

Mr Jorge del Busto  
Secretary, Financial Reporting Council  
c/- The Commonwealth Treasury  
Langton Crescent  
Parkes ACT 2600

**PricewaterhouseCoopers**  
**ABN 52 780 433 757**

Freshwater Place  
2 Southbank Boulevard  
SOUTHBANK VIC 3006  
GPO Box 1331L  
MELBOURNE VIC 3001  
DX 77  
Website: [www.pwc.com/au](http://www.pwc.com/au)  
Telephone 61 3 8603 1000  
Facsimile 61 3 8603 1999  
Direct Phone 61 03 8603 3868  
Direct Fax 61 03 8603 1999

30 October 2006

Dear Mr del Busto

**The Use of a Sector Neutral Framework for the Making of Australian Accounting Standards**

We are pleased to share our comments on some of the issues raised for consideration in the Financial Reporting Council's (FRC) invitation to comment on *The Use of a Sector Neutral Framework for the Making of Australian Accounting Standards* (ITC).

This ITC and the report prepared by Kevin Simpkins *A Review of the policy of sector-neutral accounting standard setting in Australia* (the Simpkins Report) are timely as we understand some public and other not-for-profit sector entities and the users of their financial reports are concerned that the current approach to standard setting in Australia is not meeting all their needs.

We support the FRC reviewing these concerns. We think it is important to address the frustrations with the lack of progress made on public sector and other not-for-profit entity issues in recent years and reservations with the suitability of certain aspects of a number of International Financial Reporting Standards (IFRS) for these entities. However, in our view careful consideration must be given to the factors contributing to these frustrations and concerns before concluding there is a fundamental problem with the current accounting standard setting framework, or that creating a separate accounting standards board or developing two separate sets of standards is the best way forward.

We think much of this frustration and concern may be the result of the way the Australian Accounting Standards Board (AASB) approached the task of implementing the FRC's policy of adopting IFRS in Australia in 2005-06. A significant portion of the AASB's resources has been devoted to this project and this was essential to the success of Australia's move to IFRS. However, some would say that not enough consideration was given to the reporting framework for public sector and other not-for-profit entities during this process.

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It seems to us that the AASB and FRC have acknowledged the need to address this as the AASB's current business plan includes an emphasis on public sector and other not-for-profit entity issues. The AASB's commitment to this should be monitored going forward.

We are mindful of the concerns that IFRS are developed for large private business entities and that some of the requirements are not suitable for application by public sector and other not-for-profit entities, without some modification. However, we question whether the nature of these entities and their activities creates a significant number of different accounting requirements and whether this merits establishing separate accounting standards boards.

We think Australia needs to be careful not to pre-empt the outcome of the collaborative project the International Public Sector Accounting Standards Board (IPSASB) is undertaking with participating national standard setters and similar organisations to develop conceptual rules for public sector financial reporting. We understand an important part of this project will be addressing the need to develop rules that are as consistent as possible with the IASB conceptual framework, particularly for public sector business entities.

We are concerned that creating separate boards could cause too great a focus on the IPSASB's existing framework and standards, rather than considering public sector and other not-for-profit entity issues from the perspective of a broader range of entities. This narrower focus could lead to the introduction of differences in financial reporting that are not really necessary, and that will need to be realigned when the IPSASB conceptual rules are developed and converged with the IASB framework.

For these reasons, in our view it is premature to conclude in favour of creating a separate board, rather than the AASB making greater use of sub-committees which draw on appropriate expertise from outside of the AASB to provide advice on public sector and other not-for-profit entity issues.

However, we think there may be merit in considering how the standards are presented so it is easier to access the rules applicable to private sector business entities, and the rules applicable to public sector and other not-for profit entities. This may lead to Australia publishing separate sets of standards.

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Publishing two sets of standards could also assist in making it clear that the Australian versions of IFRS have the same requirements as IFRS for private sector business enterprises, and that the application of IFRS in Australia has been modified only for not-for-profit and public sector entities. We are aware that there remains some confusion world-wide on this matter.

I would welcome the opportunity to discuss our views at your convenience. Please contact me on (03) 8603 3868 if you would like to discuss this further.

Yours sincerely



Jan McCahey  
Partner  
Assurance