

Invitation to Comment

November 2005

Proposed Interpretations Model for Australian Accounting Standards

Prepared by the
Australian Accounting Standards Board

Commenting on this Invitation to Comment

The AASB is seeking comment on a proposed interpretations model for Australian Accounting Standards. Constituents are encouraged to respond to the AASB by 18 January 2006. Comments should be addressed to:

The Chairman
Australian Accounting Standards Board
PO Box 204, Collins Street West Vic 8007
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E-mail: standard@aasb.com.au

A copy of all non-confidential submissions will be placed on public record on the AASB's website: www.aasb.com.au.

Obtaining a Copy of this Invitation to Comment

This Invitation to Comment is available on the AASB's website www.aasb.com.au. Alternatively, any individual or organisation may obtain one printed copy of this Invitation to Comment without charge until 18 January 2006 by contacting:

The Customer Service Officer	Phone: (03) 9617 7637
Australian Accounting Standards Board	Fax: (03) 9617 7608
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Purpose of this Invitation to Comment

The AASB considers that it is timely to review the role, functions and composition of the Urgent Issues Group (UIG) in response to changes in the financial reporting environment. These changes include:

- (a) the implementation of the Financial Reporting Council's (FRC) directive on the adoption of International Financial Reporting Standards (IFRSs) for reporting periods commencing on or after 1 January 2005;
- (b) the activities of the International Financial Reporting Interpretations Committee (IFRIC) and the relationship between it and the UIG;
- (c) the importance of achieving IFRS compliance in respect of interpretations of Australian equivalents to IFRSs;
- (d) managing the development of Interpretations in respect of a broader range of entities than the IFRIC, including public sector and not-for-profit entities, because the AASB issues Standards that apply to a wider range of entities than those issued by the IASB;
- (e) the changed legal status of UIG Interpretations now that the AASB formally approves UIG Interpretations which are given legal effect through reference in Accounting Standard AASB 1048 *Interpretation and Application of Standards*; and
- (f) the establishment of the Trans-Tasman Accounting Standards Advisory Group. The Board noted that there is no separate interpretations body in New Zealand.

Accordingly, the AASB is seeking comments from constituents on a proposed interpretations model to replace the current UIG structure.

Background

The UIG was established in 1994 and continued in operation as constituted until 2000, when accounting standard-setting arrangements were restructured following amendments to the Corporations Law. Since 2000 the UIG has operated in much the same fashion as previously. The role of the UIG as explained in the UIG Charter is to provide timely guidance on financial reporting issues and seek to avoid the development of divergent or unacceptable financial reporting practices or treatments in the absence of authoritative guidance. While the role of the UIG remains essentially unchanged, the financial reporting landscape in which it operates has changed considerably, in particular, the ways in which it interacts with the

activities of the IFRIC. Accordingly, the way in which the UIG identifies and addresses issues, particularly as they relate to the interpretation of Australian equivalents of IFRSs, may no longer be appropriate.

In its own review the IFRIC has sought to address concerns that it has been slow to respond to requests for guidance or has not communicated its views on a timely basis. While the IFRIC is presently introducing practices to address those perceptions, a concern expressed by many of the AASB's constituents relates to the process for providing guidance in the event that the IFRIC does not include an issue on its work program. The IFRIC Agenda Committee has recently introduced the practice of giving reasons for proposing that an issue should not be included on the IFRIC work program and seeking feedback on these reasons. Following this public consultation, the IFRIC publishes the reasons for the agenda decisions on the IASB's website.

The draft Memorandum of Understanding (MOU) between the IASB and national standard-setters issued for comment in March 2005 acknowledges that, in some circumstances (because of national legislative requirements etc.), it is appropriate for national bodies to develop interpretations of IFRSs. It is also acknowledged that national bodies and/or groups of national bodies may prepare Interpretations in co-operation with the IFRIC. The draft MOU also indicates that a national standard-setter would accept the decisions of the IFRIC in respect of the disposition of the issue proposals referred to it.

In April 2005 the AASB formed a sub-committee to prepare recommendations for consideration by the AASB in developing an Invitation to Comment prior to formally seeking the views of constituents. In developing its recommendations the sub-committee canvassed the views of selected constituents, including organisations and individuals. The AASB considered the sub-committee's recommendations at meetings in September, October and November 2005 and decided to seek comments from constituents on a proposed interpretations model to replace the UIG structure.

Request for Comments

The AASB is seeking comments on a proposed Interpretations Model to replace the UIG structure. The AASB is inviting comments by 18 January 2006 in anticipation that changes in the interpretations model will be implemented by 1 July 2006.

Proposed Interpretations Model

The AASB's objective is to develop an interpretations function that best enhances its ability to provide timely guidance to constituents in the context

of interaction with the IFRIC while maintaining a capacity to deal with issues relating to public sector and not-for-profit entities and interpretations of Australian equivalents of IFRSs. The AASB is also seeking to ensure that the interpretations function has a flexible structure so that it can be adapted in response to changing circumstances and the nature of the issues to be addressed.

The main features of the proposed interpretations model are:

- (a) the AASB will assume direct responsibility for developing Interpretations;
- (b) an advisory panel will be formed on each issue where guidance may be necessary. The panel, normally of 4-8 members, would be appointed by the AASB on the basis of professional competence and practical experience in the topic area and may include AASB members. The composition of the panel would be expected to vary depending on the issue under consideration. Depending on the issue being addressed, members of the panel would be drawn from the major accounting firms, the accounting bodies, relevant public sector and not-for-profit organisations, academia and preparer and user groups. For example, a person from a major accounting firm would not necessarily be a technical partner as the relevant expertise and experience may reside elsewhere in the firm. Likewise, a person drawn from an accounting body need not be its technical director or advisor. This approach is consistent with the objective of forming a panel on a particular issue to marshal the best available combination of technical expertise and diversity of business and market experience while seeking to maintain a balance of views and perspectives on the issue;
- (c) an advisory panel would be constituted as a committee of the AASB and its role would be limited to preparing views and recommendations for consideration by the AASB in resolving the issue through developing and issuing interpretative guidance, if required. Accordingly, in some cases it may be appropriate for a panel to recommend a particular approach to the AASB. However, in other cases, consistent with a principles-based standards regime where there may be more than one acceptable interpretation, a panel may provide the AASB with a number of potential approaches that are consistent with Australian equivalents to IFRSs;
- (d) the AASB will assume direct responsibility for making submissions to the IFRIC on IFRIC Draft Interpretations and for approving IFRIC Interpretations for adoption in Australia. In some instances an advisory panel may be established to prepare views on an IFRIC

Draft Interpretation to assist the AASB in developing its submission to the IFRIC;

- (e) an advisory panel would be chaired by the Chairman of the AASB or another member of the AASB and would be supported by AASB staff; and
- (f) the formation of an Interpretations Agenda Committee comprising the Chairman and two other members of the AASB, with the responsibility for recommending whether an issue should be addressed and the manner in which it should be addressed. For example, the Interpretations Agenda Committee would determine whether an issue should be referred to the IFRIC, whether it is necessary to form a panel to develop views and recommendations for consideration by the AASB or whether the issue should be addressed directly by the AASB. It is anticipated that, in most cases, an issue relating to interpretation of Australian equivalents of IFRS will be referred to the IFRIC in the first instance. Similar to the current practice of the IFRIC, the AASB will publish the reasons for its decisions on the disposition of issue proposals.

Under the proposed Interpretations Model it is envisaged that the following process would apply in respect of issue proposals considered by the Interpretations Agenda Committee:

- (a) where an issue proposal relates only to public sector and not-for-profit entities and Australian Accounting Standards that are not Australian equivalents to IFRSs, the Interpretations Agenda Committee will make recommendations to the AASB as to whether guidance is necessary and, if so, whether an advisory panel should be established and the composition of the panel, or whether the matter should be addressed directly by the AASB. The views and recommendations of the Interpretations Agenda Committee will be published on the website as will those of the advisory panel; and
- (b) where an issue proposal relates to an Australian equivalent of an IFRS, the Interpretations Agenda Committee will:
 - (i) consider whether the issue is one where guidance is necessary and, if so, recommend to the AASB that an issue proposal be submitted to the IFRIC Agenda Committee. However, in the circumstance that the issue is clearly specific to the Australian environment only, the Interpretations Agenda Committee will implement a process similar to that described in (a) above;

- (ii) to the extent that the IFRIC decides not to take the issue onto its work program and no guidance is provided in its published reasons for rejection of the issue, recommend to the AASB whether it should develop interpretative guidance on the issue by implementing a process similar to that described in (a) above. In these circumstances, which are expected to be unusual, the AASB would also seek the participation of other national standard-setting bodies. The AASB may also decide to develop interpretative guidance when the IFRIC is not able to deal with a matter in a timely manner, for example, to provide authoritative guidance because there is diversity of practice in Australia; and
- (c) the AASB will determine the appropriate due process to be followed in respect of each issue being addressed. Similar to the current practice of the IFRIC, the AASB will publish the reasons for its decisions on the disposition of issue proposals.

Questions

Comments are invited on the proposed Interpretations Model to replace the UIG structure including whether:

- (a) the proposal to establish advisory panels on issues is a more flexible and adaptive approach than having a formally established body;
- (b) the proposed size and composition of advisory panels and appointment on the basis of professional competence and relevant experience is preferable to appointment on the basis of representation;
- (c) the formation of an Interpretations Agenda Committee, its role and the manner in which requests for guidance are dealt with will facilitate more timely responses on issues; and
- (d) the manner of the interaction with the IFRIC and its processes is appropriate.

Some constituents may consider that other relevant issues relating to the role, functions and composition of the interpretations function are not addressed or that some issues are not given sufficient emphasis. Where this is the case constituents are invited to explain those views, as they may be equally relevant to the AASB in deciding on the future interpretations model.