

06 December 2012

International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom
Email: CommentLetters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON THE IFRS FOUNDATION'S PROPOSAL TO ESTABLISH AN ACCOUNTING STANDARDS ADVISORY FORUM

In response to your request for comments on the IFRS Foundation's Proposal to Establish an Accounting Standards Advisory Forum, attached is the comment letter prepared by Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations, regulators, auditors, IFRS specialists and academics.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director – Financial Reporting

cc: Paul O'Flaherty (Chairman of the Accounting Practices Committee)

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GENERAL COMMENTS

We welcome the move taken by the IFRS Foundation and the IASB to formalise an advisory body to the IASB to make use of the technical expertise contained in the national standard-setters around the world in developing financial reporting standards and providing input to the early stages of project development. We are fully supportive of the proposal to create an Accounting Standards Advisory Forum (ASAF) as outlined in the *Proposal to Establish an Accounting Standards Advisory Forum* for the reasons given in the invitation to comment.

We have some comments, which are set out in this general comments section below, on the proposals, other than those covered by the questions in the invitation to comment.

While this proposal deals with formalising the consultation process with standard setters, this is only one group of interested parties with whom the International Accounting Standard Board (IASB) works. As identified in paragraph 2.5 of the proposal there are a number of other stakeholders with whom relationships should and have been established. It is likely that the reason to consider the creation of the ASAF, namely that National Standard-Setters (NSS) are many and diverse, applies equally to these other stakeholders. Accordingly it is believed that the IFRS Foundation should not only be looking to formalise relationships with NSS, but should also be looking to formalise relationships with other stakeholders.

While the intention is to formalise relationships with NSS, there is a danger that instead of this streamlining relationships, it could result in another layer which could delay even further the development of standards, as identified in paragraph 4.6. This could occur as a result of less formal arrangements being maintained, particularly with a NSS who might be of the view that their view is not been sufficiently heard, which could be a result of them being aggrieved that they are not directly represented on the ASAF, hence the comment in response to question 2 below, regarding the concerns some might have on the size of the ASAF. Accordingly it is believed that the IASB will have to reach agreement with the various bodies with whom they presently interact, as to how they will operate in the future. This will be necessary to ensure that the ASAF does not lead to a duplication of activity, particularly as paragraph 3.5 of the proposals refers to interaction with NSS continuing. This means that clarity needs to be obtained as to the future role and functions of a NSS when interacting with the IASB and which areas should be channelled to the ASAF in the future.

The proposals are not entirely clear on the appointment of members to the ASAF. Paragraph 6.14 states that a single individual should be a member of the ASAF, but membership would be based on organisational representation. Paragraph 6.31 identifies the risk associated with the IFRS Foundation setting up the ASAF, namely some NSS may not feel a sense of ownership. Based on this it is not clear who decides which organisations should be represented and who then appoints or approves the single individual. This is probably one of the more critical aspects that will determine whether the ASAF succeeds or not. There is no easy approach to resolve this issue, but we suggest the IFRS Foundation will need to agree with regional bodies as to which body should represent them on the ASAF, and then for those regional or national bodies, together with other bodies the IFRS Foundation would like to appoint

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to the ASAF that are not part of regional bodies, to possibly nominate one or more persons who are suitable for appointment to the ASAF. The IFRS Foundation could then decide which individual to appoint. In the case of only one person being nominated the IFRS Foundation might have to consider whether the person meets the criteria of having the required level of technical expertise in this way the Foundation and NSS each would have some say in the appointment of members of the ASAF, without any party having sole rights of appointment. An approach along these lines might be necessary for the ASAF to be accepted around the world.

As mentioned in our response to question 2 below, we believe the proposals can probably be amended fairly easily, if deemed necessary, and accordingly we believe they are suitably flexible to allow for necessary changes. Thus if concerns expressed by others become a reality they can be dealt with timeously, which is an advantage of the proposals.

No mention is made regarding the funding of the ASAF. While it is understood that the IASB does not intend to bear travel and accommodation costs of ASAF members, it would have been beneficial for this to have been mentioned, as this could inhibit involvement in the ASAF by certain NSS.

SPECIFIC COMMENTS

Question 1

Do you agree with the proposed commitments to be made by ASAF members (paragraph 6.4) and that they should be formalised in a Memorandum of Understanding (paragraph 6.5)? Why or why not?

While we generally support these proposals we believe there are some aspects of the wording that needs to be considered. The various NSS have differing roles and responsibilities and so, for example, a standard setting body may have no responsibility for the application of standards and may thus be uncomfortable to commit themselves to supporting the consistent application of IFRS as it may imply they have agreed to extend their role, which might be determined in legislation and which they have no power to change, as well as increasing their jurisdiction to countries outside their remit. Accordingly the wording should not be such that it would inhibit involvement in the ASAF by a NSS.

Although paragraph 6.14 refers to members being based on organisational representation, it is not clear whether this refers to national or regional bodies. Paragraph 6.8 refers to ASAF members providing input from their region, implying that an individual may be a representative of a region, but these regional bodies may comprise various NSS with varied characteristics as identified in paragraph 5.1. Thus it is likely that individuals may be appointed from a NSS. In terms of the proposals as currently worded they will need to ensure they also represent interests and views of other NSS in their region. For this reason that there is merit in including this as a requirement in the Memorandum of Understanding (MOU) that ASAF members are expected to sign (paragraph 6.5).

We therefore recommend that MOUs signed by NSS and regional bodies should probably differ in wording from that signed by ASAF members. This is because

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although bodies and individuals may support the same principles, how they relate to those principles may differ. For example, it may be easier for an individual to encourage input from their region than a NSS in a particular country whose remit is limited to that jurisdiction.

It is noted that the commitment is not limited to ASAF activities and could relate to other interactions between NSS/regional bodies and the IASB. As commented above, this might also be a useful way to clarify the role of the NSS in relation to both the ASAF and the IASB to help ensure that the ASAF succeeds.

Question 2

The Foundation believes that, in order to be effective, the ASAF needs to be compact in size, but large enough to allow for an appropriate global representation. Do you agree with the proposed size and composition as set out in paragraphs 6.7–6.13? Why or why not?

We support the size and composition of the ASAF as set out in the proposals on the basis that the members of the ASAF would be expected to have a high level of technical expertise and are likely to want to contribute and debate items on the agenda. If the group becomes too big the members might be of the view that they are not able to contribute sufficiently, which will result in a less efficient process than it is designed to be.

However, we realise that in order for the ASAF to have widespread acceptance and support the IFRS Foundation might have to consider increasing the size of the ASAF, but we would not support increasing its size unless it jeopardised the creation of the ASAF. A change in size could occur initially or subsequently when the effectiveness of the ASAF is considered periodically. With the ASAF not requiring a change to the Foundation's constitution, a change to the arrangements could be made fairly easily.