

18 January 2006

Professor David Boymal
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Dear Professor Boymal

**Invitation to Comment: Proposed Interpretations Model for
Australian Accounting Standards**

I am writing to you to outline the Australian Institute of Company Directors' views on the Invitation to Comment.

The AICD is the peak organisation representing the interests of company directors in Australia. Current membership is over 20,000 drawn from large and small organisations, across all industries, and from private, public and the not-for-profit sectors. The AICD has had a standing policy committee focusing on financial and other reporting issues for over twenty years.

The AICD has been a long time supporter of the Urgent Issues Group (UIG) and believes that it has made and continues to make a valuable contribution. AICD is pleased to note that a number of the issues raised in AICD's letter to you of 18 August 2005 have been addressed. AICD is particularly pleased that the Invitation to Comment acknowledges the role of an Australian body charged with responsibility for the interpretation of accounting standards and for close liaison with the International Financial Reporting Interpretations Committee (IFRIC).

The objective of AICD's contribution to the debate about accounting standards interpretation is to reinforce AICD's long held policy position that the community's and directors' interests are best served when preparers of financial statements operate in an environment focused on practical and effective outcomes. This can only provide users of financial statements with better quality financial information.

AICD's response consists of remarks about the principles involved and specific comments on the proposals outlined in the Invitation to Comment. However at the outset the AICD wishes to make it very clear we do not agree with the proposal to replace a standing interpretations committee, currently the UIG, with advisory panels for individual issues with the AASB assuming direct responsibility for developing interpretations.

This will take away the representative model we currently have with representatives from bodies such as AICD and G100 being on the UIG and therefore having an ability to bring commercial pragmatic views to accounting interpretations which AICD believes results in a better, practical interpretation of the issue in question consistent with the technical intent of the standards.

Principles

Australia's legal system differs, often significantly, from the legal systems of other countries adopting International Financial Reporting Standards (IFRS) such as the United Kingdom, France and Germany. For this reason it will never be possible to exactly reproduce sets of financial statements across jurisdictions. In AICD's view provided the Australian accounts are prepared under IFRS and Australian interpretations are consistent with any known interpretations under the IFRS then the resulting financial statements should be accepted as IFRS compliant.

Company financial statements should provide practical, effective and informative reports for their users. AICD therefore believes that any Australian interpretative body must have a strong input into its deliberations from the various parties involved in preparing financial statements. They include: practising accountants, chief financial officers and directors as the bearers of ultimate responsibility for the financial statements. Any Australian interpretative body also needs to have a majority of practitioners with access to high quality technical input. The chair of this body should be a practitioner, independent of the AASB, rather than a technician.

The Australian interpretative body should provide a draft agenda to key stakeholders such as: the Institute of Chartered Accountants in Australia, CPA Australia, AICD and the Group of 100. This would ensure these key bodies are aware of issues as they arise and are able to make comments or nominate suitable people with expertise in the relevant area for a sub-committee.

Operational issues

AICD suggests that it would reinforce the relationship between Australia and IFRIC if the UIG were to be renamed Australian IFRIC (AIFRIC). This body must have strong regular and effective communication channels between it, the AASB and IFRIC, for issues on the AIFRIC agenda.

For historical reasons the chairman of the UIG has been the chairman of the Australian Accounting Standards Board (AASB). In the new international environment AICD believes it is preferable from a governance perspective that the chairman of AIFRIC is independent of the AASB. However, it is appropriate that AIFRIC operate under the auspices of the AASB. The chairman of AIFRIC should also chair the Interpretations Agenda Committee. AICD believes that the chairman of AIFRIC should be appointed by the Financial Reporting Council (FRC) being a person with proven accounting knowledge and broadly based commercial experience in the preparation and presentation of financial statements.

To enable AIFRIC to have a balance of technical input and practical experience in its deliberations AICD believes it should have of eight to ten permanent appointees. They should consist of a suitable AASB representative, technicians, practising accountants, preparers of public financial statements and practising directors, especially directors with experience chairing audit committees. Practitioners, rather than technicians should hold the majority on AIFRIC. AICD believes an AIFRIC of eight to ten members is optimum for decision making. The proposal in the Invitation to Comment for a smaller group is likely to result in key expertise not being available to AIFRIC. AICD also believes that the members of AIFRIC should be nominated by the FRC.

AIFRIC should be supported by ad hoc advisory committees appointed from time to time as the need arises to advise AIFRIC on complex issues requiring detailed knowledge of a particular industry or issue. These committees would be advisory only and have no decision making power. They should themselves consist of representatives from AIFRIC who would provide consistency and overall guidance, as well as a mix of knowledgeable technical and practical experts, again with practitioners holding the majority. Such committees would only exist for a specific topic and disband at the behest of AIFRIC once the issue had been ruled upon by AIFRIC. AICD believes this structure would allow a number of urgent interpretative issues to be pursued concurrently, thereby shortening the decision making cycle.

In conclusion, whilst AICD opposes the AASB proposal of having new panels for each issue, our suggested approach of a permanent group (AIFRIC) with committee support selected by AIFRIC for specific issues is meant to be a workable alternative, whereby practitioners' viewpoints are a valued input to decisions.

If you have any questions in connection with this letter please contact me or Rob Elliott.

Yours sincerely,



Ralph Evans
Chief Executive Officer

C.C. Mr Chris Pearce, Parliamentary Secretary to the Treasurer
Mr Charles Macek, Chairman, Financial Reporting Council
Ms Elizabeth Alexander, Deputy Chair, Financial Reporting Council