



Australian Government

**Australian Accounting
Standards Board**

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Corporate and Financial Services Regulation Review
Corporations and Financial Services Division
The Treasury
Langton Crescent
Parkes ACT 2600

Dear Sir/Madam,

Corporate and Financial Services Regulation Review – Consultation Paper

The Australian Accounting Standards Board (AASB) is pleased to provide comments on issues raised in the Consultation Paper that relate to accounting standard setting. The AASB's comments are set out below.

- 2.1 Concise Reporting Requirements: Comments are sought on separating the remuneration report from the directors' report and requiring it to be a stand-alone report. The concise report would only include summary remuneration information. In addition, comments are sought on whether the concise report should only contain summary information from the directors' report. Comments are sought on what summary information in both cases would be appropriate.**

The AASB supports proposals to reduce the size of the concise report and suggests that summary information in respect of remuneration be provided rather than the full remuneration report. Under the present regime the provision of the directors' report including the remuneration report in respect of listed companies can dominate the concise financial statements and accompanying discussion and analysis which is required by AASB 1039 *Concise Financial Reports*.

- 2.2 Executive Remuneration – Disclosure Requirements: Comments are sought on the most effective means of harmonizing and removing duplication in the remuneration disclosure requirements in relation to directors and executives without any dilution of disclosure.**

The AASB considers that the requirements relating to individual director and executive remuneration should be located in the one place and that as a corporate governance matter the most appropriate location is the Corporations Act. However, if this were to occur and if conflict with the requirements in

IASB Standards is to be avoided it is essential that the basis of the disclosures and the measurement of amounts disclosed be consistent in Australian equivalents to International Financial Reporting Standards. For example, share-based payment such as share options granted to executives should be measured using AASB 2 *Share-based Payment*. In addition, the disclosures should be made in respect of key management personnel as defined in AASB 124 *Related Party Disclosures* rather than be in respect of the five most highly remunerated executives. It is only in this way that entities will be able to have one source of requirements that enables them to comply with the Corporations Law and make a statement of compliance in respect of IFRS.

The AASB stands ready to participate in a process to achieve an outcome that removes duplication of information and conflicts between the respective requirements of the Corporations Act and the requirements of the Accounting Standard while at the same time meeting the objective of the FRC's strategy regarding the adoption of IFRS.

2.4 Thresholds for financial reporting of large proprietary companies: Comments are sought on whether the revenue and asset thresholds for financial reporting of large proprietary companies should be increased.

The AASB supports an increase in the thresholds for financial reporting of large proprietary companies. However, whatever the magnitude of the increase in the thresholds, this will only provide a partial solution to the issues being addressed, as their interrelationship with the requirements of Accounting Standards also needs to be considered.

The AASB suggests that any changes to the small/large test in the Corporations Act should take into account international developments on financial reporting by small and medium-size entities (SMEs) and potential changes to the definitions of reporting entity and general purpose financial reports that may result from IASB projects including proposed revisions to IAS 1 *Presentation of Financial Statements* and forthcoming proposals in respect of SMEs. These developments are likely to significantly change the financial reporting requirements applicable to SMEs, and will need to be considered by the AASB for Australian adoption, in the context of our existing reporting entity concept. In addition, the AASB and the New Zealand Financial Reporting Standards Board agreed at a joint meeting held in May 2006 on the desirability of bringing differential reporting regimes in Australia and New Zealand together, and noted that this requires action on the part of Australian and New Zealand legislators, as well as the two Boards.

2.8 Parent entity financial statements: Comments are sought on whether only summary financial information should be required in relation to the parent entity. Comments are also sought on the type of information that should be required to be disclosed.

The AASB supports proposals to provide only summary financial information in relation to the parent entity.

The AASB commissioned a research project on the relevance of parent entity financial reports and issued a Discussion Paper *The Relevance of Parent Entity Financial Reports* (DP) in 2003. A principal recommendation in the DP was to remove the requirement for parent entity financial reports to be published in the annual report while retaining the requirement for audited parent entity financial reports to be lodged with ASIC except for certain types of parent entities (no substantive operations, not borrowing entities and not guarantor for debt of subsidiaries). The DP also recommended that certain information be disclosed in the consolidated financial report.

The AASB believes that the need for revision of the requirements in respect of parent entities has been exacerbated with the adoption of IFRS. For example, the introduction of IFRS moves current accounting practice even further from the legal principles and precedents with an increased emphasis on fair value measurement (involving unrealised gains and losses being taken to profits) including accounting for financial instruments, hedging transactions and investment properties. In addition, the IASB Standards are generally developed and expected to be applied from the perspective of the preparation of consolidated financial reports of a group of entities, rather than the individual financial statements of a parent or other member of a group.

The Corporations Act currently limits the payment of dividends to accounting profit. The legal precedents and the legislation are based upon an outdated principle of capital maintenance which is no longer dominant in accounting thinking and is no longer supported by other sections of the same legislation, such as that relating to capital reconstructions and share buy-backs.

The parent is the dividend paying entity in a group and the AASB considers that the legislation is a barrier to reducing current parent entity reporting requirements, as parent entity profits and retained earnings are determinative of dividend paying capability. The AASB believes that the rules on dividend distribution need to be brought up to date in Australia, either in the UK manner by rendering obsolete the old precedents and restating the capital maintenance principle in modern terms, or in the New Zealand manner by having only a solvency test and adequate safeguards for the protection of creditors. The solvency approach would also be consistent with the existing Australian solvency rules for share buy-backs.

Please contact me (dboymal@asb.com.au) if you have any queries regarding any matters in this submission.

Yours sincerely,



David Boymal
Chairman