

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

1. On a perusal of the draft Memorandum of Understanding (MOU), it appears that a standard-setter, which adopts the International Financial Reporting Standards (IFRSs) or converges with IFRSs, can modify an IFRS only to the extent of adding disclosure requirements or removing the optional treatments provided in IFRSs. In principle, it is agreed that this approach is essential for achieving the objective of developing a single set of high quality, understandable and enforceable global accounting standards. At the same time, it may be pointed out that keeping in view certain country-specific situations, such as the following, full adherence to this approach may not be feasible:

- (i) Certain requirements of law prevailing in a country may be at variance from the requirements of IFRSs. It is appreciated, as stated in the draft MOU, that in such situations, it is the responsibility of the concerned standard-setter to deal with such domestic regulatory barriers and influence the concerned authorities to make appropriate amendments in the law. At the same time, it may also be appreciated that amendments in law often take their own course and, in certain cases, a longer period of time. In such circumstances, till the amendment in law takes place, the standard-setters may have to make appropriate modifications in IFRSs.
- (ii) A country may not have or have inadequate resources to implement an IFRS. For example, a country, which does not have actuarial profession, will be forced to do away the requirement for actuarial valuation in International Accounting Standard (IAS) 19, Employee Benefits, and would have to provide for some other manner of measuring liability for retirement benefits.
- (iii) The economic environment including trade customs and practices prevailing in a country may not be conducive for adoption of an approach prescribed in an IFRS. For example, for a country, whose markets do not have adequate depth and breadth for reliable determination of fair values, it may not be advisable to follow fair value based approach prescribed in certain IFRSs.

It may be added that the above situations are only examples of country-specific situations and there may be certain other situations also which may force the standard-setters to make changes in IFRSs. It is suggested that the MOU should recognise that the standard-setters may have to carry out such changes also.

2. The draft MOU, in the section relating to the role of standard-setters in the IASB projects, makes reference to the Financial Accounting Standards Board (FASB). The reason for the same is that the IASB plans to have joint projects with FASB. It may be pointed out that, in future, the IASB may have joint projects with other standard-setters also. Keeping this in view, it is suggested that instead of making reference to the FASB or any other specific national standard-setting body, the MOU should instead state ‘the staff of any national standard-setting body with whom the IASB has a joint project’ (paragraphs 4.1 to 4.9).

3. Our comments on the section related to ‘Interpretations’ are as below:

- (i) There may be certain requirements in IFRSs which are absolutely clear and do not require any interpretation as such; however, a standard-setter may be required to provide guidance on application of these requirements in respect of certain specific issues arising in the country, e.g., accounting for VAT credit under IAS 2, Inventories. It is not clear whether the standard-setters could provide such guidance on their own or they are required to request IFRIC or the IASB to provide guidance on such issues. This aspect may be clarified in the MOU.
- (ii) The section, *inter alia*, provides that the accounting standard-setters should identify issues that might require interpretation and request the IFRIC or the IASB to address the issue. If 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. It may be pointed out that, sometimes, due to legal changes or for other reasons, certain issues may arise on which immediate interpretation/guidance is required to be provided, for example, where financial statements have to be presented shortly after a legal change which has accounting consequences. In other words, sufficient time may not be available to approach IASB/IFRIC in such cases. It is suggested that, on such urgent issues, the national standard-setters should be able to issue interpretations.

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