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Financial Reporting Council

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Mr Tom Seidenstein
Chief Operating Officer
IFRS Foundation
30 Cannon Street
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Dear Mr Seidenstein

I am pleased to provide a submission from the Australian Financial Reporting Council (FRC) to the Report of the Trustees' Strategy Review issued in April 2011 (the Report), following on from the submission we provided to the original Strategy Review in December 2010. We have focused our comments on a small number of key areas where we have concerns. We are comfortable with the views expressed in the other sections of the Report.

General comments

The FRC is pleased to note that the Report makes an explicit reference to the Monitoring Board Review and commits to producing an integrated set of proposals. We believe that close coordination with the Monitoring Board Review and development of a complementary package of measures is critical to ensuring a genuine improvement to the operations of the IFRS Foundation.

The FRC is further pleased to note that a number of key recommendations of the FRC submission in December 2010 have been adopted.

The IASB will shortly be consulting on its agenda and priorities. We strongly support the proposal to provide feedback following the consultation process and the decisions made by the IASB in determining the agenda. While it will not be possible to please all stakeholders, explaining how and why crucial decisions have been made in setting the agenda and the priorities is a critical step in gaining widespread stakeholder support for the IASB and its work program.

We consider that the agenda and priorities should be used to develop a 3 year strategic plan for the IASB, and that the plan should address the IASB's relationship with other organisations active in

financial reporting such as the International Public Sector Accounting Standards Board and the International Integrated Reporting Committee.

Mission: Consistency of application and implementation

The FRC also supports the strong focus on consistent application and implementation demonstrated in the report. We believe that this is a crucial next step following global IFRS adoption in ensuring that the benefits of a single global set of standards are secured and bedded down.

The FRC considers that more detailed guidance from the IASB in this area is essential, in particular to assist in determining what constitutes full compliance with IFRS.

The FRC notes that there are other issues related to the consistent use of IFRS that may need to be considered. For example, we urge the IASB to review the approach taken with respect to the IFRS for SMEs standard. It appears confusing to apply this term to a standard that does not use the same recognition and measurement requirements as IFRS, especially as the use of this terminology may create the impression that full IFRS adoption would only be possible if there is also adoption of IFRS for SMEs.

We note that a number of countries have seen a need to vary IFRS for SMEs, including Australia, which has used a reduced disclosure approach that retains the recognition and measurement requirements of IFRS whilst adopting the approach of IFRS for SMEs for reducing disclosure. This approach preserves, for us, the advantages of a coordinated approach across the private and public sectors in Australia. We do not believe that we should be regarded as an IFRS outlier for having done this and do not believe that it is in the interests of the Trustees or the IASB for this to be the perception. We are strong supporters of IFRS and effectively have spread it to far more entities than in most other jurisdictions.

The IASB and the Trustees may wish to consider measures that could be taken to prevent confusion or wrong messaging from arising in relation to SME accounting. For example, it may be clearer to have two schools of requirements, one based on a common set of recognition and measurement requirements and the other having the variations identified in IFRS for SMEs. As the Trustees and Board acknowledge that they have yet to consider the public sector, it would seem unreasonable for Australia, and possibly other countries, to be penalised when they have.

In this context the IFRS Foundation and the IASB may wish to consider strategically the issue of an integrated approach such as that used in Australia (covering both publicly accountable and SME entities) rather than using separate books for each separated by time and content. Our approach has the advantage of keeping intact the context of the two sets of requirements. We do not accept that SMEs can afford to ignore the development of IFRS during debates, especially when it is being both improved and simplified. This issue could also be important when the IASB considers private sector not-for-profit entities.

With respect to differential reporting, the IASB may also wish to consider whether it should issue additional guidelines to assist jurisdictions in deciding their reporting tiers, which would help to further reduce the potential for “regulatory arbitrage”. Creating a more consistent approach to reporting tiers globally would assist in providing investors and other stakeholders with more clarity and transparency. It would also reduce the prospect of convergence exercises in the future. A table we have prepared illustrating the wide variation in reporting tiers across jurisdictions, which may be helpful to others, is attached (Appendix - Summary of Financial Reporting Requirements in Major Jurisdictions).

Governance

The report supports the current governance structure, and provides a commitment to clarify and clearly define the roles and responsibilities of each element of the governance structure. Some ideas and proposals in this area are provided, especially in relation to the roles of the IFRS Trustees in relation to the IASB.

However, the FRC considers that more work needs to be done in this area, in particular in relation to separating the roles of the IFRS Trustees and the Monitoring Board. This is an area where there has been significant confusion in the past, and where the existing provisions contained in the relevant documents do not reflect the reality as expressed in the actions of the Monitoring Board.

The Report states that further proposals addressing governance issues will be provided through the Monitoring Board Review. Because the governance question is being addressed through two separate initiatives, we believe that the risk of uncoordinated proposals and failures to address important matters is particularly acute in this area, and urge the IFRS Trustees and the Monitoring Board to be vigilant in ensuring that this does not occur.

The FRC considers it unhelpful to use the phrase “3 tier” structure as it implies a hierarchy in which the Monitoring Board is supreme. We believe the better characterisation is that of a 2 tier structure with an independent monitoring board providing assurance to those adopting IFRS that the processes of the Trustees and IASB are appropriate and are being followed. This would reduce the prospect of confusion over roles.

The FRC suggests that it would be useful and reassuring to stakeholders to explain the process that will be followed in amending the current governance structure, and to integrate the proposed changes in the key documents underlying the governance structure (IFRS Foundation Constitution, the Monitoring Board Charter and the MOU between the MB and the Trustees).

One suggestion to improve clarity and transparency would be for each of the bodies to adopt a simple and concise charter, setting out key matters such as functions, membership and meeting rules.

We also suggest that the Trustees consider appointing one Vice Chairman, rather than two, to assist in a clearer and smoother transition of the Chairman role.

We note that there is still a range of important issues that the FRC believes need to be addressed, especially to expand the scope of the IASB’s work beyond the private for-profit sector. While we understand that it is not possible to commit to an expansion at the current time, it would be very helpful to stakeholders if an indicative timeframe could be provided stating when such an expansion may be considered.

Yours sincerely

SIGNED
Lynn Wood
FRC Chairman

APPENDIX

Summary of Financial Reporting Requirements in Major Jurisdictions

Table 1 – for-profit entities

Type of entities	Australia (in place)	New Zealand (proposed)	UK (in place and proposed)	Canada (in place)	USA (in place)
Publicly accountable entities	IFRSs	IFRSs	IFRSs	IFRSs	FASB Standards and SECOND rules for SEC registrants
Middle tier / Medium entities	IFRSs with Reduced Disclosure Requirements (RDR)	IFRSs with Reduced Disclosure Regime (RDR)	<p>UK GGAP (in place)</p> <p>Proposed:</p> <p>FRSME – amended version of <i>IFRS for SMEs</i>, with some IFRS and UK GAAP recognition and measurement additions, plus industry based Statements of Recommended Practice (SORPs)</p> <p>IFRSs with reduced disclosures for subsidiaries of publicly accountable entities</p> <p>FRSME with reduced disclosures for subsidiaries of non-publicly accountable entities</p>	Accounting Standards for Private Enterprises	Private companies not regulated
Small / micro entities	Exempt (unless ‘reporting entities’)	Exempt	<p>Small = FRSSE – largely existing small entity UK GAAP with simplified recognition, measurement and disclosure (in place and proposed)</p> <p>Micro = exempt</p>	As above or exempt	

Table 2 – not-for-profit entities

Type of entities	Australia (in place)	New Zealand (proposed)	UK (in place and proposed)	Canada (in place)	USA (in place)
Public sector Large/Tier1	IFRSs based with NFP modifications	‘Pure’ IPSASs	IFRS based with public sector modifications (in place)	Public sector-specific Canadian GAAP	FASAB Standards for federal entities, GASB Standards for state entities
Private sector/Tier 1	None required to be in Tier 1	IPSASs – public benefit entity application	Private sector UK GAAP (in place) If publicly accountable, IFRS based with NFP modifications based on a PBE FRS (proposed) If not publicly accountable, FRSME (amended version of the <i>IFRS for SMEs</i> , with UK GAAP for some recognition and measurement, plus SORPs) with PBE FRS as persuasive best practice guidance (proposed)	Accounting Standards for Not-for-Profit Organisations	FASB standards modified for NFP
Private sector/Tier 2	RDR with NFP modifications	As above	Private sector UK GAAP (in place) FRSME plus PBE IFRS mandatory (proposed)	As above	No required Standards
Public sector Other	RDR with NFP modifications	Differential public benefit entity standards (based on IPSASs)	IFRS based with public sector modifications (in place)	Public sector-specific Canadian GAAP	
Private sector Other	RDR with NFP modifications	Differential public benefit entity standards (based on IPSASs)	FRSSE + SORP (in place) Plus PBE IFRS as persuasive best practice guidance (proposed)	Accounting Standards for Not-for-Profit Organisations	