



EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

14 December 2012

Mr Michel Prada
Chairman of Trustees
IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Electronic submission

Dear Mr Prada

Invitation to Comment: *Proposal to Establish an Accounting Standards Advisory Forum*

Introduction

The External Reporting Board (XRB) and its sub-Board, the New Zealand Accounting Standards Board (NZASB), welcome the opportunity to comment on the IFRS Foundation's Invitation to Comment (ITC) on its *Proposal to Establish an Accounting Standards Advisory Forum*.

New Zealand is a long-standing supporter of the work of the International Accounting Standards Board (IASB). While the New Zealand economy is small by world standards, New Zealand has always participated actively and constructively in the international accounting standard setting arena. New Zealand was one of the earliest adopters of International Financial Reporting Standards (IFRSs) and was one of the jurisdictions for whom one of the initial IASB members, Warren McGregor, had formal liaison responsibility.

The XRB and the NZASB support the Foundation's proposal to establish the Accounting Standards Advisory Forum (ASAF) as a means of enhancing the standard-setting process. Our hope is that this will lead to higher quality research and consultation documents and, ultimately, to higher quality global standards. Standard-setters have a significant amount of expertise and experience to contribute. Also, many standard-setters undertake similar activities as the IASB in their own jurisdictions and, therefore, are well placed to help the IASB in gathering and considering the various perspectives of constituents. Hence, establishing a forum to engage with standard-setters in an effective and efficient manner should greatly assist the IASB in its standard-setting process. We also agree that this should encourage a greater sense of partnership between the IASB and standard-setters. Furthermore, the greater involvement of standard-setters in the IASB's standard-setting process should help standard-setters when undertaking their own standard-setting activities, such as engaging with their own constituents about IASB proposals and undertaking their endorsement/adoption processes.

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However, we consider that there are several aspects of the proposals, as currently set out, that lack the necessary detail and clarity in certain significant areas. These matters make it difficult to form a judgement on the overall merits of the proposals. We believe that these matters need to be addressed for the successful establishment and operation of the ASAF, and to enable us to give our full support to the proposals. These matters fall broadly into the following areas which are explained in more detail below:

1. The impact on future avenues of interaction between the IASB and National Standard Setters (NSSs);
2. The impact of the proposed commitments; and
3. ASAF membership arrangements.

The Impact on Future Avenues of Interaction between the IASB and NSSs

We understand and agree that the ASAF needs to be limited to a manageable size, otherwise it would greatly reduce its efficiency and effectiveness. However, given that membership is limited, it is crucial that the ASAF does not in any way replace the IASB's existing due process and outreach activities with NSSs and its other global constituents. We therefore strongly support the Foundation's proposal that the ASAF will operate alongside the roles of NSSs and regional groups and will not replace them¹. This is very important to a jurisdiction like New Zealand and other experienced (non-ASAF member) NSSs and is warmly welcomed.

We believe this continuing interaction with other standard-setters is important to ensure that all standard-setters continue to be involved in, and contribute to, the standard-setting process (in addition to the IASB's wider due process). This will also enable other standard-setters, in addition to members of the ASAF, to have a sense of partnership with the IASB. Additionally, given the diversity of regional groups and the different stages of development of individual NSSs within those groups, it is unlikely that ASAF members would be able to raise all issues of concern to individual jurisdictions and therefore it will be important for individual NSSs to continue to have avenues to raise issues that are relevant to them and have them considered by the IASB.

While the proposal to set up the ASAF is couched in terms of the group providing technical advice to the IASB on its technical projects, there will be inevitable overlaps² between the ASAF's role and the work of existing IASB or related groups. Currently, we interact with the IASB as a NSS, and through the World Standard Setters meeting (WSS), the International Forum of Accounting Standard-Setters (IFASS) and the Asian-Oceanian Standard Setters Group (AOSSG). We consider it very important for the IASB to continue its liaison with individual NSSs, WSS, IFASS and/or the regional groups. We highly value these avenues for interacting with and providing feedback to the IASB.

We expect that other standard-setters will raise similar points. We also expect that the IASB will be asked to expand the number of members of the ASAF to enable more to participate.

¹ Paragraph 3.5 of the ITC.

² The potential impact on existing IFRS Foundation bodies, eg. the Advisory Council, is acknowledged in paragraph 7.2 of the ITC.

However, expanding the size of the ASAF is likely to reduce its efficiency and effectiveness. Also, no matter where the line is drawn, some other standard-setters might be disappointed if they are not members of the ASAF. Therefore, we believe that the IASB should give further emphasis to the continued engagement with other standard-setters, to help alleviate these concerns.

Furthermore, to help ensure that other standard-setters continue to be engaged and to improve the effectiveness of the ASAF in advising the IASB on the different perspectives on particular issues, we recommend that ASAF members be responsible for liaising with other standard-setters in their region. Practically, this could be achieved by ASAF members liaising with relevant regional bodies, such as the AOSSG in the case of the Asia-Oceania region. We discuss this point further below, in our comments on membership.

The Impact of the Proposed Commitments

The ITC in paragraph 6.4 sets out the commitments that participating NSSs and regional bodies would commit to formally, through the members of ASAF signing a Memorandum of Understanding (MoU). We support the principles underlying the commitments. However, these principles, as worded, may conflict with (or are not relevant to) the purpose of the ASAF as a grouping of technical experts.

The purpose of the ASAF is to act as a technical advisory group – this should be its sole purpose. We consider that the members should be required to act in the public interest, bring the views of their constituency to the table, participate actively and ensure that debates are conceptual and technical in nature. Some of the proposed commitments do not appear to relate to the member's ability to participate in such a technical capacity.

We support commitment (5) in paragraph 6.4 on resources and capability. The ASAF can only work as planned if the structure and membership of the group encourages substantive technical discussion.

ASAF Membership Arrangements

The proposals contain little detail on important aspects related to ASAF membership, for example, membership selection criteria and eligibility, member rotation and membership term.

We agree that, to be manageable and ensure active participation by all members, the size of the ASAF needs to be limited. However, the Foundation should ensure that members represent regional groups, wherever appropriate, thereby ensuring the widest possible participation by jurisdictions in the region. Members not representing regional groups would be under no obligation to consult with others in their region. We consider it important that ASAF members represent their regions and be expected to liaise and consult with other NSSs in their regions.

However, we acknowledge that regional groups vary in their nature. Some regional groups are coalitions of NSSs while others may be coalitions of standard endorers or professional bodies. We consider that it is important that the Foundation clarifies the types and nature of regional groups that it considers to be eligible to be members of the ASAF to further ensure that the core purpose of the ASAF as an independent, expert technical advisory group is always maintained,

while also ensuring that it is effectively linked into the wider constituency.

Given the 2011 MoU between the IASB and the International Federation of Accountants (IFAC) to strengthen their cooperation in developing private and public sector accounting standards, we strongly recommend that one of the “world at large” seats be allocated to the International Public Sector Accounting Standards Board (IPSASB) as the setter of international public sector accounting standards. Having the IPSASB on the ASAF is consistent with the proposal for seats to be allocated to bodies with whom the IASB has a current bilateral relationship. Given the level of sovereign debt that is traded in the world’s capital markets, it is essential that sector-neutral issues do not diverge in the manner in which they are treated by the IASB and the IPSASB. This is critical if resource providers in both the private sector and the public sector are to receive high quality, comparable information for making their resource allocation decisions in those global capital markets. Having the IPSASB on the ASAF will enhance the debate by ensuring that issues are considered from a broad range of perspectives.

The proposal is that the ASAF will include jurisdictions that have not adopted IFRSs. We recognise that there are benefits of doing so. However, as membership will be sought after, and to ensure that jurisdictions who have adopted IFRSs are given a greater opportunity to participate directly in the work of the IASB, the Foundation should place a limit on the number of seats that are allocated to jurisdictions that have not adopted IFRSs.

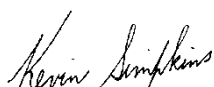
The ITC proposes that the membership of the ASAF will be reviewed after 2 years. We consider that the success (or otherwise) of the ASAF should also be evaluated at the same time. Such a review should among other things consider whether members are effective in bringing forward issues from their region, not just from their own jurisdictions.

We consider that there should be a formal membership term. It is important to set a maximum term of membership to allow other technically competent and adequately resourced jurisdictions an opportunity to participate in the ASAF. On the other hand stability of membership is also important due to the duration of most technical projects. We suggest therefore that the Foundation also considers a staggered replacement of members to achieve an appropriate stability in ASAF membership.

Our answers to the specific questions are set out in the Appendix to this letter.

If you have any queries or require clarification of any matters in this submission, please contact us or Lay Wee Ng (Laywee.ng@xrb.govt.nz).

Yours sincerely



Kevin Simpkins
Chairman
External Reporting Board



Michele Embling
Chair
New Zealand accounting Standards Board

Appendix

Question 1

Do you agree with the proposed commitments to be made by ASAF members (paragraph 6.4) and that they should be formalised in a Memorandum of Understanding (paragraph 6.5)? Why or why not?

Notwithstanding our support of the principles underlying the commitments set out in (1) to (4) in paragraph 6.4 in the ITC, as stated in our letter under *The Impact of the Proposed Commitments*, the inclusion of those commitments (as worded) in a MoU may conflict with (or are not relevant to) the purpose of the ASAF as a grouping of technical experts. These commitments do not appear to relate to the member's ability to participate in a technical capacity. We believe that the commitments should be revised to more clearly align with the purpose of the ASAF and the role of its members.

Question 2

The Foundation believes that, in order to be effective, the ASAF needs to be compact in size, but large enough to allow for an appropriate global representation. Do you agree with the proposed size and composition as set out in paragraphs 6.7–6.13? Why or why not?

We agree that to be effective, the ASAF needs to be compact in size. However, as stated in our letter under *ASAF Membership Arrangements*, there is little detail and clarity on important issues like membership selection criteria and eligibility, membership term and member rotation. We strongly recommend that:

- members represent regional groups where appropriate and be expected explicitly to liaise and consult with jurisdictions in their regions;
- the types and nature of regional groups that are eligible to be ASAF members be clarified;
- one of the seats be allocated to IPSASB as the setter of public sector accounting standards;
- the number of seats allocated to non-IFRS adopters be limited to allow IFRS jurisdictions a greater opportunity to participate directly in the ASAF;
- a term on membership be set;
- a limit on the number of terms a member may serve on the ASAF be set to allow other technically competent jurisdictions an opportunity to participate; and
- a staggered replacement of membership be instituted.