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**Deloitte
Touche
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21 June 2004

Sir David Tweedie, Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir David,

Strengthening the IASB's deliberative process

We welcome the opportunity to comment on the IASB's paper *Strengthening the IASB's Deliberative Processes* dated 24 March 2004 (the "paper"). We support the development of a set of globally accepted accounting standards that will enhance the efficiency of the capital markets around the world and increase the quality of information reported by entities in many jurisdictions. We believe that constituent acceptance of such standards is critical to their success, and such support is dependent on positive public perceptions of the standard-setting process. We are therefore strongly supportive of the IASB's endeavours to improve its deliberative processes.

We strongly encourage the use and enhancement of the due process mechanisms suggested in the paper, and we have attached our specific comments on each mechanism in the Appendix to this letter. We believe that the due process mechanisms mentioned in the paper should be, and in many cases are, inherent in the operations of the IASB. However, we do believe that these mechanisms have not been used to their fullest potential. We believe it is important that this review of due process is undertaken so as to ensure that the IASB gains the most benefit out of future due process activities; that is they are able to use the inputs gained from constituents to ensure the development of the highest quality standards.

Greater Consultation

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 the first language. We note that constituent concerns are sometimes raised in relation to new topics, or to standards or parts of standards, not currently under consideration – a methodology is needed to ensure the concerns are addressed the next time the standard is re-opened, and that constituents are assured their concerns will be addressed at the appropriate juncture.

We are concerned that it is not immediately visible that all concerns raised by constituents are being addressed at the Board level. We believe that all significant concerns should be seen to have been raised to and addressed by the Board. We do not extend this view to frivolous concerns raised by informal means. However, where an organisation has raised a concern through a formal process, it is the duty of the Board to consider that issue and determine

whether it shall be disregarded or not. Failure to do this publicly gives the perception that the Board is not sufficiently interested in the comments raised by constituents.

We strongly encourage the IASB to use steering committees more heavily. The use of steering committees enables the Board to deal with issues more comprehensively and efficiently. Involvement in steering committees also allows individuals to provide a meaningful and detailed contribution to single projects and encourages Board members to take account of the various interests of constituents.

In addition, we urge the Board to consult more extensively with the SAC both prior to placing items on its agenda, and during the course of a project's development. We note that at the June 2004 SAC meeting, the appropriate method of communication between itself and the Board was discussed at length. We hope that the outcome of the SAC's deliberations will contribute to an overall improvement in the way the Board makes use of the SAC. We note that members of the SAC have valuable and comprehensive experiences across many jurisdictions and for a variety of issues and transactions, and believe that at the present time such experiences have not been fully utilised by the IASB.

Implementation of Standards

In many cases the implementation of new or revised standards has resulted in practical issues that do not appear to have been fully considered by the Board. We believe the practical implications of implementing a standard should be well understood, in particular, the "auditability" of a standard's output. While we appreciate that the IASB is concerned primarily with accounting rather than audit, we believe that valid concerns about the auditability of information arising from standards should be considered by the IASB. Where auditors raise concerns about the auditability of information we believe the IASB should consider this a valid indicator that desirable qualities of financial information such as reliability and objectivity may not be satisfied by the proposals.

In addition, we believe that, once finalised, standards generally need to have a lead time of at least one year before application to enable constituents to understand fully and prepare to implement the requirements.

Furthermore, we believe the input of constituents is vital to ensuring that the words in final international financial reporting standards achieve their intended objective. In all due process activities the objective of the project should be stated and comments should be requested on both the appropriateness of the objective, and the effectiveness of the proposals in achieving that objective. It is the inputs of constituents that will be valuable in determining the effectiveness of proposals.

Costs and Benefits

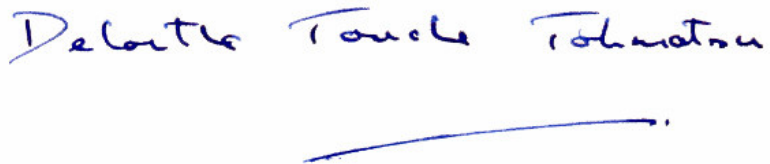
We believe that greater consideration should be given to the economic effects of the IASB's proposals. For example, in many regulatory regimes, the benefits of proposed new regulation must be shown to outweigh the costs prior to the regulation being implemented. This involves the development of a document (sometimes called a 'Regulatory Impact Statement') that discusses the impacts, costs, benefits and efforts to implement of the new regulation. Only if on balance the benefits outweigh the costs may the regulation proceed to enactment. While

we do not believe such requirements should be applied to the IASB, given the vast differences amongst the regimes to which the output apply, we do believe the IASB could gain greater credibility amongst constituents by including in Exposure Drafts, commentary on the efforts and cost to implement, benefits of implementation, and potential economic effects of proposed pronouncements. We believe such commentary would encourage constituents to draw to the attention of the IASB any practical concerns. However, we do not believe a quantitative cost/benefit analysis of IASB proposals is either possible or desirable.

We appreciate the IASB's efforts to strengthen its deliberative processes, and would be happy to provide any additional comments on request. If you have any questions concerning our comments, please contact Ken Wild in London at (0207) 007 0907.

Sincerely,

Deloitte Touche Tohmatsu

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

Appendix A

Access to IASB Discussions

We applaud the IASB for the improvements in accessibility of IASB discussions that have taken place in recent times. We believe the broadcasting of the meetings on the internet, and the archiving of these broadcasts on the IASB's website is a positive step forward. We believe that prior to implementing a charge for this service the following actions should be considered:

- Further steps to improve the quality of the audio (we understand that this is a known problem);
- Statistical user analysis to determine whether the volume of users is sufficient that the benefits obtained from charging would exceed the costs of implementing the charging system; and
- A User survey to determine the satisfaction of users with this service.

Our belief that these activities should be considered stems from a concern that an insufficient number of users would be willing to pay for the current service to outweigh the costs of implementing a system for charging such users.

Availability of IASB documents

We note that the observer notes are comprehensive, and provide a useful guide as to the direction of discussions. Generally observer notes for meetings are posted on the IASB's website well in advance of the meetings, however we do note there are some exceptions. We believe the timeliness of posting of observer notes is important to enable for observers to have read and understood the documents prior to the meeting. We urge the IASB to release all such documents onto the website in a timely manner.

We continue to believe that Board papers and draft Exposure Drafts should be made available to the public. We particularly believe this would improve the accessibility of board discussions to observers for whom English is a second language, who struggle to keep pace with the Board discussions. We also believe this would improve the public perception as to the Board's deliberations as it would improve understanding of matters presented to the Board, and the manner in which they are presented.

Publication of comment letters

We congratulate the IASB on their consideration of, and responsiveness to constituent concerns about the publication of comment letters. We support the weekly release of comment letters received to date onto the IASB's website, as it enables constituents to be informed, on a more timely basis, of the opinions of other constituents.

Response to comment letters

We strongly commend the IASB's decision to publish its responses to the main concerns raised by constituents on its website in the future. We believe this will alleviate many concerns about the validity of the due process activities of the IASB, by illustrating that the Board has considered the concerns raised by constituents, and either incorporated them into the drafting or dismissed them with good reason. We believe that the current model where such information is included at a very high level in the basis for conclusions provides too little too late to assuage the concerns of constituents.

Publication on the IASB's Website of latest proposals for new standards

We understand that much of the IASB's debate between exposure and a final standard is issues based rather than centred on a particular draft. In the light of this, we believe the proposals developed are appropriate. However, we strongly encourage the IASB to seek actively the opinion of constituents as to the success of the proposed experiments, rather than drawing its own conclusions on their success or failure.

We believe that the 'two column approach' to illustrating the effects of the Board discussions on the exposed proposals is an excellent initiative. Our only concern on the proposals to use the website more extensively to keep constituents informed is the timeliness of information posted on the IASB's website. We note that the project summaries maintained on the website are often out of date (for instance, as at 1 June 2004, the Business Combinations Phase II summary cites the last board discussion as being December 2003, when it was actually discussed at the May 2004 board meeting). We are concerned that with its current level of resources the IASB will be unable to maintain the 'two column' version of the exposure drafts in a timely manner. While we believe the proposal has merit, we believe the IASB must carry out a realistic assessment of its resources to determine whether this is in fact possible.

Use of steering committees/working parties/ advisory groups

As noted in our covering letter, we strongly support the use of steering committees, working parties and advisory groups. We believe the use of these groups in the IASB deliberations has the following advantages:

- Direct input into IASB processes from professionals with a wider variety of backgrounds;
- Direct experience of the IASB processes for a wider variety of individuals (leading to increased acceptance of IASB processes and their outcomes by those individuals and those within their spheres of influence); and
- Increased support for IASB pronouncements arising from improved public perception as to the due process activities.

Public hearings and field testing

We believe that public hearings would form an important part of the due process where the IASB is endeavouring to develop new conceptual bases for particular areas of accounting (rather than in relation the revision of existing standards). We also believe public hearings would be particularly important in areas where practice has been vastly divergent in differing jurisdictions – for example the comprehensive project on accounting issues in the extractive industries. Public hearings also would provide an appropriate forum for the IASB to gain the benefit of understanding the experiences of those who have applied various models of accounting around the world.

We believe that field testing is particularly important, and we do not limit this to new standards. We believe that certain amendments also should be subject to field testing. We believe that field testing will enable the IASB and its staff to understand better the practical implications of proposals, and to identify any unintended consequences. We also believe this activity would go a long way toward enhancing the IASB's credibility in the eyes of preparers, as the perception of the IASB's attention to practical details would be improved.

Discussion papers

We believe the proposals on discussion papers are appropriate, and believe there is likely to be a high correlation between issues where discussion papers are warranted and issues where the use of steering committees and public hearings are warranted. We believe that in developing discussion papers the IASB staff should be granted sufficient time to do comprehensive research into accounting requirements and practice in a wide variety of jurisdictions (we note particularly that the jurisdictions studied should include those outside of the historical G4+1 countries), as well giving consideration to relevant academic research. For the IASB to take its place as a respected international standard setter it must be provided with sufficient resources to enable comprehensive and up to date research activities to be undertaken.

Re-exposure of proposals

We agree that the Board should consider the need for re-exposure where substantial changes have been made since the exposure draft. We believe that the items to be considered as cited in paragraph 31 of the paper are appropriate; however we are concerned as to how these are being applied. We believe that in some cases re-exposure has been omitted because certain constituents commented on the eventual requirements as part of the exposure process - we do not believe this logic is robust. We note that where one constituent has recommended an approach and others have disagreed with the exposed approach – the disagreement of other constituents with the exposed approach does not constitute agreement with the unexposed alternative approach. We believe that using a recommendation (from constituents or other sources) that was not exposed compromises the IASB’s due process because the wider constituent population does not get an opportunity to comment on the conceptual merits or practical implications of the eventual requirements.

We believe that if the Board is able to implement the ‘two column’ approach for alerting constituents to changes in the requirements discussed earlier in the Appendix, then the need for re-exposure will be limited, as we believe interested constituents should be encouraged to contact the Board with their concerns if they believe the project is taking a direction not discussed in the exposure process, and that the volume and nature of such communications will provide an indicator of the constituent perceptions as to the need for re-exposure. However, as noted above, we are concerned that the IASB does not currently have the resources to keep constituents up to date effectively in this manner.

We believe that where the appropriateness of re-exposure is called into question, the best source for determining whether it is necessary is in fact the constituents. We believe that the Board should request the advice of the SAC and any advisory group, if one exists for the project. In the absence of an advisory group we believe the Board should contact the respondents by e-mail, and request their views as to whether the changes made that call into question the need for re-exposure do, in the constituents’ minds, warrant re-exposure. We believe that the objective of re-exposure is to gain constituent input into matters that were not adequately addressed by the initial exposure process, and we believe that it is the constituents who are best able to judge whether they can provide further meaningful input as a result of a re-exposure process.