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The Chairman 
Australian Accounting Standards Board
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Dear Professor Boymal

Invitation to Comment / ITC Proposed Interpretations Model for Australian Accounting Standards

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

Our comments have been prepared in consultation with members through our Centre of Excellence – Financial Reporting and Governance.

The Preface to the ED comments "the way in which the [Urgent Issues Group] UIG identifies and addresses issues, particularly as they relate to the interpretation of Australian equivalents to [International Financial Reporting] Standards IFRSs, may no longer be appropriate." Further, the Preface notes:

- the concern expressed by many of the constituents of the Australian Accounting Standards Board (AASB) re the process for providing guidance in the event that the International Financial Reporting Interpretations Committee (IFRIC) does not include an issue on its work program; and
- the acknowledgement by the International Accounting Standards Board (IASB) that, in some circumstances, it is appropriate for national bodies to develop interpretations of International Financial Reporting Standards (IFRSs).

CPA Australia acknowledges that since the publication of the UIG's "Charter" in June 2004, the financial reporting landscape in which the UIG operates has undergone change and is now effected to a greater extent by the IFRIC's public concerns about:

- the proliferation of possible sources of interpretations;
- the potential for incompatibility with the IASB's approach to IFRSs; and
- national standard setters (NSSs) and/or national interpretations groups (NIGs) addressing issues that at first appear to be domestic issues and then turn out to have wider ramifications when the underlying principles become clearer.

Our review of the relevant literature (including the ITC) has not uncovered any expressions of concerns raised by the AASB or other commentators as to any limitations of the current interpretative process. We can only conclude that the AASB has sought to expand its repertoire in the context of its ongoing roles as an adopter of IFRSs. The ITC does not address the questions of:

- "why the need for change?"; or
- "how the AASB's expanded role will effect the quality of its other roles (eg. its role around not-for-profit issues)?".

In principle we do not have a problem with the AASB expanding its ongoing roles. However, unlike other adopters of IFRSs any decision by the Board to expand roles must be particularly cognisant of both the current work program and future work programs of the AASB as they relate to the not-for-profit sector. We anticipate that GAAP/GFS harmonisation and the proposed withdrawal of AASs 27, 29 and 31 will demand both significant Board time and attention in the short to medium term.

Accordingly, we are unable to support proceeding with the proposal prior to the AASB's undertaking its own review of activities.

However, should the AASB decide to take on an expanded role prior to undertaking its own review of activities we have concerns about:

- The membership – advisory panels will be formed on the basis of professional competence and practical experience in the topic area and may include AASB members. The proposal is a stark contrast to the "broad church" that is the UIG members, a membership:
 - who are committed to continued membership; and
 - who are able to bring a range of useful insights to the table.

There is no view put in the ITC to indicate the level of take up of membership of advisory panels (or the means of engaging potential members). Accordingly, we consider it likely that there will be a high level of AASB membership on the advisory panels – and that may not always deliver the required skill set.


- The due process – the ITC does not articulate the due process to be followed by the advisory panels. We are concerned that any perceived lack of a transparent due process will demean the standing of the product. Currently, Issues Summaries placed on the web site are an important component of due process, as is informal consultation with others – which UIG members are encouraged to undertake. We consider that the due process can be improved by a greater use of the web site for communicating to constituents and reporting decisions of the Interpretations Agenda Committee.

- The Interpretations Agenda Committee – the ITC proposes that the Agenda Committee comprise the Chairman of the AASB and two other members of the AASB. Currently, the UIG Agenda Committee comprises two members of the AASB, including the UIG Chair (appointed by the AASB) and two members of the UIG (appointed by the UIG). Historically, the AASB has had difficulty in attracting representation from the private not-for-profit sector and user groups. Further, the AASB has not had representation from the professional bodies or small to medium sized accounting firms. Accordingly, it is likely that the agenda process will become captive of the big 4 accounting firms. Whilst we acknowledge the technical skill that members of the big 4 accounting firms bring to the table, we consider such an outcome sub-optimal.

Our detailed comments to the specific matters identified in the ITC are attached to this letter.

Should you have any queries on our comments, please contact Dr Mark Shying, CPA Australia's Financial Reporting and Governance Senior Policy Adviser at mark.shying@cpaaustralia.com.au.

Yours sincerely



Geoff Rankin FCPA
Chief Executive

cc: M Shying

CPA Australia comments on Invitation to Comment ITC Proposed Interpretations Model for Australian Accounting Standards

We have stated in the letter that we are unable to support proceeding with the proposal prior to the AASB undertaking its own review of activities. We provide our comments to the specific matters identified in the ITC in the context 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;

To date the UIG has dealt with specific 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 been supplemented by the views of the wider membership of the UIG. This process has been effective. While we expect that IFRIC will interpret IFRSs, we would support a continuation of the current sub-committee approach for highly-technical specific issues that:

- are not-for-profit issues; or
- the IFRIC has not added to the agenda, yet in Australia their remains a concern about diversity in practice. For example:
 - the IFRIC Agenda Committee can decide that an Interpretation will not be issued when the IASB is going to change a Standard in the near future, notwithstanding the current diversity in practice; or
 - the IFRIC Agenda Committee might decide not to progress an issue after concluding that the evidence of diversity of practice within a jurisdiction (e.g., Australia) is not replicated across jurisdictions; or
- the IFRIC has removed from the agenda when it is has decided that an Interpretation will not be issued and the provided reasons for rejecting the issue are not adequate.

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?

We are concerned that panels might be selected to get the "right answer". A balance in the number appointed as representatives and the number appointed based on expertise is one way to mitigate our concern.

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?

We are not aware of any situations where the current system has not delivered timely responses on issues. Accordingly, we 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 well apart from the time involved but this is due to the IFRIC due process. Accordingly, we support the retention of that process.