22 February 2011

Robert Glauber
Vice Chairman
IFRS Foundation
30 Canon Street
London EC4M 6XH
United Kingdom

Submission via IFRS Foundation website

Dear Mr Glauber

Consultation Document: Strategy Review

Thank you for the opportunity to comment on the IFRS Foundation Consultation Document: Strategy Review (Review). CPA Australia, The Institute of Chartered Accountants (the Institute) and the National Institute of Accountants (NIA), (the Australian Joint Accounting Bodies) have jointly considered the above Review and our comments follow.

The Joint Accounting Bodies represent over 190,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government, academia throughout Australia and internationally.

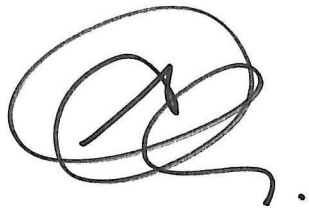
General comments

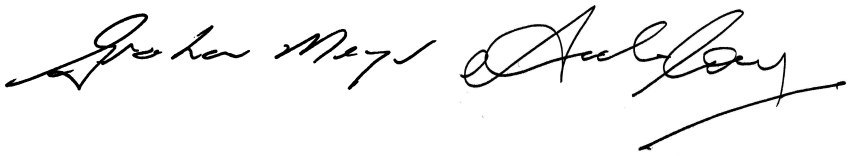
We support the Strategy Review process and would encourage the revision of the objective of the Constitution to better align it with the objective of general purpose financial reporting as articulated by the international Accounting Standards Board and the Financial Accounting Standards Board. Further, we would encourage an examination of the current three-tier governance structure with particular reference to the governance structure used by the International Federation of Accountants through its Monitoring Group and the Public Interest Oversight Board.

Our response to matters on which specific comment is requested is included in the attached Appendix.

If you have any questions regarding this submission, please do not hesitate to contact Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au , Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au or Tom Ravlic (NIA) at tom.ravlic@nia.org.au.

Yours sincerely





Alex Malley
Chief Executive Officer
CPA Australia Ltd

Graham Meyer
Chief Executive Officer
Institute of Chartered Accountants in Australia

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Chief Executive Officer
National Institute of Accountants

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?

The objective of the Constitution should be revised to better align it with the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) Conceptual Framework for Financial Reporting *Chapter 1 The Objective of General Purpose Financial Reporting*[1] The Chapter 1 objective has as its focus a primary user group – existing and potential investors, lenders, and other creditors which would include employees, suppliers, other trade creditors, and the advisers of investors. It states that while other parties such as regulators and members of the public other than investors, lenders and other creditors (e.g., customers) and governments also may find general purpose financial reports useful, those reports are not primarily directed to these other groups. Further, it is focused on financial information rather than financial statements, which in our view is an important distinction due to the increasing use of XBRL around the world.

Specifically, paragraph OB2 of the revised Chapter 1 says:

> "The objective of general purpose financial reporting* is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity."

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?

The Joint Accounting Bodies acknowledge that the perspectives of financial reporting and financial stability share some common features and that the work of the IASB on financial instruments, fair value measurement, derecognition and consolidation is in part responsive to that. However, we do not support further reconciliation of the two perspectives. While gaining an understanding of the common features is useful, we believe it important to understand the differences.

We understand financial stability as the environment in which financial intermediaries, markets and market infrastructure facilitate the smooth flow of funds between savers and investors and, by doing so, help promote growth in economic activity (Reserve Bank of Australia 2011 *About Financial Stability*). In contrast, Chapter 1 of the IASB and FASB Conceptual Framework for Financial Reporting states the objective of financial reporting, as noted in Question 1. Further, it is noted in OB10 that:

> "Other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups."

[1] The IASB and FASB intend to examine the application of their Framework to Not-for-profit entities (Phase G). Prior to any revision to the Constitution we believe it appropriate that the Trustees ascertain the IASB and FASB timeline for finalisation of Phase G.

It is important to keep in mind that general purpose financial reports do not provide all of the information and those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks. Further, general purpose financial reports are not designed to show the value of a reporting entity, but they do provide information that the primary users might use to estimate the value.

Therefore, we consider that regulations dealing with financial stability (imposing minimum capital requirements) for banks and similar organisations while relevant to prudential regulation should not distract from the objectives of financial reporting

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?

The Joint Accounting Bodies believe it appropriate that the current three-tier structure be reviewed for possible improvement. While we believe it appropriate to have the Emerging Markets and Technical Committees of International Organization of Securities Commission (IOSCO) as members we do not think it is necessarily appropriate that membership always is extended to the Financial Services Agency of Japan and the US Securities and Exchange Commission. We support the participation in the Monitoring Board as an observer of the Basel Committee on Banking Supervision and we suggest that observer participation could be extended to include others (e.g., International Association of Insurance Supervisors, The World Bank and/or The Financial Stability Forum).

We strongly encourage membership of each tier in the governance structure to be majority weighted to current IFRS adopters or those committed to adoption of IFRS in the short to medium term, given the experience that adopting and implementing IFRS brings. This may assist in the area of 'political endorsement' of the arrangements.

We note that the governance structure used by International Federation of Accountants (IFAC) includes the Public Interest Oversight Board (PIOB). The work of the PIOB includes to:

- review and approve the terms of references of the standards boards that it oversees, their respective Consultative Advisory Groups (CAG) and the Compliance Advisory Panel (CAP);
- evaluate the standard-setting Boards' due processes;
- oversee the work of and approve the nominations of the Nominating Committee to the standard-setting Boards, the CAGs and the CAP; and
- suggest projects to be added to the Board's work program.

Further, the IFAC Monitoring Group (a group that is similar to the IFRS Monitoring Board) has the role of selecting PIOB members and a review function associated with the PIOB budget and provides a forum for which its members could monitor the PIOB's oversight work.

The Joint Accounting Bodies would strongly encourage an examination of the current three-tier governance structure with particular reference to the governance structure used by IFAC as described above.

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?

See our response to Question 3 above.

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?

Independence is a desirable feature of standard setting. We see no reason why the agenda setting process should not be open to formal public discussion/consultation.

Recent outreach activities, in the area of hedging in particular, should be commended and should set the bar for future projects. Outreach was seen to take place all the way through the process, and not just when an ED was issued. Further, we have seen an increase in the use of field testing, particularly in relation to the insurance project. We encourage a continuation of global outreach activities and field testing for all major projects.

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?

The Joint Accounting Bodies agree that consistent application and implementation presents a challenge. We also note that with principles-based standards there may be more than one way by which a transaction can be accounted for. We understand that some regulators do not like this outcome. We think it important that the IASB when making a standard or reviewing a standard is as cognisant as possible as the ways in which the standard will be applied. This should include consideration of whether the standard as proposed leads to reliable measures that can be properly audited by an auditor with the relevant audit skills and industry knowledge.. However, we would not like to see this result in a departure from principles-based standard setting.

There will be times when it is appropriate for the IASB to develop more guidance on a range of matters in order to ensure consistency when this is appropriate. This will be called for by constituents typically during due process for a particular proposal. Therefore, it may not be necessary for this type of reference to be included in a constitutional document.

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?

We consider that the current funding structure of the IASB is not appropriate. Some form of government funding on a global basis should be developed. We consider that governments should commit to a minimum funding period (say three years) in order to provide some certainty over funding. One would expect that if a country adopts IFRS (or bases their standards on IFRS) the governments or the relevant organisation that set accounting standards would be responsible to pay for the development of these standards.

Other issues

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

We do not have any other issues for consideration at this time.