

26 July 2005

Mr Warren McGregor  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom  
By Email: [commentletters@iasb.org](mailto:commentletters@iasb.org)

**Office of the Chief Executive  
Peter Lowe, CPA**

**CPA Australia**  
ABN 64 008 392 452

**CPA Centre**  
Level 28, 385 Bourke Street  
Melbourne VIC 3000 Australia  
GPO Box 2820AA  
Melbourne VIC 3001 Australia

**T** +61 3 9606 9689  
**F** +61 3 9602 1163  
**W** [www.cpaaustralia.com.au](http://www.cpaaustralia.com.au)  
**E** [peter.lowe@cpaaustralia.com.au](mailto:peter.lowe@cpaaustralia.com.au)

Dear Warren

**Invitation to Comment:**

***Draft Memorandum of Understanding on the role of Accounting Standard-Setters and their relationships with the IASB***

Thank you for the opportunity to comment on *Draft Memorandum of Understanding on the role of Accounting Standard-Setters and their relationships with the IASB*. This invitation to comment has been supplemented by questions raised by the Australian Accounting Standards Board to its constituents. We therefore include in our letter, our response to the questions raised by the AASB.

Our comments have been prepared in consultation with members through our Asia-Pacific Financial Reporting Advisory Group (APFRAG) which is a Board Committee representing a regional perspective from South-East Asia, Oceania and Australasia and our Financial Reporting and Governance Centre of Excellence

We support the IASB in its drafting of this Memorandum of Understanding as part of the process of trying to promote the interests of international jurisdictions within the international arena and the AASB for working with the IASB.

CPA Australia is largely in agreement with the proposals put forward. Our detailed comments are attached.

Should you have any queries on our comments, please contact either myself or Ms Sepi Roshan on email: [Sepi.Roshan@cpaaustralia.com.au](mailto:Sepi.Roshan@cpaaustralia.com.au)

Yours sincerely



**Peter Lowe, CPA**  
Chief Executive  
CPA Australia

c.c. D Boymal, Chair, AASB  
S Roshan

## CPA Australia's comments

Please find our comments set out below.

### Identification of Accounting Standard-Setters

We suggest that in order to not preclude any accounting setter from this MoU and the open consultative process it encourages, the IASB clarify the definition of accounting standard-setter. Our constituents have raised this concern as the recently published *Due Process of IASB: Draft Handbook of Consultative Arrangements* (April 2005) refers to "national standard-setters". As such, the different terminology has caused confusion as to whom the MoU relates.

We interpret accounting standard-setter to include all those bodies (regional and national) that in substance set accounting standards, regardless of their form. As such, we do not expect that this MoU relates only to the current liaison standard setters dealing with the IASB. We suggest that the preferred wording of "accounting standard-setter" be defined and used in all documents (including *Due Process of IASB: Draft Handbook of Consultative Arrangements*) relating to dealings with the IASB, including matters of due process, for consistency.

### Working with regulators

We agree that accounting standard-setters "should encourage national and regional regulators to participate in international convergence efforts in their own regulatory fields" (paragraph 2.4). However, we strongly suggest that the IASB not be excluded from this process given the importance of their role in the facilitation of financial reporting convergence.

We recommend that paragraph 2.4 be amended to state the following:

"Accounting standard-setters, ~~not~~ **and** the IASB **where appropriate** should encourage national and regional regulators to participate in international convergence efforts....."

### Communication – constituent feedback

We agree that communication with constituents is important. Our reading of the MoU indicates that there is conflicting commentary regarding how the IASB would prefer communication with constituents.

We recommend that the IASB clarify whether they would prefer comments from constituents directly (paragraph 3.19) or whether they would prefer comments from accounting standard-setters, where they exist, as a representative of their domestic constituents (paragraph 3.6). We are concerned for the potential of doubling up on comments from both standard-setters and constituents, which may provide unreasonable workload burdens for the IASB.

We suggest that technical views be communicated to accounting standard-setters, where there is one. Where the views of multiple jurisdictions can be attained (eg through APFRAG), we believe that these representative groups should communicate such views directly to the IASB.

Furthermore, our members seek clarification regarding the position of global entities. Currently, such entities comment directly to the IASB.

### Communication – non-technical

Following from the above, we agree that accounting standard-setters, where they exist, should channel technical information from their domestic constituents to the IASB. However, the IASB should not preclude itself from dealing with government agencies, politicians and other constituents.

Therefore, we recommend that paragraph 3.20 be amended to state the following:

"Accounting standard-setters should be ~~a key~~ **the preferred** channel for information flowing to the IASB....."

## **Communication – communicating among standard-setters**

The proposed up-to-date database of technical issues referred to in paragraph 3.16 is an efficient and effective way of ensuring that all national standard setters have access to issues which are open for discussion by various parties. However, to foster information sharing between all interested parties, we recommend that this database not be exclusive to accounting standard-setters, but to be made available to all constituents. This service could be restricted to subscribers.

Our members seek clarification as to the stage at which such information will be included in the database. For example, will inconclusive issues be added to the database, or will issues which have been finalised be only added.

## **Communication - timing**

We agree that timely communication is an important issue and that all parties must endeavour to meet deadlines. In paragraph 3.10, the IASB recognises that timely communication is at risk particularly where translations into languages other than English are required and acknowledges extra time is needed. However, the IASB does not necessarily propose a solution to this.

We therefore suggest that the IASB provide the translations to selected languages, to overcome some of the limitations of having constituents who require exposure drafts in a language other than English. For example, our constituents have identified that Chinese translations are time consuming, which in substance imposes a shorter exposure period for affected constituents. In the absence of longer exposure periods, translations by the IASB in the first instance, may alleviate the time constraints and limiting the time available for comment.

Finally, our constituents have identified 6 months as a necessary timeframe between the issuing of a final draft document and its implementation.

Similarly, we suggest that the exposure period preferred would be 4 months, to enable translation and communication with constituents and the gathering of views for communication to the IASB.

## **Education**

Until it is clear what the IASCF is doing regarding “educational matters” we cannot provide detailed comments regarding the role of the IASCF and education. It is unclear as to what is meant by “educational needs” and why the MoU restricts the meeting of these needs to a particular party. As a result, we are concerned that this task may be so substantial that a lone party may not be able to sufficiently cater for and meet the needs of the international accounting community.

Other issues which require clarification are:

- how the IASCF will endeavour to operationalise its educational endeavours
- many accounting standard-setters do not consider education of constituents or “jurisdictions” as a core skill and we would be concerned if the IASCF’s role is limited to meeting “educational needs”.
- determining what relevant output has been and will be provided to meet these “educational needs”.

## **Post implementation review**

To review the effectiveness of this MoU post implementation, we encourage that the IASB undertake a review of its relationship with accounting standard-setters in 3 years time. Given this MoU is the first of its kind in the current, global accounting standard-setting environment, we believe that its effective operation is important in assessing whether it has maintained its relevance and workability in the future.

In order to measure the effectiveness of this MoU, we suggest that the IASB clarify the consequences of breaches. For example, if an accounting standard-setter is not effectively engaging national constituents, will the IASB impose penalties? This raises the question of how the IASB will monitor and enforce the requirements in the MoU.

The following are CPA Australia's comments to the AASB's *Invitation to Comment: "The Role of Accounting Standards Setters and their relationship with the IASB"*

**(a) The AASB seeks comment on the project role of accounting standard-setters.**

Project roles are a practical and useful way of ensuring accounting standard-setters are involved with the IASB and international initiatives. There is the potential for projects to evolve into a forum which can allow for the differing views of accounting standard-setters and their constituents to be presented and taken account of.

We understand that the "project team" approach requires the project team to work under the direction of the IASB and hence it would be reasonable to assume that such projects would be initiated by the IASB. However, the "research project" approach which operates under the guidance of the IASB needs clarification as to who will initiate and determine which projects will be effective. We believe that there could be instances where others can initiate projects and that they should have the opportunity to do so. In turn, if a project is not considered to be of priority and hence not begun, then the IASB should explain why that project was not considered a priority.

Clarification is also required as to how project effectiveness will be measured and by whom.

**(b) The AASB seeks comments on the role of accounting standard setters in interpreting International Financial Reporting Standards.**

We agree that if a matter in a particular jurisdiction does not have broad relevance and hence is not dealt with by the IFRIC or the IASB, the accounting standard-setter should issue its own interpretation that is compatible with IFRSs (paragraph 7.7). However, to ensure that the IFRIC and the IASB maintain quality control, we recommend that the IFRIC review any such Interpretations for compliance with IFRSs and provide negative assurance on the final Interpretation. Providing negative assurance is discussed in the *Draft IFRIC Review of Operations: Consultative Document* (April 2005) paragraph 50, and we suggest that this be reflected in the MoU.

Furthermore, if IFRIC and the IASB does not address a particular issue we believe that constituents should be given direction as to where they can seek relevant guidance.

Therefore, we recommend that paragraph 7.8 be amended to state the following:

"If the IFRIC and the IASB decide not to address an issue, they should provide an explanation ***as to how the issue is resolved under current requirements.***"