

Department of Treasury and Finance

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Ms Tamara Oyre
Assistant Corporate Secretary
IASC Foundation
30 Cannon Street
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Dear Ms Oyre

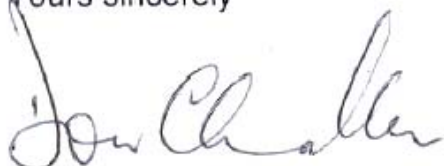
DISCUSSION PAPER - REVIEW OF THE CONSTITUTION: IDENTIFYING ISSUES FOR PART 2 OF THE REVIEW

The Australian Heads of Treasuries Accounting and Reporting Advisory Committee welcomes the opportunity to respond to the IASC Foundation's Discussion Paper. HoTARAC is an intergovernmental Committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee is comprised of the senior accounting policy representative from all Australian States, Territories and the Australian Government. Attached for your consideration are HoTARAC's comments on the questions raised in the Consultation Paper.

In particular, HoTARAC considers that the IASC Foundation should expand the current mandate of the International Accounting Standards Board to include not-for-profit and public sector standard-setting. It is HoTARAC's view that the IASB should be the worldwide standard-setting authority for both the for-profit and public sectors. With this objective in mind, HoTARAC encourages the IASC Foundation to extend the role of the IASB to the public sector, with a view to considering a future merger path between the IASB and the International Public Sector Accounting Standards Board, as a means of achieving a single international standard-setting body.

If you have any queries regarding this submission, please contact Craig Jeffery at the Tasmanian Department of Treasury and Finance on +61 3 6233 3638 or by e-mail at craig.jeffery@treasury.tas.gov.au.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'D W Challen', written in a cursive style.

D W Challen

CHAIR

HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

17 March 2009

Encl

Contact: Craig Jeffery
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HoTARAC comments on the Discussion Paper - Review of the Constitution: Identifying Issues for Part 2 of the Review

Objectives of the organisation

- 1. The Constitution defines the organisation's primary objective in the following manner:***

to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions

In fulfilling that objective, the organisation is:

to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies

Does the emphasis on helping 'participants in the world's capital markets and other users make economic decisions', with consideration of 'the special needs of small and medium-sized entities and emerging economies', remain appropriate?

HoTARAC supports the Constitution's current emphasis on SMEs, but considers that the inclusion of public sector entities should be given priority by the IASC Foundation, as recommended under Question 3. If the International Accounting Standard Board's mandate was extended to include not-for-profit and public sector standard-setting, the Constitution should be amended accordingly.

In addition, HoTARAC has previously expressed concerns about the proposed primary user group of "capital providers", in its response to the IASC Foundation on Part 1 of the Review of the Constitution. By adopting such a narrow primary user group, there may be the strong implication that the objective of financial reporting is to provide information for decisions about whether to buy, sell or hold securities. HoTARAC therefore considers that the Constitution's current reference to "participants in the world's capital markets" should be reviewed as it implies a focus on setting standards primarily for capital providers, with other users being considered to be significantly less important.

- 2. In the opinion of the Trustees, the commitment to drafting standards based upon clear principles remains vitally important and should be enshrined in the Constitution. Should the Constitution make specific reference to the emphasis on a principle-based approach?***

HoTARAC supports a principles-based approach to standard-setting, and encourages the inclusion of specific reference to such an approach in the Constitution.

3. ***The Constitution and the IASB's Framework place priority on developing financial reporting standards for listed companies. During the previous review of the Constitution some commentators recommended that the IASB should develop financial reporting standards for not-for-profit entities and the public sector. The Trustees and the IASB have limited their focus primarily to financial reporting by private sector companies, partly because of the need to set clear priorities in the early years of the organisation. The Trustees would appreciate views on this point and indeed whether the IASB should extend its remit beyond the current focus of the organisation.***

HoTARAC considers that the IASC Foundation should consider expanding the current mandate of the IASB to include not-for-profit and public sector standard-setting. The logical conclusion of the adoption of international accounting standards is that there should be a single worldwide standard-setting authority. It is HoTARAC's view that the IASB should be the worldwide standard-setting authority for both the for-profit and public sectors. With this objective in mind, HoTARAC encourages the IASC Foundation to amend the Constitution to extend the role of the IASB to the public sector, and to forge closer links with the International Public Sector Accounting Standards Board, with a view to considering a future merger path between the IASB and the IPSASB, as a means of achieving a single international standard-setting body.

4. ***There are other organisations that establish standards that are either based upon or have a close relationship with IFRSs. The IASC Foundation already recognises the need to have close collaboration with accounting standard-setting bodies. Should the Constitution be amended to allow for the possibility of closer collaboration with a wider range of organisations, whose objectives are compatible with the IASC Foundation's objectives? If so, should there be any defined limitations?***

HoTARAC considers that the Constitution should allow for closer collaboration by the IASB with a wider range of bodies and, in the context of public sector standard-setting, particularly the IPSASB, International Monetary Fund and the United Nations.

Governance of the organisation

5. ***The first part of the review of the Constitution proposed the establishment a formal link to a Monitoring Group. Under this arrangement, the governance of the organisation would still primarily rest with the Trustees. Although the first part of the review has not yet been completed, the Trustees would welcome views on whether the language of Section 3 should be modified to reflect more accurately the creation of the Monitoring Group and its proposed role.***

HoTARAC notes that the Constitution has now been amended as part of the first part of the Review to establish a formal link to a Monitoring Group. HoTARAC supports this change. Accordingly, HoTARAC believes that it is appropriate that Section 3 should be amended to reflect this change.

Trustees

6. ***The Trustees are appointed according to a largely fixed geographical distribution. Is such a fixed distribution appropriate, or does the current distribution need review?***

HoTARAC considers that the current distribution of Trustees is appropriate. However, HoTARAC notes that the Trustees should be required to commit themselves formally to acting in the public interest, rather than as representatives of their constituency or geographic interest.

Also, given that the IASB's mandate may extend to not-for-profit and public sector entities, relevant knowledge and experience in not-for-profit and public sector entities should be considered.

7. ***Sections 13 and 15 set out the responsibilities of the Trustees. The intention of these provisions is to protect the independence of the standard-setting process while ensuring sufficient due process and consultation—the fundamental operating principle of the organisation. In addition to these constitutional provisions, the Trustees have taken steps to enhance their oversight function over the IASB and other IASC Foundation activities. The Trustees would welcome comments on Sections 13 and 15, and more generally on the effectiveness of their oversight activities.***

HoTARAC considers that the proposed enhanced oversight function of the Trustees is appropriate. However, HoTARAC would like assurance that the absence of due process relating to the recent IAS 39 fair value reclassification amendments will not recur, as this could be seen to weaken the position of the IASB as an independent standard-setter.

8. ***The Trustees are responsible for ensuring the financing of the IASC Foundation and the IASB. Since the completion of the previous review of the Constitution, the Trustees have made progress towards the establishment of a broad-based funding system that helps to ensure the independence and sustainability of the standard-setting process.***

However, the Trustees have no authority to impose a funding system on users of IFRSs. The Trustees would welcome comments on the progress and the future of the organisation's financing.

HoTARAC supports the provision of free access to IFRS and related publications, but has no comment on the Foundation's funding arrangements.

International Accounting Standards Board

9. ***Commentators have raised issues related to the IASB's agenda-setting process. The Constitution gives the IASB 'full discretion in developing and pursuing its technical agenda'. The Trustees have regularly reaffirmed that position as an essential element of preserving the independence of the standard-setting process. However, they would welcome views on the IASB's agenda-setting process and would appreciate it if, in setting out views, respondents would discuss any potential impact on the IASB's independence.***

HoTARAC considers that the existing independent agenda-setting arrangements should be retained.

10. ***The Constitution describes the principles and elements of required due process for the IASB. The IASB's procedures are set out in more detail in the IASB Due Process Handbook. If respondents do not believe the procedures laid out in the Constitution are sufficient, what should be added? If respondents believe that the procedures require too much time, what part of the existing procedures should be shortened or eliminated? The Trustees would also welcome comments on recent enhancements in the IASB's due process (such as post-implementation reviews, feedback statements, and effect analyses) and on the IASB Due Process Handbook.***

HoTARAC considers that the existing due process provisions should be retained and perhaps strengthened to ensure that the absence of due process relating to the recent IAS 39 fair value reclassification amendments does not recur.

11. ***Should a separate 'fast track' procedure be created for changes in IFRSs in cases of great urgency? What elements should be part of a 'fast track' procedure?***

HoTARAC supports the creation of a "fast track" process for cases of great urgency, but notes that the definition of such circumstances needs to be carefully considered. In terms of the elements of a "fast track" process, HoTARAC considers that, at a minimum, an Exposure Draft should be issued and that an adequate comment period (of between one and two months) must be applied.

Standards Advisory Council

12. ***Are the current procedures and composition, in terms of numbers and professional backgrounds, of the Standards Advisory Council (SAC) satisfactory? Is the SAC able to accomplish its objectives as defined in Section 38?***

HoTARAC considers that the existing provisions in relation to the activities of the SAC are appropriate.

- 13. *Attached to this discussion document are the terms of reference for the SAC, which describe the procedures in greater detail. Are there elements of the terms of reference that should be changed?***

HoTARAC considers that the existing Terms of Reference for the SAC are appropriate.

Other issues

- 14. *Should the Trustees consider any other issues as part of this stage of their review of the Constitution?***

HoTARAC has no additional comments.