

ITC - Interpretations sub 4

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From: Philip Hancock [mailto:phancock@biz.uwa.edu.au]

Sent: Monday, 16 January 2006 4:33 PM

To: AASB Mailbox

Subject: ITC Proposed Interpretations Model for Australian Accounting Standards

Dear David,

Thank you for the opportunity to comment on the Invitation to Comment ITC Proposed Interpretations Model for Australian Accounting Standards.

Before responding to the questions in the ITC, I want to make some general observations and comments about the timing of the ITC and the broader questions about accounting standard setting in Australia in the post 2005 environment.

I believe it is critical that any review of the UIG in the post 2005 environment and its roles and functions is done either at the same time as a review of the role of the AASB or subsequent to such a review. To disband the UIG before resolving the roles and functions of the AASB in the new environment would, in my opinion, be unfortunate. In the approximately 10 years of its operations, the UIG has produced 55 Abstracts/Interpretations at about 5.5 per year or about 1.4 every 2 meetings. While the IFRIC is not an urgent issues group, the productivity of the UIG far exceeds that of the IFRIC.

While the effectiveness of the UIG cannot be measured only on the number of outputs it nevertheless indicates the UIG has been both active and productive. Therefore, I would be hesitant about wholesale changes to a structure until there is a convincing case that the present structure is not working or is no longer appropriate. I don't believe either case has yet been established.

It would seem to me that a far more sensible approach would be to retain the current UIG structure and undertake a review of both the AASB and the UIG in the post 2005 environment. If there are insufficient issues for the UIG during the transition to IFRS period then reduce the frequency of the meetings of the UIG but retain the structure until the dust settles a little on the adoption of IFRSs.

Now that Europe and Australia are using IFRSs more issues about their application are arising and the way the IASB and IFRIC resolves how to deal with these issues will have an impact on reporting entities in Australia. The relationship between the IASB and the IFRIC and NSSs and NIGs is a critical issue. In a review of its own operations, the IFRIC indicated the importance of this relationship but failed to outline a formal process where such a relationship can operate and flourish. In my opinion it would be premature to disband the UIG until the roles and relationships of NSSs and NIGs with the IASB and IFRIC are resolved.

I believe it is too early in the evolution of standard setting and interpretations of standards under an IFRS regime to make any dramatic changes to the structure in Australia. The previous technical director of the IASB acknowledged that it might be some time before the impact on the operations of the IFRIC post adoption

of IFRS in Europe and Australia can be determined with any confidence. I would urge a cautionary approach to any change in the structure and operations of the UIG at this early stage in the adoption of IFRS in Australia, Europe and elsewhere.

SPECIFIC ITC QUESTIONS

I have stated above that I am unable to support proceeding with the proposal prior to the AASB undertaking its own review of activities. However, I provide the following comments to the specific matters identified in the ITC on the basis of the AASB deciding to take on an expanded role prior to undertaking its own review of activities.

a. Is the proposal to establish advisory panels on issues a more flexible and adaptive approach than having a formally established body;

The UIG has dealt with issues like Tax Consolidations by establishing a sub-committee from within its own membership and that sub-committee has drawn on other expertise as it developed proposed abstracts/interpretations. The work of the sub-committee has then been supplemented by the views of the wider membership of the UIG. This process has been effective. However, in my time serving on the UIG, I observed a number of occasions when members from the private sector/accounting firms were able to provide very useful input to issues arising in the not-for-profit and public sectors (NFP) and the reverse was also true. The suggested approach of using specialist panels will potentially remove the richness of the current approach within the UIG as specialist panels dealing with a NFP issue will no longer have input from the wider membership of a UIG which includes members from the private sector. The AASB can potentially provide this richness, but its membership is not as broadly representative as the current UIG membership.

b. Is the proposed size and composition of advisory panels and appointment on the basis of professional competence and relevant experience preferable to appointment on the basis of representation?

I reiterate my concerns as expressed in response to the first question. A panel dealing with a NFP issue will not benefit from the expertise available in a broader audience as is currently the case with the UIG.

c. Will the formation of an Interpretations Agenda Committee, its role and the manner in which requests for guidance are dealt with facilitate more timely responses on issues?

As stated above, the performance of the UIG to date has been effective and I am not aware of its inability to issue a pronouncement in a timely manner. Therefore, I do not consider that the formation of an Interpretations Agenda Committee will facilitate more timely responses on issues.

d. Is the manner of the interaction with the IFRIC and the processes of the proposed Interpretations Model appropriate?

The existing process adopted by the UIG in its interaction with IFRIC seems to work reasonably well given the time delays imposed by the IFRIC due process. However, an important issue for the AASB is how much time to allow IFRIC to respond before deciding if it needs to take action.

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