

29 July 2005

Sir David Tweedie
Chairman, International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear David

Re: Draft memorandum of understanding

The National Institute of Accountants (NIA) is pleased to provide you and the members of the International Accounting Standards Board (IASB) with some remarks related to the draft memorandum of understanding. While the bulk of this submission consists of two letters sent over the past six months to the Australian Accounting Standards Board (AASB) we would like to summarise our key points briefly.

Role of national standard setters

National standard setters are a necessary resource for the IASB although some of them may not yet have set down how to best deal with the new global regime. We believe that there is a strong role for national standard setters in liaising with constituents and also being a source of field testing and research data that may assist the IASB in developing proposals. Prominent NIA member Jan McCahey, a partner at PricewaterhouseCoopers, has been a strong proponent of the need for the business community to assist the domestic standard setter to remain relevant in the global environment. We support this view.

Regional standard setter liaison

The NIA has been an advocate for a greater focus on regional proactivity. We would like to see a day when the IASB chairman can meet with a council of Asian standard setters once or twice a year to gain regional feedback. We also consider there to be great merit in standard setters working with each other and developing an interpretation or guidance database so that the less developed standard setters can bring themselves up to a similar standard.

A shared responsibility

The setting of global accounting standards must be regarded as a shared responsibility and one to which national standard setters must seriously apply themselves. We reject the practice of complaining about the involvement of the standard setters in the US and Japan in convergence agreements as we believe that any standard setter that demonstrates

appropriate initiative and leads accounting thought will receive the attention they deserve from the international standard setter.

The NIA believes the memorandum is a document that will assist in ensuring the IASB and national standard setters continue to engage together.

Kindest Regards

Tom Ravlic PNA
Policy adviser – financial reporting and governance
National Institute of Accountants

Enc: attachments 1 and 2, letters to the Australian Accounting Standards Board

Attachment 1

1 July 2005

Professor David Boymal FPNA
Chairman, Australian Accounting Standards Board
Level Four
530 Collins Street
Melbourne VIC 3000

Dear David

Re: Draft Memorandum of Understanding

The National Institute of Accountants (NIA) provided the Australian Accounting Standards Board (AASB) a detailed letter on the future of standard setting in Australia prior to the AASB's strategy meeting that was held back in March. Many of the issues addressed in the AASB exposure draft related to the Memorandum of Understanding (MoU) were addressed at that point in time. This submission deals only with the questions asked directly of respondents to the MoU with our previous submission attached for your reference.

Project role for accounting standard setters

Participation in the projects coordinated by the International Accounting Standards Board (IASB) is a significant means of ensuring there is a level of shared responsibility for the accounting standards subsequently issued by the IASB. Australia has several projects allocated to it. It is in a position to have a fair degree of influence in shaping some aspects of the international debate. These projects, however, represent a small portion of the work required to maintain a high degree of influence.

We must have regard to the fact that countries such as Japan and the United States have struck what can be loosely termed as being preferential agreements with the IASB. These agreements provide those jurisdictions with some additional profile within the international standard setting community. In the case of the United States, the closeness of the cooperation between the Financial Accounting Standards Board (FASB) and the IASB means that Australia must work out a better strategy to deal with global though leadership. The close relationship between these two standard setters does not lessen the need for us to share responsibility for these global standards. We have to learn to be more creative and practical in our approach.

Some practitioners and financial reporting commentators have asked this question and come up with what we regard as one measure that might assist Australia to remain amongst the top standard setting nations in the world. Jan McCahey FPNA, a partner in the financial reporting standards

group at PricewaterhouseCoopers, that the Australian standard setter ought to develop a methodology to field test proposed standards before they progress into exposure draft stage as well as review the implementation of those standards. Such an approach would provide the AASB and the IASB with necessary data to assess the impact of the accounting standards on the information systems and financial statements of entities.

The IASB requires that type of support for its projects so that it can make decisions based on evidence taken from field tests of standard setting proposals by companies. Members of the AASB must seriously consider the benefits of the support role our market can play.

We would encourage the AASB to explore this suggestion further and we would be pleased to participate in any such exercise.

Role of accounting standard setters in interpreting IFRS

The NIA is generally comfortable with the approach the AASB is taking in relation to interpretation. We would encourage the AASB to continue to pursue the approach set down in the summary of its strategy day deliberations that emphasises the need to consult first with the IASB and its technical support staff. Any action by the domestic standard setter should take place only after the IASB has indicated that the standards are unclear and that the international body is either unable or unwilling to deal with the matter at the present time.

Accounting standard setters, however, are only one source of interpretation in the community. There should be a policy of actively seeking the input of practitioners, especially practitioners from the major accounting firms, that have experience in interpreting the standards. Using the Big Four firms, for example, as sources of persuasive precedent should be regarded as a sound practice.

Additional matter

The emergence of the IASB as the primary force in the shaping of global reporting raises a significant question about the existence of a virtual global standard setting organisation. This proposition has been raised to some degree by the notion of 'partner standard setters' that came about when the IASB was first launched back in 2001. It is now time to consider expanding this notion and seeing whether there is a possibility of standard setters across the globe agreeing to share resources and establishing a 'virtual standard setting network' by using the internet.

Such a network would be a useful forum for knowledge sharing as well as providing access to each other's pronouncements. It would also be a means of providing standard setters participating in such a network access to the board papers of various national standard setting boards.

We are now in a global environment and it may be time to begin the process of encouraging standard setters across the globe that have bought into the adoption of IFRS to participate in a real time knowledge sharing network. Australia could take the lead in something like this by proposing such a system when the South East Asian standard setters meet here in

Sydney in October. It represents an ideal opportunity for this country to take a leading regional role and provide a steadying influence in the area of technical support and interpretation.

Should you wish to talk further about these proposals or proposals that are contained in our previous correspondence feel free to call me anytime on 0407 408 000.

Kindest Regards

Tom Ravlic PNA
Policy Adviser – Financial Reporting and Governance
National Institute of Accountants

Attachment 2

7 March 2005

Professor David Boymal FPNA
Chairman
Australian Accounting Standards Board
Level 4
530 Collins Street
Melbourne Victoria 3000

Dear David,

Re: Strategic direction of the Australian Accounting Standards Board

The National Institute of Accountants (NIA) is committed to being proactive in its involvement with standard setters and has a deep interest in ensuring the survival of independent and vibrant standard setting in this country. It is in this context that we provide the Australian Accounting Standards Board (AASB) with some thoughts regarding its future role in this market and internationally.

This submission is intended to bring some ideas forward for debate both at the AASB and in the public domain. Greater debate on these matters is required because the standard setting process does not exist in a vacuum. It has a reason to be. That reason is the setting of accounting standards to ensure the protection of the public interest.

Standard setters have an important role

At the outset it is useful to state that we believe standard setting does have a future in Australia. The standard setter may have to adjust its processes to cope better with a global environment, but there is no question in our mind that a productive role for a standard setter exists within this market place. We are aware that some commentators have seen the significant role being played by the International Accounting Standards Board (IASB) in the global environment and as such they question the relevance of and need for a domestic standard setter. This view is based on a fundamental misunderstanding of how standard setting works in Australia. That view also brings out the general ignorance of what shutting down a standard setter completely would do to a jurisdiction.

The future profile of the work undertaken by the AASB will be affected in large part by factors beyond its control. These factors include the joint work of the IASB and the Financial Accounting Standards Board (FASB) of the United States and also the political environment that exists in global regulation. Standard setting has acquired its own political geography and power blocs and each one of these is competing against the other to win the political and technical debate. Australia is not well placed to compete in the political stakes because our economy and place in the global financial markets is smaller than that of other countries. Without that kind of financial

market brawn the only option left open to this country is the application of a collective intellect to the resolution of accounting problems.

It is necessary therefore to approach planning for the future of the AASB by defining the types of activities it needs to undertake before addressing some of the hot topics that have been on the minds of practitioners in recent months.

What should be the Board's remit?

One question that has been asked from time to time is whether the AASB has any role beyond cloning standards generated by the IASB. The answer to that question in our view has always been in the affirmative despite the insistence of some commentators to the contrary that the standard setting tent could be folded away for good. It is more important and productive to determine what the AASB's standard setting functions will look like over the next few years given the various demands that will be placed on it.

The challenge lies in defining the remit of the AASB. The NIA believes the AASB's future portfolio of activity falls within four categories groups of tasks it must consider as being a part of its future mandate. These tasks are as follows:

- **Integration** of the product of the IASB into our reporting framework, which includes the retention of a capacity for interpretation. We believe the task of integrating the literature requires some mechanism at the domestic level for interpretation. Under integration we also place the notion of ensuring the standards are implemented appropriately.
- **Consultation** through various mechanisms dealing primarily with the analysis of impacts of proposed and existing accounting standards being reviewed by the AASB and the IASB. We assume there will be original product issued by the AASB because the IASB refuses to deal with some issues. The NIA believes a forum of practitioners such as the technical advisory panel (TAP) advocated in a media release issued in January is a possible means of ensuring timely feedback can be filtered through the board.
- **Education** in the form of more comprehensive communication with constituents and courses run in conjunction with bodies such as the Australian Stock Exchange, which has happened previously.
- **Innovation** in the form of new research for Australian or IASB-initiated projects.

Function of a standard setter in Australia

Australia needs a standard setting authority in order for accounting standards issued by the IASB to fit in with Australia's legal framework but also to be a filter for implementation concerns from this country and possibly our region. The standard setter of the future will have a function of providing feedback to the International Accounting Standards Board (IASB) arising from the experience of practitioners in our marketplace applying new standards. It will be the communication link between Australia and the IASB in the first instance given that the AASB is in a unique position to be a collection point for views from constituents. The NIA recommended the creation of a technical advisory panel in January to facilitate feedback on

technical implementation and interpretation issues. Such a body may be used as a channel through which views on implementation and interpretation could be fed. We have no doubt the IASB would welcome such feedback.

The AASB should commit itself to encouraging a process of field testing during the development of an international accounting standard and also providing feedback on subsequent implementation of a new standard. Any findings from Australia at the development stage and post-implementation would be useful intelligence for the IASB. It is by no means a new suggestion as it is one that has been aired previously by the former AASB chairman Keith Alfredson and more recently by PricewaterhouseCoopers partner, Jan McCahey.

Interpretations of standards

Aligned with the issue of implementation is the need to interpret accounting requirements. This has caused a flurry of debate in Australia as practitioners struggle to understand the impact of certain accounting standards in practice. This fact alone means interpretation and consistency in practice within this jurisdiction is challenging.

There is no denying, therefore, that some capacity for interpretation of accounting standards in this jurisdiction must be maintained. The form of that interpretation function is something that needs to be thought about carefully so it delivers answers that are themselves consistent with the framework set down by the IASB while at the same time delivering an answer to a market place with some questions on its mind. We submit that some change is necessary in our system in order to get a fresh approach to the way in which we deal with interpretative matters.

We do not believe the Urgent Issues Group in its current form has the same level of relevance as it did when it was first established. Our preference would be for the AASB to have the power to issue any interpretations and for the AASB to use the members of the TAP as a means of assembling a team of subject matter experts from accounting firms or from business to review any areas of complexity. The TAP is ideally placed to be a source of opinion for the AASB in its own right and a means by which the board could access additional resources when required for specialist topics.

Another possible use of the TAP is as a source for fatal flaw review of a standard. When accounting standards were previously a part of the remit of the professional bodies there was a fatal flaw review associated with the standards that were known then as the AAS series. It may be useful for the AASB to use the TAP as a fatal flaw review mechanism so that any unintended consequences of additions or subtractions to a standard can be reviewed by external parties as part of the finalisation process. This would need to be done on a confidential basis with the parties that involve themselves in a fatal flaw process. We understand that such a process exists with the members of the International Financial Reporting Interpretations Committee (IFRIC) and the IASB. The standard setter circulates near final versions of the standards to IFRIC in order to ensure it is as clean as possible before it is issued as a final standard internationally.

A role in education

The NIA has had a long-standing position in favour of the AASB having a role in education. The AASB must entertain the concept of expanding its educational activities in the medium to long term, particularly in the communication of standard setting developments both here and overseas. While the AASB does provide subscribers with an international update there may be a useful role for a more regular, printed publication that consolidates all of the major developments in standard setting both here and overseas. An excellent example of this is the publication put out by the IASB called '*IASB Insight*'. It would provide the AASB the opportunity to explain its position on various issues in more detail and also give the staff a place to explain any new accounting issues that individual practitioners need to monitor. Another example of a similar kind of publication is the journal known as '*The Standard*' put out during the late 1990s by the Australian Accounting Research Foundation. A publication of that kind would in our view assist the market place in getting ready for future developments. We acknowledge this suggestion may require the board to employ communications resources to fulfil such an objective. We do, however, think this is a suggestion that has strong merit from a communications standpoint.

We would also like to encourage the AASB to recommence its program of lectures and seminars with the Australian Stock Exchange on accounting developments. The lectures have received positive feedback from some of our members and it would seem to us to be appropriate for the board to set down a program for such briefings on corporate reporting developments for which it has carriage.

Innovation and research

Consideration should be given to establishing a committee with academics that meets at least once a year to discuss potential areas of research that are of interest to the accounting standard setter. Such a committee may be used as a basis to generate research ideas from which the AASB can gain some benefit. Such a committee could be used as a means of bringing the academic sector closer to the work of the AASB.

Regionalisation of standard setting

It is clear from observing the trends in standard setting that the political geography of standard setting has played a major part in shaping the manner in which the global standard setter has responded to issues. The lesson for Australia from the intense activity that we have observed in Europe and in the United States is for the AASB to work with other standard setting authorities within the region to build a common forum for issues to be raised. A model such as the one that existed with the Group of Four plus One (G4+1) with standard setters working in cooperation with each other on IASB projects or other accounting issues of mutual interest could work if people of goodwill are involved.

Closer ties with our neighbours may also be forged effectively if the board was able to engage in a standard setters secondment program whereby Australia can take in a technical staff member from another country's

standard setter so that there is a better understanding of standard setting around the region. We acknowledge such a scheme would require additional funding and we are in the process of approaching the Federal Government to seek additional funds for the AASB so that projects such as this can be undertaken.

Public sector strategic direction needs review

We have written to the Financial Reporting Council seeking a review of the appropriateness of the public sector strategic direction given that we have commenced a more intense relationship with New Zealand as part of the general direction from the two governments for a move to an integrated market. We consider that general policy direction that has emerged over the past 12 months provides an adequate prompt to the AASB and the FRC for a review of the appropriateness of the public sector strategic direction. All of the standards should be similar, if not the same, irrespective of whether they cover for-profit, not-for profit or even government sector entities.

New Zealand has a sector neutral accounting policy and we should ensure that we do not abandon ours. The review of sector neutral accounting at the FRC level is somewhat premature given that we are yet to even consider what the implications are of such a review are for the Trans-Tasman alliance.

We would be pleased to talk about all of these issues with yourself or other members of the AASB at any time. This submission is aimed at sharing ideas with the AASB and others to ensure a vibrant debate on the future of standard setting can be had over the next few months.

Feel free to contact me on 03 8665 3143 or 0407 408 000 if you wish to discuss the issues further.

Kindest Regards

Tom Ravlic PNA
Policy Adviser – Financial Reporting and Governance
National Institute of Accountants