ED 148 sub 11

16 June 2006

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

Dear David,

ED 148: Proposed Amendments to AASB 101 *Presentation of Financial Statements*: A revised Presentation

The Institute of Chartered Accountants in Australia (ICAA) welcomes the opportunity to make a submission on ED 148.

The Institute has long been a supporter of international harmonisation and supports many of the proposals in this ED. However, we strenuously object to the proposal to change the definition of reporting entity, thereby undermining our well-established system of differential reporting in Australia. In our view, the second “grey letter” paragraph of the definition should be removed. The vast majority of businesses in Australia are small and derive none of the benefits of harmonised standards. What small business sees is the costs of complying with more and more elaborate standards which are of dubious relevance to them. To extend the reporting entity definition to cover anything that files with a regulator, for example, large proprietary non-reporting entity companies, reporting to shareholders, adds unnecessarily to the burden of regulation.

We note from the ED that this is a two-stage project and that FASB is going to expose both phases together. The feedback we are receiving from members is that they are exhausted from continual changes to the standards, which were supposed to have been a “stable platform” in 2005. We suggest that in order for the public to assimilate the new standards that are already in place, the AASB and IASB should delay Part A in line with FASB. The IASB should at least wait to see what American respondents have to say before progressing the project further.

Our detailed comments can be found in the appendix to this letter. If you require any further information on any of our views please contact Stephanie Kemp CA on 02 9290 2702 or skemp@icaa.org.au.

Yours sincerely

Keith Reilly FCA
Technical Standards Adviser

A. Australian Text Proposed to Be Retained in the [Revised] AASB 101

A.1 Application and Materiality

It is proposed to retain paragraphs Aus1.1 to Aus1.10 of the existing AASB 101 that relate to the application of the existing AASB 101 in the [revised] AASB 101. The AASB notes, however, that the existing AASB 101 applies more broadly than most other AASB Standards. Most AASB Standards are mandatory only for reporting entities, whereas AASB 101, AASB 107 *Cash Flow Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* apply to entities that are required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act even when they are not reporting entities. In view of the additional requirements proposed in the [revised] AASB 101 (for example, the proposal to require a third statement of financial position), some may consider it appropriate to limit the application of the [revised] AASB 101, or at least aspects of it, to reporting entities.

We agree that some of the requirements would be better limited to reporting entities or even to disclosing entities. Where we think that would be appropriate, it is noted in our comments below.

A.2 Definitions of Certain Terms

Paragraph Aus11.1 provides definitions for a number of terms that are not included in the IASB ED. The AASB proposes to retain each of the following terms:

- *Annual reporting period*: as the term is referred to in the application paragraphs.
- *Australian equivalents to IFRSs*: as the term is specific to Australian reporting requirements.
- *Entity*: as the term is referred to in the application paragraphs.
- *Related practice*: as the term is specific to additional Australian reporting requirements that the AASB proposes to retain.

We agree with this proposal.

A.3 True and Fair View and Compliance with Australian Accounting Standards

Paragraph Aus13.1 explains that the Corporations Act requires an entity's financial report to comply with Australian Accounting Standards and, if necessary to give a true and fair view. Paragraph Aus13.2 requires the entity to state whether its financial report has been prepared in accordance with Australian Accounting Standards.

We agree with this proposal.

A.4 Explicit and Unreserved Statement of Compliance

Paragraphs Aus14.1, Aus14.2 and Aus14.3 relate to the circumstances under which an entity can make a statement of explicit and unreserved compliance that is specifically applicable to parent financial statements, consolidated financial statements, and entities such as for-profit public sector entities and not-for-profit entities in the context of Australian Accounting Standards.

We agree with this proposal.

A.5 English Language

Paragraph Aus45.1 requires the financial report to be presented in the English language, which the AASB considers to be an important requirement to retain, particularly since it was originally a key requirement of the corporations legislation.

We agree with this proposal.

A.6 Auditor Remuneration

Paragraphs Aus126.1 and Aus126.2 require disclosure of the payments made to auditors and related practices. The AASB considers this information to be useful to users.

We agree with this proposal.

A.7 Dividend and Franking Details

Paragraphs Aus126.4, Aus126.5 and Aus126.6 relate to the disclosure of dividend and franking details. The AASB considers this information to be useful to users.

We agree with this proposal.

A.8 Certain Illustrative Example

Example 3 of the Australian Implementation Guidance illustrates the disclosures of dividends paid or provided for and of the franking account balance. The AASB proposes to retain the example, as it believes that the example is useful to users (also see Item B.15).

We agree with this proposal.

B. Australian Text Proposed Not to Be Included in the [Revised] AASB 101

B.1 Application Paragraphs

Paragraphs Aus1.5 and Aus1.6 list a number of Standards, which are no longer applicable. Paragraph Aus1.7 notes that the notice about the Standard is published in the *Commonwealth of Australia Gazette*. The publication of the notice is no longer required.

We agree with this proposal.

B.2 Concise Financial Reports

Paragraph Aus3.1 notes that concise financial reports prepared in accordance with AASB 1039 *Concise Financial Reports* are treated in the same manner as for condensed interim reports prepared in accordance with AASB 134 *Interim Financial Reporting*. The AASB believes it is no longer necessary to retain this reminder about concise financial reports.

We do not agree that this paragraph should be removed. Without it some may interpret paragraph 3 as preventing the operation of AASB 1039.

B.3 Directors' Report and Remuneration Report

Paragraph Aus9.1 states that the Corporations Act requires entities to present reports such as Directors' Report and Remuneration Report outside the financial report. The AASB believes it is no longer necessary to retain this reminder about the Corporations Act requirement.

We agree with this proposal.

B.4 Definition of General Purpose Financial Report

Paragraph Aus11.1 includes a definition of 'general purpose financial report'. Paragraph 7 of the IASB ED includes a definition of 'general purpose financial statements', which has been moved from paragraph 3 of the existing AASB 101 with some amendments. The AASB proposes not to retain the definition for 'general purpose financial report' included in paragraph Aus11.1, and proposes to adopt the definition as stated in paragraph 7 of the IASB ED. The AASB acknowledges that there might be some implications associated with this adoption, and notes that it is intending to review SAC 1 *Definition of the Reporting Entity* (also see Item B.6). The AASB has included a question in the Specific Matter for Comment to seek constituents' views on this particular matter. (Refer to Specific Matter for Comment, question (b)).

In our view the current Australian definition should be retained and we refer you to our detailed comments under the Specific Matter for comment section

B.5 Identification of Framework Used in Preparation of Financial Statements

Paragraph Aus13.3 explains that the framework under which the report is prepared is identified in the summary of accounting policies, and that it may also be appropriate to state the relevant statutory and other requirements adopted in the preparation of the report. The AASB believes it is no longer necessary to retain this explanation.

This paragraph should be retained. It is relevant to entities that may be subject to regulation in addition to or instead of the Corporations Act, as well as to special purpose financial reports.

B.6 Disclosure whether Financial Report is a General Purpose Financial Report or a Special Purpose Financial Report

Paragraph Aus13.4 requires an entity to disclose that the financial report is a general-purpose financial report (GPFR), or if applicable, a special purpose financial report (SPFR). Paragraph Aus105.1(a) comments that this disclosure normally precedes all the other items that are disclosed in the 'summary of accounting policies' note to the financial statements. The AASB notes that the IASB does not require an entity to specify in its financial report whether it is a GPFR or a SPFR. The AASB is intending to review SAC 1 and SAC 2 *Objective of General Purpose Financial Reporting* and the GPFR/SPFR dichotomy. Accordingly, the AASB proposes not to retain paragraph Aus105.1(a) and the definition of Special Purpose Financial Report in paragraph Aus11.1, and proposes to amend paragraph Aus13.4 to require an entity to disclose whether the financial report is a general purpose financial report.

We believe that the paragraphs relating to special purpose financial reports should be retained because we do not agree with the change to the definition of reporting entity, on which the removal of this paragraph is based.

B.7 Australian Currency

When the presentation currency is not Australian currency, paragraph Aus46.1 requires the entity to disclose the reason and justification for using a different currency. The AASB considers that the reason for using a different presentation currency, which entities are entitled to do under AASB 121 *The Effects of Changes in Foreign Exchange Rates*, will be evident from the financial report.

We agree with this proposal.

B.8 Rounding Basis

Paragraph Aus48.1 requires an entity to assess its regulatory framework to determine a rounding basis that is permitted under that regulatory framework. The AASB believes that it is no longer necessary to retain this paragraph.

We agree with this proposal.

B.9 Operating Cycle

Paragraph Aus56.1 requires disclosure of the length of the operating cycle where it is longer than twelve months and where current assets and current liabilities are presented separately from non-current assets and non-current liabilities, respectively. The AASB believes that it is no longer necessary to retain this paragraph and that the information will be evident from the financial report.

We agree with this proposal.

B.10 Retained Earnings

Paragraph Aus68.1 requires the entity to disclose on the face of the statement of financial position retained earnings attributable to equity holders of the parent. The AASB believes that it is no longer necessary to retain this paragraph.

We agree with this proposal.

B.11 Encouragement for Using Formats Illustrated

Paragraphs Aus69.1, Aus83.1 and Aus97.1 encourage an entity to adopt one of the formats of the financial statements presented in the Appendix of AASB 101, unless an alternative format is more relevant in understanding the entity's financial position, financial performance and movements in equity. The AASB proposes not to retain these paragraphs, consistent with the proposal noted at B.15 not to retain the Appendix and the Australian Implementation Guidance. Consistent with this view, the AASB also proposes to remove paragraph Aus12.1 of AASB 107 *Cash Flow Statements* that encourages an entity to adopt the cash flow statement format presented in the Illustrative Examples included in AASB 107.

We agree with this proposal. We assume that the AASB will be publishing the implementation guidance that is part of the ED with any new standard.

B.12 Position of Statement of Compliance with Australian Accounting Standards
Paragraph Aus105.1(b) notes where the statement of compliance with Australian Accounting Standards is normally placed in the notes to the financial statements. The AASB believes that it is no longer necessary to retain this paragraph.

We agree with this proposal.

B.13 Economic Dependency
Paragraph Aus126.3 requires an entity to make disclosures about an economic dependency where the entity is dependent on another entity for a significant volume of revenue or financial support, and that dependency is not clearly discernible from a separate line item in the income statement or statement of financial position. The IASB ED does not include this requirement and the AASB proposes not to retain it in the [revised] AASB 101.

We agree with this proposal.

B.14 Capital Commitments and Other Expenditure Commitments
Paragraph Aus126.7 requires disclosure of details of capital commitments and other expenditure commitments and also requires these details to be presented in time bands. The IASB ED does not have this requirement, although paragraph 114(d)(i) of the IASB ED (or paragraph 105(d)(i) of the existing AASB 101) notes the disclosure about 'unrecognised contractual commitments' normally follows a certain order of notes to the financial statements. The AASB proposes to adopt the same approach as the IASB with regard to the disclosure of these items.

We agree with this proposal.

B.15 Illustrative Examples and Australian Implementation Guidance
The Appendix of AASB 101, *Appendix – Illustrative Financial Report Structure* (pages 49 to 57 of the existing AASB 101), provided illustrative examples of a statement of financial position, income statement and statement of changes in equity that meet the requirements of AASB 101. AASB 101 also included Australian Implementation Guidance (pages 58 to 74 of AASB 101). The IASB ED's Implementation Guidance (pages 78 to 95 of the IASB ED) provides illustrative examples of statements of financial position, recognised income and expense and changes in equity that meet the requirements of the IASB ED. The AASB proposes to replace the Appendix and the Australian Implementation Guidance with the IASB ED's Implementation Guidance on the basis that the IASB ED's Implementation Guidance provides examples that illustrate the new requirements of the IASB ED. These new requirements supersede the corresponding requirements of the existing AASB 101. (Refer to A.8 for the AASB's proposal to retain an example of the existing AASB 101). The AASB notes that the order of the statement of financial position items that is illustrated in the examples included in the IAS 1 and the IASB ED is different from the order that is used in the illustrations

included in the Appendix of AASB 101. For example, under AASB 101, current assets and current liabilities precede non-current assets and non-current liabilities, respectively, on the statement of financial position. Under the IAS 1 and the IASB ED, the reverse applies. The AASB also notes that the illustrated order is not mandatory.

We agree with this proposal.

C. Deletion Made by the AASB in the Existing AASB 101 that Is Proposed to Be Reinstated

C.1 Fair Presentation

Paragraphs 17 to 20 of IAS 1 specify circumstances in which an entity could depart from a requirement in a Standard or an Interpretation. They were not included in the existing AASB 101 because they are inconsistent with the Corporations Act with regard to the approach to 'true and fair view' under sections 295 and 297 of that Act. In addition, the existing AASB 101 does not include the opening sentence of paragraph 15 of IAS 1 (paragraph 12 of the IASB ED), which is also inconsistent with the Corporations Act. The AASB proposes to reinstate the deleted text since these inconsistencies do not apply to the entities that are not subject to the Corporations Act.

In our view this paragraph should not be re-inserted. The true and fair override is against the law and to reinstate this paragraph would be confusing for users, most of whom apply the new standards as a result of their Corporations Law obligations.

D. Deletions Made by the AASB in the Existing AASB 101 that Are Proposed Not to Be Reinstated

D.1 IASB's Application Paragraph

Paragraph 2 of IAS 1 is not included in the existing AASB 101 because it referred to the applicability of IAS 1, which was not applicable to Australian reporting entities. This paragraph was replaced by the corresponding paragraphs Aus1.1 to Aus1.10 in the existing AASB 101. The AASB will continue to have its own application paragraphs in Australian equivalents to IFRSs and paragraph 2 is redundant in the context of AASB 101.

We agree with this proposal.

D.2 Commentary on Alternative Formats Used to Present Changes in Equity

Paragraph 101 of IAS 1 notes the alternative formats applicable for showing changes in equity. This paragraph is not included in AASB 101 and now the same paragraph has also been proposed for deletion by the IASB. Therefore the notation for the deletion in the [revised] AASB 101 will be amended from '[Deleted by the AASB]' to '[Deleted by the IASB]'.

We agree with this proposal.

D.3 Previous Application Paragraphs of IAS 1

Paragraphs 127 and 128 set out the application details for IAS 1, which are not relevant to AASB Standards. Consequently, they were replaced by the Australian application paragraphs Aus1.1 to Aus1.3 in the existing AASB 101.

We agree with this proposal.

Request for Comments

Specific Matters for Comment

In addition, the AASB would value comments on:
(a) the AASB's preliminary views on:

(i) the Australian text that is proposed to be retained in the [revised] AASB 101, as noted in section A of this Preface;
(ii) the Australian text that is proposed not to be included in the [revised] AASB 101, as noted in section B;
(iii) the deletion that is made by the AASB in the existing AASB 101 that is proposed to be reinstated in the [revised] AASB 101, as noted in section C; and
(iv) the deletions made by the AASB in the existing AASB 101 that are proposed not to be reinstated, as noted in section D;

See our detailed comments in blue above.

(b) the AASB's preliminary views proposed for adopting the definition of 'general purpose financial report' as included in paragraph 7 of the IASB ED. The AASB notes that the second paragraph of the definition proposes that "General purpose financial statements include those that are presented separately or within other public documents such as a regulatory filing or report to shareholders." This statement could be interpreted as defining all financial reports filed with a regulator on a public register to be general purpose financial reports, which would include those that are filed with, for example, the
Australian Securities and Investments Commission, whether or not the entities are reporting entities;

We strenuously disagree with this proposal. The second "grey letter" paragraph of the definition in paragraph 7 should be removed. This "grey letter" sentence has the potential to bring all sorts of financial reports within the scope of general purpose financial reporting and will prove troublesome to apply. Does it include proforma financial information in prospectuses? Does it include Forms 70 and 71 prepared by AFS licensees? Does it include small self-managed superannuation funds that lodge with the tax office? Exactly what information should be filed with regulators in what format and for what purpose are decisions that should be made by national regulators and not by the IASB.

The reporting entity concept was introduced into Australian financial reporting nearly two decades ago in response to the problem of over-regulation of small business. The arguments in SAC 1 and the discussion paper that preceded it are as relevant today as they ever were. If anything, differential reporting is even more important now as the standards to be applied in producing full GPFRs are so complex.

We remind the Boards that ASIC itself announced not long after the commencement of the small/large regime that filing accounts on their database did not of itself make a company a reporting entity. The companies that would most obviously be affected by the change in definition (large proprietary non-reporting entities) enjoy none of the benefits of international harmonisation; they do not seek to raise capital overseas and do not wish to compare themselves with overseas entities.

(c) whether certain entities should be required to prepare an additional comparative statement of financial position as proposed. These entities may include, for example:

(i) public sector entities (for example, general government sector): The AASB notes that three statements of financial position may create practical presentation difficulties for these entities. The AASB is particularly mindful of its proposal in ED 142 *Financial Reporting of General Government Sectors by Governments* to require the presentation of an additional statement: the original budget for these entities; and

(ii) entities required to prepare financial reports under Part 2M.3 of the Corporations Act that are not reporting entities;

In our view, the entities listed above should not have to prepare an additional comparative statement of financial position. If users need to refer back to the opening balance sheet for the comparative year, copies of previous financial reports are available (refer our detailed comments to IASB question 2 below)

(d) whether the proposals give rise to any public sector entity issues that you believe require additional requirements or guidance in AASB 101. If yes, please describe the issues and provide reasons supporting your response;

We are not aware of any such issues.

(e) any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

(i) not-for-profit entities; and

(ii) public sector entities; and\

We are not aware of any such issues.

(f) whether the proposals are in the best interests of the Australian economy.

In our view, the proposal to change the definition of reporting entity is most definitely not in the interests of the Australian economy. It would force large proprietary non-reporting companies to prepare full GPFRs which would incur time, effort and considerable expense for no benefit (and the possible detriment) of their users who will not have financial information being produced to meet their needs.

The findings of the Institute's recent financial reporting survey reveal that our members would like less regulation for private companies. We found extensive support for the government's proposals to increase the size test for deciding whether a proprietary company is small or large. Any changes based on ED 148 should only be implemented after these size levels have been increased.

IASB Invitation to Comment

Questions 1 and 2 – A complete set of financial statements

The Exposure Draft proposes that the titles of the financial statements should be as follows:
(a) statement of financial position (previously ‘balance sheet’);
(b) statement of recognised income and expense;
(c) statement of changes in equity; and
(d) statement of cash flows (previously ‘cash flow statement’).
The Board does not propose to make the changes of nomenclature mandatory (see paragraph 31 of the draft Standard and paragraphs BC4 and BC5 of the Basis for Conclusions).

Question 1 – Do you agree with the proposed titles of the financial statements (bearing in mind that an entity is not required to use those titles in its financial statements)? If not, why?

We understand the reasons for the changes given in BC 4 and 5, but our feedback is that Australian users were delighted to return to “balance sheet” and “income statement” terminology on the introduction of IFRS after a few years using “statement of financial position” and “statement of financial performance”. We suggest that the traditional nomenclature be retained. The AASB will have a hard time convincing its public that they need to change back to “statement of financial position” again!

For these reasons, we support the IASB’s stance that the proposed nomenclature is not mandatory.

The Exposure Draft introduces a requirement to present a statement of financial position as at the beginning of the earliest period presented in the financial statements. Therefore, in addition to notes, an entity would be required to present three statements of financial position, and two of each of the other statements that form part of a complete set of financial statements (see paragraphs 31 and 39 of the draft Standard and paragraphs BC6–BC9 of the Basis for Conclusions).

Question 2 – Do you agree that a statement of financial position as at the beginning of the period should be part of a complete set of financial statements, and that an entity presenting comparative information should therefore be required to present three statements of financial position in its financial statements? If not, why?

Again, we understand the reasoning given in BC 6, but in our view this requirement is excessive for most entities. We suggest that at most it be limited to entities that file their financial statements with a regulatory organization for the purpose of raising funds from the public (see ED 145/ED 8) for whom international comparability and easy use by analysts is important. Many small business users (owners and banks, for example) would easily be able to refer to the previous year’s accounts for this information.

Questions 3–5 – Reporting owner changes in equity and recognised income and expenses

The Exposure Draft proposes to require entities to present all changes in equity arising from transactions with owners in their capacity as owners (ie 'owner changes in equity') separately from other changes in equity (ie 'non-owner changes in equity' or 'recognised income and expense'). Non-owner changes in equity would be presented in either (a) a single statement of recognised income and expense, or (b) two statements: a statement displaying components of profit or loss and a second statement beginning with profit or loss and displaying components of other recognised income and expense (see paragraphs 81 and 82 of the draft Standard and paragraphs BC11–BC20 of the Basis for Conclusions).

Question 3 – Do you agree that non-owner changes in equity should be referred to as 'recognised income and expense' (bearing in mind that an entity is not required to use the term in its financial statements)? If not, why?
Is the terminology used in the Standard important if entities are permitted to use other terms in their financial statements? If so, what term would you propose instead of 'recognised income and expense'?

In the interests of convergence, we see no reason not to use the term 'comprehensive income'. In our view, consistency of presentation is more important than using terms that tie directly to the Framework. The link to the Framework can be explained in the standard via the definitions section. If the IASB continues to use 'recognised income and expense' the standard should specify that 'comprehensive income' is an acceptable alternative term.

The definitions and requirements relating to the statement of total recognized income and expense read like an uncomfortable attempt to marry up the traditional idea of a profit and loss account with the idea of comprehensive income. We particularly dislike the term "other recognized income and expense", which has no conceptual basis and is essentially a bucket for balances generated by the accounting standards which are not allowed for various reasons to go in the profit and loss account. In our view, if something satisfies the criteria for recognition as revenue or expense, it should go into the income statement. The income statement could then be split into realized and unrealized items as the Australian Statement of Financial Performance under AASB 1018 used to be.

We also dislike the practice of recycling items of revenue through the "other" section and then back into the "P&L" section. If an item has qualified for recognition as income or expense somewhere in the statement of financial performance in an earlier period, that should be the end of it. It should not need to be accounted for again when the item is realized. This somehow implies that we have first- and second-class income and expenses, which is quite contrary to the Framework. Either an item qualifies for recognition or it does not.

Question 4 – Do you agree that all non-owner changes in equity (ie components of recognised income and expense) should be presented separately from owner changes in equity? If not, why?

We agree with this distinction. The transactions with owners are relevant to owners and should be grouped together.

Question 5 – Do you agree that entities should be permitted to present components of recognized income and expense either in a single statement or in two statements? If so, why is it important to present two statements rather than a single statement? If you do not agree, why? What presentation would you propose for components of recognized income and expense that are not included in profit or loss?

In the interests of international harmonization, the Boards should go ahead and require one statement. Preparers and users of accounts are tired of constant change and if the Board's objective is for there to be one statement, then the standard should reflect that. To have two statements and then change again is unnecessary.

Questions 6 and 7 – Other recognised income and expense—reclassification adjustments and related tax effects

The Exposure Draft requires the disclosure of reclassification adjustments relating to each component of other recognised income and expense (see paragraphs 92–96 of the draft Standard and paragraphs BC21–BC23 of the Basis for Conclusions).

Question 6 – Do you agree with this proposal? If not, why?

We have always had reservations about the process of recycling items through the profit and loss account. If something satisfies the definition of income or expense for the year, it should stay in the part of the statement of financial performance where it was first put and then move to retained earnings at the end of the year. Recycling leads to confusion for users and opens up the possibility of double counting.

The Exposure Draft requires the disclosure of income tax relating to each component of other recognised income and expense (see paragraph 90 of the draft Standard and paragraphs BC24 and BC25 of the Basis for Conclusions).

Question 7 – Do you agree with this proposal? If not, why?

We wonder whether this proposal is overkill for non-listed entities.

Question 8 – Presentation of per-share measures

The Exposure Draft does not propose changes to IAS 33 *Earnings per Share*. Therefore, earnings per share will be the only per-share measure presented on the face of the statement of recognised income and expense. If an entity presents any other per-share measure, that information is required to be calculated in accordance with IAS 33 and presented in the notes (see paragraph BC26 of the Basis for Conclusions).

Question 8 – Do you agree that earnings per share should be the only per-share measure that is required or permitted to be presented on the face of the statement of recognised income and expense? If not, which other per-share measures should be required or permitted to be presented on the face of a statement and why?

We agree with this proposal.