The Institute of
Chartered Accountants
in Australia

21 October 2005

Technical Corrections Comments
International Accounting standards Board
30 Cannon Street
London EC4M6XH
United Kingdom

cc David Boymal Chairman AASB

Dear Sir

Draft Policy on Technical Corrections

First Draft Technical Correction DTC 1 re IAS 21

The Institute of Chartered Accountants in Australia (ICAA) welcomes the opportunity to make a submission on the following two documents

- IASB's Draft Policy on Technical Corrections and
- Draft Technical Correction 1 Amendments to IAS 21.

1. Draft Policy on Technical Corrections

The ICAA supports the desire by the IASB to put in place a "fast track" mechanism to enable the prompt resolution of errors in published accounting standards and therefore we are supportive of this proposal in principle

However we have a number of concerns about its application in practice, which are explained below.

Definition of a technical correction

We do not consider that the guidance on what constitutes a "technical correction" is sufficiently clear. We believe it should focus more substantially on the "unintended consequences" of a standard, particularly those arising before the standard is implemented, as we believe that these should be the majority of the types of items needing "technical correction".

Other so called "technical corrections" represent a failure of due process by the Board as it is the Board's responsibility to ensure that when standards are issued that they do say exactly what the Board intended. The seriousness of this drafting responsibility only increases as the influence of IASB standards worldwide continues to grow.

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It is essential for the Board to ensure that the “technical correction” process is only used for unintended consequences and not as an opportunity for dealing with unpleasant results arising from the application of an “intended” decision. Opportunities to question Board decisions are amply provided for in the exposure draft process, while opportunities to clarify decisions can be covered later by the IFRIC interpretation process.

Only the Board is in a position to say what its intentions were on any particular issue and the standards, if they are to be relevant and reliable for financial reporting purposes must say what the Board means. While errors will always be made, failures to express intention should be rare and should be treated seriously. Unintended consequences may be more frequent and are often only able to be identified as a standard is actually only being applied.

Identification of “technical corrections”

There is no provision in this policy for the Board to review the decisions taken by its staff and IFRIC for the resolution of all the issues brought before it. Since only the Board can be certain of its intention, we believe that the Board should have either an initial or final say on the path allocated to any particular issue. We recommend that the Board review and approve all the decisions of its staff and IFRIC concerning all the matters raised by constituents. Such approval should be unanimous or at the least the same level as is required to pass accounting standards

Submission of technical corrections

The policy should include how submissions for technical corrections are to be made to the Board and whether the Board is willing to accept issues from any constituent or would expect them to be reviewed and approved by the relevant national standard setting authority.

Retrospectivity

We are also concerned about the Board’s intentions to make changes retrospectively.

Unintended consequences are often only discovered once standards are actively being applied and allowing changes retrospectively changes the “level playing field” in a way that we do not consider is helpful. We believe changes of the nature envisaged by “technical corrections” should only be made prospectively from date of issue – once the Board has determined that the error made in the standard was not what it intended and that the true intention has now been clarified. Adequate disclosure by an entity of a necessary resultant change in accounting policy is more meaningful to users than retrospective change.

Urgency

We note from the appendix that the anticipated time frame for this correction process is 6 months. The very nature of these items means they require urgent resolution as noted in paragraph 3 of the draft policy. In Australia our “Urgent issues Group” seeks to resolve matters within 3 months as this reflects the importance of their responsibility to the users and preparers of financial statements. We recommend that the IASB work towards shortening the process where possible (but not the comment period) to achieve a 3-4 month timetable.

Editorial corrections

The policy distinguishes between editorial corrections and technical corrections but gives no guidance on the process or time frame for the resolution of these “errors”. We believe reference to the Board’s due process for these should be included.

Post Implementation review

In conclusion we recommend that this policy, if implemented should be followed up by a post-implementation review, say a year later, to review its impact on the due process.

2. DTC 1 Proposed amendments to IAS 21.

We agree that the requirement to restrict monetary items to the functional currencies of the two parties is an inappropriate restriction on the accounting principle inherent in this standard..

In this instance we agree that it creates an “unintended consequence” of the standard, reflecting a failure by the words of the standard to appreciate the financial complexity involved in these transactions in the real world. Therefore we support the alteration of IAS 21 as proposed by means of a technical correction.

Yours faithfully

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