

28 July 2005

Mr Warren McGregor  
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**CL 58**

Our reference: RME/CM  
By mail and  
by email:commentletters@iasb.org

Dear *Warren*

**Draft Memorandum of Understanding on the role of  
Accounting Standard - Setters and their relationship  
with the International Accounting Standards Board  
(IASB)**

I am writing to you to outline the Australian Institute of Company Directors (AICD) views on the draft Memorandum of Understanding (MOU).

The AICD is the peak organisation representing the interests of company directors in Australia. Current membership is over 20,000 drawn from large and small organisations, across all industries, and from private, public and the not-for-profit sectors. The AICD has had a standing policy committee focusing on financial and other reporting issues for over twenty years.

The AICD Reporting Committee has reviewed the draft MOU. The AICD supports the idea of setting out the IASB's and national standard setters' roles and responsibilities for International Financial Reporting Standards (IFRS).

The AICD has five broad comments on the MOU:

- The MOU discusses the role and responsibilities of national accounting standard setters in detail but provides fewer details about the role and responsibilities of the IASB. Does the IASB intend to elaborate further on its role and responsibilities?
- Is the MOU intended to replace the existing agreement between the United States Financial Accounting Standards Board (FASB) and the IASB or is it intended that that agreement continues outside the framework contemplated by the MOU? Similarly, how will the IASB's special relationship with Japan impact on the MOU?

- Does the IASB intend that the MOU will be the only basis on which it will deal with national standard setters or does it intend that some national standard setters will enter into different arrangements with the IASB? The AICD believes that it would defeat the purpose of the MOU if there is a proliferation of agreements between the IASB and various national standard setters
- The Australian experience to date is that it is vital that there is a timely, robust and transparent process in place for issuing International Financial Reporting Interpretation Committee (IFRIC) interpretations. This need has been demonstrated by Australia's experience as one of the first markets to adopt IFRS
- While the AICD understands the IASB's desire to ensure that national standard setters are involved in the transition to IFRS, it is nonetheless vital that the IASB remains highly visible, involved and engaged in the international accounting standards setting process and in the transition process in the various jurisdictions.

The AICD has the following specific comments on the MOU:

### **Section 1 - Background**

The AICD supports the broad purpose of the MOU set out in this section.

### **Section 2 - Working with Regulators**

The issues outlined in this section are particularly relevant to Australia which is one of the few countries in the world where accounting standards have the force of law and is the only country in the world where IFRS currently applies to unlisted entities. For these reasons the AICD supports national standard setters being given prime responsibility for identifying and dealing with domestic regulatory barriers to adopting or converging with IFRS and for encouraging national regulators to participate in international convergence.

### **Section 3 – Communication**

The AICD supports the various proposals for communication between the IASB and national standards setters and their constituents. The proposed database referred to in Paragraph 3.7 of the MOU should be publicly available.

The AICD also supports the statements in Paragraph 3.9 and 3.15 about the importance of allowing sufficient time for consultation on IASB documents and the statement in Paragraph 3.19 about constituents being able to communicate their views direct to the IASB. It will be important for national standard setters to establish effective communication links with their constituents. In addition, allowing a period of at least six months between promulgation of a new or changed standard and its first application would assist users and preparers in the various countries adopting the standard.

#### **Section 4 - Project role**

The AICD supports the IASB proposal to use national standard setters to undertake projects on specific subjects. Further detail is needed about how this will work in practice, particularly in relation to project timetables and the nomination of individuals to IASB working groups. The AICD is also concerned to ensure that the IASB monitors the progress of projects outsourced to national standard setters to ensure that important projects progress in a timely fashion.

Will the current IASB/FASB Convergence Program operate under this model?

#### **Section 5 – Comment role on IASB documents**

The proposed responsibilities set out in this section are appropriate.

#### **Section 6 - Application of Standards**

The AICD supports the proposal that the IASB has responsibility for allowing sufficient lead time for national standard setters to process IFRS in their own jurisdiction.

Under Australian law directors have the responsibility for ensuring that financial statements are in accordance with accounting standards and give a true and fair view of the entity's financial position. For this reason it is important for directors that they are able to make a statement that an entity is IFRS compliant. The AICD believes it is important that, wherever possible, IFRS should be adopted in national jurisdictions without amendment of the substantive requirements. Permitting large scale modification of IFRS in national jurisdictions will ultimately detract from harmonisation.

#### **Section 7 - Interpretation**

The AICD acknowledges that in certain circumstances it may be appropriate for national interpretation bodies such as the Australian Urgent Issues Group to issue interpretations on certain country specific matters. In these cases, national standard setters and the IASB should liaise to ensure that the international body is aware of these country specific interpretations. It may also be appropriate for these types of interpretations to be reviewed by the IASB/IFRIC to provide assurance as to IFRS compliance.

Anecdotal evidence from AICD members indicates that the existing process for issuing interpretations has been slow and cumbersome. This may be partly due to issues arising during the transition to IFRS and may diminish once the stable platform is in place.

It is important that there is a clear and responsive process for issuing international interpretations. It is also important that IFRIC is the authoritative source of interpretations and that this role is not taken over by other bodies. Any process for issuing IFRIC interpretations should include a procedure for review of this process. The data

base of matters referred to IFRIC and interpretations issued by IFRIC should be publicly available and should include details of circumstances, including an explanation, where the IASB or IFRIC has decided not to issue an interpretation.

### **Section 8 - Education**

The AICD believes that the proposals under this heading need to be outlined in more detail before we can provide any helpful comments.

### **Other issues**

The AICD believes that the IASB should consider introducing a process of reviewing standards after they have been in place for a period of three or more years. This would mean that there is a mechanism for addressing problems or issues that arise sooner rather than later.

If you have any questions in connection with this letter please contact Rob Elliott or Catherine Maxwell.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R. Elliott', with a long horizontal flourish extending to the right.

Ralph Evans  
**Chief Executive Officer**

C.C. Professor David Boymal, Chairman, Australian Accounting Standards Board