

Issues paper – Status of Trustees’ Strategy Review

Q1 – defining the public interest

- 1.1 We understand that the reference to ‘world’s capital markets’ in the mission in the Constitution is read by the Trustees and the IASB as relating only to private sector capital markets. Staff consider this view to be too narrow.
- 1.2 Staff consider that the AASB should use this opportunity to comment that, at a minimum, ‘world’s capital markets’ should be read as meaning all capital markets where market participants rely on GPFs, which would include markets for government debt. This is because it is evident from recent events that a lack of relevant publicly available financial information about governments has the potential to significantly impact on the fortunes of market participants. The IASB has tended to focus on the message that international standards are needed because the world’s private capital markets are intertwined, and not to have focused on the fact that capital markets are more generally intertwined.
- 1.3 Staff also consider that the AASB should use this opportunity to comment that the Constitution should allow for the extension of the IASB’s role to not-for-profit entities more generally, due to the synergies that would be involved.
- 1.4 Staff are aware that few standard setters have a dual role in dealing with both the for-profit and not-for-profit public sectors, and the AASB arguing for an expansion of the role of the IASB into the not-for-profit and public sectors could be regarded as self serving. However, the AASB should argue that, based on its experience with its dual role, it has found that there are few areas in which the accounting in each sector needs to be different, and there would be substantial synergies in having the IASB dealing with (accrual¹) financial reporting for all types of reporting entities. Staff are also aware that any move to extend the role of the IASB would need to involve consultation with the IPSASB and may take time to achieve.

Q2 – financial stability

- 2.1 Banking and prudential regulators generally have a primary role in helping to ensure financial stability. Staff consider it would be inappropriate to make financial stability

¹ The IPSASB currently deals with both accrual accounting standards and cash-based standards

and similar public policy concerns an objective of accounting standard setting. It could probably be noted as being a consideration for the IASB, but only in the context of meeting the IASB's primary objective.

- 2.2 Staff view financial stability to be something that high-quality financial reporting would be expected to help achieve, but not a basis for selecting accounting policies. A concern about the notion of financial stability as an objective to be used to determine particular accounting policies under IFRSs is that it seems to be interpreted by many as being a basis for avoiding transparency, particularly as it relates to income statement volatility. This includes recent arguments about having the IASB develop standards that avoid 'pro-cyclicality'.
- 2.3 Staff consider the Board could usefully comment that the trustees have a role in:
- (a) ensuring that exponents of financial stability know that transparency in financial reporting is important in helping to achieve financial stability; and
 - (b) dispelling the idea that financial stability is threatened by accounting policies that reveal volatility.

Q3 – governance of the IFRS Foundation

- 3.1 Staff suggest not commenting on this question because it is not directly related to standard setting.

Q4 – formal political endorsement

- 4.1 The source or means of obtaining formal political endorsement are not clear to AASB staff, unless the trustees are prepared to seek a mandate through an international body such as the United Nations, World bank, G20 or IMF. Political endorsement from particular countries would seem to be inappropriate because it would compromise the trustees' independence.
- 4.2 On balance, staff suggest not commenting on this question because it is not directly related to standard setting.
- 4.3 If the Board were to comment, staff consider that the trustees should be encouraged to help ensure that they deal with the political influences that can impact on the IASB, so that these influences are deflected from the IASB.

Q5 – structure of standard setting process

- 5.1 Staff consider that the AASB could usefully make the point that the separation achieved between the oversight/funding of standard setting (through the trustees) and the technical aspects of standard setting (through the IASB) is critical and must be maintained because they are fundamentally different roles and the separation is needed to avoid many of the conflicts that might otherwise arise.

Q6 – application and implementation issues

- 6.1 The number and extent of application and implementation issues seems likely to increase as more jurisdictions apply IFRSs, particularly those with a long history of more rule-based standards.
- 6.2 Staff suggest that the AASB could usefully note that the emphasis should be on the IASB's processes prior to finalising new and revised IFRSs, rather than on subsequent interpretations. To that end, the IASB would need to provide longer comment periods for proposals (as already allowed for in respect of major projects in the IASB's *Due Process Handbook*) to help ensure that proposals are thoroughly debated and tested. This is the main theme of the letter from the Canadian Accounting Standards Board (Agenda paper 9.5). Also see the comments below at Q8.

Q7 – automaticity of financing

- 7.1 Staff suggest not commenting on this question because it is not directly related to standard setting.

Q8 – other issues – consultation periods

- 8.1 In making comments to the IASB, the AASB's capacity is often stretched in undertaking the processes necessary to understand the full implications of IASB proposals and undertaking the relevant consultation with its own constituents on IASB proposals within the set comment timelines. Furthermore, the AASB is probably one of the best-equipped jurisdictions to make comment to the IASB, in terms of Board and staff resources and constituent interest and experience and due to the fact that we do not face translation issues.

- 8.2 Since being involved in the process of leading and participating in AOSSG Working Groups tasked with responding to IASB EDs, the timing issues have been magnified for the AASB. Furthermore, we have gained a greater appreciation of the issues faced by jurisdictions with fewer resources, particularly those who typically work in languages other than English.
- 8.3 The IASB's reasons for setting its comment timelines can be complex, but a driving factor often mentioned is the need to achieve IASB-FASB convergence on key topics by June 2011. AASB staff consider that this convergence objective should be a second order issue for the IASB, and that it should not adversely impact on the need for adequate consultation.
- 8.4 The IASB needs to be more conscious of its role as a global standard setter that has a wide set of constituencies that are at varying stages of development and vary in their use of IFRSs. The IASB is not the same as a national standard setter that may be able to take a relatively narrow perspective because it is dealing with a particular domestic constituency.
- 8.5 Staff suggest that the Board takes this opportunity to comment to the trustees that the focus should be on transitioning jurisdictions into IFRSs rather than on convergence with particular jurisdictions on the basis that efforts directed at facilitating transition to IFRSs will have a greater payback in meeting the goal of a single set of global accounting standards.
- 8.6 Staff suggest that the Board also takes this opportunity to comment to the trustees that recent comment periods for IASB EDs have been inadequate, particularly on major topics such as leases, revenue and insurance contracts. Staff note the response of the Canadian Accounting Standards Board to the trustees (Agenda paper 9.5), which identifies IASB ED comment periods as a key concern.

Q8 – other issues – regional bodies

- 8.7 Staff suggest the AASB note that the Asian-Oceanian Standard-Setters Group has established itself with a view to contributing to the IASB's efforts in establishing a single set of global accounting standards, and the trustees could consider how that model might usefully be extended to cover the world.

Q8 – other issues – nurturing standard setting talent

8.8 Staff suggest the AASB note that the trustees appoint IASB members and part of this role should involve the trustees considering ways in which they could be nurturing standard setting talent in the interests of creating a pool of people who will help to maintain the technical credibility of the IASB.

Q8 – other issues – conceptual frameworks

8.9 The IASB is working with the FASB to develop a common conceptual framework, and this is laudable. However, although still in development, it is evident that the revised framework is likely to have a greater focus on private for-profit sector entities than the existing IASB framework. In many ways it seems to have unnecessarily taken a less generic line than the existing IASB framework. At the same time, the IPSASB is developing its conceptual framework with a focus on the public sector. In the AASB's experience, if the frameworks need to be different, this would only be at the margins.

8.10 Staff suggest the AASB could comment to the trustees that two separate frameworks are being developed unnecessarily, and if this is allowed to continue, it will create a convergence problem that may take years to fix at some time in the future. Essentially, a problem is developing that could be prevented if leadership is shown and action is taken now to develop one framework that covers all reporting entities.