendation to reject an accounting standard, there should be an additional process established between TEG and the Supervisory Board on one hand, and between TEG and the IASB on the other, while keeping other key constituencies, including CESR and the European Commission, suitably apprised of the position. Such a process is needed so that all parties fully understand the reasons for and the impact of non-adoption and can continue to explore ways such that adoption is achieved in due course. As part of this process EFRAG should publish the main reasons why a draft standard should be accepted or rejected, and in the latter case explain why an alternative view would achieve a better answer within the IASB Framework.

In some instances, TEG technical work would benefit from the use of ad hoc working groups on specific matters (e.g., industry specific issues). It is important for TEG to have strong technical support (including, as appropriate, staff) reflecting both technical and international experience. TEG's meetings should be held in public.

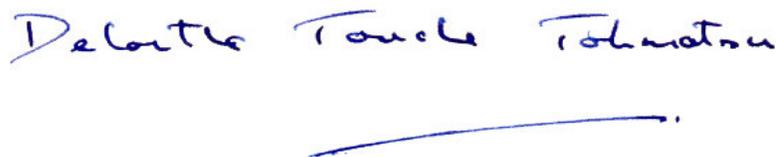
OTHER CONSULTATIVE MECHANISM

EFRAG's constitution requires EFRAG to have regard to the "European public good". On occasions it has been criticised for giving greater weight to the technical considerations over other factors. In order to mitigate this risk, it would be useful to develop further the consultative mechanism which involves policy makers, regulators, the accounting profession, preparers, users and other stakeholders. This would enable EFRAG to inform itself at an early stage of matters which could be significant in the context of the "European public good", and would also increase acceptance of IFRS in Europe. However, a presumption should be established as part of the European adoption process, that high quality and transparency in accounting are, by definition, in the "European public good".

The Supervisory Board should oversee this process and may sponsor public hearings on issues of particular importance such as fair value concepts, reporting performance, and more generally, the future of financial reporting.

We appreciate the opportunity to provide our comments. If you have any questions concerning our response, please contact Veronica Poole (+44 20 70 07 08 84).

Yours sincerely,

A handwritten signature in blue ink that reads "Deloitte Touche Tohmatsu". Below the signature is a horizontal blue line.

DELOITTE TOUCHE TOHMATSU