Accounting Standards Board
AcSB
CNC
Conseil des normes comptables

Memo

CL 11

To: International Accounting Standards Board (c/o Warren McGregor)

From: Canadian Accounting Standards Board Staff

Date: July 22, 2005

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

The following comprises the response of Canadian Accounting Standards Board staff (AcSB staff) to the IASB's Draft Memorandum of Understanding on the role of Accounting Standard-Setters and their relationships with the IASB, dated February 2005.

In general we agree with the proposals. However, we have a number of comments on specific aspects of the draft, which are set out in the following pages. On matters for which no comment is provided, we agree with the draft proposal.

We would be pleased to elaborate on these points in more detail if you so require. If so, please contact Peter Martin, Director Accounting Standards at +1 416 204-3276 (e-mail peter.martin@cica.ca), or Ian Hague, Principal Accounting Standards at +1 416 204-3270 (e-mail ian.hague@cica.ca).

Comments

Background

In paragraph 1.1, and elsewhere in the document, reference to "accounting standard-setters" may be too narrow to include organizations that do not set standards but, nonetheless, have relationships with the IASB, such as the European Financial Reporting Advisory Group (EFRAG). Perhaps a footnote to this effect should be included to clarify whether the Memorandum applies to such organizations.

Paragraph 1.3 will require updating to reflect the recent revisions to the IASCF Constitution — in particular the added references to small- and medium-sized entities.

Working with regulators

We suggest that this Section of the Memorandum should also acknowledge that, when practical, the IASB might help national standard setters in dealing with local regulators on accounting issues that also have international dimensions, through its own liaisons with international organizations of regulators such as IOSCO, BIS, and IAIS.

Consideration might also be given to including a responsibility for accounting standard-setters to liaise with those responsible for setting auditing standards in their jurisdiction, with a corresponding responsibility for the IASB to liaise with the International Auditing and Assurance Standards Board.

Communication

We suggest that an additional responsibility of national standard-setters be added to this Section — to advise the IASB of issues on which they are working – either alone, or with standard-setters other than the IASB, so that the database referred to in paragraphs 3.7 and 3.16 can be a complete record of issues being considered.

We suggest that the last sentence of paragraph 3.7 be qualified such that it reads "… on the basis that the answer is clear or is not sufficiently significant globally ~~unsuitable~~ for interpretation by IFRIC". This would reflect the fact, acknowledged later, that in some circumstances an issue may be suitable for resolution solely on a local basis, when that issue does not have global consequences.

Regarding paragraph 3.10, our experience is that that the translation process can often improve the final English text. Therefore, there can be benefits from commencing translation using a pre-final text if those improvements identified are communicated to the IASB. However, the benefits of using a pre-final text must be carefully weighed against the potential costs of amending previously translated material if the final English text changes.

Regarding paragraph 3.11(b), we suggest that it would be useful to state explicitly that standard-setters should not act as a "filter" or "screen" between stakeholders and the IASB. While standard-setters might facilitate communications, they should take care not to over-summarize or dismiss concerns of stakeholders that might be relevant to the IASB.

Regarding paragraph 3.18, we note that the IASB (and FASB) recently concluded in the joint IASB/FASB Conceptual Framework project that transparency was not capable of clear definition and should not be included in the converged conceptual framework as a qualitative characteristic of decision-useful financial information. We suggest that this term be deleted from paragraph 3.18. (Indeed, we note that the footnote reference to the IASCF Constitution and IASB Preface refers only to "an open and credible process.")

Regarding paragraph 3.22, we note that there is no proposal setting out the IASB's responsibility to consider differences of opinion identified by accounting standard-setters. We suggest that material be added to discuss this responsibility, but that it should make clear that while the IASB should be expected to consider a difference of opinion, there should not be any expectation that the difference of opinion must be resolved. In some cases, parties will need to agree to differ in their views, and the views of the IASB will prevail.

Project role

We suggest that paragraph 4.2 also acknowledge that a benefit from a team comprising a range of accounting standard-setters of differing experiences can be the opportunity for less experienced standard setters to build their experience and expertise for the future.

We suggest that paragraph 4.8 needs to be amended to reflect the fact that it will not be possible for all standard-setters to be able to undertake research work. If this were to be the case, then the IASB would be unable to cope with the volume of work being undertaken. The amendment could be accomplished by amending the first sentence of paragraph 4.8 to read, "Accounting standard-setters should, subject to resources being available<u>, and as requested by the IASB</u>, undertake research work with the IASB and be involved in project teams."

Application of standards

We disagree that accounting standard-setters should amend IFRSs for adoption in their jurisdictions, even when amendments do not result in non-compliance with IFRSs. We accept that on transition to IFRSs there may be "legacy" issues on which a particular accounting standard-setter has previous standards in place which limit options provided by IFRSs, add additional disclosure requirements, or deal with issues not addressed by IFRSs. In such circumstances, we agree that accounting standards-setters might retain those additional limitations on options, additional disclosures, or additional standards in their jurisdictions. However, going forward, we do not believe that it is appropriate for an accounting standard-setter to limit options in, or add disclosures to, standards that have been fully deliberated in the international environment, including consideration of the appropriate balance of optionality and disclosures that must be included in those standards. Furthermore, providing the ability for accounting standard-setters to modify IFRSs in this way runs the risk that several accounting standard-setters might make different amendments, thus impairing global convergence of accounting standards. We suggest that the words "in a manner that creates a non-compliance with the IFRS" be deleted from the end of paragraph 6.7 and that some discussion of "legacy" issues be included in the body of the Memorandum.

We suggest that the Memorandum should recognize the fact that some accounting standard-setters might wish to use IFRSs, either in their entirety, or as a base, for public sector entities or not-for-profit organizations — features of which are not explicitly dealt with in IFRSs. The Memorandum should acknowledge that IFRSs do not consider such entities explicitly, and comment on whether it is appropriate for accounting standard-setters to extend the use of IFRSs to apply to such entities.

Interpretation

We suggest that this Section should acknowledge that, in some situations, time will not permit IFRIC or IASB to deal with an issue fast enough, in which case an accounting standard-setter might need to issue its own local interpretation – but it would do so acknowledging the risk that the local interpretation might require amendment once it can be considered by the IFRIC or IASB.

The last sentence of paragraph 7.5 states that once the IFRIC and IASB decide not to address an issue and make their reasons known "this explanation should be considered to resolve the issue". However, paragraph 7.7 acknowledges that an accounting standard-setter might, nonetheless, issue its own interpretation. Perhaps, the sentence at the end of paragraph 7.5 needs to be qualified to express the view that the explanation should be considered to resolve the issue "at the global level".

Education

We believe that extreme care needs to be taken with educational material, to avoid the risk of interpreting IFRSs through "educational" material. Accordingly, we suggest that a warning to this effect be included in paragraph 8.3, which suggests that standard-setters may find it useful to develop their own educational material as regards the implementation of IFRSs. If in doubt, accounting standard-setters should consult with the IASB before issuing such material.

Consideration might be given to noting that the IASCF and accounting standard-setters might collaborate in developing educational material, in a similar manner to that in which the IASB and national standard-setters work together on research projects.