



## Australian Government

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## Financial Reporting Council

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### ***Discussion Paper Review of the Constitution: Identifying Issues for Part 2 of the Review***

Dear Ms Oyre

The Financial Reporting Council is pleased to provide comments on issues raised by the discussion paper. You will have noted that the Australian Accounting Standards Board (AASB) has already provided detailed comments. We endorse their views and those of the Minister for Superannuation and Corporate Law, Senator Nick Sherry. In light of the detailed comments from the AASB, with which we concur, we do not intend to address individually each item for comment, but rather to emphasise four main areas:

- The role of the IASB in responding to the global financial crisis.
- Maintaining the independence of the IASB.
- Putting the funding of the IASB on a more organised and appropriate footing.
- The importance of a more inclusive framework, specifically the adoption of approaches appropriate for public sector and not-for-profit entities.

Obviously these issues are inextricably linked in any case. The FRC believes that the IASB has been responding to the global financial crisis, and is adapting standards as needs arise. Obviously there have been some less than optimal situations that have required urgent action, and it is important that the IASCF develop a suitable method for the IASB to respond to such situations without abrogating important due process considerations.

It is critical that the IASB be - and be seen to be - independent in its standards setting process; without political interference. This would be assisted by putting the IASB's finances on a more satisfactory footing with contributions levied from governments of jurisdictions that adopt or plan to adopt IFRSs according to some reasonable formula, such as GDP. While at the moment the IASB's work on a variety of issues has been somewhat overshadowed by the current global financial crisis, it is important that other work continue. Putting the IASB's finances on a firmer long term basis should allow the IASB to better respond to short-term and more medium term priorities simultaneously.

Notwithstanding the need to be seen to be independent, it is important that the IASB continue to cooperate with other appropriate institutions, such as the IMF, FSF and G-20 without prior limitations, and as needs require, as has been demonstrated during the current crisis. It is important that such cooperation continue, and indeed it is likely that ongoing dialogue with prudential regulators will prove desirable.

The FRC is of the disposition that financial reporting standards for not-for-profit entities and the public sector should be developed under the aegis of the IASCF, and that such a possibility should be encompassed in the IASCF's constitution. However the FRC acknowledges the need to balance the IASB's immediate priorities, most pressing the response to the global financial crisis, with the desirability of a broader future mandate. This process of inclusion could commence with discussions with the International Public Sector Accounting Standards Board (IPSASB), perhaps followed by the transfer of IPSASB to within the IASCF structure and in the longer-term see adoption of the principle of transaction neutrality in standard setting. The FRC considers the necessary constitutional changes should be made now to allow developments towards transaction neutrality to take place as they become appropriate over coming years. Including public sector and not-for-profit entities would be a benefit in the recognition of the adoption of IFRS by jurisdictions like Australia, where the exceptions to IFRS standards are those applying specifically to these sectors.

The FRC would like to acknowledge the IASCF's significant work in the area of accounting standards setting since its establishment and the FRC looks forward to working with the IASCF on these issues in the future.

Yours sincerely,



Suzanne Howarth  
FRC Secretary

cc Sir David Tweedie, IASB