



The South African Institute of Chartered Accountants

CL 30

29 July 2005

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

Email: commentletters@iasb.org

Dear Mr McGregor

**DRAFT MEMORANDUM OF UNDERSTANDING ON THE ROLE OF
ACCOUNTING STANDARD-SETTERS AND THEIR RELATIONSHIPS WITH
THE IASB**

In response to your request for comments on the draft Memorandum of Understanding (MoU) on the role of accounting standard-setters and their relationships with the IASB, attached please find the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This submission includes comments from the Accounting Practice Board (APB) of South Africa and the Accounting Practices Committee (APC).

We would like to thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact me should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director – Accounting

cc: Doug Brooking (Chairman of the Accounting Practices Board)
Prof Alex Watson (Chairman of the Accounting Practices Committee)

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GENERAL COMMENTS

As a country which is issuing International Financial Reporting Standards (IFRS) as South African Statements of Generally Accepted Accounting Practice (GAAP) and has harmonised Statements of GAAP on IFRS since 1995, we welcome the opportunity to provide comments on this Memorandum of Understanding (MoU) as we believe that our experience to date may assist other standard-setters around the world.

We have therefore commented on every area of the proposed responsibilities, as listed in the appendix. In addition, we have provided information on our experience of the issues raised, where applicable.

SPECIFIC COMMENTS

The proposed responsibilities as listed in the appendix to the MoU are repeated below in italicised text for ease of reference. Our comments are noted below each group of responsibilities in normal text.

1. Working with regulators

National and regional accounting standard-setters should:

- 1.1 take the prime responsibility for identifying and dealing with domestic regulatory barriers to adopting or converging with IFRSs [paragraph 2.3]; and*
- 1.2 encourage national or regional regulators to participate in international convergence efforts in their own regulatory fields where this would help facilitate financial reporting convergence [paragraph 2.4].*

We agree that national and regional accounting standard-setters should take prime responsibility for removing any domestic regulatory barriers to adopting or converging with IFRS, as well as encourage regulators to participate in international convergence in areas where this would facilitate financial reporting convergence.

In South Africa we have provided extensive input to our government in the revision of the Companies Act and JSE Securities Exchange Listing Requirements, to ensure legal backing for accounting standards and adoption of IFRS. This has allowed us to shape the regulatory framework under which companies report.

Further, we work closely with all regulated industries and their regulators in South Africa. For many years, SAICA has formulated and facilitated project groups for all the main regulated industries such as banks, insurance, stockbrokers, fund managers, etc. The members of these project groups include preparers in the industry, auditors, regulators, industry bodies and other interested parties.

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In order for the process to be ongoing and effective, it is essential that there is a functional two-way communication process. It is highly unlikely that our government and regulators will continue to support IFRS as reporting standards in South Africa unless they are satisfied with the due process followed, not just internationally but also at a local level. In South Africa, we have a well established and comprehensive process of exposure and discussion on emerging accounting issues. This has resulted in accounting standards that are robust and generally accepted by users and preparers. In order for the financial reporting standards to continue to be credible and acceptable, this process needs to be continued.

It is thus of critical importance that local standard-setters are afforded opportunities to raise matters with the IASB and that formal communication channels are created by the IASB. This needs to be a genuine process of open two-way communication. If not, the IASB runs the risk of government abandoning the decision to adopt IFRS, as the local standard-setter will not be a “rubber-stamp”, in approving IFRS.

2. Communication

2.1 The IASB should:

- 2.1.1 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 future plans [paragraph 3.16];*
- 2.1.2 maintain an up-to-date database of technical issues reported by accounting standard-setters and others that is accessible to 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 [paragraph 3.17];*
- 2.1.3 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 [paragraph 3.18]; and*
- 2.1.4 encourage critical analysis of its proposals, and provide an open, transparent and credible process for arriving at its conclusions [paragraph 3.19].*

The IASB’s review of its consultative processes and the IASCF’s review of the Constitution have provided the framework for the IASB’s responsibilities in the above area of communication. In our view the IASB has already implemented some of these suggestions. The area which the IASB still needs to address is 2.1.2 above. This would encourage national and regional

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standard-setters to work together and should allow for a more efficient process with and for the IASB.

We are also strongly of the view that the IASB should establish more formalised communication channels and mechanisms with other standard-setters in the same way that it has done for the so-called 'liaison national standard-setters'.

2.2 *Accounting standard-setters should:*

2.2.1 encourage their constituents to communicate their technical views direct to the IASB, as well as to the national or regional standard-setter [paragraph 3.20];

2.2.2 be a key channel for information flowing to the IASB from government agencies, politicians and others who are engaged in non-technical debate [paragraph 3.21];

2.2.3 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 view known. Where practicable, the IASB should make Board members and staff available to facilitate these forums [paragraph 3.22]; and

2.2.4 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 [paragraph 3.23].

We agree with the above responsibilities of the accounting standard-setters in the communication process.

Our experience in South Africa when communicating with constituents and obtaining technical views has been most successful where we have had face-to-face discussion forums, meetings, seminars and workshops. We have been fortunate in having a Board member, Bob Garnett, to present and/or attend some of these sessions and in that way have our constituents views heard by a member of the IASB. We would encourage other standard-setters to hold as many of these face-to-face forums as possible.

Further, participation in field testing of the IASB, particularly that for business combinations, has also afforded our constituents the opportunity to give their views on proposals directly to the IASB.

However, we are concerned that the success, to a large extent, can be contributed to Bob Garnett's willingness to assist. However, other standard-setters are not in the same fortunate position. Furthermore, this is an 'informal' arrangement, which is not ideal.

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3. Project role

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

3.1.1 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.

3.1.2 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 [paragraph 4.7].

We agree that the IASB should provide opportunities to standard-setters to be involved in IASB projects. We do however, encourage the IASB to make use of standard-setters beyond the current ‘liaison national standard-setters’. This should extend not only to participating in the project, but also to lead a project where the standard-setter can demonstrate sufficient commitment of resources and experience in that particular field.

3.2 National standard-setters should:

3.2.1 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 [paragraph 4.8]; and

3.2.2 promote the role of a working group member in their jurisdictions and encourage suitable individuals to nominate themselves [paragraph 4.9].

Countries that have adopted or converged with IFRS, should pro-actively participate in IASB projects.

4. Comment role on IASB consultative documents

Accounting standard-setters should provide timely comments to the IASB on consultative documents, particularly on those projects that are of particular importance to its constituents, or on which it considers it can best contribute [paragraph 5.4].

Where a country has adopted or converged with IFRS, we encourage those national standard-setters to comment on consultative documents issued by the IASB. This is a meaningful way for a standard-setter to influence the standard-setting process.

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5. Application of standards

- 5.1 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 national standards that enable national or regional constituents to continue to make an unreserved statement of compliance with IFRSs [paragraph 6.6].*

Agreed.

- 5.2 In adopting the IFRSs to apply in their own jurisdiction, accounting standard-setters should avoid amending the IFRSs in a manner that creates a non-compliance with the IFRSs [paragraph 6.7].*

Agreed.

6. Interpretation

- 6.1 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 [paragraph 7.6].*

In theory this proposed responsibility is valid. In practice however, our experience with requesting the IFRIC to provide interpretations of areas of concern for South Africa, has been somewhat unrewarding.

Whilst we understand the rationale of the IASB is to develop principle based standards which may result in differing interpretations, there will often be a need from users and regulators for consistency of such interpretation and application of the principles.

The demand upon the IFRIC to provide interpretations is increasing as IFRS is more widely applied. We believe that the role of the IFRIC Agenda Committee is becoming more important as the IFRIC has to carefully identify those requests that are appropriate for it to address. If the IFRIC is not able to respond to valid requests for interpretations, this may result in divergent (national) interpretations of IFRS. This must be avoided especially as multi-national companies are often listed on more than one stock exchange in different IFRS jurisdictions. Another possible consequence of the IFRIC not being able to respond to valid requests for interpretations on a timely basis is that it is left to the auditors, through their own networks, to ensure that the standards are applied on a consistent basis. IFRIC and not national standard setters, auditors and regulators, should be responsible for issuing authoritative interpretations of IFRS.

In line with the proposals in the *IFRIC – Review of Operations, Consultative Document*, we are of the view that national standard-setters need to work together to develop a formal channel through which they can communicate

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and work with other national standard-setters, on common issues, to develop consistent interpretations on IFRS which can merely be endorsed by IFRIC on a basis of negative assurance.

- 6.2 *If an issue in a particular jurisdiction does not have broad relevance and the IFRIC or the IASB decides not to deal with the issue, an accounting standard-setter should issue its own interpretation only when it is compatible with IFRSs [paragraph 7.7].*

Agreed. We have developed a separate series of local GAAP to address instances where South Africa specific interpretations are required. The separate series allows distinction between standards and interpretations issued by the IASB and those issued locally. However, there is a danger in this, as companies may have dual listings (as mentioned before) and the different standard-setters might interpret the same issue differently. This would dilute the credibility of IFRS. This problem could be at least partially overcome if local interpretations covered as broad an area as possible without reducing the validity of the interpretation.

- 6.3 *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 [paragraph 7.8].*

We strongly disagree with this statement. As at December 2004, the IFRIC Agenda Committee had rejected 57 items, not taken onto this agenda. In some cases reasonable explanations were provided. In other cases where the IFRIC Agenda Committee's response was "*the answer is obvious from the standard*" that is clearly an insufficient and arrogant explanation. To reinforce the point, a number of items that have not been taken onto the agenda because "*the answer is obvious from the standard*" appear to be treated differently in South Africa from the suggested treatment (where apparent) and therefore the standard is not that obvious.

As a country who has adopted IFRS and has set a standard for excellence in financial reporting, we require consistency of interpretations of IFRS. This has resulted in us having to filter the 57 items not taken on by IFRIC, in order to determine which of these are acceptable, which require re-submission to IFRIC and which require a local interpretation to be developed. This is clearly not a satisfactory solution and we therefore again urge the IASB to develop a formal channel through which we can work with the IASB and national standard-setters in the interest of globally consistent interpretations.

We do acknowledge the new process proposed for 'rejection of issues' per the *IFRIC - Review of Operations, Consultative Document*, and hope that, in future, this may alleviate some of our frustrations.

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7. Education

7.1 The IASCF should be sensitive to the IFRS education needs of the various jurisdictions [paragraph 8.4].

Agreed.

7.2 Accounting standard-setters should:

7.2.1 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 [paragraph 8.6]; and

7.2.2 provide the IASCF with material that they consider may be helpful in creating educational materials [paragraph 8.7].

Agreed.

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