

Mr. Michel Prada, *Chairman*
IFRS Foundation
30 Cannon Street
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United Kingdom

17 December 2012

Dear Mr Prada

IFRS Foundation Invitation to Comment: Proposal to Establish an Accounting Standards Advisory Forum

Deloitte Touche Tohmatsu Limited ('Deloitte') is pleased to respond to the IFRS Foundation Trustees' Invitation to Comment: *Proposal to Establish an Accounting Standards Advisory Forum*.

In our letter of 22 July 2011 to the IFRS Foundation Trustees on their Strategy Review Report, we encouraged the Trustees 'to establish formal working relationships with national and regional standard-setters, through memoranda of understanding between those bodies and associations and the IASB.' As such, we support the proposal to establish an Accounting Standards Advisory Forum as being an appropriate means to utilise the technical skills and experience that exist in national and regional standard-setting bodies in the development and implementation of IFRSs. We encourage the Trustees to establish the Forum as quickly as possible.

We see the Forum as assisting the IASB to accomplish two distinct but related aims: the development of high-quality financial reporting standards; and assist in facilitating the incorporation/ endorsement of such standards without modification in the financial reporting framework of individual jurisdictions. Given this view, we think it important to establish a clear objective for the Forum, one that identifies clearly the two aims and how they relate to the IFRS Foundation's objectives as defined in the Constitution. We see this objective as *contributing to the development of a single set of high-quality, understandable, enforceable, globally-accepted financial reporting standards by providing a forum for global perspectives in technical discussions throughout the IASB's standard-setting process to improve the quality of IFRSs, the IASB's responsiveness to global issues and assist in facilitating the incorporation in the financial reporting framework of a jurisdiction IFRSs as issued by the IASB without modification*. Engaging a network of national standard-setters, regional groups of standard-setters and bodies involved with standard-setting from those jurisdictions that have incorporated IFRSs into their financial reporting framework, and those considering such an action, is desirable. It should support the maintenance and better use of technical resources around the world and assist in the development of high-quality financial reporting standards and the promotion of IFRSs in a sustainable manner.

The Forum should provide a means for individual jurisdictions to acquire a better sense of ownership of an IASB proposal than is possible at present through their active participation in the development of a financial reporting standard throughout the standard-setting process. Forum members would be able to represent their jurisdiction's or region's views at Forum meetings and then, having participated in the technical debate, report to their respective organisations with the added context of other Forum members' views. In addition, as Forum members are expected to have the resources and capability to participate, we would expect a reasonable degree of interaction between the IASB project staff and the staff of Forum members' organisations outside Forum meetings. Together, such interaction should ensure that the Forum serves as an effective mechanism of collaboration as the IASB develops high-quality financial reporting standards that are truly 'global', whilst ensuring that jurisdictions are more likely to accept those standards for use in their jurisdiction without modification.

Whilst we recognise the desire of the IFRS Foundation to make the Forum an efficient body, we think that it is possible to achieve efficiency with a body of more than 12 members. As such, we do not support the explicit size and distribution of seats proposed in the Invitation to Comment, which we see as overly mechanistic and promoting (wittingly or unwittingly) a perception of exclusivity—something we see as undesirable. Rather, the IASB should seek to identify those bodies that are best placed to offer deep technical expertise based in a variety of backgrounds as well as considered opinions that will ensure that any given IFRS will have considered a range of possible outcomes.

We think it advisable that, following the precedent set by the Financial Crisis Advisory Group, the IFRS Foundation Trustees to appoint co-chairs, one from the IASB and one from the other Forum members.

The dual objective for the Forum that we envisage might necessitate a Forum member organisation being represented by someone other than the designated representative (e.g., by a member other than the Chair of that organisation) when this is necessary to bring deep technical knowledge to a particular discussion. In this way, the Forum would be able to utilise knowledge and experience directly in its meetings, where nuances in an argument can be explored thoroughly and understood properly, while ensuring regional and geographical balance.

The proposed Forum should be seen as part of a network of formal interactions between the IASB and its stakeholders. For example, we are aware that the IASB is establishing formal links with Policy Committee 1 of the International Organisation of Security Commissions, something we explicitly support. We also support the recent reconfiguration of the IFRS Advisory Council such that it is a representative body, and we would welcome the establishment of a public forum for the audit profession, drawing not only on the global audit networks but also including regional networks or large national firms. We encourage the IFRS Foundation Trustees and the IASB to review the Global Preparers' Forum and the Capital Markets Advisory Committee to ensure that these bodies' objectives are consistent with those of the Forum. All advisory bodies of the IFRS Foundation and IASB should share the objective of the Forum advocated above, and have terms of reference appropriate to the experts involved.

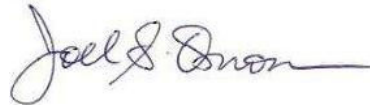
Our detailed responses are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 207 007 0884 or Joel Osnoss in New York at +1 212 492 3910.

Yours sincerely,



Veronica Poole
Global Leader—IFRS Technical



Joel Osnoss
Global Leader—IFRS Clients and Markets

Appendix

Question 1—Do you agree with the proposed commitments to be made by ASAF members (paragraph 6.4) and that they should be formalised in a Memorandum of Understanding (paragraph 6.5)? Why or why not?

Paragraph 6.4 essentially incorporates paragraph 4.7 by reference and we offer comments on all three paragraphs here.

In our view, it is essential that there should be clear terms of reference, incorporating the mutual commitments and responsibilities of Forum members and the IASB. The terms of reference should establish clearly what the Forum is trying to achieve, namely a timely engagement between the IASB and national standard-setters, recognised regional groups of standard-setters and those bodies involved with standard-setting throughout the standard-setting cycle. This engagement should be set explicitly in the context of the IASB's comprehensive due process supporting the development of a single set of high-quality, understandable, enforceable, globally-accepted financial reporting standards. The Forum provides a venue in which national standard-setters, recognised regional groups of standard-setters and those bodies involved with standard-setting can advance their positions and their reasons for supporting those positions in an open and collaborative manner, with a view to developing an IFRS that is of high quality. However, it is understood that there is no guarantee that such positions will prevail. The Forum does not compromise the IASB's technical independence or its sole responsibility to develop and issue IFRSs. It provides a formal mechanism through which such positions can be discussed, such that the IASB takes decisions fully aware of the views of national standard-setters, regional groups of standard-setters and those bodies involved with standard-setting, even though the IASB might not be able to accommodate all the views advanced.

Paragraph 4.7

This paragraph would form the basis of the Forum's terms of reference, as outlined above. We suggest that the words used to describe the attributes of IFRSs should be consistent between this paragraph and paragraph 6.4(1).

There should be no mention of 'accountability' in the terms of reference. The Forum is part of the IASB's interaction with constituents in the context of its comprehensive due process: it is not part of the governance of the organisation and thus mention of accountability is inappropriate.

We agree that there should be a clear recognition by Forum participants of the technical independence of the IASB. We also think that the IASB would be expected to respect the independent roles that national standard-setters and regional bodies have within their own national and regional context.

Paragraph 6.4

We think that it will be difficult to ask Forum members, who will be participating on a voluntary basis to make the sort of formal commitments to the IASB outlined in paragraph 6.4. The Forum is an association, not something that is accountable or part of the formal institutions of the IFRS Foundation. The Forum, as with other IFRS Foundation advisory bodies, is founded on

goodwill, and the Memorandum of Understanding should reflect this. Consequently, we think it more important to identify the attributes of candidate members.

When constituting the Forum, the IFRS Foundation Trustees should satisfy themselves that a candidate has the technical competence (paragraph 6.11) as well as the resources and capability (paragraph 6.4 (5)) to participate fully throughout the life cycle of a standard-setting project: from project initiation, through research, development and issue, and post-implementation activities. A national standard-setter should be considered for membership of the Forum even if that body is not responsible for recommending endorsement or incorporation of IFRSs in its jurisdiction, provided that standard-setter is a recognised technical adviser of the endorsing/incorporation decision-maker for such matters.

Paragraph 6.5

We agree that it is appropriate that there be a Memorandum of Understanding between the IASB and members of the Forum. This Memorandum should recognise the objectives of the Forum and acknowledge its collaborative nature. It should be reviewed regularly and amended as necessary to reflect experience of the Forum and international best practices.

Furthermore, we agree with the conclusion in paragraph 6.6 that the Forum is a part of the IASB's consultative arrangements and that no amendment of the IFRS Foundation's Constitution is necessary. We think that the Forum should be permitted time to establish itself (with any necessary changes in light of experience) before any decision is made about whether it should be included in the IFRS Foundation's institutional structure.

Question 2—The Foundation believes that, in order to be effective, the ASAF needs to be compact in size, but large enough to allow for an appropriate global representation. Do you agree with the proposed size and composition as set out in paragraphs 6.7–6.13? Why or why not?

We agree with the principle articulated in paragraph 6.7 that a balance needs to be struck between the need to include a range of relevant perspectives from the major geographical regions around the world and the need to establish an effective forum that can discuss technical matters thoroughly. However, we do not think that when constituting the Forum, the IFRS Foundation Trustees should be driven by an absolute number or strict geographical distribution. We think that it is more important to constitute the Forum in order to achieve the objective we envisage for it. If high-quality, experienced technical resources and capabilities exist in a particular jurisdiction those resources should be represented in the Forum. While geographic balance is important, the quality and diversity of the technical input should have primacy. We recognise that geographical distribution is necessary to ensure that IFRSs reflect appropriately global issues. However, no amount of geographical representation will assist in facilitating endorsement/ incorporation in jurisdictions if a standard is not seen as high-quality.

Whilst we do not make any specific comment on which standard-setters, regional groups of standard-setters or bodies involved with standard-setting should be appointed to the Forum, we would expect that a majority of members would represent jurisdictions using or committed to using IFRSs in their domestic market. In addition, there are well-established and respected national standard-setters (such as the Accounting Standards Board of Japan and the US Financial Accounting Standards Board) in jurisdictions that do not currently require use IFRSs in their domestic markets whose expertise and experience the IASB would wish to have represented on the Forum and who should be members.

While we do not disagree with the contents of paragraph 6.13, we think it is repetitive and unnecessary. The statements in this paragraph have already been made earlier in the document and need not be repeated.

Other comments

Attendance by IASB members (paragraph 6.7)

We would not restrict the attendance by IASB members at any meeting of the Forum. The Forum would provide a unique opportunity for IASB members to listen to arguments from a variety of viewpoints, to ask questions and clarify issues directly. As such, they would be highly useful and informative for all IASB members.

Appointment and terms (paragraph 6.11)

It is unclear who will appoint the Forum. The Invitation to Comment was issued by the IFRS Foundation Trustees, but is silent on whether the Trustees or the IASB will appoint members. As the Forum would be an advisory body outside the ‘institutional’ structures established by the IFRS Foundation Constitution, we think it appropriate that the IASB should appoint the members after consultation with the IFRS Foundation Trustees and, in particular, the Due Process Oversight Committee (consistently with the practice for other advisory bodies).

We think that a two-year membership term, given that a Forum member can be re-appointed, is probably appropriate at this time. Membership should be reviewed regularly and adjusted if necessary, in light of experience.

Representation (paragraph 6.14)

We agree that Forum members should be represented at a senior level, i.e., the Chair or a designated Board Member of a national standard-setter or the current Chair of a regional body. We also agree that a representation of a Forum member by an appropriate designee when specialist expertise is required in a particular meeting is appropriate and should be permitted.

Proposed model for the working of the ASAF (paragraphs 6.16–6.21)

With one important exception (see our comment on paragraph 6.19, below), we agree with much of the contents of these paragraphs. Specifically, we agree that the Forum should focus on major technical issues and be given time to discuss these issues in depth (paragraph 6.16). In order for these discussions to be truly fruitful, the agenda papers must be available in good time (‘well in advance of the meeting’) so as to enable all members, but regional representative bodies in particular, to discuss issues among their stakeholders and constituents prior to the meeting (as contemplated by paragraph 6.21).

We think a more flexible approach to allocating time to Forum meetings (paragraph 6.17) might be necessary in practice, as the demands of standard-setting activity on the Forum may vary from year to year. The estimate provided is likely to be the minimum commitment for Forum members. As elsewhere, we support a measure of flexibility to this commitment—especially in the early years of the Forum’s existence—and learn from experience.

We support the commitment to transparency and openness of the meetings (paragraph 6.19) and public access to agenda papers (paragraph 6.20).

Given that the Forum exists to provide input to the IASB and that Forum members are expected to have the resources and capabilities to enable them to participate in the Forum’s technical

discussions (paragraph 6.4), there should be a presumption that Forum members, and not only the IASB staff, can be asked to prepare agenda papers for discussion (paragraph 6.20).

We think that the agenda for subsequent meetings should be developed in consultation with the Forum, rather than ‘announced’ (paragraph 6.21), to underscore the collaborative nature of the Forum, as we see it.

Forum chair (paragraph 6.19)

We do not support the intention that the Forum be chaired by either the Chairman or Vice-chairman of the IASB: in our view, and following the precedent set by the Financial Crisis Advisory Group, we ask the IFRS Foundation Trustees to appoint co-chairs, one from the IASB and one from the other Forum members. We hold this view because it would be a visible indicator of the collaborative nature of the Forum. We also see a danger that, if the IASB Chair or Vice-chair alone chairs the Forum, it might come to be seen as a way of advancing an IASB view, even if Forum members do not see that view as leading to a high-quality financial reporting standard.

Risks (paragraphs 6.30—6.34)

We agree that there is a risk that the standard-setting process could become more protracted (paragraph 6.30), however, by using the Forum (and other advisory bodies) effectively, critical issues that could delay a project will be identified and addressed earlier. With time, the Forum could contribute to reducing the average time it takes to develop an IFRS.

We are concerned that paragraph 6.34 mentions ‘maintaining control’ and ‘obtaining consensus.’ We think these run counter to the stated purpose of the Forum and the content of the remainder of paragraph 6.34, which emphasises exchanging views, sharing experience and obtaining a clear understanding of what diversity exists and the reasons for it. We see the Forum as a means to engage in thorough technical debate to help the IASB develop high-quality financial reporting standards. It is also a venue for the IASB to commission work from Forum members, involving them explicitly in the development of IFRSs.