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Warren McGregor
Board member
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Warren

**Draft Memorandum of Understanding on the role of
Accounting Standard-Setters and their relationships with the IASB**

Thank you for the opportunity to comment on the draft Memorandum of Understanding (MoU). The AASB considers that the development of the MoU is an important step in clarifying the respective roles of the IASB and national standards setters.

The AASB issued the draft MoU in Australia as an Invitation to Comment in March 2005. The attached comments of the AASB have been prepared after taking into account comments received from Australian respondents to the Invitation to Comment.

If you require further information about, or explanation of, the AASB's comments, please contact Angus Thomson (61 3 9617 7618 – e-mail athomson@aab.com.au).

Yours sincerely

A handwritten signature in black ink that reads "David Boymal".

David Boymal
Chairman

* attachment

AASB comments on draft Memorandum of Understanding on the role of Accounting Standard Setters and their relationships with the IASB

Working with regulators

Accounting standard-setters, not the IASB, should take the prime responsibility for identifying and dealing with domestic regulatory barriers to adopting or converging with IFRSs. [paragraph 2.3]

The AASB supports this view and considers it appropriate to be included in the Memorandum of Understanding (MoU).

In the Australian context, the AASB has had to help identify prudential, taxation and other legal issues that need to be resolved to facilitate the adoption of IFRSs. The AASB considers that a national standard setter is best placed to deal with these issues. To the extent possible, the IASB should avoid being involved with domestic or regional regulatory issues because it needs to retain a common, international focus, and not be driven by circumstances in any particular jurisdiction.

Accounting standard-setters, not the IASB, should encourage national and regional regulators to participate in international convergence efforts in their own regulatory fields where this would help to facilitate financial reporting convergence. [paragraph 2.4]

The AASB supports this view and considers that it is worthwhile being included in the MoU. There are sometimes difficulties associated with promoting an IFRS accounting policy when this creates an inconsistency with other types of reporting requirements, and accordingly, results in increased reporting costs for reporting entities. Although we strongly support pursuing financial reporting objectives in IFRSs and not compromising those objectives to cater for other regulators, there seem likely to be benefits in having other regulators address unnecessary inconsistencies at an international level rather than creating difficulties in particular domestic environments.

Communication

The IASB should ensure that it makes relevant information available on a timely basis so that other standard-setters can be fully informed of the IASB's activities and plans. [paragraph 3.15]

The AASB supports this view and considers appropriate to be included in the MoU.

The AASB considers that the IASB's web site is likely to be the key focus. The AASB considers that the IASB should be more timely in its updating of project summaries. Many of these are currently out of date, and those not closely associated with the IASB processes have little hope of keeping up with recent and impending developments. If the IASB expects to encourage jurisdictions to adopt its standards, it needs to provide them with up to date information.

The AASB considers that the IASB should examine ways in which it could make Board papers available to all national standard setters, and preferably to the public generally. This would provide a general awareness of the IASB's activities so that national standard setters and others could better plan for their financial reporting needs. It would also make constituents feel they are part of the IASB's standard setting process and help them to accept the outcomes of applying the IFRSs.

AASB comments on draft Memorandum of Understanding on the role of Accounting Standard Setters and their relationships with the IASB

The IASB should maintain an up-to-date database of technical issues reported by accounting standard-setters and others that is accessible to the standard-setters. National and regional standard-setters should consult one another on issues of common interest and formulate joint proposals for consideration by the IASB or the IFRIC. (See also section 7 on Interpretations.) [paragraph 3.16]

The AASB supports the establishment and maintenance of an up-to-date database of technical issues that is accessible to national standard setters and considers it appropriate to include this matter in the MoU. The same or similar issues are being discussed in many parts of the world and it would be helpful to have a central register that they can use to facilitate consultation. Such a facility would help to reduce duplication of effort and enable collaboration on issues of common interest. This has the potential to focus standard setting resources where they are most needed and enable more issues to be resolved at an international level than would otherwise be the case.

Our constituents have been particularly positive about the database initiative notwithstanding that it will require a considerable effort to implement.

The IASB should provide sufficient time in relation to consultative documents to allow other standard-setters to prepare any additional relevant material required to place the IASB documents in the national or regional context (including translation from English), expose the IASB documents in their jurisdictions, receive comment from their constituents and formulate their own views with the benefit of constituents' input. [paragraph 3.17]

The AASB supports this view and considers it appropriate to be included in the MoU.

The AASB has a policy of issuing IASB exposure drafts in Australia with a Preface that helps to explain the key impacts in the Australian environment. The AASB considers that the ideal length for a comment period on a significant topic is 4 months. The AASB appreciates that there may be occasions when the IASB needs to act quickly to rectify a problem, but believes that this should never occur when the issues are significant.

The IASB should encourage critical analysis of its proposals, and provide an open, transparent and credible process for arriving at its conclusions. [paragraph 3.18]

The AASB acknowledges that the IASB has already established a sound and thorough process. The AASB supports including this matter in the MoU.

Accounting standard-setters should encourage their constituents to communicate their technical views direct to the IASB, as well as to the national or regional standard-setter. [paragraph 3.19]

The AASB is committed to encouraging Australian constituents to participate in the IASB's processes and communicating directly with both the IASB and the AASB. As noted above, The AASB issues IASB exposure drafts in Australia with a Preface that helps to explain the key impacts in the Australian environment and thereby encourage participation in the process. Australia supports other national standard setters adopting the same model.

Accounting standard-setters should be a key channel for information flowing to the IASB from government agencies, politicians and others who are engaged in non-technical debate. [paragraph 3.20]

In any standard setting process there are bound to be constituents who disagree with the requirements set, and who can legitimately use political and other avenues to pursue their

AASB comments on draft Memorandum of Understanding on the role of Accounting Standard Setters and their relationships with the IASB

views. The AASB considers that the IASB should make its decisions based on technical merit and the usefulness of the information likely to flow from application of the standards and not on the basis of political considerations. The IASB cannot hope to be able to appreciate all the different political contexts operating in the various jurisdictions that are adopting IASB standards. Accordingly, the AASB supports the view that national (or regional) standards setters have a responsibility to ensure that any information flowing to the IASB at the political level is placed in its proper context and considers it appropriate for this matter to be included in the MoU.

Accounting standard-setters should use relevant forums such as round-tables on specific issues as a mechanism for encouraging their constituents to participate in the IASB's standard-setting process, particularly those constituents who might not otherwise make their views known. Where practicable, the IASB should make Board members and staff available to facilitate these forums. [paragraph 3.21]

The AASB supports this view and considers it appropriate to be included in the MoU.

The AASB also supports IASB members taking on the responsibility of being available to promote the IASB's activities and to this end supports the process already instituted by the IASB to have particular Board members act as advisers on key project areas.

Accounting standard-setters should make the IASB aware of any technical differences of opinion they have with a project as early as possible in the life of a project. [paragraph 3.22]

The AASB supports this view and considers it appropriate to be included in the MoU.

Although, the early stages of a project may be delayed with more and more national standard setters making their views known to the IASB early in the life of a project, the AASB considers that it is likely to save time over the total life of a project and provide a basis for better acceptance of the outcomes of the IASB's deliberations.

Project role

The IASB should, subject to the work being available, provide opportunities to other accounting standard-setters to be involved with IASB projects as follows:

- (a) involvement in a 'research project' alone or, in partnership with a team of other national or regional standard-setters (either as a leader of the team or as a team member), under the guidance of IASB staff and selected Board members.*
- (b) involvement in a 'project team' of national or regional standard-setters on an active project under the direction of IASB staff and/or FASB staff. [paragraph 4.7]*

The AASB supports the IASB making available opportunities to national standard-setters to be involved with IASB projects, both leading research projects and as members of project teams on active projects. As noted above, the AASB also supports having selected IASB members being advisers on key project areas to assist national standard setters in taking projects forward. The AASB considers it appropriate to include this matter in the MoU.

AASB comments on draft Memorandum of Understanding on the role of Accounting Standard Setters and their relationships with the IASB

Accounting standard-setters should, subject to resources being available, undertake research work with the IASB and be involved in project teams. Once a standard-setter is committed to a project, it should remain in a position to make an effective contribution to the project. [paragraph 4.8]

The AASB agrees that national standard setters should endeavour to undertake research work with the IASB and be involved in project teams. The AASB also supports the notion that, once a commitment is made, both the national standard setter and the IASB should make every endeavour to ensure that a continuing effective contribution is made to the project. The AASB considers it appropriate to include this matter in the MoU.

The AASB also considers that the MoU should place greater emphasis on the national standard setters providing relevant expertise. This is implicit in the reference to resources, but should be made explicit in the interests of obtaining assistance from personnel with appropriate expertise.

Accounting standard-setters should promote the role of a working group member in their jurisdictions and encourage suitable individuals to nominate themselves. [paragraph 4.9]

The AASB supports this view and considers it appropriate to be included in the MoU.

The AASB's oversight body (the Financial Reporting Council) and its key constituents have agreed that the AASB should coordinate Australia's efforts to identify suitable individuals for working group membership.

Comment role on IASB consultative documents

Accounting standard-setters should provide timely comments to the IASB on consultative documents, particularly on those projects that are of particular importance to their constituents, or on which the standard-setter considers it can best contribute. [paragraph 5.4]

The AASB agrees that national standard setters should endeavour to comment on IASB consultative documents to help contribute to a robust and comprehensive due process and help ensure the outcomes cater for key issues in their jurisdictions. The AASB considers it appropriate to include this matter in the MoU.

Application of standards

The IASB should provide a reasonable lead time to allow other standard-setters to process the IFRSs for application in their local regulatory framework so that they have every opportunity to establish and maintain a set of standards that enable their constituents to continue to make an unreserved statement of compliance with IFRSs. [paragraph 6.6]

The AASB supports this view and considers it appropriate to be included in the MoU.

The AASB considers this to be a critical issue and urges the IASB to ensure it has regard to providing reasonable lead times on the introduction or amendment of requirements. The general requirement that comparative information must be adjusted for new or amended requirements accentuates this need. Some jurisdictions, such as Australia, are prevented by law from making any requirements apply retrospectively.

AASB comments on draft Memorandum of Understanding on the role of Accounting Standard Setters and their relationships with the IASB

For any significant issues, the AASB recommends allowing at least one year before the relevant requirements become applicable. For example, for a new standard that becomes applicable for periods beginning on or after 1 January 2008, the final standard should be available before 1 January 2007.

In adopting the IFRSs to apply in their own jurisdiction, standard-setters should avoid amending the IFRSs in a manner that creates a non-compliance with the IFRSs. [paragraph 6.7]

The AASB supports this view and considers it appropriate to be included in the MoU. However, in an environment where the IFRSs are also to apply to not-for-profit and public sector entities, there may be little alternative but to include exceptions relating to those other entities to make the standards operable.

Interpretation

Accounting standard-setters should monitor the implementation of IFRSs in their jurisdictions, identify issues that might require interpretation, and request the IFRIC or the IASB to address the issue. [paragraph 7.6]

The AASB supports this view and considers it appropriate to be included in the MoU.

The AASB appreciates that the IASB is attempting to set principles-based standards and that having numerous interpretations may defeat this aim. However, our experience has been that practitioners in different jurisdictions bring with them various existing views on implementing accounting policies, and there is a need to cause them to rethink their approaches in some circumstances through the IFRIC process. The AASB considers that national standards setters are in a good position to identify relevant issues for interpretation, and will often have the capacity to provide IFRIC with the appropriate papers for consideration of the issues.

A key issue for the IASB to determine is whether it is prepared to tolerate there being more than one way of implementing a principle in its standards. One approach is that there can be only one way to interpret each principle. Under this approach, there would need to be interpretations when more than one view emerges, even though all such views may be considered “acceptable”. Another approach is that there may be a number of ways to interpret a principle, each equally valid, and that the ultimate decision should be left to the professional judgement of accountants. Under this latter approach, there would only need to be interpretations when “unacceptable” treatments are being adopted.

If an issue in a particular jurisdiction does not have broad relevance and the IFRIC or the IASB decides not to deal with it, the standard-setter concerned should issue its own interpretation only when it is compatible with IFRSs. [paragraph 7.7]

The AASB supports this view and considers it appropriate to be included in the MoU.

The AASB has decided that, when a suitable issue arises, it will first ask the IFRIC to deal with it by approaching the IFRIC agenda committee. In the absence of an IFRIC response, the AASB would approach fellow national standards setters in an effort to reach a resolution.

A key issue for the IASB is the timeliness of interpretations. The AASB acknowledges the pressures that the IASB is under and the limited resources available, but considers that some

AASB comments on draft Memorandum of Understanding on the role of Accounting Standard Setters and their relationships with the IASB

thought needs to be given to the notion that national standard setters might provide interpretations when the IFRIC is unable to act on a timely basis.

If the IFRIC and the IASB decide not to address an issue, they should provide an explanation. Other standard-setters should consider this to be a resolution of the issue. [paragraph 7.8]

The AASB supports this view and considers it appropriate to be included in the MoU.

The AASB acknowledges that the IFRIC has instituted a process of examining issues and providing rejection statements in respect of issues not addressed. The AASB supports this process but considers that there is a need to clarify the status of rejections in the IASB's hierarchy of IFRSs.

8 Education

The IASCF should be sensitive to the IFRS education needs of the various jurisdictions. [paragraph 8.4]

The AASB supports this view and considers it appropriate to be included in the MoU.

Accounting standard-setters should make the IASCF aware of their particular educational needs and the types of programmes that are likely to be most useful and successful in their jurisdictions. [paragraph 8.5]

The AASB supports this view and considers it appropriate to be included in the MoU.

Standard-setters should provide the IASCF with material that they consider may be helpful in creating educational materials. [paragraph 8.6]

The AASB supports this view and considers it appropriate to be included in the MoU.

8 Other comments

Status of the MoU

At their meeting in April 2005 the liaison national standard setters discussed issues relating to the status that the MoU should have. The group did not come to single view, but noted that there are a number of possibilities, including:

- * a policy document that exists to guide the processes and behaviour of standards setters and the IASB in their dealings;
- * a formal document that all standard setters and the IASB sign up to in the same manner as the convergence agreements between the IASB and the FASB and the IASB and the ASBJ.
- * a formal document that the IASB and only those jurisdictions actually using IFRSs sign up to.

A factor in favour of limiting the status of the MoU to guidance is the likely need for flexibility, since the MoU may evolve as we gain experience with convergence and adoption processes.

AASB comments on draft Memorandum of Understanding on the role of Accounting Standard Setters and their relationships with the IASB

A factor in favour of formalising the status of the MoU is that it would be more likely to be adhered to and to provide structure to the relationship between the IASB and accounting standard setters.

The AASB considers that the level of formality surrounding the MoU should be discussed at the September 2005 meeting between the IASB and world standards setters.

Developing and maintaining strong national standards setters

The AASB considers that the successful introduction and continued successful application of IFRSs in many jurisdictions depends to a large extent on there being a strong national (or regional) standard setter those jurisdictions. Accordingly, the AASB considers that the IASB has a responsibility to help develop national (and regional) standard setters. The AASB notes that this development is a natural consequence of a number of the other matters raised in the draft MoU (for example, in relation to project roles), however, it is suggested that it be specifically identified as an aim of the IASB and that staff secondments to the IASB should be a key part of this development.

Understanding the application of IFRSs in different jurisdictions

In Australia, the Australian equivalents to IFRSs are to be applied by all reporting entities (including parent entities), with some modification for not-for-profit entities. The AASB understands that most European countries have limited the application of IFRSs to the consolidated financial statements of listed entities.

The AASB considers that the MoU should encourage national standard setters to inform the IASB about the types of entities to which it applies (or intends to apply) the IFRSs and that IASB should be cognisant of these policies in drafting the standards. Each staff and Board member of the IASB will have some preconceived notions about the application of IFRSs that needs to be tempered with knowledge from a wide range of constituencies. This is likely to be of particular importance in progressing the SMEs project where even the term itself has a potentially wide range of meanings.

The AASB notes that the IASB recently agreed that national standards setters from a number of jurisdictions (Australia, Canada, New Zealand and the UK) would review the IASB's work on the Conceptual Framework from a not-for-profit perspective, which the AASB considers to be a positive development.

First-time adoption issues

The AASB considers that the IASB should consider including in the MoU some acknowledgement of the needs of first-time adopting jurisdictions. As new jurisdictions adopt or converge with IFRSs, issue are bound to arise that affect particular jurisdictions because different circumstances exist in that jurisdiction (or are perceived to exist). When those circumstances give rise to issues, those issues can require urgent attention because the jurisdiction will have set a dateline for adoption/convergence.