

**Draft Memorandum of Understanding
on the role of Accounting Standard-Setters
and their relationships with the IASB**

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Comments to be received by 29 July 2005

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Draft Memorandum of Understanding

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1 Background

- 1.1 This Memorandum relates to a general understanding between the International Accounting Standards Board¹ (IASB) and other accounting standard-setters. It is particularly relevant to standard-setters in jurisdictions that have adopted or converged with IFRSs², or are in the process of adopting or converging with IFRSs. It 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. It is acknowledged that some accounting standard-setters may find it difficult to meet certain of those responsibilities with the resources at their disposal, but would use their best endeavours to do so.
- 1.2 The responsibilities are highlighted in *bold italics* at the end of each section (and are also listed in an Appendix). In some cases these are new or different from the manner in which the IASB and other accounting standard-setters have conducted their activities in the past. In other cases the proposed responsibilities are a confirmation of practices that have been undertaken for some time.
- 1.3 This Memorandum assumes that the ultimate aims of the IASB and other accounting standard-setters are (within reasonable cost constraints):
- (a) to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions;
 - (b) to promote the use and rigorous application of those standards; and

1 This Memorandum also relates to the International Accounting Standards Committee Foundation (IASCF) in respect of education.

2 International Financial Reporting Standards (IFRSs) are defined as Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards; and
- (c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). [IFRS 1 *First-time Adoption of International Financial Reporting Standards*, Appendix A]

However, where necessary to enhance readability, separate reference is made to Interpretations.

- (c) to bring about convergence of national accounting standards and IFRSs to high quality solutions.³

The responsibilities identified in this Memorandum are key areas of responsibility in building and maintaining the relationship between the IASB and other accounting standard-setters in order to achieve these aims for the benefit of constituents.⁴

2 Working with regulators

- 2.1 Financial reporting regulation in many jurisdictions is linked to other forms of regulation. For example, accounting standards may be given legal status under legislation that also sets out a broad framework for financial reporting. It is important that accounting standard-setters identify and deal with any domestic regulatory barriers to adopting or converging with IFRSs, such as legislative impediments. In many cases, this will require the co-operation of domestic regulators (including relevant legislators).
- 2.2 In many jurisdictions, financial reporting regulation is the first form of regulation that is being harmonised or is converging internationally. Accounting standard-setters should keep their domestic regulators (that regulate in areas related to financial reporting) informed of relevant IASB initiatives and encourage those regulators to participate in international convergence efforts in their own regulatory areas. This may help to remove potential barriers to adopting IFRSs, because there are sometimes linkages between financial reporting and other regulatory reporting. This is not to say that all forms of reporting need to converge, since they will often be different to suit different objectives.
- 2.3 *Accounting standard-setters, not the IASB, should take the prime responsibility for identifying and dealing with domestic regulatory barriers to adopting or converging with IFRSs.***

3 These are the objectives outlined in the IASCF Constitution at paragraph 2.

4 The prime constituents of the IASB and national standard setters include the users of financial reports, including securities analysts, listed companies and other issuers of securities, their auditors and regulators. In some countries, the constituents of national standard-setters also include other types of reporting entities, such as unlisted companies and not-for-profit entities in the public and private sectors, and their auditors, regulators and other users of that financial information.

- 2.4 Accounting standard-setters, not the IASB, should encourage national and regional regulators to participate in international convergence efforts in their own regulatory fields where this would help to facilitate financial reporting convergence.*

3 Communication

- 3.1 Because of the large number and wide variety of the IASB's constituents, the IASB is likely to have difficulty in communicating fully with all of its relevant constituencies.
- 3.2 Accounting standard-setters around the world have an important role in communicating the work of the IASB to their constituents through educational and promotional activities, including publishing and/or distributing IASB consultative documents in their jurisdictions, and providing the IASB with feedback.

Constituent feedback

- 3.3 Accounting standard-setters should encourage their constituents to comment on IASB consultative documents direct to the IASB as well as to the national or regional standard-setter.
- 3.4 Forms of communicating views other than comment letters are increasingly important in gathering views, including forums such as round-tables on specific issues. Accounting standard-setters should use these forums as a mechanism for encouraging their constituents to participate in the IASB's standard-setting process, particularly those constituents who might not otherwise make their views known. Where practicable, the IASB should make Board members and staff available to facilitate these forums.
- 3.5 Accounting standard-setters should be involved in round-tables and other forums organised by the IASB in their jurisdictions, and at the regional or global level where this is practicable and relevant. They can assist the IASB in identifying constituents who should be involved and issues of particular relevance to constituents.
- 3.6 Without limiting the direct communication of ideas to the IASB, accounting standard-setters have an important role in communicating the views and ideas of their constituents to the IASB through the consultation process—providing a focus for views. Other organisations, such as representative bodies, may also contribute to this

process. Standard-setters should make their own submissions to the IASB on consultative documents, preferably with the benefit of having considered the comments from their own constituencies.

Communication among accounting standard-setters

- 3.7 Accounting standard-setters should also communicate with one another, particularly when there is an issue of common interest. The IASB does not have the resources to be the only communication link between other accounting standard-setters. It may, for example, be helpful if standard-setters with a common problem requiring interpretation formulate a joint proposal for consideration by the IASB or the IFRIC. The IASB should facilitate such communication links by maintaining a database of issues reported by accounting standard-setters or others. The database should be updated regularly and should be easily accessible by standard-setters. It would potentially be a waste of resources for a standard-setter to work in isolation on an issue when other standard-setters or the IASB are already considering the issue. The database should include those issues that the IFRIC agenda committee and the IFRIC have considered and rejected on the basis that the answer is clear or is unsuitable for interpretation.
- 3.8 Accounting standard-setters working together will often be able to develop a deeper understanding of the issues than if they were to function on a bilateral basis through the IASB on all matters, since they will have the relevant local knowledge and ready access to the constituents who raise the issues. By developing this deeper understanding, standard-setters may better work through and refine their issues for consideration by the IASB or the IFRIC.

Timing

- 3.9 It is important for the IASB to provide sufficient time in relation to consultative documents to allow other standard-setters to prepare additional relevant material required to place the IASB documents in the national or regional context, expose the IASB documents in their jurisdictions, receive comment from their constituents and formulate their own views with the benefit of constituents' comments. Any additional material should be designed to help stimulate debate.

3.10 It is acknowledged that the IASB cannot wait for the slowest of processes to be completed, and it is also the responsibility of other standard-setters to streamline their processes to the extent possible, which in some cases may require increased resources to be committed. The time available to those standard-setters relates to the time between knowing the final IASB proposals and the end of the IASB comment period. If a standard-setter were able to monitor closely a developing Exposure Draft, this would facilitate the preparation of any additional relevant material in time for the comment period. However, translation into languages other than English can often be undertaken only using the final text of an Exposure Draft, which limits the time available for other standard-setters.

A credible process

3.11 Each accounting standard-setter should be well placed to know the needs of its domestic constituents and:

- (a) to explain the work of the IASB to its constituents in an effective way; and
- (b) to explain the concerns of its constituents to the IASB.

3.12 The standard-setting environment that the IASB helps to create should be one that encourages critical analysis of the IASB's proposals, and provides an open, transparent and credible standard-setting process. Standard-setters should 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. This may mean that the distribution of draft IASB technical papers will need to be extended—also refer to section 5 of this Memorandum.

Work programme

3.13 The IASB's work programme is likely to be a key area in which other accounting standard-setters can channel the views of constituents in a constructive manner. The IASB itself would be unable to deal with every interested individual constituent's case for dealing with a topic. Other standard-setters should seek the views of their constituents on work programme priorities and are ideally placed to collect and summarise these in an appropriate technical context for consideration by the IASB.

In providing input to the IASB's work programme, the standard-setters should be able to approach the IASB direct.

- 3.14 In the interests of facilitating useful discussion about the IASB's work programme, the IASB should ensure that its constituents and other accounting standard-setters are kept informed of current developments, the likely forward work programme and proposed timing of key stages.
- 3.15 *The IASB should ensure that it makes relevant information available on a timely basis so that other standard-setters can be fully informed of the IASB's activities and plans.***
- 3.16 *The IASB should maintain an up-to-date database of technical issues reported by accounting standard-setters and others that is accessible to the 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. (See also section 7 on Interpretations.)***
- 3.17 *The IASB should 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), expose the IASB documents in their jurisdictions, receive comment from their constituents and formulate their own views with the benefit of constituents' input.***
- 3.18 *The IASB should encourage critical analysis of its proposals, and provide an open, transparent and credible process for arriving at its conclusions.***⁵
- 3.19 *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.***

⁵ As noted in paragraph 1.2, some of the responsibilities are a confirmation of practices that have been undertaken for some time. The IASCF Constitution and the IASB Preface outline a commitment to an open and credible process.

- 3.20** *Accounting standard-setters should be a key channel for information flowing to the IASB from government agencies, politicians and others who are engaged in non-technical debate.*
- 3.21** *Accounting standard-setters should use relevant forums such as round-tables on specific issues as a mechanism for encouraging their constituents to participate in the IASB's standard-setting process, particularly those constituents who might not otherwise make their views known. Where practicable, the IASB should make Board members and staff available to facilitate these forums.*
- 3.22** *Accounting standard-setters should 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.*

4 Project role

- 4.1** By agreement, accounting standard-setters should work on selected projects with the IASB, without the IASB losing its independence. The IASB is developing a model under which there are two types of direct involvement in the IASB's project work:
- (a) involvement in a 'research project' alone or, in partnership with a team of other standard-setters (either as a leader of the team or as team member), under the guidance of IASB staff and selected Board members.
 - (b) involvement in a 'project team' of standard-setters on an active project under the direction of IASB and/or FASB staff.⁶
- 4.2** In relation to (a), the team could comprise a range of accounting standard-setters, some of who will be more experienced than others. This is important in enabling a wide group to be involved in the IASB's work, thereby gaining the benefit of a wide range of views and helping to spread acceptance of the IASB's work. Team members could be members of the boards or staff of accounting standard-setters. All team members should be in a position to contribute to the project. The projects may relate to standards or to interpretations.

⁶ The IASB plans to have joint projects that will be led by IASB staff or by the staff of the United States' Financial Accounting Standards Board.

- 4.3 A national or regional standard-setter is not prevented from carrying out research or developing thinking on a topic that has not currently been identified by other standard setters as a current priority, and then providing the results of that work for consideration by others. For there to be an expectation that those materials would be considered by others there would need to be some advance agreement that the topic is worthy of consideration and that the other standard-setters have a common interest in the topic.
- 4.4 The direct involvement of other standard-setters in the IASB's projects is important to ensure that a wide range of views and ideas is considered in the early stages of the development of a project.
- 4.5 Accounting standard-setters wishing to be involved directly in the IASB's projects need to have the capacity to make an effective contribution.
- 4.6 The IASB establishes working groups for some projects, and invites constituents to nominate candidates for membership of these groups. The working groups are a source of expert advice and ideas for the IASB and FASB staff in progressing a particular project. Accounting standard-setters may be in a good position to promote the role of a working group member in their jurisdictions by identifying and encouraging suitable individuals to nominate and, if appointed, to liaise actively with those individuals and assist them when needed.
- 4.7 *The IASB should, subject to the work being available, provide opportunities to other accounting standard-setters to be involved with IASB projects as follows:***
- (a) *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.***
- (b) *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.***
- 4.8 *Accounting 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.

4.9 *Accounting standard-setters should promote the role of a working group member in their jurisdictions and encourage suitable individuals to nominate themselves.*

5 Comment role on IASB consultative documents

5.1 The views of national or regional standard-setters can be a valuable source of independent thought to complement the comments of those who have a financial interest in the outcome of a project. Accounting standard-setters should provide comments to the IASB on consultative documents such as Exposure Drafts and Discussion Papers, preferably from the board of the standard-setter. However, if time does not permit board-level input, comment from staff of the standard-setter should be provided.

5.2 If an accounting standard-setter is unable to comment on each consultative document, it should focus on those projects that are of particular importance to its constituents, or on which that standard-setter considers it can best contribute.

5.3 It may also be helpful for accounting standard-setters to comment on other IASB papers, such as issues papers, draft Discussion Papers and draft Exposure Drafts where they consider that the IASB would benefit from their input at an early stage. However, it may not be practicable for a standard-setter to comment on all such papers or for the IASB to digest input to a project at this stage.

5.4 *Accounting standard-setters should provide timely comments to the IASB on consultative documents, particularly on those projects that are of particular importance to their constituents, or on which the standard-setter considers it can best contribute.*

6 Application of standards

6.1 From the viewpoint of some accounting standard-setters, the standard-setting process does not end with the issue by the IASB or the IFRIC of an IFRS or an IFRIC Interpretation. Some standard-setters may be required to undertake one or more of the following processes in adopting IFRSs:

- (a) consider whether each standard meets specified criteria set out in local legislation;
- (b) endorse the standards for the local regulatory framework;
- (c) present the standards for parliamentary approval.

Therefore, adopting IFRSs is an ongoing process in many jurisdictions.

- 6.2 Accordingly, there is a need for a lead-time to be provided by the IASB to allow other standard-setters to perform these functions so that they have every opportunity to establish and maintain a set of national or regional standards that enable their constituents to continue to make an unreserved statement of compliance with IFRSs. IAS 1 *Presentation of Financial Statements* is clear that an entity must comply with all the currently applicable IFRSs in order to make an unreserved statement of compliance with IFRSs.
- 6.3 Some accounting standard-setters have the capacity to amend IFRSs for application in their own jurisdictions. Amendments that result in the deletion of requirements would thwart the aim of promulgating high quality accounting standards that are globally accepted, and as such should be avoided.
- 6.4 Some standard setters have a policy of removing optional treatments and adding disclosure requirements to the IFRSs when this is considered to provide more comparable and useful information in that jurisdiction. For example, in some jurisdictions:
- (a) entities may have been required to use one of the optional treatments for many years and introducing a choice on adopting IFRSs may be considered inappropriate; or
 - (b) the standard-setter may be trying to achieve convergence with another national or regional standard-setter at the same time as adopting IFRSs.

Adding disclosure requirements or removing optional treatments does not create a non-compliance with the IFRSs. Indeed, the IASB is intent on removing optional treatments from IFRSs.

- 6.5 When a national or regional standard-setter makes any changes to an IFRS, for example to cater for an additional domestic disclosure that is considered necessary in the local environment, or to remove an optional treatment, this should be made clearly evident so that users of the standard are aware of the changes.
- 6.6 *The IASB should provide a reasonable lead time to allow other standard-setters to process the IFRSs for application in their local regulatory framework so that they have every opportunity to establish and maintain a set of standards that enable their constituents to continue to make an unreserved statement of compliance with IFRSs.*
- 6.7 *In adopting the IFRSs to apply in their own jurisdiction, standard-setters should avoid amending the IFRSs in a manner that creates a non-compliance with the IFRSs.*

7 Interpretation

- 7.1 Accounting standard-setters should monitor the implementation of IFRSs in their jurisdictions. There will inevitably be issues of interpretation arising from the application of IFRSs.
- 7.2 If a standard-setter considers that an issue requires interpretation, it should request the IFRIC or the IASB itself to address the issue. As part of this process, accounting standard-setters that face a common issue could work together to determine a possible approach to the issue for resolution by the IFRIC or the IASB. As noted in section 3 of this Memorandum, the IASB should facilitate communication between standard-setters by maintaining an up-to-date database of issues.
- 7.4 An issue may affect only one or two jurisdictions and may relate to particular legislative or other local requirements—for example, a tax law that is unique to a jurisdiction. The IASB cannot (and should not) take into account the many different legislative environments that exist. Accordingly, in some cases, it may be necessary for a national or regional standard-setter to consider issuing some of its own interpretations. Care needs to be exercised, however, to ensure that the issue is not more widely relevant—the database of issues would help to facilitate this exercise. In considering its own issues, a standard-setter should liaise with the IFRIC, and if it

considers it necessary to issue a national or regional interpretation, it should avoid incompatibility with IFRSs.

- 7.5 If the IFRIC and the IASB decide not to address an issue, they should provide an explanation and make the reasons for their view known so that the basis for the explanation is clear.⁷ This explanation should be considered to resolve the issue.
- 7.6 *Accounting 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.***
- 7.7 *If an issue in a particular jurisdiction does not have broad relevance and the IFRIC or the IASB decides not to deal with it, the standard-setter concerned should issue its own interpretation only when it is compatible with IFRSs.***
- 7.8 *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.***

8 Education

- 8.1 Accounting standard-setters should make the IASCF aware of educational needs in their jurisdictions and provide information about the types of programmes that are likely to be most useful and successful in their jurisdictions, and the IASCF should be sensitive to those needs.
- 8.2 Standard-setters should also provide the IASCF with material that they consider may be helpful in creating educational materials, such as guidance they have used in their jurisdictions in the past on particular topics.
- 8.3 Standard-setters may find it useful to develop their own educational material as regards the implementation of IFRSs—for example, in order to cater for local needs/issues. Because the material may have relevance to other jurisdictions, the national standard-setter should keep the IASCF informed of any such material.

⁷ This could include the explanation that the issue is already dealt with in existing IFRSs. There would be no need for an explanation if the issue were considered trivial.

- 8.4** *The IASCF should be sensitive to the IFRS education needs of the various jurisdictions.*
- 8.5** *Accounting standard-setters should make the IASCF aware of their particular educational needs and the types of programmes that are likely to be most useful and successful in their jurisdictions.*
- 8.6** *Standard-setters should provide the IASCF with material that they consider may be helpful in creating educational materials.*

Appendix to Memorandum of Understanding

Listing of proposed responsibilities

Working with regulators

National and regional accounting standard-setters should:

- * take the prime responsibility for identifying and dealing with domestic regulatory barriers to adopting or converging with IFRSs [paragraph 2.3]; and
- * encourage national or regional regulators to participate in international convergence efforts in their own regulatory fields where this would help facilitate financial reporting convergence [paragraph 2.4].

Communication

The IASB should:

- * ensure that it makes relevant information available on a timely basis so that other standard-setters can be fully informed of the IASB's activities and future plans [paragraph 3.16];
- * 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 [paragraph 3.17];
- * 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), expose the IASB documents in their jurisdictions, receive comment from their constituents and formulate their own views with the benefit of constituents' input [paragraph 3.18]; and
- * encourage critical analysis of its proposals, and provide an open, transparent and credible process for arriving at its conclusions [paragraph 3.19].

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 [paragraph 3.20];
- * be a key channel for information flowing to the IASB from government agencies, politicians and others who are engaged in non-technical debate [paragraph 3.21];
- * use relevant forums such as round-tables on specific issues as a mechanism for encouraging their constituents to participate in the IASB's standard-setting process, particularly those constituents who might not otherwise make their views known.

Where practicable, the IASB should make Board members and staff available to facilitate these forums [paragraph 3.22]; 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 [paragraph 3.23].

Project role

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

- (a) 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.
- (b) 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 [paragraph 4.7].

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 [paragraph 4.8]; and
- * promote the role of a working group member in their jurisdictions and encourage suitable individuals to nominate themselves [paragraph 4.9].

Comment role on IASB consultative documents

Accounting standard-setters should provide timely comments to the IASB on consultative documents, particularly on those projects that are of particular importance to its constituents, or on which it considers it can best contribute [paragraph 5.4].

Application of standards

The IASB should provide a reasonable lead time to allow other standard-setters to process the IFRSs for application in their local regulatory framework so that they have every opportunity to establish and maintain a set of national standards that enable national or regional constituents to continue to make an unreserved statement of compliance with IFRSs [paragraph 6.6].

In adopting the IFRSs to apply in their own jurisdiction, accounting standard-setters should avoid amending the IFRSs in a manner that creates a non-compliance with the IFRSs [paragraph 6.7].

Interpretation

Accounting 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 [paragraph 7.6].

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 [paragraph 7.7].

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 [paragraph 7.8].

Education

The IASCF should be sensitive to the IFRS education needs of the various jurisdictions [paragraph 8.4].

Accounting standard-setters should:

- * make the IASCF aware of their particular educational needs and the types of programmes that are likely to be most useful and successful in their jurisdictions [paragraph 8.6]; and
- * provide the IASCF with material that they consider may be helpful in creating educational materials [paragraph 8.7].