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5 July 2005

Dear David

Response to Invitation to Comment: *The role of accounting standard setters and their relationships with the International Accounting Standards Board (IASB)*

We are pleased to submit our comments in response to the Invitation to Comment on *The role of accounting standard setters and their relationships with the IASB*.

As a global firm, PricewaterhouseCoopers will make a submission on the Draft Memorandum of Understanding in accordance with the IASB's request for comments by 29 July 2005. We will forward a copy of that submission to the Australian Accounting Standards Board (AASB) when it is issued. This will provide comments on the proposals for the role of accounting standard setters in general and their relationships with the IASB, rather than the specific concerns of the AASB.

In view of this, we want to provide the AASB with our preliminary comments from an Australian perspective on:

- a) the project role of accounting standards setters, and
- b) the role of accounting standard setters in interpreting International Financial Reporting Standards (IFRS).

Our aim is to help the Board identify the role that Australia should be seeking in order to achieve maximum and effective influence on the standard setting process going forward, and formulate its response to the IASB. Please find our comments on this proposal below.

Specific matters for comment:

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(a) The project role of accounting standards setters

The proposals are seeking to provide opportunities for national accounting standards setters to be involved in projects on behalf of, or in conjunction with, the IASB. While we support the IASB's intentions, we are concerned that joint or "outsourced" projects will be ineffective. The IASB would need to successfully overcome the practical difficulties of aligning the objectives and priorities of the separate national accounting standard setters and help manage their resources, which are scattered around the world and operating in different time zones. Given these difficulties, a significant investment of time and resource would be required from all parties involved in joint projects without necessarily giving the optimum result.

As a result, the AASB needs to carefully consider its role in IASB projects, as committing resources to research or provide involvement in joint projects is likely to become costly and will not necessarily help Australia influence the position taken in the final accounting pronouncement.

Going forward, we believe the AASB should be seeking to take a key role in assisting the IASB effectively implement, and not set, its IFRS. In addition to liaising with and providing education for local constituents and regulators, we believe the AASB could effectively use its resources to focus on identifying and analysing implementation issues, with a view to sharing this knowledge globally. This is one area that would benefit from greater IASB focus, specifically encouraging national standard setters to engage other groups in their region and communicate such findings back to the IASB for consideration.

This could be achieved by field testing proposed new standards (such as those relating to the mining sector where Australia could certainly add value) prior to implementation and reporting back to the IASB on any difficulties encountered. This would also give the AASB a good opportunity to request the correction of problematic areas prior to content being drafted or issued for public comment.

With the IASB's endorsement, the AASB could also lead and facilitate high quality technical debate regarding convergence with constituents and national standard setters within our region. This would help increase public awareness and understanding of IFRS and provide a forum for generating ideas and discussion. The AASB could request specific involvement in issues of significant concerns locally, such as is the case with issues arising from stapled security arrangements and tax consolidations.

By getting actively involved in the facilitation process in these ways the AASB would take a prime position in helping implement IFRS and make a real contribution to its national and global success. In some cases, such involvement could influence IASB projects and give the AASB the opportunity to become more involved in specific areas.

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(b) The role of accounting standard setters in interpreting International Financial Reporting Standards

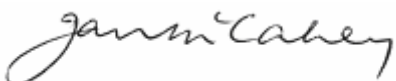
We believe the role of interpreting IFRS rests with the IASB and International Financial Reporting Interpretations Committee (IFRIC), not with national or regional accounting standard setters. We welcome the move for the IASB and IFRIC to provide explanations when they decide not to address issues raised within the international community. In cases where issues are not addressed because both bodies conclude that the literature is clear, then the explanation provided must clarify why and how it is clear so as to avoid diversity in practice.

We continue to be concerned that changes to the wording of IFRS in Australian International Financial Reporting Standards, including UIG interpretations (AIFRS), and additional Australian interpretations and guidance brings the risk of Australian entities having to report under rules that are inconsistent with IFRS. We have been concerned that this could result in Australian entities' financial reports not being IFRS compliant and AIFRS being seen to be inferior to IFRS so we welcome the AASB's decision to only provide Australian Guidance within AIFRS where there is a particular Australian issue, such as the impact of legislative requirements or institutional arrangements that are not addressed in IFRS. We will provide a specific response to the AASB's request for comments on whether existing "Aus" paragraphs in AIFRS and Australian Guidance are appropriate and useful.

In the meantime, we do not believe the AASB or the UIG should issue further guidance to their constituents or regulators on matters referred to the IASB or IFRIC, regardless of how satisfied they are with the explanation provided by those bodies, unless endorsed by the IASB. If such approved guidance is necessary, the AASB should establish a due process that mirrors those of IFRIC. This process must allow significant time for draft proposals to be submitted to the public and debated before content is approved and IASB endorsed guidance is issued.

We would be pleased to discuss our views at your convenience. Please contact me direct on 03 8603 3868 or Sue Whitechurch on 02 8266 7543 if there is any matter you would like us to elaborate further.

Yours sincerely



Jan McCahey
Partner