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18 January 2006

Dear David

Invitation to Comment: Proposed Interpretations Model for Australian Accounting Standards

We are pleased to submit our comments in response to the Invitation to Comment on the Proposed Interpretations Model for Australian Accounting Standards (ITC).

We support the AASB's review of the role of the Urgent Issues Group (UIG) in the changed financial reporting environment and the proposal to move away from our existing two-tiered accounting standards setting and interpretations model. However, we believe the AASB's role and focus in assuming direct responsibility for the interpretation of Australian accounting standards must be, and perceived to be, working with and providing support to the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC), rather than developing Australian interpretations and guidance. In our view, this is essential to the successful implementation of International Financial Reporting Standards (IFRS) and Australia's equivalent standards (AIFRS).

The benefits of a global reporting framework of international accounting standards will only be achieved if the versions of the standards adopted in various countries are the same and consistently applied in practice across jurisdictions. If interpretations vary from country to country we will not achieve a global reporting framework, but rather another version of local reporting. This means the responsibility for interpreting IFRS must rest with the IASB and IFRIC.

The AASB can make a real contribution to the interpretation of IFRS by aligning its strategic objectives with those of the IASB and positioning itself to take an influential role in the IASB's interpretation process. We think this will be best achieved by working with the IASB and IFRIC to identify issues that may require interpretation and assisting with the development of IFRIC interpretations.

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Our comments on the specific questions the Board has raised in the ITC are set out below.

Comments on specific questions

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

Yes. Our view is that the creation of advisory panels will give the AASB access to a wider range of expertise than the current UIG structure allows. The AASB needs people with the appropriate subject matter or industry expertise and knowledge to:

- advise it on specific issues;
- assist the AASB develop its views and submissions on IFRIC draft interpretations;
- work on projects in conjunction with IFRIC; and
- assist with the development of interpretations on the limited non-AIFRS issues that relate only to the public sector and not-for-profit entities, as well as in the rare situations where interpretation is required on the application of AIFRS to scenarios unique to Australia (eg legislative or procedural changes arising from the findings of a Royal Commission that are unique to Australia – refer to our response to question (d)).

The formation of advisory panels will enable the AASB to take advantage of the wide IFRS implementation experience that professional accounting firms and the corporate community have to offer.

(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 agree in principle that the appointment of panel members on the basis of professional competence and relevant experience is preferable to appointment on the basis of representation. However, we are concerned that the wider business community will not accept the Board assuming the UIG's current interpretations role if it perceives the role is subjugated to a panel of technical experts, chaired by a member of the AASB. To overcome this perception, we believe panels should include at least two members selected from preparer groups (or one in the case of small panels) and consideration should be given to appointing an independent chair on panels dealing with issues that may be subject to diverse views. The

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transition to the new interpretations model may also be assisted by the appointment of some of the existing UIG members with the relevant topic or industry experience to the initial advisory panels. This would give the AASB the opportunity to draw on experiences from existing members who had their UIG appointment approved by the Financial Reporting Council (FRC).

Ultimately the effectiveness of the advisory panel role will be dependent on convening panels with members from a cross section of the community who have the appropriate technical competence and practical business or industry experience to deal with issues, and the AASB and its Interpretations Agenda Committee establishing effective working relationships with the panels. The Board must implement good governance procedures to ensure it is able to convene panels and appoint panel members on a timely basis. It must also be accountable for the panels convened and its selection processes - this could be achieved by having the process subject to the oversight of the FRC.

(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?

Timely responses on issues

We do not believe it is appropriate for the AASB to give Australian stakeholders the perception that a local Interpretations Agenda Committee may be able to facilitate more timely responses to their issues, if they are not adequately dealt with by IFRIC.

We are aware that the IASB and IFRIC have been criticised for being too slow to respond to requests to clarify standards and issue interpretations. We support the efforts being made by these bodies to streamline their processes. In the meantime, as a global firm we are doing all we can to share our knowledge and implementation experience to assist in establishing answers to frequently asked questions and minimise the potential for divergent practice to emerge. Importantly, we do not see the response time issue as justifying any AASB attempt to "fast track" solutions by setting up a local Interpretations Agenda Committee to filter issues that are referred to IFRIC or to recommend the development of local interpretative guidance when IFRIC is not able to deal with a matter in a timely manner. Such an approach would inevitably lead to the development of "local" rather than "global" rules and undermine the objectives of IFRS – to improve quality, transparency and comparability of financial reporting globally.

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The role and focus of a local Interpretations Agenda Committee should be directed towards identifying local implementation issues that may require interpretation by IFRIC, liaison with the constituents that raise issues, and advisory panels, where appropriate, to ensure the issues are properly analysed, researched and clearly documented before they are referred to IFRIC. This work will also position the AASB to participate in the development of the international interpretation, rather than just reviewing and commenting on draft IFRIC interpretations. We would also like to see greater engagement of the various groups within the financial reporting community in activities and discussions sponsored by the AASB or FRC, as this will help the AASB identify issues on a more timely basis for consideration by the Interpretations Agenda Committee and referral to IFRIC.

In our view, these initiatives will help Australia achieve an influential role in the interpretation and application of IFRS and AIFRS. It will also help alleviate the strain on IFRIC's own resources by reducing the time required by the IFRIC agenda committee and staff to understand issues referred to them from Australia and determine whether interpretations are required. We can also provide assistance in developing draft IFRIC interpretations.

Transparency of disposition of issues

The activities of an Interpretations Agenda Committee must be open and transparent. We believe the Interpretations Agenda Committee should refer all issues on the interpretation of IFRS/AIFRS to IFRIC when they are raised by constituents (unless the constituent agrees to withdraw the issue after further research is done based on their discussions with members of the Agenda Committee and advisory panel, when appropriate).

We do not support the AASB making its own decisions on the disposition of issue proposals relating to the interpretation of IFRS or AIFRS and publishing the reasons for its decisions without referral to IFRIC. There is a risk that these decisions will become "quasi GAAP" that may conflict with existing or future IASB and IFRIC views and interpretations.

We also believe it is not appropriate for the Interpretations Agenda Committee to recommend that the AASB deal with an issue or for the AASB to independently decide to deal with an issue in circumstances, albeit unusual, where:

- IFRIC has decided not to take it onto its work program and has not provided guidance in its published reasons for rejection of the issue; or
- IFRIC is not able to deal with a matter in a timely manner (page 7, paragraph (b)(ii)).

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(d) Is the manner of interaction with the IFRIC and its processes appropriate?

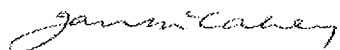
As stated in our introductory comments and response to question (c), we believe the AASB's role and focus in assuming direct responsibility for the interpretation of AIFRS must be working with and providing support to the IFRIC, rather than developing Australian interpretations and guidance on AIFRS in special cases where the AASB deems it appropriate.

We acknowledge there may be limited situations where the Interpretations Agenda Committee is asked to make recommendations on issues that relate only to public sector and not-for-profit entities and Australian Accounting Standards that are not equivalents to IFRSs or on AIFRS issue proposals that are specific to the Australian environment (page 6, paragraphs (a) and (b)(i)).

Our concern is that in practice interpretations on issues that are supposedly unique to Australia or only relate to public sector or not-for-profit entities will commonly have wider application. In today's global environment, it will be comparatively rare that an issue raised in an individual country will have only domestic implications. In addition, public sector and not-for-profit entity issues will often be relevant to all Australian entities because many of their reporting rules are the same under AIFRS. This means very few interpretations of Australian accounting standards developed by the AASB will not be looked to for application by analogy to similar transactions or events or in other jurisdictions. As a result, any interpretation role relating to AIFRS or IFRS must be conducted in consultation with the IASB and IFRIC and the AASB should adopt due processes that mirror those of IFRIC, in the very rare circumstances where it is necessary for the AASB to issue an interpretation of AIFRS.

We would welcome the opportunity to discuss our views at your convenience. Please contact me on (03) 8603 3868 if you would like to discuss this further.

Yours sincerely



Jan McCahey
Partner
Assurance