



Accounting Standards Review Board
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Ms Tamara Oyre
Assistant Corporate Secretary
IASB Foundation
First Floor, 30 Cannon Street
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Sent via email: constitutionreview@iasb.org

Dear Ms Oyre

Review of the Constitution – Identifying Issues for Part 2 of the Review

The Accounting Standards Review Board (ASRB) is pleased to submit its comments on Part 2 of the Review of the Constitution. Responses to the specific questions for consideration on which the ASRB wishes to comment are set out in the attachment to this letter.

If you have any queries or require clarification of any matters in this submission, please contact me.

Yours sincerely

Kevin Simpkins
Chairman
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Appendix

Accounting Standards Review Board comments on Review of the Constitution – Identifying Issues for Part 2 of the Review

Questions for consideration

1. *The Constitution defines the organisation's primary objective in the following manner:*

to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions

In fulfilling that objective, the organisation is

to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies

Does the emphasis on helping 'participants in the world's capital markets and other users make economic decisions', with consideration of 'the special needs of small and medium-sized entities and emerging economies', remain appropriate?
 3. *The Constitution and the IASB's Framework place priority on developing financial reporting standards for listed companies. During the previous review of the Constitution some commentators recommended that the IASB should develop financial reporting standards for not-for-profit entities and the public sector. The Trustees and the IASB have limited their focus primarily to financial reporting by private sector companies, partly because of the need to set clear priorities in the early years of the organisation. The Trustees would appreciate views on this point and indeed whether the IASB should extend its remit beyond the current focus of the organisation.*
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1. For approximately 17 years, New Zealand has followed the policy of a single set of standards applying to all entities which are subject to financial reporting requirements. Since 2005, those standards have comprised New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). Compliance with NZ IFRS ensures that profit oriented entities are able to assert full compliance with IFRS. The same body of NZ IFRS standards also deals with the needs of public sector and other not-for-profit entities.
 2. The ASRB is strongly of the view that reporting requirements for public and private sector entities should only differ where there is a sound basis for that difference. Furthermore, the ASRB considers that the capital markets (which encompass significant government activity) are benefited by the existence of reporting requirements which are understood by all parties.

3. The ASRB understands from public comments made by representatives of both the IASB and the International Public Sector Accounting Standards Board (IPSASB) that the two boards are working increasingly closely together. We encourage and applaud that.
4. We are mindful of the difficult challenges facing the IASB in the light of the global financial crisis. However we consider it timely for the trustees to consider amending the Constitution to at least permit evolutionary developments to occur in the structure of international standard setting for different sectors. For example the Constitution should in our view allow for the IPSASB to become a separate board operating within the IASCF structure at some appropriate future time. The ASRB notes that a change of this nature would have consequential impacts. For example, this would have implications for the mix of trustees. As the Constitution is only reviewed every 5 years, we urge the trustees to consider a modification at this time to facilitate the sorts of developments which may become appropriate in coming years, including but not limited to that which we have referred to above.

Question for Consideration

4. *There are other organisations that establish standards that are either based upon or have a close relationship with IFRSs. The IASC Foundation already recognises the need to have close collaboration with accounting standard-setting bodies. Should the Constitution be amended to allow for the possibility of closer collaboration with a wider range of organisations, whose objectives are compatible with the IASC Foundation's objectives? If so, should there be any defined limitations?*

5. The ASRB expects that the IASB will always need to have close collaboration with a wide range of organisations concerned with financial reporting. Similarly the IASC Foundation will, at a different level, have close relationships with a range of organisations. The ASRB does not see the need for the Constitution to be amended to allow for collaboration. On the contrary, we consider such specification may well be limiting to the IASC Foundation and the IASB in developing appropriate relationships in an uncertain future.
6. However, consistent with our comments on questions 1 and 3 above, the ASRB considers it would be appropriate to recognise the relationship between the IASB and the IPSASB in the Constitution given that the IPSASB is an international accounting standard setter for a constituency that is not served by the IASB.
7. In summary therefore, the ASRB would support the Constitution being amended to recognise the IPSASB as the international accounting standard setter for the public sector, but does not consider any further amendment to the Constitution is necessary to allow for the possibility of collaboration with other organisations.

Question for Consideration

6. *The Trustees are appointed according to a largely fixed geographical distribution. Is such a fixed distribution appropriate, or does the current distribution need review?*
8. The ASRB considers it is appropriate for the Constitution to specify the geographical distribution of the trustees. This is important to maintain confidence in the trustees and enhance the credibility of the IASC Foundation and the IASB.
9. We note that the geographic distribution for the trustees differs from that which has recently been adopted for the members of the IASB and recommend that the trustees consider whether or not the distribution for the trustees should be aligned with that for members of the IASB.

Question for Consideration

9. *Commentators have raised issues related to the IASB's agenda-setting process. The Constitution gives the IASB 'full discretion in developing and pursuing its technical agenda'. The Trustees have regularly reaffirmed that position as an essential element of preserving the independence of the standard-setting process. However, they would welcome views on the IASB's agenda-setting process and would appreciate it if, in setting out views, respondents would discuss any potential impact on the IASB's independence.*
10. The ASRB is strongly supportive of the independence of the IASB in all facets of the standard setting process, including agenda-setting. We would not support any change to the Constitution which will weaken that independence, whether by reserving greater powers to the trustees or in any other way.

Questions for Consideration

10. *The Constitution describes the principles and elements of required due process for the IASB. The IASB's procedures are set out in more detail in the IASB Due Process Handbook. If respondents do not believe the procedures laid out in the Constitution are sufficient, what should be added? If respondents believe that the procedures require too much time, what part of the existing procedures should be shortened or eliminated? The Trustees would also welcome comments on recent enhancements in the IASB's due process (such as post-implementation reviews, feedback statements, and effect analyses) and on the IASB Due Process Handbook.*
11. *Should a separate 'fast track' procedure be created for changes in IFRSs in cases of great urgency? What elements should be part of a 'fast track' procedure?*

11. The ASRB considers that the IASB Due Process Handbook (the Handbook) sets out appropriate procedures to be followed by the IASB. Furthermore, we consider the Handbook addresses almost all the circumstances that will arise over time.
12. The ASRB has been concerned by recent events, in particular the issuing of amendments to standards without due process and the extremely short time period allowed for comment on other proposed amendments. We are a jurisdiction which could be described as a “statutory adopter” of IFRS. By that we mean that the adoption of IFRS for profit oriented entities in New Zealand follows a consultation process required by legislation and is done in accordance with statutory procedures.
13. As a statutory adopter, we have serious concerns about the possibility of any amendment to a standard or a new standard being introduced which has retrospective effect. Should this occur, it is highly likely that our statutory processes would result in New Zealand entities ceasing to be able to assert compliance with IFRS. Furthermore, we see little possibility that the New Zealand Parliament would permit the ASRB to approve standards that have retrospective effect. That is currently precluded by the Financial Reporting Act 1993 and discussions we have had with officials suggest it would be unlikely that this requirement would be relaxed under any circumstances. In any event, the ASRB itself does not support retrospective application of standards. We urge the trustees to entrench, in some appropriate way, a prohibition on retrospectivity. However we support early adoption of IFRS being permitted in all circumstances where the IASB considers that appropriate. Early adoption permits entities to gain any perceived benefits of any amended requirements while not offending against well established regulatory principles.
14. The ASRB notes that the Handbook permits a reduced comment period of 30 days in respect of an exceptionally urgent matter. A 30 day comment period is demanding for the IASB and perhaps even more so for national standard setting bodies. We consider it is a minimum period and no lesser period should be permitted.
15. The only circumstance in which the ASRB would support a separate “fast-track” due process is in the case of the withdrawal of a requirement or the deferral of an application date. This may be necessary where issues were not identified during the due process and emerge later and without such fast-track action there may be significant negative effects on entities arising from the unforeseen issue. In these circumstances the IASB should be permitted to fast-track such withdrawal or deferral.
16. In summary, the ASRB urges the trustees to entrench in the Constitution (or elsewhere as the trustees consider appropriate):
 - A prohibition on retrospective requirements in IFRS; and
 - A requirement for a minimum of 30 days consultation on all matters, except the withdrawal or deferral of standards or amendments to standards.