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6 JAN 2011

Mr Robert Glauber
Vice Chairman
IFRS Foundation
30 Cannon Street
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Dear Mr Glauber,

STATUS OF TRUSTEES' STRATEGY REVIEW

The Australian Heads of Treasuries Accounting and Reporting Advisory Committee welcomes the opportunity to comment on the IFRS Foundation Trustees' Consultation Document: *Status of Trustees' Strategy Review*.

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 representatives from all Australian States, Territories and the Australian Government.

Australian governments are required to comply with the Australian Accounting Standards that are mainly based on the International Financial Reporting Standards issued by the International Accounting Standards Board.

HoTARAC supports the Strategy Review and has provided suggestions for the four areas of examination outlined by the Trustees. Of particular interest to HoTARAC is the consideration of a revision to the Foundation's mission objective. HoTARAC considers the terminology of the mission objective to be general enough; however, the application by the IASB has been too narrow. HoTARAC would like a greater focus on the needs of not-for-profit and public sector organisations.

As previously advised, it is HoTARAC's view that the IASB should be the worldwide standard-setting authority and HoTARAC encourages the Foundation to extend the role of the IASB to the public sector. In doing this, HoTARAC recommends that the IASB liaise with the International Public Sector Accounting Standards Board.

Comments by HoTARAC on the Strategy Review are attached.

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



Grant Hehir

CHAIR

HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

January 2011

Encl

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HoTARAC comments on the Status of Trustees' Strategy Review

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

- 1. The current constitution states, "These standards [IFRSs] should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions."***

Should this objective be subject to revision?

As advised in previous submissions, HoTARAC believes that the role of the IASB should be broadened and that the IASB should become the worldwide standard-setting authority for the public sector as well as the private sector.

HoTARAC considers that the Constitution terminology is general enough to include not-for-profit entities. However, the IASB has a narrow implementation of the objective by assuming that investors are only referring to for-profit sector investors and recently has taken an even narrower view of users by referring to financial analysts in developing IFRSs. The IASB's approach could evolve by considering other investors, e.g. taxpayers/fund contributors in not-for-profit (NFP) entities who are also dependent on information in the financial statements to make economic decisions. Further, the proposed broader view would consider "world's capital markets" to include government funding. As highlighted during the Global Financial Crisis, both government and private sector investments are closely meshed in "world's capital markets". In addition, it is HoTARAC's view that other users of financial information also include shareholders, regulators, the public, creditors and employees.

Alternatively, the current statement could be re-examined to provide further clarity for this broader role. The pursuance of the broader role of the IASB to include public sector and NFP entities may require a broader statement than that above.

Overall, HoTARAC considers that the application of the current statement is unnecessarily restrictive and reflects a focus on a narrow group of financial report users. A broader application would allow the IASB to consider, in addition to for-profit sector issues, whether the financial information enables users to assess an entity's performance/progress (regardless of whether it's a government or a public sector entity) in meeting program objectives, implementing management decision/policy and providing an understanding of resource allocation decisions.

In this regard, HoTARAC considers that the International Public Sector Accounting Standards Board is working in converging with IFRSs and would encourage the IASB to continue developing a closer relationship with the IPSASB to develop standards that are less specifically focused on the larger profit-making entities in the for-profit sector (and hence restricted to use by those entities) and achieve a single globally accepted high quality suite of financial reporting standards for all entities.

2. The financial crisis has raised questions among policymakers and other stakeholders regarding the interaction between financial reporting standards and other public policy concerns, particularly financial stability requirements.

To what extent can and should the two perspectives be reconciled?

HoTARAC feels that the main objective of developing independent accounting standards is not to achieve financial stability. The main objective of accounting standards is to ensure that relevant and accurate financial information is provided to dependent users that cannot command the information themselves. Regulators tasked with ensuring financial stability have many tools to promote financial stability and are capable of doing this in the current environment, as long as they remain free to develop high quality regulations. This is evident from the variation in experiences in the financial sectors of different countries during the Global Financial Crisis, notwithstanding considerable similarities in accounting standards.

HoTARAC is of the view that standard-setting needs to take account of both short-term volatility and longer-term financial performance. The trend to reporting "underlying earnings" is evidence of this. Potentially one way of addressing this, as well as closing the gap between financial reporting and financial stability requirements, would be a clearer distinction between operating result and other comprehensive income which isolates valuation changes/unrealised gains and losses from other items of financial performance.

HoTARAC believes that, as a general principle, financial standards should be drafted so as to be robust enough to cope with the disparate needs of users, including information needs from events like the financial crisis. It is HoTARAC's belief that "principles-based" standards are most likely to satisfy this requirement. If stakeholders and policy makers have specific unmet information requirements post-GFC, this would indicate that the existing standards may not be sufficiently robust. The identification of unmet user requirements provides a valuable opportunity for the IASB to examine the nature of any deficiencies in standards and to consider how standards could be made more robust.

However, there is also user value (certainty) in the stability of standards. Reactively altering, or formulating, standards to meet the specific needs of a particular group of users would need to be considered carefully by the Foundation in order to ensure that standards remain objective and that the needs of one set of users are not elevated above the needs of other groups.

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

- 3. The current governance of the IFRS Foundation is organised into three major tiers: the Monitoring Board, IFRS Foundation Trustees, and the IASB (and IFRS Foundation Secretariat).***

Does this three-tier structure remain appropriate?

HoTARAC has no specific recommendations on the matter and supports any structure that continues to promote independence and acts in the public's interest.

- 4. Some stakeholders have raised concerns about the lack of formal political endorsement of the Monitoring Board arrangement and about continued insufficient public accountability associated with a private sector Trustee body being the primary governance body.***

Are further steps required to bolster the legitimacy of the governance arrangements (including in the areas of representation of and linkages to public authorities)?

Obtaining formal political endorsement would be inappropriate as it could damage the credibility and integrity of the IASB IFRSs.

HoTARAC believes that, despite any formal political endorsement, the Foundation continues to demonstrate a strong emphasis on public accountability and competently facilitates the promotion and development of globally accepted financial reporting standards. Of particular importance to HoTARAC is the continuation of formal due process, which is vital for the independence of the Foundation and to ensure the development of standards free from political influence. HoTARAC also feels that the outreach program, in conjunction with current practices such as the disclosure of the Trustee's Minutes, the Foundation's sources of funding, letters from respondents and the public consultation process, all work to bolster the legitimacy of the Foundation.

HoTARAC notes that the Foundation represents members from over 100 countries, making it impractical and inappropriate for the Foundation to fall under the jurisdiction of any one country.

HoTARAC suggests that the Foundation consider appointing representatives from industry groups, including governments and NFP organisations, to the Board of Trustees, as this will provide a more diverse representation of standard users.

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?

5. Is the standard-setting process currently in place structured in such a way to ensure the quality of the standards and appropriate priorities for the IASB work programme?

HoTARAC welcomes opportunities to provide greater input in regards to the priority setting and the direction of work undertaken by the IASB. HoTARAC believes that the current standard-setting process is deficient in ensuring high quality standards.

The push for the US FASB convergence and the post-GFC activities has recently impaired the opportunity to ensure quality in the development of new standards in 2010.

The development of quality standards has been impaired by attempts to rush convergence and amend financial instruments standards in response to external pressure. The IASB should not compromise the development of a single set of globally accepted and high quality financial reporting standards in order to expedite the process.

A consequent pressure on due process has included unreasonably-shortened consultation periods. In relation to ED 2010/1 *Measurement of Liabilities in IAS 37*, this was particularly unsatisfactory. The development has also been impaired by the issue of clearly unsatisfactory proposals (such as accounting for rate-regulated activities).

The standard-setting process would benefit from tailoring the comment period and consultation to the project. Some topics are more complex than others and the process and the work plan should take this into account. Continuing consultation with constituents through the IASB outreach program would also assist the IASB in determining which topics would need to be considered as complex/difficult.

Additionally, HoTARAC would like to see matters relevant to the NFP and public sector concurrently addressed as part of the development of the standards and/or given more priority in the IASB's Work Program. Ideally, this activity would occur in close consultation with the IPSASB.

HoTARAC supports the Foundation's outreach program and would support any additional initiatives aimed at expanding the avenues available for stakeholder comment. In this respect, HoTARAC would urge longer consultation timeframes for the analysis of more complex proposals. It may also be beneficial trialling more complex proposals with constituents before finalising them.

Finally, HoTARAC supports the current project to upgrade the Conceptual Framework, although the resulting Framework should have a greater role in the development and interpretation of accounting standards. The Trustees will be aware of criticism that there are inconsistent recognition and measurement rules applied across the range of accounting standards. While it will take some years to address this, HoTARAC considers it would be a good start if the standard-setting process required new proposals to be tested against the Conceptual Framework, and particularly its recognition and measurement rules.

6. Will the IASB need to pay greater attention to issues related to the consistent application and implementation issues as the standards are adopted and implemented on a global basis?

While it would be appropriate for the relevant regulators, rather than the IASB, to monitor compliance with accounting standards, HoTARAC considers the consistent application of IFRSs to be a fundamental aspect of the Foundation's objective. It is also paramount for the continued development of a single set of globally accepted financial reporting standards.

HoTARAC views the publication of basis for conclusions and implementation guidance to be important elements of promoting consistent application and implementation.

The application of a robust process for the development of the standards to ensure that they contain clear requirements with additional guidance and examples will assist consistent application and implementation.

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

7. Is there a way, possibly as part of a governance reform, to ensure more automaticity of financing?

HoTARAC acknowledges the dilemma faced by the IFRS Foundation in regards to the issue of free riding and the significant difficulties associated with excluding the work of the Foundation from non-contributing users. The existing funding regime appears to achieve the delicate balance between the Foundation's independence requirements and the conflicting dependency on voluntary donations.

HoTARAC notes that if the governance structure were expanded to include representation from industry groups such as representatives from the major sectors of the economy, there may be the possibility of broadening the pool of funding.

Other issues

8. Are there any other issues that the Trustees should consider?

As mentioned in previous submissions, HoTARAC would like to see the Trustees, in their capacity as overseers, direct IASB to consider or work towards the amendment of the Constitution of the IASB to extend its scope to include NFP and public sector entities. HoTARAC also encourages the IASB to forge closer links with the IPSASB. A merger between the two bodies would see the development of a truly uniform set of international financial reporting standards.