



Accounting Standards Review Board

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TRUSTEES' STRATEGY REVIEW

The Accounting Standards Review Board (ASRB) is pleased to submit its comments on the Trustees' Strategy Review. The ASRB is a statutory body which has responsibility for approving financial reporting standards, submitted to it by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants or by any other party. Proposals are currently being considered by the New Zealand Parliament which would however reconstitute the ASRB as the External Reporting Board (XRB). That Board would have full responsibility for accounting standard setting as well as for auditing and assurance standard setting in New Zealand.

The ASRB concurs with the trustees that the ten years since the founding of the Foundation have seen significant successes. It supports the trustees in their objective of helping the organisation to consolidate and build on these achievements and to achieve its ultimate objective.

New Zealand has had an ongoing commitment to high quality global accounting standards. Since 2005, profit oriented entities have been required to comply with New Zealand equivalents to International Financial Reporting Standards. Compliance with NZ IFRS ensures full compliance with IFRS.

While we strongly support a global set of accounting standards, the process of convergence in recent years has led to some frustration. Seemingly the majority of standard setting resource has been applied to seeking a converged set of standards with the United States (and to a lesser extent with other countries). This has sometimes meant that important issues for countries which have already adopted IFRS have not been given the priority we think they deserve. In our view, it is time to move on and for the IASB's efforts to be focused on improving IFRS for the benefit of the many countries that have adopted the standards and those countries in the process of transitioning.



While supporting the trustees in their strategy review, we are aware that the Monitoring Board is also undertaking its own strategy review. We are uncertain of the basis for the Monitoring Board's review, the areas of focus and the likely outcomes. We consider it unfortunate that a coordinated approach has not been taken to the strategy review and urge the trustees to do whatever is in their power to ensure that stakeholders are kept informed about both reviews, how they interrelate and how the outcomes of both reviews may be implemented.

We now turn to consider the specific issues raised by the trustees.

Mission: How should the organisation best define the public interest to which it is committed?

In two submissions on Part Two of the Constitution Review in 2009, we commented on the organisation's primary objective. Since that time, the objectives and qualitative characteristics section of the proposed new conceptual framework have been issued by the IASB. We have three concerns about the current objective:

1. The current objective as expressed in the Constitution is narrowly focused on investors in capital markets and does not adequately reflect the fact that other resource providers and service recipients also have important information needs which financial reports should aim to meet. (Furthermore we consider the objective as stated in the Constitution should align very closely with the objective as enunciated in the conceptual framework.)
2. The practical application of the objective in current standard-setting is towards large private sector businesses, whereas public sector entities (including, but not limited to, governments) are also major participants in the world's capital markets. This does not seem to be given weight by the IASB.
3. As a country with a single structure for financial reporting standards for all entities (both profit-oriented and public benefit entities in both public and private sectors) we are very interested in the global standard setting infrastructure and that it develop in a way that does not lead to unnecessary differences in accounting requirements across sectors. It is our view that reporting requirements for public and private sector entities should only differ where there is a sound basis for that difference and where that difference arises from the differing needs of the users of the financial reports. While we support greater working together between the IASB and the International Public Sector Accounting Standards Board (IPSASB), we do not think that current efforts are adequate to enable benefits to be fully realised in the development of high quality global accounting standards. In any event, we consider the Constitution should allow the possibility of evolutionary developments in the international standard setting infrastructure such that, for example, the IPSASB might become a separate board operating within the IFRS Foundation structure at some time. The implications of such a change occurring should not be underestimated. It would require significant change in the mix of trustees, changes in the membership of the Monitoring Board and other important changes.



Two further issues warrant consideration by the trustees:

- Firstly, developments in relation to broader aspects of reporting such as is evidenced by the establishment of the International Integrated Reporting Committee in 2010 need to be considered. That development suggests the need for the Trustees to consider a broadening of the current objective to encompass other reporting, such as about environmental and social issues. We note that both the IASB Chairman and a senior staff member of the IASB are participating in this work.
- Secondly, the trustees may wish to consider the recent exposure draft issued by the International Federation of Accountants entitled “A Public Interest Framework for the Accountancy Profession”. That document includes helpful ideas on what it means to set standards in the public interest. In any event, we note that the notion of the public interest has not been discussed by the trustees in their discussion document. This is despite the fact that the question asks how the public interest should best be defined. In our view a statement about what the Foundation considers “the public interest” means in the context of its activities would be helpful to all stakeholders.

The trustees have also raised the relationship between public policy concerns, particularly financial stability concerns, and accounting standard setting. The global financial crisis has raised the interface between accounting standards and other public policy objectives as a significant issue. We are of the view that financial reporting standards should continue to be prepared for a primary audience of the users of financial reports. However we observe that the interaction between the IASB and other regulators has significantly increased since the global financial crisis and we consider that is appropriate and should continue. Wherever possible, standards should be set mindful of concerns of such regulators and in some circumstances it may also be appropriate for standards to include formats or disclosure requirements driven by wider concerns. However, the requirements imposed by IFRS should not be modified to specifically meet wider concerns if that compromises the needs of the primary users of the information.

Governance: How should the organisation best balance independence with accountability?

The credibility of the governance of the IFRS Foundation is crucial to its success in the next decade. We have reservations whether the existing arrangements are sufficiently robust. In particular, we note that the establishment of the Monitoring Board has not progressed smoothly, that the membership of the Monitoring Board is not representative of the jurisdictions that either currently utilise IFRS or currently transitioning and that the current duplication of strategy reviews does not inspire confidence in the clarity of roles under the existing arrangements.

Accordingly we consider changes are needed to the governance. At a minimum we consider a broadening of the membership of the Monitoring Board to be essential. Additional work should also be done to clarify and document the role of each of the Monitoring Board, trustees and IASB such that there is a clear assignment of roles, responsibilities and authorities.



Process: How should the organisation best ensure that its standards are high quality, meet the requirements of a well functioning capital market and are implemented consistently across the world?

In commenting on Part Two of the Constitution Review, we expressed serious concerns about due process occurring in and around the time of the global financial crisis. We are satisfied that the changes made both to the Constitution and to processes and practices have largely addressed those concerns and we do not expect those circumstances to arise again.

We also congratulate the IASB on recent efforts to reach out to stakeholders. We have recently had IASB staff in New Zealand interacting with our constituency on two important proposals and welcome this development. We also note the use of the internet to communicate with a wider audience. We encourage all these efforts to continue.

However we do observe with concern the amount of work invested in certain projects (such as the revenue project, the provisions project and the rate-regulated activities, amongst others) where significant rework has been necessary to earlier proposals. Stakeholders have needed to put significant effort into commenting on proposals which were inadequately developed and in some cases poorly conceived.

The overall impact has been that stakeholders have participated in processes which have been inefficient. It is possible that the pressures for convergence have been a significant factor in these circumstances eventuating and that if those pressures are moderated in coming years the issue we have raised may cease to be as significant. Those pressures have also led to the attempts to complete a number of major projects by 30 June 2011 – we are concerned that those pressures are at risk of compromising the high quality standards we seek.

We wish to comment on one specific matter, namely agenda setting by the IASB. In that regard we note changes in recent times to enhance the process. We believe that one further change would enhance the arrangements, namely that the IASB should formally document its response following any process in which items are considered for its agenda.

Financing: How should the organisation best ensure forms of financing that permit it to operate effectively and efficiently?

We appreciate the challenges faced by the trustees in ensuring adequate resources to support the work of the Foundation. In principle, we support a proportional approach to funding of the Foundation, established for practical reasons on a tier basis. It is important however that financial contributions not be seen to, or in any way create, influence or power within the structures of the Foundation. For our part, we note that New Zealand has contributed to the Foundation for many years and we intend to continue to make a contribution to support the work and outputs of the Foundation and in particular of the IASB.

We have no other matters we wish to raise.



If you have any queries or require clarification of any matters in this submission, please contact me.

Yours sincerely

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