

Tamara Oyre
Assistant Corporate Secretary
For The Trustees
IASC Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

27 November 2009

Proposals for Enhanced Public Accountability

Dear Sirs

The Roche Group has a turnover of CHF 46 bn. a year (EUR 29 bn.) derived from our worldwide healthcare business - pharmaceuticals and diagnostics - and employs over 80,000 worldwide. We have a market capitalisation (end 2008) of CHF 141 bn. (EUR 95 bn.) We have been preparing our consolidated financial statements according to IFRS/IAS since 1990 and therefore have a substantial interest in how these are developed.

General remarks

As long-term IFRS followers we are naturally very gratified at the IASB's success in gaining acceptance for use in jurisdictions almost worldwide. We are also extremely pleased that the Board appears to have made much greater efforts to reach out to, and take into account the input from, preparers and users in recent months, particularly on the financial instruments projects, and hope that this will continue. From the point of view of the Constitution, we believe that this focussing on the needs of the primary capital market participants should also be emphasised formally there and explain below under specific questions how this might be achieved. However, as we mentioned in our previous letter in March, words in the Constitution are not useful unless they are "lived", and we hope that the Trustees will continue to encourage the Board to focus on the needs of capital markets when proposing their agenda and when carrying out their due process.

With regard to accountability it is in our opinion essential that the Trustees actively and critically challenge the Board on its achievement of the objective of creating standards "to help participants in the world's capital markets and other users to make economic decisions", especially in the areas on agenda-setting and due process. On the basis of our continuous experience since the formation of

the IASB, we firmly believe that the Board's independence should not be extended to "carte blanche" for setting its own agenda and that its effectiveness in dealing positively with the input it receives from preparers and active users of financial statements must be closely monitored.

Finally, as a general remark, we think that the Trustees should at this point review the position on convergence as a long-term aim. Convergence has always had our support as we are also convinced that capital markets are not well served by having differing yardsticks. However, that support has also always carried the caveat, "but not at any price". Convergence efforts do not appear to us to have enjoyed unqualified success: often suboptimal standards have resulted, and convergence has not always appeared to be assisted by the necessary willingness to give and take on both sides. With the emergence of IFRS now as the undisputed global set of standards, the time is ripe for the Trustees to reconsider how the question of divergences, especially between IFRS and US GAAP, should be approached in future.

Your specific questions

We agree with many of your proposals, namely those covered by Questions 4, 6, 9, 10, 11 and 14. We confine our answers below to the remaining questions.

Questions 1 and 2, Confusion associated with the existing names within the IASC Foundation

We agree that some confusion has arisen, particularly in the early days of IFRS, because of the names applied. Most people are, however, familiar with them now, so we do not see any major advantage in changing. Also, we feel uncomfortable with the implicit extension of the IASB's remit from accounting standards – which, we believe, would be what most constituents expect the Board to deliver – into financial reporting, which encroaches on areas which are more the responsibility of the regulators. We would in any case recommend the Trustees to focus their efforts on more substantial matters.

Question 3, Need to clarify the objectives in the light of global IFRS adoption

Following on from our general remarks above, we strongly urge the Trustees to give more emphasis in paragraph (a) to the aim of helping capital market participants. High quality standards are in no way an end in themselves but have a *raison d'être* only in so far as they serve their purpose, and this paragraph needs to be a constant reminder of that. Our suggestion would be to amend the wording at the end of the paragraph as follows:

"... comparable information in financial statements and other financial reporting. The aim is to help participants in the world's capital markets and other users to make economic decisions."

Also, as intimated in our answer to Q1/2, we would prefer to see the focus on "high-quality ... *accounting* [rather than financial reporting] standards", for the reasons given above. Moreover, the meaning of "globally accepted" may benefit from clarification: it is presumably acceptance (adoption) in local reporting regimes that is alluded to, but we believe that the IASB also has a responsibility to try to "win over the hearts and minds" of all of their constituents for their

proposals, especially active users and preparers, the primary parties involved in financial reporting.

Question 5, Recognising the participation of Trustees from Africa and South America

We broadly agree with the proposed change. Nevertheless, we would like to “put down a marker” that the geographical distribution should be regularly reviewed: if it continues in the medium term (say 2-3 years) to be unrepresentative of jurisdictions actually using IFRS, a further adjustment will be imperative to ensure legitimization of the IFRS standard setting process.

Question 7, Continued emphasis on effective Trustee oversight

While we can accept the Trustees’ proposal to make no formal amendments to sections 13 and 15, we would again like to stress the need for all involved – especially the Board and the Trustees – to actively “live” the constitution. Tweaking the words would not automatically ensure this. In particular, as far as the Trustees are concerned, we rely on them to actively challenge the Board with regard to agenda proposals (against the criterion of helping capital market participants to make economic decisions) as well as on the way in which constituents’ views are actively taken into account in the standard-setting due process. Please refer also to Question 12 below, as well as to our general remarks with regard to users’ views.

Question 8, Expanding the IASB’s liaison with other organisations

Our only concern with the Trustees’ proposal is the risk that it would give national standard setters additional, possibly excessive and undue influence on the standard setting process compared with other interested parties. We have observed this tendency in the Board’s contacts with the FASB, paying less attention to the legitimate views of parties more directly involved in financial reporting. We emphasise again that standards are not an end in themselves but must help capital market participants.

Question 12, Encouraging greater input into the IASB’s agenda-setting process

Past experience shows that it is sometimes difficult for the Board to adequately weigh the needs of capital market participants, as opposed to areas of conceptual interest, when setting its own agenda. We remain firmly convinced that it should not have the sole power to determine its agenda. While not disputing the Board’s technical independence to decide solutions, we urge the Trustees to see to it that adequate procedures are set up to ensure that the focus is on real capital market needs identified in an evidence-based manner, in conjunction with capital market participants. Existing procedures are perceived by many constituents to have failed in many instances in the past to ensure that the Board is held accountable for achieving its aim of helping capital market participants rather than pursuing theoretically satisfying work. We are therefore rather disappointed that the Trustees have not taken the opportunity to introduce firmer wording into the Constitution with regard to their own powers and responsibilities in this area. In particular, we firmly believe that the Trustees should have a veto power where they are not convinced of the justification for specific proposals.

We do note, however, that, “despite” the Constitution, the Trustees appear to have become more active recently and hope that they will continue to do so. At the very least they should be insisting during “consultation” on the proposed agenda that all work proposed is clearly justified already at that point in terms of how specifically it is expected to concretely and substantively help capital market participants, and that the Board has formally sought and considered such participants’ input on each proposal.

Question 13, Review of the Standards Advisory Council

The Trustees seem to us to be missing a significant opportunity to improve the standard-setting process and its legitimation by raising the importance of constituents’ input, especially into the agenda-setting process, by up-grading the SAC’s role (see also Q12 above.) They might also usefully consider requiring the Board to publish an explanation of how they have treated the SAC’s input when arriving at the final agenda, justifying where they have decided not to take up suggestions.

We understand the Trustees they may revisit this in the future: we would recommend them to do so in a shorter time than the five years suggested.

Sincerely,

F. Hoffmann-La Roche AG

Dr. Erwin Schneider
Head of Corporate Finance
Accounting and Controlling

Alan Dangerfield
Corporate Finance Accounting & Controlling
External Relations