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Mr David Boymal
Chair
Australian Accounting Standards Board
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Our ref PE_Submissions_PRRTInterp-
1210

12 October 2007

Dear David

Comments on the Proposed Interpretation Australian Petroleum Resource Rent Tax

We are pleased to have the opportunity to comment on the Proposed Interpretation 10XX *Australian Petroleum Resource Rent Tax* ("Proposed Interpretation") that has been prepared by the Australian Accounting Standards Board ("AASB").

Executive summary

As noted in our letter of 16 July 2007, we continue to be of the view that the AASB should refrain from issuing this proposed interpretation. PRRT is not an Australian specific matter. Furthermore, under IFRS and the scope of the Proposed International can not effectively be limited to Australian PRRT.

Should the AASB proceed to issue the Proposed Interpretation:

- for the interpretation to achieve consistency in accounting for PRRT and also have any practical value, an illustration is required. The illustration needs to highlight:
 - the deferred tax implications of PRRT; and
 - the consequential implications PRRT temporary differences have on the measurement of other deferred taxes, as a result of PRRT's deductibility in determining taxable income under the Income Tax Assessment Act; and
- we have provided other editorial suggestions, as noted below.



Refrain from issuing this Proposed Interpretation - PRRT is not an Australian specific matter

IFRS is a global principle based set of accounting standards.

Our experience indicates that a tax such as PRRT is not an Australian specific matter. There are a range of taxes levied by governments in other parts of the world that are similar to PRRT. The issuance of an Australian specific interpretation on this matter is inconsistent with the objective of an internationally consistent principles based set of standards.

Whilst agreeing with the conclusion presented in the Proposed Interpretation, we strongly encourage the AASB to refrain from issuing this Proposed Interpretation.

Under the heading Comparison with International Pronouncements, the AASB states that entities that comply with this interpretation will simultaneously be in compliance with IFRS.

Whilst the language in paragraph 8 and BC 17 seeks to limit the scope of the Proposed Interpretation to the issue of Australian PRRT, practically this is not possible.

AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, and the international equivalent IAS 8, provides a hierarchy of guidance when determining the appropriate accounting treatment in the absence of a specific standard.

AASB 108:12 indicates that management may also consider the most recent pronouncements of other standard setting bodies that use a similar concept framework.

In our view if the fact pattern is sufficiently similar that an overseas tax arrangement is analogous to PRRT, then given the Proposed Interpretation states compliance with IFRS and is definitive in this conclusion, the Proposed Interpretation is projected internationally beyond the stated scope of Australian PRRT. For the accounting in the other jurisdiction with an analogous regime, a conclusion that the analogous regime is anything other than an income tax brings into question either compliance with IFRS of the other financial statements, or the definitive nature of the conclusion presented in the Proposed Interpretation.

If an Interpretation is issued, it needs a practical illustration

The stated objective of the Proposed Interpretation is to remove divergent treatment in the accounting for PRRT. The variety of accounting alternatives noted in paragraph 5 of the Proposed Interpretation implies that the divergence is not only a presentation issue, but also a measurement and recognition issue.

As noted in the Proposed Interpretation, PRRT has a number of complexities that are not widely seen in other deferred tax computations. These complexities include:

- The impact of augmentation; and
- The interrelationship between a PRRT taxable temporary difference and a further deductible temporary difference that arises from PRRT's deductibility under the Income Tax Assessment Act.

To achieve the stated objective of consistency in accounting, the Proposed Interpretation only provides half of the solution. Yes PRRT is an income tax within the scope of AASB 112, but the complexities noted above warrant the AASB to avoid and remove any confusion on the practical application of its Proposed Interpretation.

The inclusion of a practical example is consistent with the approach adopted by the IFRIC in the finalisation and release of IFRIC 13. In this situation, the IFRIC responded to constituent feedback and recognised that the complexity of the situation supported the inclusion of an illustrative example.

Other editorial comments

We would recommend that the proposed language in paragraph 5(e) continues to state

“... including deferred tax implications.”

to avoid the subtlety that income taxes comprise current and deferred taxes. In our view, this subtlety is otherwise lost.

The second sentence of BC2 refers to “worked out”. We would suggest the use of the phrase “calculated” or “determined”.

BC3 provides an overview of other features of the PRRT regime. This section of the basis for conclusion should also include a comment that the PRRT payment is deductible when determining taxable income under the Income Tax Assessment Act. Our experience indicates that this feature is critical to the practical application of AASB 112 measurement principles, and would naturally link with our recommendation for a proposed illustrative example.



*Australian Accounting Standards Board
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We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact me on 02 9335 7108, or Kim Heng on 02 9455 9120.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Chris Hall', written over a horizontal line.

Chris Hall
Partner