

17 December 2012

IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Email: commentletters@ifrs.org

Dear Sir/Madam

INVITATION TO COMMENT ON *PROPSAL 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*, below please find the comments prepared by the Financial Reporting Standards Council, the body set up in terms of the South African Companies Act to take responsibility for the setting of financial reporting standards.

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

GENERAL COMMENTS

We welcome the proposal by the IFRS Foundation and the International Accounting Standard Board (IASB) to formalise an advisory body to the IASB in order to utilise of the technical expertise contained in the national standard-setters (NSS) around the world in developing financial reporting standards and to obtain 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, in addition to those covered by the questions in the invitation to comment.

IASB stakeholders

While this proposal addresses formalising the consultation process with standard setters, this is only one group of the interested parties of the IASB. As identified in paragraph 2.5 of the proposal, there are a number of other stakeholders with whom

relationships have been established and should be maintained. It is likely that the reason to consider the creation of the ASAF, namely that there are many and diverse NSS, 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 also 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 certain NSS who might be of the view that their views are not been heard, as 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 it presently interacts, as to how these relationships will function in the future, in order to avoid duplication of activity, particularly in light of paragraph 3.5 that states that interaction with NSS will continue. Therefore clarity needs to be given as to the future role and functions of a NSS when interacting with the IASB, versus the ASAF, as well as which matters should be channelled to the ASAF in the future.

Appointment of the ASAF

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 unclear who decides which organisations should be represented and who then appoints or approves the single individual.

This is probably one of the more critical success factors of the ASAF. 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 regional bodies will be represented on the ASAF, and then for those regional bodies to nominate one or more individual who are suitable ASAF members. Likewise NSS that are not part of any regional bodies can also nominate an individual who is a suitable ASAF member. This would also apply to countries, like South Africa, who are a member of the Pan-African Federation of Accountants (PAFA) which, while being a regional body, is not a regional body of standard setters, as many of its members are professional institutes. The IFRS Foundation should decide which individuals to appoint based on merit and technical expertise. In the case of only the required number being nominated for each geographical area, the IFRS Foundation should consider whether the individuals have the required level of technical expertise.

In this way the regional bodies have some influence in the appointment of members of the ASAF, however, the IFRS Foundation makes the ultimate appointment - thus neither one of the parties having sole rights of appointment. This approach might be necessary for the ASAF to be accepted around the world.

Funding

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 be beneficial for this to be clarified, as this could inhibit involvement in the ASAF by certain regional bodies.

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 regional bodies have differing roles and responsibilities, for example a standard setting body may have no responsibility for the application of standards and may thus be uncomfortable to commit itself to supporting the consistent application of IFRS as it may imply it unduly extends its role set in legislation or increasing its jurisdiction to countries outside its remit. Accordingly the wording of the Memorandum of Understanding (MOU) should not be such that it would inhibit involvement in the ASAF.

Although paragraph 6.14 refers to members being based on organisational representation, it is unclear whether this refers to national- or regional bodies. Paragraph 6.8 refers to ASAF members providing input from their regions, 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 ASAF members need to ensure that they also represent interests and views of other NSS in the region.

To this end the MOU will be a key document to clarify the roles. In our view the MOU should be signed between the IASB and the NSS where the selected ASAF member resides and not the individual. From there the NSS and/or regional body could put an agreement in place with the individual whom it nominated and that was appointed to the ASAF.

It is noted that the ASAF members' 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.

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. 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.

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

Yours sincerely



Jeff van Rooyen

Chairman – Financial Reporting Standards Council

Copy: PAFA CEO - Vickson Ncube