

**INTERNATIONAL FINANCIAL REPORTING STANDARDS
REGIONAL POLICY FORUM
SESSION THREE – BACKGROUND PAPER**

1. INITIATIVES TO PROMOTE REGIONAL CO-ORDINATION

Regional co-ordination of accounting standards is important to ensure consistency of application of IFRS. Benefits of regional co-ordination could include reduced transaction costs through having to understand and apply only one set of standards, and enabling enhanced co-ordination in contributing to the development and thus influence of international standards.

Regional co-ordination is currently being assisted by professional accounting bodies, accounting firms, standard-setting bodies and government officials in the region. All major accounting firms have set up global IFRS desks to ensure consistency of standards, and high –quality implementation of standards. In addition, a number of other initiatives are also being progressed as a means of promoting greater regional cooperation on financial reporting issues.

1.1 Three Countries' Accounting Standard Setters' Meeting

The accounting standard setting bodies from China, Japan and the Republic of Korea meet regularly as part of the Three Countries' Accounting Standard Setters' Meeting. At the latest meeting on 6 – 7 September 2005, the delegates discussed the latest developments of accounting standard setting in the three countries, their basic stance towards international convergence of accounting standards and obstacles they encountered as well as specific measures to address some of them. The delegates also reached the following consensus:

- The three parties recognise that the international convergence of accounting standards is the irreversible trend under the economic globalisation, and the three countries support the efforts by the IASB to develop a single set of high-quality and globally-acceptable accounting standards. In the meantime, the parties believe that convergence is not equal to being identical. The international convergence of accounting standards shall be a market driven gradual process and this process shall be two-way interactions between national accounting standard setters and the IASB giving consideration to special local environments.
- The three parties have confirmed that they shall work for the resolution of practical issues encountered in their respective accounting standard setting and international convergence efforts that should be continuously tested in their respective capital markets. That shall, on the one hand, be helpful to set the national accounting standards and on the other hand, to identify major obstacles and issues the countries encounter in the international convergence process and to communicate with the IASB to contribute to the improvements of the IFRS.
- The three parties have decided to set up a joint working group composed of their technical staff. The primary task of the working group is to carry out joint research on the main technical issues confronted by the three countries in their standard setting and international convergence. The joint working group may

meet on a non-regular basis and produce research results for the discussion at future meetings and as inputs to the IASB.

1.2 Trans Tasman Accounting Standards Advisory Group

The Trans Tasman Accounting Standards Advisory Group (TTASAG) was established in 2004 with the purpose of advising the Australian and New Zealand accounting standard and oversight bodies, and Governments, on strategies to:

- establish a single set of trans-Tasman accounting standards within the broader context of both jurisdictions' objective of adopting international accounting standards; and
- maximise the influence of Australia and New Zealand in the development of international accounting standards and the international accounting standard setting process.

In addition to hosting this forum, some of the key outputs of TTASAG have been the arrangement of cross-appointments between the Australian and New Zealand accounting standard setting bodies and also the development of a finalised protocol setting out aspirations and co-operative arrangements between the Australian and New Zealand accounting standard setting bodies.

1.3 Asia-Pacific Financial Reporting Advisory Group (APFRAG)

APFRAG is an initiative of one of the major Australian professional accounting bodies, CPA Australia. APFRAG represents the views of CPA Australia members in the Asia-Pacific region to the international standard setters including the IASB, the International Auditing and Assurance Standards Board (IAASB) and the International Public Sector Accounting Standards Board. The APFRAG committee is made up of CPA Australia members from around the region.

Since its inaugural meeting in May 2005, APFRAG has provided comments on 10 exposure drafts which include the regional perspective in the areas of international financial accounting, interpretations and auditing. Currently APFRAG is working on exposure drafts resulting from Phase II of the business combinations project, the first IASB Draft technical correction and the IAASB's exposure draft on audit reports on other historical financial information and summary audited financial statements. The next APFRAG meeting is being held in Malaysia on 8-9 December 2005.

More details on APFRAG are available on its website at: www.cpaaustralia.com.au.

2. DEVELOPMENTS IN THE EUROPEAN UNION, THE UNITED STATES AND JAPAN

2.1 European Union

Proactive Accounting Activities in Europe by European Financial Reporting Advisory Group and National Standard-Setters

The European Union has adopted IFRS as of 1 January 2005, and has played an important role in influencing the IASB in the accounting standards-setting debate.

The establishment of European Financial Reporting Advisory Group (EFRAG) has enabled the EU to pro-actively contribute to the standard-setting work of the IASB. EFRAG has successfully lobbied for changes to be made to IAS 39 *Financial Instruments: Recognition and Measurement*.

At a meeting held in Athens on 15 June 2005, EFRAG and seventeen national standard-setters (NSS) from Europe reached an understanding that EFRAG and NSS should work much more closely together to improve the input from Europe to the global standard-setting process. It is hoped that by working more closely together, it ought to be possible to enable some of the resources EFRAG and the NSS currently allocate to pro-active work to be pooled, thus enabling Europe to become more involved in the IASB's work from an early stage. It is also hoped that this increased co-operation will encourage the development of common views and therefore will ensure, as far as is practicable, that the messages Europe gives the IASB are consistent.

Background to EFRAG

EFRAG has been created by the main parties interested in financial reporting in Europe, namely the users, the preparers, and the accountancy profession, (supported by the national standard setters).

This private sector initiative has been welcomed by the European Commission and will support the adoption in Europe of IFRS by 2005. EFRAG, has as its main aim to give a pro-active contribution to the work of IASB. EFRAG will also advise on the technical assessment of the IASB standards and interpretations for application in Europe.

2.2 The United States (U.S.)

Norwalk Agreement

In September 2002, the US Financial Accounting Standards Board (FASB) and the IASB announced the commencement of a short-term convergence project aimed at reducing the differences between IFRS and US GAAP (Norwalk Agreement). This involves FASB and/or IASB making amendments to their existing standards in order to achieve convergence. This project covers a number of areas including:

- earnings per share;
- income taxes;
- research and development;
- non-current assets held for disposal and discontinued operations;
- construction contracts;
- government grants and disclosure of government assistance;
- provisions, contingent liabilities and contingent assets;
- hyperinflationary accounting; and
- joint ventures.

In addition to this, the FASB is also involved in a number of joint FASB/IASB projects. These projects are the conceptual framework project and also phase two of the business combinations project.

SEC Roadmap

In April 2005, Charlie McCreevy, EU Internal Market Commissioner, and William Donaldson, then Chairman of the US Securities and Exchange Commission (SEC) in the United States met in the context of the EU-US Financial Markets Regulatory Dialogue, and reached agreement on a roadmap towards equivalence between International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (US GAAP).

The roadmap developed by SEC staff highlights the steps needed to eliminate the US GAAP reconciliation requirement for non-US companies that use IFRS and file with the SEC. The roadmap establishes a goal of eliminating the reconciliation requirement as early as possible, possibly as soon as 2007, but no later than 2009.

2.3 Japan

In January this year the Accounting Standards Board of Japan (ASBJ) and the IASB announced their agreement to launch a joint project to reduce differences between Japanese accounting standards and IFRS. Some of the elements of the agreement include:

- The Boards will identify and assess differences in their existing standards on the basis of their respective conceptive frameworks or basic philosophies with the aim of reducing those differences where economic substance or market environment such as legal systems are equivalent.
- The Boards will address the differences in their respective conceptual frameworks. This will take place later in the project as a separate subproject at a time agreed by the Boards.
- The Boards will consider their respective due process requirements in arriving at agreement.
- The ASBJ will undertake a study to get an overall picture of major difference between Japanese accounting standards and IFRS and will identify topics to be discussed.
- The Boards will adopt a phased approach to the comparative reviews of differences in individual standards.

As a result of a joint meeting between the Boards in March 2005, it was agreed that the first phase of the project would address the measurement of inventories, segment reporting, related party disclosures, foreign subsidiaries and investment properties.

In the joint meeting between the Boards in September 2005, the ASBJ representatives indicated that the ASBJ would:

- Issue an exposure draft for unification of accounting policies applied to foreign subsidiaries within this year; and

- Issue a discussion document for measurement of inventories in October 2005.

The IASB representatives at the joint meeting indicated that the IASB would:

- Consider a staff proposal to amend related party disclosures that incorporates the ASBJ's suggestions;
- Deliberate the ASBJ's suggestions on measurement of inventories; and
- Consider the ASBJ's suggestions on investment property in the convergence project with the US FASB.

3. DEVELOPMENTS AT THE IASB

3.1 Draft Memorandum of Understanding with IASB

In February 2005, the IASB released a Draft Memorandum of Understanding (MOU) on the role of Accounting Standard-Setters and their relationships with the IASB. The MOU identifies responsibilities that the IASB and other standard-setters should use their best endeavours to fulfil in the interests of facilitating the ongoing adoption of or convergence with IFRSs. Outlined below are some of the key recommendations in the MOU for both the IASB and national standard setters covering the areas of communication, involvement in IASB projects and interpretation of IFRS.

Communication

The IASB should:

- maintain an up-to-date database of technical issues reported by accounting standard-setters and others that is accessible to standard-setters. National and regional standard-setters should consult one another on issues of common interest and formulate joint proposals for consideration by the IASB or the IFRIC;
- provide sufficient time in relation to consultative documents to allow other standard-setters to prepare any additional relevant material required to place the IASB documents in the national or regional context (including translation from English); and
- expose the IASB documents in their jurisdictions, receive comment from their constituents and formulate their own views with the benefit of constituents' input.

Accounting standard-setters should:

- encourage their constituents to communicate their technical views direct to the IASB, as well as to the national or regional standard-setter;
- be a key channel for information flowing to the IASB from government agencies, politicians and others who are engaged in non-technical debate; and
- make the IASB aware of any technical differences of opinion they have with a project as early as possible in the life of a project.

Involvement in IASB Projects

The IASB should, subject to the work being available, provide opportunities to other standard-setters to be involved with IASB projects as follows:

- involvement in a ‘research project’ alone or, in partnership with a team of other national or regional standard-setters (either as a leader of the team or as a team member), under the guidance of IASB staff and selected Board members; and
- involvement in a ‘project team’ of national or regional standard-setters on an active project under the direction of IASB staff and/or FASB staff.

National standard-setters should:

- subject to resources being available, undertake research work with the IASB and be involved in project teams. Once a standard-setter is committed to a project, it should remain in a position to make an effective contribution to the project; and
- promote the role of a working group member in their jurisdictions and encourage suitable individuals to nominate themselves.

Interpretation of IFRS

National standard-setters should monitor the implementation of IFRSs in their jurisdictions, identify issues that might require interpretation, and request the IFRIC or the IASB to address the issue. If an issue in a particular jurisdiction does not have broad relevance and the IFRIC or the IASB decides not to deal with the issue, an accounting standard-setter should issue its own interpretation only when it is compatible with IFRSs. If the IFRIC and the IASB decide not to address an issue, they should provide an explanation. Other standard-setters should consider this to be a resolution of the issue

3.2 IASCF’s revised Constitution

The IASCF has revised its constitution. Two changes of note are the change from the reference to the Asia-Pacific to the Asia–Oceania region, and the increase in the number of Asia-Oceania trustees from 4 to 6 putting them in par with Europe and North America in terms of influence in the standard-setting debate. There are now 22 trustees (6 from each of North America, Europe and Asia-Oceania with the remaining four trustees appointed from any area).

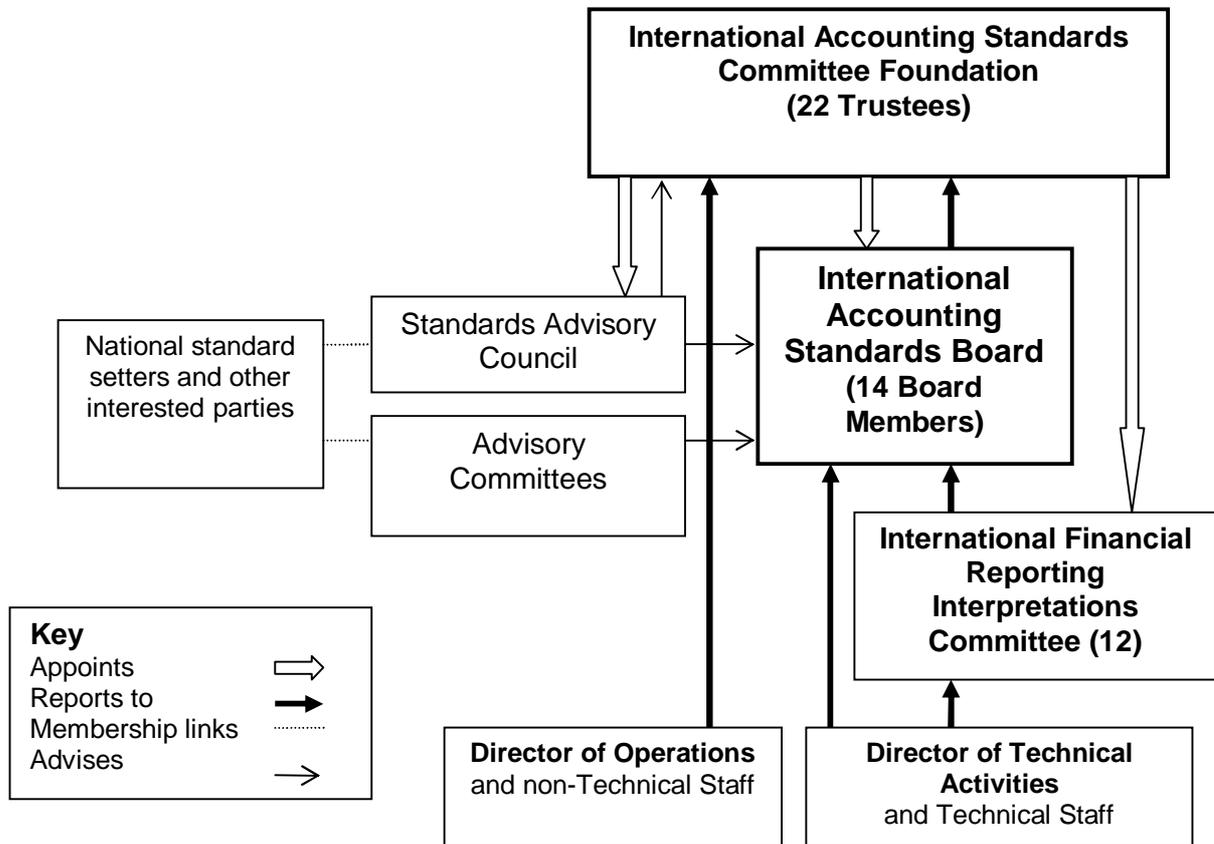
The current distribution of IASCF trustees is as follows:

North America	Europe	Asia-Oceania	Other
L Yves Fortier Canada	Bertrand Collomb France	Aki Fujinuma Japan	Roy Andersen South Africa
Malcolm Knight Canada	Oscar Fanjul Spain	Toru Hashimoto Japan	Roberto Teixeira da Costa Brazil
Philip A Laskawy USA	Cornelius Herkstroter Netherlands	Charles Yeh Kwong China / Hong Kong	Antonio Vegezzi Switzerland

David S Ruder USA	Max Dietrich Kley Germany	Richard Humphry Australia	Vacancy
Paul A Volcker USA	Sir Sydney Lipworth UK	Vacancy	
Sir Dennis Weatherstone USA	Jans Roder Denmark	Vacancy	

3.3 Current structure of the IASCF following revision of the IASCF Constitution

The structure of the organisation is depicted in the following diagram. The structure is designed to support those features that are regarded as desirable in establishing the legitimacy of a standard-setting organisation: its members are technically expert, represent the wider community and are independent.



The structure achieves its purpose by a balance of the functions of the various parts of the organisation, through the operational relationship shown in the diagram. The composition of the oversight body (the Trustees of the International Accounting Standards Committee Foundation), the advisory body (the Standards Advisory Council) and the interpretative body (the International Financial Reporting Interpretations Committee) represents the wider community by reflecting a diversity of geographical or professional backgrounds and membership of the standard-setting body (the International Accounting Standards Board) is based on the principles of technical competence and independence.