

15 September 2016

Michel Prada, Chairman
International Financial Reporting Standards Foundation
30 Cannon Street
London
United Kingdom
EC4M 6XH

Dear Mr Prada

Exposure Draft: Trustees' Review of Structure and Effectiveness: Proposed Amendments to the IFRS Foundation Constitution

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Financial Reporting Standards Foundation's (the IFRS Foundation's) Exposure Draft Trustees' Review of Structure and Effectiveness: Proposed Amendments to the IFRS Foundation Constitution ('the Exposure Draft').

As we noted in our comments of 30 November 2015 on the related Request for Views, we think that the IFRS Foundation's Constitution, its organisation and governance structures have been effective in the period since they were last reviewed. Consequently, we think that the limited extent of amendments proposed in the Exposure Draft is appropriate. Our detailed comments on the Exposure Draft's proposals are in the Appendix; however we wish to note certain matters in particular:

- We support the proposal to have three geographical regions to be used throughout the IFRS Foundation when determining the distribution of Trustees and the IASB and other appointments. However, we think that the three main regions should be more clearly defined, and defined consistently with other transnational organisations. In our view, the regions should be Americas, Asia/Oceania and EMEA (i.e., explicitly include Africa and Middle East in the region). We agree with that there should be 'at large' seats for the IFRS Foundation Trustees and the IASB.
- We disagree with the proposal to reduce the size of the IASB from 16 to 13 members. As a practical matter, reducing the size of the Board would make it increasingly difficult to conduct outreach and meet with constituents. More importantly, the IASB needs sufficient technical and standard-setting experience to have the ability to challenge the staff and constituents effectively. We are of the view that an IASB of 14 members is the optimum size.
- We do not support reducing the number of meetings of the Advisory Council from three meetings per year to two. On the contrary, and as explained in the Appendix, we would wish to see the Council become a more focused strategic adviser to the IFRS Foundation Trustees.

- We encourage the IFRS Foundation Trustees to act much more as a body of non-executive directors, holding IFRS Foundation senior management to account as well as being responsible for the strategic direction of the organisation as a whole. The Trustees should have the flexibility to be active in strategic developments that do not directly impact the IASB's standard-setting activities but which do affect the IFRS Foundation's broader interests. This would assist IFRS Foundation to plan strategically and to keep financial reporting relevant in an ever-changing corporate reporting environment.

Our detailed responses to the questions in the request for views are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

A handwritten signature in black ink, appearing to read 'V Poole', is positioned above the printed name and title.

Veronica Poole
Global IFRS Leader
Deloitte Touche Tohmatsu Limited

Proposal 1: Geographical distribution of the Trustees

1. Consistently with the views expressed in our response to the July 2015 Request for Views: *Trustees' Review of Structure and Effectiveness: Issues for Review* (the RFV), we support providing greater flexibility for Trustee appointments.
2. We support the proposal to have three geographical regions. However, we think that the three main regions should be more clearly defined, and defined consistently with other transnational organisations. In our view, the regions should be Americas, Asia/ Oceania and EMEA (i.e., explicitly include Africa and Middle East in the region). Appointments to the IFRS Foundation should be distributed equally between the three regions, with four 'at large' seats which could be used to bring to the Trustees' table IFRS constituents or skills not otherwise represented and subject to maintaining the overall geographical balance.
3. We think that the IFRS Foundation Trustees should undertake to have balance (by geography and/or market capitalisation) within a region, which is important for the Trustees' governance and outreach functions to be effective.
4. Within this principle, Trustees should have freedom to allocate seats within the region. However, in making this distribution, the Trustees would take into consideration the relative size of the capital market in a particular country; use of IFRS in the capital markets; and whether a stable funding mechanism for the IFRSF exists in that country or region.
5. We note that, whilst not necessarily 'representatives' of a particular country, Trustees are 'a way in' to countries or regions. We note also the views of the Trustees expressed in paragraph 11 of the ED that whilst "representation should not be linked directly to either adoption of the Standards or funding, they also acknowledge that jurisdictions that have not adopted the Standards or have not been contributing to the Foundation's financing...should not be over-represented." We support the undertaking given in paragraph 14 that the Trustees "will ensure that, for each of the geographical regions specified, there shall be a reasonable spread of jurisdictions from which the member originate."
6. Overall, the proposed amendments to Section 6, when combined with the operational statements and undertakings of the Trustees in paragraphs 11 and 14 of the Exposure Draft provide a reasonable and workable approach to the issue of the geographical distribution of the Trustees.

Proposal 2: The professional background of the Trustees

7. In our comments on the RFV we supported the existing specification of the professional backgrounds of Trustees. The international audit networks continue to be major contributors to the IFRS Foundation in many ways. Whilst we understand the sensitivities around the statement that "normally two of the Trustees shall be senior partners of prominent international accounting firms", we continue to think it appropriate that the major international audit networks are represented on the IFRS Foundation.
8. Deloitte and our peers have a shared interest in supporting the IFRS Foundation and the work of the IASB. Robust financial reporting standards and the consistent application thereof are fundamental to promoting and maintaining transparency in corporate reporting. We, our peers in the accounting profession, and the IFRS Foundation have shared public interest objectives of restoring confidence in financial markets and meeting the needs of investors.
9. In addition, the international audit networks continue to be a significant source of global expertise on the day-to-day application and interpretation of IFRSs. This support is complementary to our public interest role as auditors and we see it as such. We second experienced staff to the IFRS Foundation and volunteer the services of industry and subject matter experts for the Interpretations Committee and expert panels in support of standard-setting and other initiatives in addition to contributing to the annual operating budget of the

IFRS Foundation. At present, one of the Trustees (and two of his predecessors) has been the Global CEO of one of the major international audit networks. We think that it is desirable and appropriate that the existing level of expertise and representation of the international accounting and auditing profession be maintained at this very senior level.

Proposal 3: The remuneration of the Trustees

10. Whilst we see the structure of the remuneration of the Trustees as largely an internal matter, we explicitly support providing 'an additional amount' to those chairing Trustee Committees – in particular the more active ones, including the Executive, Audit and Finance, Due Process Oversight and Nomination Committees, whose work is more or less continuous and can involve a significant commitment on behalf of the Chair.

Proposal 4: Focus and frequency of reviews of structure and effectiveness of the IFRS Foundation

11. We support the proposed amendments to Section 17.
12. In our comments on the RFV, we noted that the relative maturity of the IFRS Foundation suggested that normal reviews of the entire strategy and effectiveness of the organisation should commence, at the latest, five years after the previous review has been completed. However, this would not preclude urgent reviews, such as the one conducted in 2008 that led to the establishment of the Monitoring Board in January 2009, should such be thought necessary.
13. In our view, the only reason to review the structure of the organisation (i.e., the three tiers) would be in response to a substantive proposal to alter it in some fundamental manner.

Proposal 5: The size of the Board

14. We continue to be of the view that, as a practical matter, reducing the size of the Board from 16 to 13 members would make it increasingly difficult to conduct outreach and meet with constituents. More importantly, the IASB needs sufficient technical and standard-setting experience to have the ability to challenge the staff and constituents effectively.
15. As we noted in our comments to the RFV, "We disagree with the proposal to reduce the size of the IASB from 16 to 13 members, preferring 14 as it was immediately prior to 30 June 2016. Whilst we agree that ASAF has a role to play in the development of IFRSs and the work of the IASB more generally, we do not see evidence that ASAF has proved its effectiveness as an 'outreach body' sufficiently to assume a part of the IASB's outreach role. In our view, the IASB should continue to have primary responsibility for engaging with its stakeholders." We continue to hold this view and consequently support an IASB that would normally comprise 14 members.
16. In addition, the IASB needs sufficient capacity to undertake appropriate outreach among constituents whilst not diminishing their technical duties. Based on our experience of observing the IASB since 2001, and our experience in other jurisdictions which have experimented with smaller accounting standard-setting bodies, we are of the view that an IASB of 14 members is the optimum size.
17. We do not think that the arguments in either the Exposure Draft or the Feedback Statement are sufficiently convincing to support reducing the size of the Board from 16 to 13, nor have the Trustees provided any substantive rebuttal of those comments supporting maintaining the Board at its recent actual size of 14 members. In addition, we do not think that sufficient weight has been given by the Trustees to those respondents who placed important caveats on their putative support for a smaller IASB. Many of the organisations referred to in paragraph F127 of the Feedback Statement are themselves national standard-setters or actively involved in standard-setting and might be expected to have some experience in the matter.

Proposal 6: Professional background of the Board

18. We support the amendments proposed to Section 25 and the proposal to delete Section 27.
19. We note that the IFRS Foundation Trustees have decided to retain the discretion to appoint up to three part-time members to the IASB. We question whether appointing part-time members to the IASB remains necessary or appropriate, given the maturity of the IASB and the demands on individual Board Members. In particular, is it realistic that a part-time member can be as effective as a full-time member, given the technical programme of the IASB and the outreach demands on Board Members?
20. In addition, the presence of part-time members who remain in paid employment from other sources (even given the expectation in Section 24 of the Constitution that 'part time' is understood to mean that "the members concerned commit most of their time in paid employment to the IFRS Foundation") will inevitably raise a perception of bias.
21. Consequently, we think that the IASB should be composed of full-time members, and would welcome an undertaking from the IFRS Foundation Trustees that they would not seek to exercise their discretion to appoint part-time members to the IASB during the period until the next opportunity to amend the Constitution.
22. For IFRSs to continue to be relevant, they need to be developed by a professionally competent body with recent relevant professional experience and able to demonstrate recent practical experience. Consequently, we think that the IASB should reflect both relevant professional and relevant practical experience.
23. Whilst supporting the other amendments to Section 25 with respect to the professional background of the members of the IASB, we would support the views summarised in paragraph F154 of the Feedback Statement that "the number of members with regulatory experience and background currently represented on the Board should not increase beyond that at present."

Proposal 7: Geographical distribution of the Board

24. Consistently with our comments on Proposal 1, above, we think that the three main regions should be the Americas, Asia/ Oceania and EMEA. Appointments to the IASB should be distributed equally between the three regions. Consistently with our views on the size of the Board, there should be two 'at large' seats which could be used to bring to the IASB table IFRS constituents or skills not otherwise represented and subject to maintaining the overall geographical balance.
25. As a principle, IASB members should be drawn from any country or region in which IFRSs are used or widely accepted for filing financial information with capital market authorities.
26. We are mindful that whilst technical expertise is the most important attribute of IASB members, geography is relevant and are of the view that there should be an appropriate distribution of IASB members. This is because the IASB must be able to have input and be able to hear voices from around the world. In addition, the IASB needs to be able to have effective outreach in all jurisdictions that use or accept IFRSs in their jurisdictions for filing financial information with capital market authorities.

Proposal 8: Terms of reappointment of the Board

27. We support the amendments proposed to Section 30, and agree with the presumption in them that all Board members should be treated on equal terms with respect to their initial appointment and possible reappointment. We agree that reappointment should not be automatic. We support giving the Trustees flexibility in determining the term of reappointment. We can foresee situations in which it would be advantageous to reappoint a Board member for a five year term, e.g. if that member had particular experience relevant to a project likely to be in development for a period exceeding three years at the time that member is being considered for reappointment.

Proposal 9: Voting requirements for the Board

28. Consistently with our views on the size of the Board, we would support the proposal that publication of an exposure draft, draft Interpretation or an IFRS should require the positive votes of no fewer than nine members of the IASB (given an IASB of 14 members).

Proposal 10: Meetings of the IFRS Advisory Council

29. We do not support reducing the number meetings of the Advisory Council from three meetings per year to two. On the contrary, we would wish to see the Council become a more focused strategic adviser to the IFRS Foundation.
30. The Advisory Council is an important consultative forum, bringing together representatives of a wide variety of organisations with an interest in international financial reporting (c.f. Constitution, Section 44). It advises both the Trustees and the Board. We are concerned that, should the Council meet only twice a year, more time would be spent bringing the Council up to date on developments in IFRS and international developments generally than in having quality discussions. In our view, this would reduce the effectiveness of the Council as a body and quite possibly reduce the interest and commitment of individual members.
31. The IASB has many ways that it receives advice on its standard-setting strategy and particular projects. These include the regular agenda consultations, advisory groups (including meetings of the ASAF), its various constituent interest groups (e.g. Global Preparers Forum, Capital Markets Advisory Committee), meetings with regulators, etc., and regular interaction with constituents via comments on proposals, roundtables, conference appearances, etc. By comparison, the Trustees have no established forums other than the Advisory Council.

The Advisory Council as a strategic adviser to the Trustees

32. In our view, the IFRS Foundation Trustees should use the Council as their strategic advisor by aligning the meetings of the Council with those of the Trustees. The Trustees have announced that their body will normally meet three times a year: the Council should be encouraged to meet a few weeks prior to the Trustees in order to provide considered advice on significant strategic issues facing the IFRS Foundation. Such meetings could also be used to provide the IFRS Foundation staff with the opportunity to test ideas before they are presented to the IFRS Foundation Trustees (as was done in June 2016 with respect to social networks). There are many such issues facing the Trustees that would benefit from the collective experience of the Council, including its strategies with respect to electronic reporting, balancing exploitation of intellectual property with the discharge of its public interest function, whether the current funding model is appropriate or sustainable, and whether it should take oversight responsibility of other groups in the global corporate reporting arena. These are areas that go beyond standard-setting, but for which constituents are looking to the IFRS Foundation for leadership.
33. A major part of the Council Chairman's remunerated time would be spent liaising between the IFRS Foundation senior staff and individual Council members with relevant expertise identifying strategic issues that are likely to be of relevance to the Trustees in their oversight capacity and developing those into topics that can be debated with a view to providing quality advice to the Trustees.
34. In turn, this would make the Trustees act much more as a body of non-executive directors, holding IFRS Foundation senior management to account as well as being responsible for the strategic direction of the organisation as a whole. (See also our comments in 43-47 below.)

Other comments

Disposition of comments received on the July 2015 Request for Views

35. We have reviewed the *Feedback Statement on the July 2015 Request for Views* (the Feedback Statement) and are in general agreement with the conclusions and operational changes proposed as a result of the Trustees' consideration of comments received on the RFV. We do, however, wish to comment on some matters.

Transparency—Due Process Oversight Committee

36. We support the initiative announced in May 2016 to hold the bulk of the Due Process Oversight Committee's meetings in public. This should prove to be a useful exercise in transparency, which we hope would lead to other parts of the Trustees' meetings being held in public, as envisaged by Section 13(f) of the IFRS Foundation Constitution.

Coordination of oversight of corporate reporting activities more broadly

37. One of the consequences of the strength of the IFRS Foundation as an oversight body is that it is seen as the most appropriate oversight body for many aspects of corporate reporting internationally. However, we would recommend that the Trustees retain a strategic outlook when considering how to effect the coordination of oversight of corporate reporting activities. We note the following comment that was included in our response to the FEE Cognito Paper *The Future of Financial Reporting*:

The role of the IASB in developing financial reporting standards has demonstrated the benefits of having a single body to develop a set of cohesive standards. However, it is not clear to us that a single body is required to lead the development of principles for non-financial information. We think that it is better to foster industry or sector based non-financial information. We say this because sector experts are more likely to be in a position to identify the measures most appropriate to their sector...

Having said that, this will require coordination and a unifying framework. It may well be that a central body could be helpful in fostering and coordinating the development of non-financial measures.

Thinking Allowed: The Future of Financial Reporting (p.15)

38. We continue to hold the view that the IFRS Foundation is ideally placed to assume oversight of the activities of other recognised independent standard-setters active in corporate reporting (oversight but not standard-setting). There is a role for the IFRS Foundation to act as an umbrella overseer, bringing a consistent degree of discipline to those organisations whose standards and guidance is (or may be) accepted and followed by capital market participants and market regulators.
39. Given that this view is a longer-term goal, we support in the interim the commitment in paragraph 13 of the Feedback Statement that the IASB will "co-operate with, and monitor the developments of, bodies with responsibilities for areas across the whole range of corporate reporting." Whilst supporting this statement, we think that the Trustees should be more explicit in determining why it is establishing links and at what level those links are being established.
40. Most of the existing Memoranda of Understanding and Protocols are operational arrangements between the IASB and other standard-setters. Only a few, e.g. the MoU with the IFRSF Monitoring Board, are explicitly at the strategic/ governance level. We think it would be helpful for both the IFRS Foundation and its constituents to be clear at which level the interactions are expected, and the level at which the IFRS Foundation would be represented. A good example of this point is the 14 May 2016 IOSCO/ IFRS Foundation Statement of Protocols, which provides explicitly for strategic (IOSCO Board/ IFRS Foundation Trustees) and standard-setting level (IOSCO C1/ IASB members) interactions.
41. These links should be used to identify areas in which the bodies' public interest activities and shared public policy goals might be furthered by cooperation and coordination at the

oversight body level. This would also bring a degree of coherence to what is an increasingly crowded and incoherent policy space.

Guidance consistent with a principles-based approach to standard-setting

42. The IASB should be encouraged to articulate principles about when to establish an expert panel such as a transition resource group. As we and other respondents to the RFV noted, such groups are “useful means of implementing a Standard, giving stakeholders the opportunity to discuss difficult areas of implementation and allowing for broader dissemination of information helpful to implementation” (Feedback Statement, F61). We do not think that establishing such expert groups should be presumptive, but rather should be considered for major standards that address complex areas in which the Board has developed previously untested solutions, or for which the Board’s outreach while developing an IFRS suggests that such a group would facilitate consistent and high-quality transition and implementation.

Role of the Trustees

43. Paragraphs F192-F196 of the Feedback Statement summarise comments from several constituents about the role of the Trustees. Whilst most of these comments were related to aspects of the development of IFRSs, we see an underlying theme: that the Trustees are not being as effective as they could be.
44. As we noted in our comments to Proposal 10 above, we think that the Trustees should act more in the manner of non-executive directors overseeing the activities of the IFRS Foundation than they do at present. The root cause of this seems to be the restrictive nature of section 15 of the IFRS Foundation Constitution, which has not changed significantly since 2001.
45. However, since 2001, the IFRS Foundation’s interests have broadened to encompass not only IFRS-related standard-setting, but also a significant body of intellectual capital (the IFRSF Works), substantial human capital, a global brand, and significant educational activity. Its success as a private sector, public interest entity having strong oversight, a rigorous transparent due process, and a respected standard-setting capability has led it to be proposed as the appropriate body to oversee and/ or set a wide variety of corporate and financial reporting standards.
46. Consequently, IFRSs and the IFRS Foundation generally have significantly different (i.e. greater) prominence in the international capital markets environment compared to that in 2001. In addition, corporate reporting generally has also developed in significant ways that affect, or are of interest to the IFRS Foundation. The IFRS Foundation Trustees should have the flexibility to be active in strategic developments that may not directly impact the IASB’s standard-setting activities but which do affect the IFRS Foundation’s broader interests.
47. Whilst an amendment of section 15 may not be possible in the short term, we think that the Trustees can and should take an explicitly broader view of their oversight responsibilities and help the IFRS Foundation to integrate its various activities to maximise and manage its considerable resources (financial and non-financial) effectively. This would assist both the Trustees and the IASB to plan strategically and to keep financial reporting relevant in an ever-changing reporting environment.