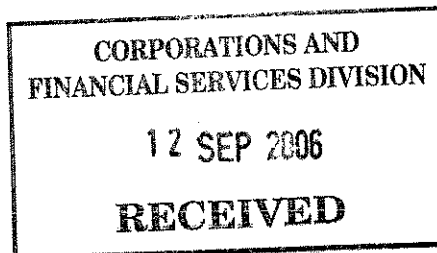


6 September 2006

Mr Charles Macek
Chairman
Financial Reporting Council
C/o The Treasury
Corporations and Financial Services Division
Langton Crescent
CANBERRA ACT 2600



Dear Charles

Re: FRC request for further issues

The National Institute of Accountants (NIA) is pleased to respond to the Financial Reporting Council's (FRC) request at the conclusion of the Simpkin's report for comments on other matters it may need to consider as a part of its ongoing role of overseeing financial reporting and audit. This submission covers the area of governance standards.

We believe that the FRC may perhaps consider following it's counterpart in the United Kingdom and establish a committee to set governance principles in order to eliminate demarcation disputes over who should set governance standards.

A single board, committee or council issuing governance or reporting standards that are non-mandatory would appear to have merit in an environment where the same level of accountability for the conduct of management, boards of directors and political leaders is expected by the community. A single body setting these standards would be in the public interest rather than having a number of bodies such as the Australian Stock Exchange's Corporate Governance Council and the Australian Prudential Regulatory Authority setting their own requirements. It would be simpler for business to follow a single set of principles set by the one organisation. We believe the FRC is the appropriate authority to oversee such a body.

Rationale for the suggestion

The FRC has within its ranks people who represent a range of interests. Interests of users and preparers and consultants are all represented on the FRC and it is appropriate therefore for the FRC to have a role in dealing with the broader issue of governance and operating review disclosures. The FRC also has oversight of bodies that have a standard setting culture and it may be considered appropriate for such experience to be applied to the setting of governance or reporting standards.

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A set of governance guidelines has application for both the for-profit and not-for-profit sectors. While we accept that the way in which governance reports and reports describing the nature of an entity's operation are written will be different for each entity, core principles describing the type of information that should be contained in such reports are generic.

The guidance on governance disclosures produced by a statutory board with public interest will have over time a more legitimate claim to community trust than a committee existing within entities fostered by other organisations that do not share protocols that foster transparency.

A statutory board has the necessary immunity from criticisms of overt conflicts of interest and also a greater public transparency that is designed to win public trust over time. The Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB) are both examples of where public meetings on technical matters work. Recent forums held by the professional accounting bodies on international accounting standards, small-to-medium enterprise compliance issues and public sector financial reporting are illustrations of this.

An additional benefit of having the FRC overseeing a standard setter or committee dealing with governance disclosures and operating reviews is that fact that the committee can be more flexible.

Existing bodies such as the ASX Corporate Governance Council operate outside an oversight structure and as such their convenors feel obliged to provide a range of bodies with a seat around the table. It may be more efficient to establish a smaller committee under FRC oversight in order to ensure that the benefits of a representative body are maintained at the oversight level while pronouncements are set by a smaller, more focussed committee. This committee, can where necessary set up a project advisory panel to handle specific tasks on its behalf.

Actuarial standards

The FRC's counterpart in the United Kingdom also has under its oversight the setting of actuarial standards. There is merit in reviewing the issue of whether actuarial should be set in Australia by a body that is outside the jurisdiction of the FRC given that actuarial standards play a part in determining the way in which figures, that appear in accounts, are determined in areas such insurance, employee benefits and superannuation.

I appreciate your consideration of the issues raised above. Should you have further queries in relation to these or other issues feel free to contact our technical department on 03 8665 3100.

Kindest Regards



Roger Cotton
Chief Executive Officer
National Institute of Accountants