

29 July 2005

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International Accounting Standards Board
30 Cannon Street
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Dear Sir/Madam

IASB Memorandum of Understanding

Thank you for the opportunity to comment on the draft Memorandum of Understanding on the role of Accounting Standard-Setters and their relationships with the IASB (“MOU”).

The Reserve Bank of New Zealand (RBNZ) has prepared this submission both in its capacity as the supervisor of registered banks in New Zealand and as adviser to government on the operation of the New Zealand financial system.

The RBNZ has an interest in encouraging a sound and efficient financial system in New Zealand through robust accounting and disclosure arrangements across the financial sector and more generally. An important element in achieving good disclosure is a sound process for setting accounting standards, including having a clear allocation of responsibilities between international and domestic standard-setters and an effective process for ensuring that interested parties are consulted in the development of accounting standards.

In this context, we welcome the introduction of the proposed MOU, given that it will hopefully help to more clearly define the respective roles and responsibilities of the IASB and domestic accounting standard-setting bodies and facilitate effective consultation in the development of standards. In a world where International Accounting Standards are increasingly becoming the templates for domestic accounting standards, we stress the importance of a rigorous standard-setting process. In particular, we emphasize the need for:

- The IASB to thoroughly consult domestic and regional standard-setters at an early stage in the development of accounting standards, including on

underlying conceptual issues. Consultation needs to be wide-based and meaningful if the standard-setting process is to be credible and the standards to have an acceptable level of domestic support.

- The IASB and domestic standard-setters to widely and thoroughly consult interested parties, including regulatory authorities where appropriate, in the development of standards – and at a stage when consultation can have a meaningful influence on the development of the standard.
- Standards to be developed on the basis of thorough cost/benefit analysis, taking into account the perspectives of users of financial statements, issuers of financial statements, and the implications for regulation, among other considerations.
- The IASB to give domestic standard-setters sufficient time to consult interested parties and to facilitate effective implementation of standards.

Below we respond to some of the specific issues raised in the draft MOU.

Objectives of the MOU

The objectives that the MOU will seek to achieve are to some extent implied by the document. However, we believe that the MOU would be more useful if its objectives were specifically defined.

Accordingly, to make the MOU as effective as possible, we suggest that the MOU should include more detail regarding specific objectives. Overall objectives would appropriately include promoting a standard-setting process that involves a clear allocation of responsibility between the IASB and domestic standard-setters, seeking to ensure that all affected parties are given reasonable opportunity to comment on draft standards, and promoting a standard-setting process that is transparent, efficient and accountable and that aims to ensure high quality accounting standards.

The MOU and its objectives should be periodically re-appraised to ensure they remain helpful to implementing International Accounting Standards in an efficient manner.

IASB Communication and consultation with national regulators

The MOU suggests that domestic standard setters should have primary responsibility for consulting with domestic regulatory authorities. We do not disagree with this. However, whilst domestic accounting-setters are typically the

correct focal point for discussions with domestic regulators, we suggest that the IASB should have primary responsibility for consulting international regulatory authorities where relevant, and should be open to receiving and discussing comments from domestic regulators if regulators wish to raise issues directly with the IASB. The latter point reflects the reality that, in some countries and in respect of some issues, domestic standard-setters will not always have the same level of knowledge and experience that the IASB has on all relevant accounting matters. Direct communication between the IASB and domestic regulators may on occasion be the most efficient and effective means by which issues can be discussed (while also ensuring that the domestic standard-setters are included in those discussions).

International convergence of regulators

Paragraph 2.4 of the draft MOU suggests that accounting standard-setters should encourage international regulatory convergence where this would facilitate financial reporting convergence. Although we understand the point being made, we suggest that the MOU should be worded to recognise that regulatory convergence is not necessarily an appropriate end-objective in all cases; regulatory convergence might only be appropriate where it complements a country's policy objectives. Moreover, convergence of financial reporting might be only one of a number of considerations in designing domestic regulatory arrangements, and not necessarily the most important one. Therefore, the MOU's encouragement of regulatory convergence should be qualified to reflect these considerations.

We hope these comments are helpful to the IASB in its development of the MOU.

A copy of this letter has been sent to the Director of Accounting Standards at the Institute of Chartered Accountants of New Zealand.

Yours sincerely

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Financial Stability Department