



Australian Government

**Australian Accounting
Standards Board**

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Dear Tom

Setting a Strategy for the Foundation's Second Decade

Thank you for the opportunity to comment on the Report of the Trustees' Strategy Review released in April 2011.

A. Mission

The AASB supports the purpose identified in the Report and considers that it could be strengthened by incorporating a specific reference to acting in the public interest.

IFRS brand

The AASB supports the sentiments in the Report regarding adoption of IFRSs and considers this to be important in protecting the 'IFRS brand'. In this respect the AASB also supports the idea of having a mechanism to highlight instances where jurisdictions are asserting compliance with IFRSs without adopting IFRSs fully.

The AASB notes that in Australia both an entity's management and its auditors must make statements about IFRSs compliance in their reports. The AASB views this as the ideal the Trustees should be aiming for, rather than focusing only on the auditors stating compliance [paragraph A2].

Transition arrangements

The AASB supports there being strategies to facilitate the adoption of IFRSs and notes that there is a need for the Trustees to remain conscious of the various situations of the many jurisdictions that are considering adoption, including those jurisdictions that have adopted IFRSs for a particular class of entities and are considering extending adoption to a wider number of entities.

The AASB notes that IFRS 1 *First-time Adoption of International Financial Reporting Standards* is intended to facilitate jurisdictions adopting IFRSs, and that there may be a need to have it cater for a wider range of circumstances. For example, Australia has developed a second tier of general purpose financial reporting for non-publicly accountable entities that involves full IFRS recognition and measurement requirements with reduced



disclosures (using the disclosure principles of the *IFRS for SMEs*). In such circumstances, an entity moving from this second tier to IFRSs is required to apply IFRS 1, but there seems little rationale for doing so because the entity is not changing its recognition and measurement policies. The AASB also notes some jurisdictions are apparently claiming IFRS adoption without having adopted IFRS 1. This further points to a need to reconsider how convergence with a view to adoption should be handled.

The AASB encourages the Trustees to be mindful of the transitional needs of jurisdictions in order that there are no unnecessary barriers to IFRS adoption. Accordingly, there may need to be a re-consideration of the role of IFRS 1.

The AASB notes that the philosophy underpinning the *IFRS for SMEs* might also usefully be reconsidered in the context of transitioning to IFRSs. Since the *IFRS for SMEs* is a separate book of Standards with different recognition and measurement requirements from IFRSs that is not being updated at the same time as IFRSs, it could discourage, or at least not maximise the chances of entities or jurisdictions transitioning to IFRSs. Accordingly, the AASB encourages the Trustees to consider developing an integrated strategy for first and second tier general purpose financial reporting. The aim should be to facilitate IFRS adoption, for example, by entities that grow into publicly accountable entities, and by jurisdictions with emerging capital markets.

Convergence and Adoption

There are dangers in trying to have jurisdictions adopt IFRSs before they are ready to do so and when they do not have domestic standard setting resources to support implementation. Some would assert that a ‘big bang’ approach can work as an alternative to convergence. We doubt this.

The AASB notes that, in Australia’s case, the process of converging with International Accounting Standards commenced in 1996 and that this was significant in enabling Australia to adopt IFRSs in 2005. In substance, this was not a ‘big bang’ approach. We doubt that European adoption was a ‘big bang’ approach in substance. Transition and transitional support are important.

The AASB views convergence as a pre-cursor to adoption and urges the IASB and the IFRS Foundation to encourage jurisdictions along this path and to also emphasise that convergence is not a substitute for adoption. The AASB does not believe that a jurisdiction should be able to gain from the IFRS brand if it does not ultimately intend to adopt IFRSs.

One set of standards for all entities

The AASB considers that, ultimately, there should be one set of global standards that apply to all entities with public accountability or the equivalent notion in the private not-for-profit and public sectors. The AASB’s standards incorporate IFRSs and Australian for-profit entities with public accountability that comply with those standards are IFRS compliant. The AASB’s standards also include requirements that are specific to Australian entities, which in most instances apply to not-for-profit entities in the private and public sectors.



Accordingly, the standards applying to all types of entities in Australia are IFRS or IFRS-based. The AASB encourages the Trustees to consider strategies that will help ensure high-quality standards apply across the globe to all types of entities and notes the need to consult with the International Public Sector Accounting Standards Board in this regard.

The AASB considers that there is essentially one global capital market in which all types of entities (publicly accountable, other for-profit, public sector and private not-for profit entities) participate and that users of financial statements of all types of reporting entities should have access to useful information for decision making. Accordingly, the AASB urges the Trustees to adopt a long-term strategy of one global set of accounting standards.

If the Trustees do not adopt a wider view of capital markets among their strategies soon, it is the AASB's view that we will be sowing the seeds of one or more major convergence exercises that will need to be tackled in the future. Jurisdictions are being asked now to contribute funding and resources to standard setting activities that should not be competing.

Networks of national standard setters

The AASB supports the strategy of having a network of national standard setters that can assist the IASB with developing high-quality standards, facilitate and help maintain adoption of IFRS and promote their consistent application. The AASB is active in the Asian-Oceanian Standard-Setters Group, which has as one of its aims the strengthening of national standard setters in the region in the interests of making a useful contribution to the work of the IASB and in promoting IFRS adoption. With the recent formation of the Group of Latin American Standard Setters, this process of regionalisation seems to be gathering momentum and should be considered by the Trustees and the IASB to determine the implications.

The AASB considers that consistent application/implementation of IFRSs is important and that working through national standard setters, and regional groupings thereof, will assist in this regard by helping to develop a better and more widespread understanding of the principles underlying the IFRSs. The AASB does not believe that development of a plethora of interpretations, by whatever title, would be helpful in dealing with application/implementation issues.

B. Governance

The AASB agrees the independence of the IASB is of utmost importance in protecting the integrity of the due process and ensuring that IFRSs are regarded as being of a high quality.

The AASB considers the current structure to be generally appropriate and that it is essential the roles of the IASB, Trustees and Monitoring Board are clearly distinguished. The AASB considers the role of the Monitoring Board is to provide independent assurance as to whether the Trustees' oversight role in relation to the IASB is properly discharged and whether the IASB is operating as it should. In this regard, the AASB does not see the Monitoring Board as the 'top tier'; rather the AASB sees it as complementary to the two-tier structure comprising the Trustees and the IASB.



The AASB also considers that the IASB's independence and a sound governance framework are both crucial to attracting funding, particularly from governments.

C. Process

The AASB welcomes further enhancements to the due process, including reinforcement of the Due Process Oversight Committee and greater involvement of national standard setters.

The AASB has been concerned about the IASB's increased use of informed targeted due processes that may well suit the purposes of the IASB, but are difficult or impossible to know how to match at the national level. The implication is that national standard setters with a required due process for the adoption of IFRSs may be unable to perform that process in the same timeframe as the IASB. Accordingly, the AASB is concerned that the delay between the IASB issuing a new or revised IFRS and the release of the relevant new or revised Australian standard will grow because we will need to undertake further due process formally, and assess regulatory impacts, after the IFRS is completed. That would frustrate the AASB's normal process of making a Standard available shortly after the relevant IFRS is issued and would deny local constituents with the opportunity to early adopt new and revised IFRSs as soon as feasible.

Accordingly, the AASB urges the IASB to make its due processes more inclusive of the wider, global constituency. The AASB acknowledges that national standard setters will also need to reconsider their own due processes to try to avoid gaps between final standards and materials used in domestic consultation. National standard setters need to be able to detect when targeted due process is being employed. Further, greater access for national standard setters to the detail of the underlying research would help in this regard. Where possible, the AASB would wish to be able to place reliance on the IASB's work and not duplicate it. But much depends on whether the IASB's sampling of views is likely to be valid in the context of the AASB's domestic market.

D. Financing

The AASB considers that, in principle, each jurisdiction applying IFRSs should share the cost of promulgating IFRSs. The basis for the amount of each jurisdiction's contribution should be proportional to its capacity to pay.

Yours sincerely

Kevin M Stevenson
Chairman and CEO