

18 August 2015

Australian Accounting Standards Board,
PO Box 204,
Collins Street West,
Victoria 8007

via e:mail to standard@asb.gov.au

Dear Sir/Madam,

ED 264 Conceptual Framework for Financial Reporting

Thank you for the invitation to participate in the Conceptual Framework Forum held in Melbourne on 10 August 2015.

I am writing as the CFO of Australia's largest Listed Investment Company ("LIC"), representing over 105,000 retail shareholders in Australia and New Zealand, and as an Australian company listed on the ASX and the NZX. AFIC is not only a preparer of financial reports under International Financial Reporting Standards but also a user of the reports issued by the companies that AFIC seeks to invest in.

I also refer you to our letter dated 7th November 2013 with regard to comments on ITC 29.

Our comments are specifically concerned with Chapter 7 – Presentation and Disclosure, and particularly with regards to information about financial performance.

Statements of Profit or Loss & Other Comprehensive Income

The statement that the income and expenses included in the profit or loss are the primary source of information about an entity's financial performance for the period is problematic.

The profit or loss for the year is a snapshot of past performance and is only an element, and not necessarily the most important element, that an investor uses in assessing a company, its financial position and future options.

Cash generation, gearing levels, asset quality are all, for example, integral to an investor's view of an entity – the concept that the financial performance for the year as reflected in the profit or loss statement is a 'primary source' of information is simplistic.

For its own financial reports, AFIC supports the current use of Other Comprehensive Income to reflect the changes in fair value of its 'long-term' (equity) investments and has argued for this treatment to be extended to all forms of fair-value investments that are not-held for trading, or to be held to maturity and are readily tradeable.

In our view, therefore, each of the Financial Statements are important not only in their own right but also, and perhaps more importantly, as a combined view of performance and financial position :

- i) Statement of Profit or Loss reflects the revenue generated by assets less expenses incurred in generating that revenue.
- ii) Other Comprehensive Income, as noted above, notes changes in the fair value of assets as reflected on the Balance Sheet.
- iii) Balance Sheet gives information with regards to gearing levels, asset quality, current and non-current liabilities etc.
- iv) Statement of Changes in Equity provides a useful summary of movements in shareholders capital and net assets.
- v) Cash-Flow Statement provides details as to the actual cash generation or utilisation of the business as an important determinant of future growth and prospects.

A combination of all of the above is necessary to give users a view not only of the past performance but also its current position and enable them to form a view on its prospects. However, as noted below, this does not change the fact that to most users each of the above components carries specific information – e.g. for many 'profit' does not include mere changes in the fair value of underlying, long-term assets.

Reporting items of income in Other Comprehensive Income

AFIC does not support any proposal that the changes in the fair value/carrying amount of its long-term investments be reported in the statement of profit or loss. Shareholders and other users of the accounts regard profits as the net amount that the assets generate – not the changes in the fair value of the investments themselves. To categorise fair value movements in the assets of the company as profit or loss would be confusing to our shareholders at best, and at worse misleading, necessitating detailed explanations and restructuring of the accounts for presentation. Prior experience has shown that these sorts of issues cause users to favour other non-IFRS information produced by the company over the IFRS compliant financial statements.

‘Recycling’ – AFIC opposes proposals to recycle gains from OCI through profit

It follows from our view that long-term investments and changes in their value should not form part of profit that AFIC also does not favour the recycling of fair value changes in those investments from Other Comprehensive Income to the statement of profit or loss. The realisation of a long-term investment does not change its past nature. Should a preparer invest the funds from the realisation of a long-term asset into short-term/trading assets, then those fair value movements, including gains on realisation, can be recorded through the statement of profit or loss.

Indeed, preparers that regard a gain made on a long-term investment as ‘profit’ could be argued to have been treating the asset as trading stock and therefore all fair value movements should be regarded as ‘profit.’

AFIC would argue that if a long-term investment has been held for 20 years, for example, to have the entire 20 year fair-value change be recycled and reported as ‘profit’ in a single year would be a distorting. It would be another ‘reconciling’ item to ‘underlying’ profit and would seem to go against any concept of matching and reporting changes in value in one year in the financial report of that year.

Preparers that regard long-term investments as assets from which ongoing income or capital growth may be derived should continue to record all fair value movements through Other Comprehensive Income without any recycling as the realisation of one investment would merely be the eventual replacing of one long-term asset with another.

Thank you for the opportunity to contribute.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'A. Porter', with a stylized flourish underneath.

Andrew Porter
Chief Financial Officer