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25th February 2007

Professor David Boymal
Australian Accounting Standards Board
PO Box 204
Collins Street West Vic 8007

Dear David

Invitation to Comment on ED 151 "Australian Additions to, and Deletions from, IFRS"

We are pleased to submit our comments in relation to the Invitation to Comment on ED 151 "Australian Additions to, and Deletions, from IFRSs".

Ernst Young supports the majority of the proposals in ED 151 in particular the concept of more fully aligning Australian Accounting Standards with International Financial Reporting Standards ("IFRS"). In the process of full alignment we believe that we need to consider allowing Australian companies to use the "IFRS brand" overseas. There is a perception in Europe and the United States that A-IFRS is not IFRS and therefore that Australian companies have not really adopted IFRS. We would support the AASB proposing to Treasury to amend the Corporations Law to permit the use of the term "IFRS" rather than A-IFRS or Australian Accounting Standards.

In general we do not agree with providing options within standards as it provides the opportunity for differential, poor quality reporting and inconsistencies that make it harder for users to understand and compare financial reports. However, we concede that as a priority differences between Australian Accounting Standards and IFRS should be kept to a minimum and as such accept that the existence of options is currently unavoidable as a concession that needs to be made in order that we achieve the more important objective of aligning A-IFRS to IFRS.

We acknowledge that complete alignment cannot be achieved due to the different requirements of Australian law and therefore the need for some additional paragraphs in respect of Australian legislative requirements regarding terminology and perhaps some additional disclosures i.e. currency disclosures.

Our comments on the specific amendments outlined in the Invitation to Comment are addressed below.

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1. AASB 107

Removal of the option to use the indirect method for presentation of cash flow statements

We do not agree with providing options within standards and note that history has shown us that the indirect method for presentation of cash flow statements can at times be unhelpful and inappropriate. However we concede that differences between Australian Accounting Standards and IFRS should be kept to a minimum as a priority and as such support the inclusion of the option to present a cash flow statement using the indirect method.

Removal of paragraph Aus20.1-2 requiring a reconciliation of cash flows arising from operating activities to profit or loss.

We note that if this requirement is removed and an entity continues to use the direct method of preparing a cash flow statement, then there will be no disclosure of non-cash operating transactions. This will result in a less comprehensive financial report and make it more difficult for readers to understand the cash flow statement. We would support the retention of the additional disclosure requirements in Aus20.1-2.

2. AASB 116/120

Inclusion of paragraph 28 stating that the carrying amount of an item of property, plant and equipment may be reduced by government grants in accordance with IAS 20.

We do not agree with providing options within standards and note that the concept of off-setting assets and liabilities is not supported elsewhere within the reporting framework. We can see no argument as to why government grants would qualify for off-setting as an exception. However we concede that differences between Australian Accounting Standards and IFRS should be kept to a minimum as a priority and therefore support the inclusion of the option to allow off-setting in relation to government grants.

3. AASB 121

Removal of paragraph Aus53.1 stating that when the presentation currency is different from the Australian currency, the entity must disclose the reason and justification for not using the Australian currency.

We note that if this requirement is removed an entity will be able to present its financial report in a currency other than the Australian currency and will have no need to provide a justification as to why the alternative currency is more appropriate. This could potentially result in a financial report that is less understandable and less comparable with its Australian peers. We strongly believe that this disclosure requirement should remain for Australian entities. We believe that we should be able to include additional disclosure requirements in Australia while still stating that we comply with IFRS.

4. AASB 127

The expansion of the definition of a "separate financial statement" to include "an investor in an associate or in a jointly controlled entity".

We note that the change in the definition of 'separate financial statements' will align Australian standards more closely with IFRS. However, we also wish to point out that this change highlights the significant difference in approach that exists between IFRS and the Australian Corporations Act in the way that financial reports are viewed.

The traditional Australian view is that the parent and consolidated group are distinct reporting entities for which discrete financial reports can be prepared. The IFRS approach, on the other hand, is that there is one primary set of financial statements (including the application of consolidation, equity accounting and proportional consolidation as applicable) and that any separate financial statements of the parent are optional. Importantly, those 'separate financial statements' are not necessarily synonymous with 'parent' financial statements.

This potentially creates some issues. For example, the expansion of the definition could potentially result in a number of non-parent entities, that hold investments in associates or jointly controlled entities, producing multiple sets of financial statements. One set of financial statements could value the investments using the equity method (the primary IFRS-equivalent accounts) and the other set of financial statements could value the investments using cost or fair value (the 'separate financial statements' using the direct equity interest method). Given the two different valuation methods the profit and asset figures in the two sets of accounts could be vastly different.

Our concern is which set of accounts would be considered appropriate for shareholders/regulators and recognised under the Corporations Act? In addition, which set of accounts (profit figure) would be used to determine allowable dividend payments? And how would this be monitored?

We note that this issue is not limited to cases where companies may voluntarily choose to prepare an additional set of 'separate financial statements'. Similar issues arise where the parent's financial statements change from being the primary IFRS-equivalent accounts to separate financial statements and vice versa. For example:

(a) a non-parent (with associates or joint ventures) becomes a parent for the first time - the separate parent financial statements may need to 'undo' the equity accounting that was previously applied – does this mean that the previously recognised profits are no longer distributable?;

(b) conversely, a parent that disposes of its last subsidiary will, for example, be required to commence equity accounting its associates in its stand alone financial statements; and

(c) a parent that merges all its subsidiaries' operations into the legal parent where one of the subsidiaries had historically been the deemed acquirer in a reverse acquisition – the parent's capital structure may change if, say, it is required to adopt the consolidated accounting in its stand alone financial statements.

We believe that if the expanded definition is adopted then Treasury would need to address this issue by determining which set of parent accounts is to be recognised under the Corporations Act. There are also issues associated with a change in the basis of a parent's stand alone accounts that warrant consideration such as the impact upon distributable earnings and maintenance of capital.

5. AASB 128

The removal of paragraph Aus 37.1 which requires various disclosures in respect of each significant associate, including name, principal activities, ownership interest, share of profit and share of capital commitments.

We note that these requirements contain useful and appropriate disclosure for users of financial statements and removal of these requirements will result in a less comprehensive financial report. We believe that these additional disclosure requirements in Australia should be retained, and that this will not affect compliance.

Apart from the above matters, we have no other comments on the proposed amendments contained within ED 151.

We would be pleased to discuss our comments further with you. Please contact Ruth Picker on (03) 9288 8620 should you wish to discuss any of the matters raised in this response.

Yours sincerely

Ernst & Young