



31 July 2005

Warren McGregor
International Accounting Standards Board
30 Cannon Street
LONDON
EC4M 6XH
United Kingdom

Dear Warren

Draft Memorandum of Understanding on the role of Accounting Standard-Setters and their relationships with the IASB

The Financial Reporting Standards Board (FRSB) of the Institute of Chartered Accountants of New Zealand (the Institute) and the Accounting Standards Review Board (ASRB) are pleased to submit comments on the *Draft Memorandum of Understanding on the role of Accounting Standard-Setters and their relationships with the IASB* (MoU).

Overall we agree with the principles outlined in the draft Memorandum of Understanding. We note, however, that the implementation of these principles will have a significant impact on the relationship between accounting standard setters and the International Accounting Standard Board. Our submission therefore focuses both on the principles proposed and on issues related to the implementation of these proposals.

We have a number of general issues we wish to raise with you.

Objectives of the IASB and other standard-setters

Firstly, we note the draft MoU makes some assumptions about the ultimate objectives of the IASB and other accounting standard setters (paragraph 1.3). We note that these objectives are drawn from the IASCF Constitution and relate to accounting standards developed for profit-orientated entities. In general, we agree with these objectives in relation to the IASB. However, these objectives may not apply or may not be complete in jurisdictions where accounting standards setters develop standards to apply to a broader range of entities than profit-oriented entities, such as non-commercial public sector entities and not-for-profit sector entities, or where financial information is provided for purposes other than making economic decisions regarding participation in the world's capital markets.

This has implications for certain of the proposals in the draft MoU. We suggest that the MoU be revised to more accurately reflect the mandate of the IASB (ie that it sets standards for profit-oriented entities), and to acknowledge that other standard-setters may have a wider mandate.

Relationships between standard setters

Secondly, we believe that the relationship between the IASB and accounting standard setters should be in the nature of a partnership. That is, we all have common objectives to which we all contribute. As currently drafted most of the responsibilities seem to fall on the IASB.

We suggest that each topic raised in the MoU reflect that both the IASB and accounting standard setters have responsibilities in each area. We also believe that accounting standard setters have responsibilities among themselves, particularly in relation to the relevance in other jurisdictions of issues to be raised with the IFRIC.

Title of document

To cater for all of these relationships we suggest that the title of the MoU be amended to better reflect the aim of the MoU. For example:

Memorandum of Understanding: Accounting Standard-Setters and their relationships with the IASB and other Accounting Standard-Setters

Overlapping of consultative documents

Finally we note that the draft MoU overlaps to a certain extent with other IASCF consultative documents:

- Due Process of IASB, Draft Handbook of Consultative Arrangements; and
- IFRIC - Review of Operations.

We suggest final documents arising from all three IASCF consultative documents be reviewed to ensure they are consistent.

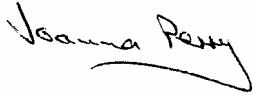
Status of the MoU

There is no statement regarding the status of the MoU, in particular, whether it will be formalised by signatories and, if so, who the signatories would be. Is it proposed that the MoU be signed by standard setters who agree to the principles? Or is it to be signed by standard setters in countries which have adopted IFRSs? We suggest that some clarification be included in the MoU regarding its status and how the status is to be formalised.

We also suggest that the MoU include a review date, for example, three years, when the document will be reviewed. This will recognise the dynamic nature of standard setting and ensure that the document does not become outdated as a result of changes to the standard setting environment.

Our specific comments are set out below. If you have any queries, or require clarification of any matters in the submission, please contact Joanna Perry (jmperry@kpmg.co.nz), Warwick Hunt (warwick.hunt@nz.pwc.com) or Simon Lee (simon.lee@icanz.co.nz).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Joanna Perry'.

Joanna Perry
Chairman
Financial Reporting Standards Board

A handwritten signature in black ink, appearing to read 'Warwick Hunt'.

Warwick Hunt
Chairman
Accounting Standards Review Board

**FRSB and ASRB Comments on:
Draft Memorandum of Understanding on the role of Accounting Standard-Setters
and their relationships with the IASB**

Working with regulators

- 2.3 Accounting standard-setters, not the IASB, should take the prime responsibility for identifying and dealing with domestic regulatory barriers to adopting or converging with IFRSs.**
- 2.4 Accounting standard-setters, not the IASB, should encourage national and regional regulators to participate in international convergence efforts in their own regulatory fields where this would help to facilitate financial reporting convergence.**

We agree with the objectives in paragraphs 2.3 and 2.4 of the draft MoU.

We agree that it is appropriate for accounting standard setters to encourage national and regional regulators to participate in international convergence efforts. We also note that there are a number of international regulatory bodies that have influence over national and regional regulatory bodies. As part of the partnership approach to international convergence efforts we suggest that the IASB should encourage international organisations of regulators (for example, IOSCO) to participate in international convergence efforts.

Communication

- 3.15 The IASB should ensure that it makes relevant information available on a timely basis so that other standard-setters can be fully informed of the IASB's activities and plans.**

We support the objective outlined in paragraph 3.15.

In implementing this objective we recommend that the IASB:

- ensure that the IASB website is easy to navigate and that users are able to locate the information they require.
- implement an email notification service to advise constituents when new material becomes available. This should cover both the public site and the subscriber's site.
- make the IASB work plan available on the website and ensure that it is frequently updated.
- ensure that information on the IASB website is updated frequently. In particular that the project updates are kept up to date.
- recognise that constituents are not a homogenous group and that different constituents have different information needs. For example, much of the material included on the website assumes that users are aware of project histories or previous decisions and events. This is acceptable for those involved in standard setting on a regular basis. However, there are many other constituents that refer to the IASB website or other IASB material less frequently. The communication strategy of the IASB needs to recognise this and ensure that other information is available to assist these constituents understand the history or development of a particular standard or a particular decision.

3.16 The IASB should maintain an up-to-date database of technical issues reported by accounting standard-setters and others that is accessible to the standard-setters. National and regional standard-setters should consult one another on issues of common interest and formulate joint proposals for consideration by the IASB or the IFRIC. (See also section 7 on Interpretations.)

Technical Issues Database

We support the objective of maintaining an accessible database of issues reported by accounting standard-setters. We suggest that the MoU be amended so that national and regional accounting standard setters have responsibility to contribute to the technical issues database.

The maintenance of a database may also encourage co-operation between national standard setters that have traditionally not worked together.

In implementing a technical issues database we suggest that this would be enhanced if accounting standard setters were required to submit issues in a consistent format such as that used in IFRIC Issues Summaries. An Issues Summary includes:

- (a) a brief description of the transaction or event to be discussed.
- (b) the specific issues or questions to be considered by the IFRIC (or the IASB).
- (c) the key concepts from the Framework that apply.
- (d) a description of potential appropriate alternative treatments based on those concepts, with the arguments in favour and against each alternative.
- (e) a list of the authoritative IASB accounting literature on the issue as well as pronouncements and views of liaison national standard-setters, identifying any inconsistency between the alternative treatments, the key concepts, or the standards.
- (f) recommendations on the appropriate accounting treatment.

A standard format in presenting issues to the IASB would also help ensure that issues are appropriate and would make it easier to use such a database. Such requirements would also serve as a self regulating mechanism on the quality of presentation of issues.

Communication between accounting standard-setters

We support the idea that accounting standard setters should communicate with one another, particularly on matters on common interest as set out in paragraphs 3.7 and 3.8 of the draft MoU.

The use of cross-memberships and observer status are means by which accounting standard setters could encourage closer relations with each other. The FRSB has always had a relatively close relationship with the Australian Accounting Standards Board (AASB). These links have recently been formalised with the Chair of each Board being appointed a member of the other Board. This has strengthened the relationship between the Boards.

3.17 The IASB should provide sufficient time in relation to consultative documents to allow other standard-setters to prepare any additional relevant material required to place the IASB documents in the national or regional context (including translation from English), expose the IASB documents in their jurisdictions, receive comment from their constituents and formulate their own views with the benefit of constituents' input.

We agree that the IASB should provide sufficient time in relation to consultative documents to allow other standard setters time to ensure a full due process is carried out in their jurisdictions.

In implementing this objective it is important that adequate time is provided to accounting standard setters at the commencement of the process to allow them to consider the issues and the impact of proposals on reporting entities in their jurisdictions. It is also important that adequate time is provided at the end of the process to allow accounting standard setters time to consider responses from their constituents and to develop a response to the IASB.

An alternative to extending timeframes for the IASB's due process, and our preference, would be to allow accounting standard setters access to IASB papers. This way accounting standard setters could track issues and consider the impact on entities in their jurisdictions as a project is progressed.

We note that observer notes are available to standard setters. However, these often omit vital parts of the debate, which are critical to understanding the conclusion reached.

We also acknowledge that the IASB may have concerns that making papers available to standard setters runs the risk that they will get into the public arena and that this may inhibit staff from expressing their honest views and expose them to unfair criticism from external parties.

A possible solution may be to consider developing a code of conduct as part of the MoU. The code of conduct should be based on mutual respect, require that standard setters keep IASB papers confidential, and establish clear protocols for communicating with IASB staff.

3.18 The IASB should encourage critical analysis of its proposals, and provide an open, transparent and credible process for arriving at its conclusions.
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We agree that the IASB should encourage critical analysis of its proposals and an open and transparent process for arriving at its conclusions.

3.19 Accounting standard-setters should encourage their constituents to communicate their technical views direct to the IASB, as well as to the national or regional standard-setter.
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We agree that accounting standard setters should encourage their constituents to communicate their technical views direct to the IASB as well as to the national or regional standard setters.

3.20 Accounting standard-setters should be a key channel for information flowing to the IASB from government agencies, politicians and others who are engaged in non-technical debate.

We agree that accounting standard setters should be a key channel for information flowing to the IASB from government agencies, politicians and others engaged in non-technical debate.

However, it is inevitable that in some cases regulators, government agencies and others will approach the IASB directly on certain issues. We suggest that in such situations it would be appropriate for the IASB to advise the relevant standard setter of such direct communication.

Similarly, if an accounting standard setter were to directly approach an international organisation regarding a financial reporting matter, the accounting standard setter should advise the IASB.

3.21 Accounting standard-setters should use relevant forums such as round-tables on specific issues as a mechanism for encouraging their constituents to participate in the IASB's standard-setting process, particularly those constituents who might not otherwise make their views known. Where practicable, the IASB should make Board members and staff available to facilitate these forums.

We support the use of forums such as round tables to encourage constituents to participate in the IASB's standard setting process.

It is important that the international process is, and is perceived as, being accessible to constituent groups within New Zealand.

3.22 Accounting standard-setters should make the IASB aware of any technical differences of opinion they have with a project as early as possible in the life of a project.

We agree with the proposal in paragraph 3.22.

As noted above, in implementing this proposal it would be helpful if accounting standard setters had access to IASB papers to aid understanding and assist to identify and consider technical differences of opinion at an early stage of a project.

Project role

4.7 The IASB should, subject to the work being available, provide opportunities to other accounting standard-setters to be involved with IASB projects as follows:

- (a) involvement in a 'research project' alone or, in partnership with a team of other national or regional standard-setters (either as a leader of the team or as a team member), under the guidance of IASB staff and selected Board members.**
- (b) involvement in a 'project team' of national or regional standard-setters on an active project under the direction of IASB staff and/or FASB staff.**

4.8 Accounting standard-setters should, subject to resources being available, undertake research work with the IASB and be involved in project teams. Once a standard-setter is committed to a project, it should remain in a position to make an effective contribution to the project.

4.9 Accounting standard-setters should promote the role of a working group member in their jurisdictions and encourage suitable individuals to nominate themselves.

We agree with the principle that the IASB should provide opportunities to other accounting standard setters to be involved with IASB projects as set out in paragraphs 4.7 to 4.9 of the draft MoU.

We regard the project role as an important way that accounting standard setters can actively contribute to the work of the IASB. Given the resource implications of making a commitment to such projects, accounting standard setters will need to carefully consider

the extent of involvement in projects and the benefits of involvement for their jurisdictions.

We acknowledge the desire of the IASB to develop formal protocols for the operation of project teams. However, we would like to reiterate the benefits of involving a range of individuals in formal and informal peer review processes. Such processes are relatively inexpensive to institute but can generate useful feedback and serve as another mechanism for involving jurisdictions other than those on the official project teams. This can lead to higher interest and more informed debate of issues within those jurisdictions. We encourage the IASB to continue to use a range of processes to obtain input from a variety of jurisdictions. We consider that such mechanisms could support the official project roles as outlined in the draft MoU.

Comment role on IASB consultative documents

5.4 Accounting standard-setters should provide timely comments to the IASB on consultative documents, particularly on those projects that are of particular importance to their constituents, or on which the standard-setter considers it can best contribute.
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We agree that accounting standard setters should provide timely comments to the IASB on consultative documents issued by the IASB.

We are committed to providing comments to the IASB on consultative documents and accord a high priority to this role. We note that many national accounting standard setters comprise volunteer or part time board members and have limited staff and other resources. Not every accounting standards setter will have the resources to comment on every consultative document issued by the IASB.

Application of standards

6.6 The IASB should provide a reasonable lead time to allow other standard-setters to process the IFRSs for application in their local regulatory framework so that they have every opportunity to establish and maintain a set of standards that enable their constituents to continue to make an unreserved statement of compliance with IFRSs.
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6.7 In adopting the IFRSs to apply in their own jurisdiction, standard-setters should avoid amending the IFRSs in a manner that creates a non-compliance with the IFRSs.

We agree that the IASB should provide a reasonable lead time to allow other standard setters to process the IFRSs for application in their jurisdictions.

We also agree that in adopting IFRS to apply in their own jurisdictions, standard setters should avoid amending the IFRSs in a manner that creates a non-compliance with the IFRSs, but only for those entities for which the IASB develops standards.

New Zealand equivalents to IFRSs (NZ IFRSs) are to be applied by all entities, including not-for-profit and non-commercial public sector entities (referred to collectively as public benefit entities). Compliance with NZ IFRSs will ensure that profit-oriented entities are able to make an unreserved statement of compliance with IFRSs. However, in some instances, the additional requirements, guidance and/or reporting concessions will mean that not-for-profit and non-commercial public sector entities are unable to make an unreserved statement of compliance with IFRSs.

We suggest that it would be appropriate to acknowledge in the MoU that:

- IFRS are developed for application by profit-oriented entities;
- in some jurisdictions IFRSs are used as a basis for financial reporting standards for all entities, including not-for-profit entities and non-commercial public sector entities;
- because IFRSs have not been developed with not-for-profit and non-commercial public sector entities in mind, accounting standard setters in these jurisdictions may develop additional material or guidance to assist such entities and ensure that they are appropriate and can be applied by not-for-profit and non-commercial public sector entities; and
- this may, therefore, affect the ability of not-for-profit and non-commercial public sector entities to assert compliance with IFRSs.

We also suggest that the MoU encourage national accounting standard setters to clearly indicate where any amendments to their standards may lead to an entity being unable to assert compliance with IFRSs.

Interpretation

7.6	Accounting standard-setters should monitor the implementation of IFRSs in their jurisdictions, identify issues that might require interpretation, and request the IFRIC or the IASB to address the issue.
7.7	If an issue in a particular jurisdiction does not have broad relevance and the IFRIC or the IASB decides not to deal with it, the standard-setter concerned should issue its own interpretation only when it is compatible with IFRSs.
7.8	If the IFRIC and the IASB decide not to address an issue, they should provide an explanation. Other standard-setters should consider this to be a resolution of the issue.

We agree that accounting standard setters should monitor implementation of IFRSs in their jurisdictions, identify issues that might require interpretation, and where appropriate request the IFRIC or the IASB to address the issue. We do not believe that accounting standard setters should request the IFRIC and the IASB to consider every issue that might require interpretation.

We suggest that an accounting standard setter that identifies a potential issue should be required to communicate with other accounting standard setters to determine whether the issue has broad relevance and to develop possible solutions before referring the issue to the IFRIC or the IASB. The maintenance of a central database by the IASB (Section 3, paragraph 3.7) will act as a central repository for issues identified and will facilitate communication amongst accounting standard setters to determine whether an issue has broad relevance.

We agree that if an issue does not have broad relevance and IFRIC decide not to address the issue, then the accounting standard setters concerned should consider developing its own interpretation, but only when it is compatible with IFRSs.

Although we agree in general with the proposal in paragraph 7.8 that the IFRIC or IASB decisions not to address an issue should be considered to be resolution of the issue, there may occasionally be instances where the IFRIC or IASB has not considered a valid alternative argument. We encourage the IASB to contemplate and allow some flexibility where this occurs.

Additional comments on Interpretations are included in our submission to Thomas Seidenstein, Director of Operations, IASC Foundation, on the Consultation Paper IFRIC - Review of Operations.

Education

- 8.4 The IASCF should be sensitive to the IFRS education needs of the various jurisdictions.**
- 8.5 Accounting standard-setters should make the IASCF aware of their particular educational needs and the types of programmes that are likely to be most useful and successful in their jurisdictions.**
- 8.6 Standard-setters should provide the IASCF with material that they consider may be helpful in creating educational materials.**

We agree that educational material is important. However, we believe that educational issues should be considered in a separate process, and that they should not be included in the MoU. This is because the MoU deals with the relationships between accounting standard-setters and the IASB, while education is the responsibility of the IASCF.