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Australian Accounting Standards Board

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Dear Madam,

Re: ASIC Consultation Paper 150: Disclosing Financial Information Other Than in Accordance with Accounting Standards

The AASB is pleased to submit the following comments on CP 150.

The Problem

There can be little doubt that proforma reporting is becoming more widespread and that at times it is self-serving. Its use does have the potential to reduce comparability and to undermine required disclosures. We support ASIC taking action.

Scope

The proposals deal separately with financial reports, documents related to financial reports and transaction documents. The AASB's interest is primarily with the first category.

Critical Definitions

We note that the critical definitions are those of:

a. "*non-conforming financial information*"; and,

b. "*proforma financial information*" and "*alternative profit information*" which depend upon (a)

To be within the scope of the proposals, financial information needs to be information for which accounting standards would apply if the information was within a financial report under the Corporations Act. The proposals would cover that information if it was shown outside those reports too (eg in related documents or transaction documents). It is non-conforming then if it is prepared or presented on a basis other than set down in accounting standards.

Thus information provided in addition to the requirements of accounting standards is not covered unless that information could adversely impact required information or be seen to relegate its standing.

Critically, the proposals state that alternative profit measures should only be included **in a financial report** in exceptional circumstances; that is, where disclosure in the notes to the financial statements is necessary to give a true and fair view.

> Alternative profit information is said to be *"a common type of non-conforming financial information. It often excludes particular expenses, such as impairment losses. Alternative profit information is often described as "underlying profit" or "cash basis profit"."*

ASIC is understandably concerned that the provision of alternative profit information can lead to a falling away in comparability between companies and they are also concerned with opportunism in the construction of such profit information.

AASB Comments

ASIC is trying to protect the status of financial information required under accounting standards and the AASB supports this thrust.

The dilemma which the AASB perceives is how to choose between information that is intended to amplify the required information and that which is opportunistic. Accounting standards require certain information to be presented on the face of financial statements and/or in the notes. They also require an entity to present additional line items, headings and subtotals in the statement of comprehensive income when such presentation is needed for an understanding of an entity's financial performance. Note disclosure can also be used to add any other relevant information. Implicitly, it is not in keeping with such requirements to call into question the primacy of the required disclosures.

A current IASB project dealing with the presentation of financial statements is taking into account the expressed needs of users/analysts who want to use accounting information to predict such matters as future cash flows. Those users often want to understand the make-up of balances presented so as to estimate the timing, amount and uncertainty of those cash flows.

In the above regard, users are very interested in being able to discern components in terms of their predictability. For example, certain expenses might be reasonably expected to recur whilst others (eg for impairment) may not. Standard-setters are trying to find ways to assist this type of analysis and, over the past decade or more, have moved away from trying to compress information into such binary classifications as operating profit and extraordinary items.

Some people may feel that the definition of "alternative profit information" in the proposals is unnecessarily pejorative, especially when it focuses on the exclusion of expenses. Some editing may be needed in this regard. There can be little doubt that major impairment expenses, for example, can be usefully separated from recurring expenses. Indeed, IAS 36 contains extensive disclosures about impairment expenses to enable this form of analysis.

Is it then inappropriate, in say a note to the financial statements, to show a view of profitability "with and without", or without, impairment expenses for the period?

From a standard-setting viewpoint, we would not, per se, see any harm in "with and without" presentation provided it was not implied that the net profit was not the actual result. Whether recurring or not, net assets will have been reduced.

Where we would have concern would be when there is promotion of a simplistic "with and without" analysis that did not draw out the nature and related effects, for example when recognising the impairment of an asset. For example, a critical piece of plant may be involved and future revenues and depreciation might well be impacted. A number of required disclosures in IAS 36 are designed to allow users to understand the nature and impact of impairments and might have a shadow thrown over them by such a limited or slanted analysis.

The AICD/FINSIA principles for reporting of non-statutory profit information, if fully adhered to, would go part way to meeting the above concerns. But the scope of the proposed ASIC guidance, which we prefer, is broader and more likely to influence practice.

Some will be concerned with multiple sets of guidance and we believe it would be desirable for a single ASIC set to prevail. We would encourage dialogue aimed at achieving this, or else the drafting of the ASIC guidance in a manner that draws out the relationship between the existing sets.

ASIC Guidelines

In Section D "Documents related to the financial report" there are guidelines set down that are intended to "help reduce the possibility of non-conforming financial information being misleading". We think they represent a very useful set of principles, for all non-conforming financial information, including within the financial report, that should be supported.

AASB's Overall Position

ASIC has tried to balance the various issues at play and we do not believe anything they have proposed would preclude an entity from providing relevant additional information. But we do think the proposals will represent a necessary caution to those choosing to serve their own purposes by selective disclosure.

We see nothing in the proposals that is out of keeping with accounting standards and much that is supportive. Hence, we support the principles in the CP being taken forward.

We do think the final guidelines would benefit from careful editing to better explain what was intended and to clarify some of the misconceptions and questions about it that seem to have arisen in the market place. The draft, as presented, needs to be read very carefully, perhaps too carefully. It also uses some language that might well be seen as pejorative by those directors trying to add useful information.

Some commentators seem to be concerned that the draft guidance might be seen as a form of interpretation, especially in relation to the use of additional headings, line items or sub-totals. These concerns could be mitigated by emphasizing that AASB 1001, *Presentation of*

Financial Statements, not only permits but requires additions (see for example AASB 101.55 and AASB 101.85) and that nothing in the guidance is intended to limit those requirements or to discourage directors from assisting the understanding of users.

As indicated above, we also see merit is rationalisation of the guidance in this area and we would recommend that the guidance be monitored to ensure it is in keeping with IFRS and related developments in the area of presentation and disclosure (including the guidance on management commentary).

If you wish to pursue any aspect of this submission, please contact me on (03) 9617 7615.

Yours faithfully

K M Stevenson

Kevin M Stevenson
Chairman and CEO
Australian Accounting Standards Board