



**The Institute of
Chartered Accountants
in Australia**

15 November 2005

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

Dear Sir,

ED 143: Director and Executive Disclosures by Disclosing Entities: Removal of AASB 1046 and Addition to AASB 124

The Institute of Chartered Accountants in Australia (ICAA) welcomes the opportunity to make a submission on ED 143.

Our position is that the content of AASB 1046 should be deleted from accounting standards. The Government has legislated for the disclosures it believes are necessary and these are not reliant on an accounting standard. We believe the ED 143 amendments are contrary to the principles continued in both CLERP 9 and the Government's recent announcement of a Task Force to reduce Red Tape on Business.

Should there be detailed disclosure requirements in the accounting standards, the ICAA supports the integration of AASB 124 and AASB 1046 and the use of consistency in wording. It is also fully supportive of changes necessary to ensure compliance with IFRS.

However, the ICAA is not convinced that the removal of the parent entity relief the AASB 124 disclosures is necessary for compliance with IFRS, and does not support the removal of relief for the AASB 1046 disclosures.

The ICAA is also concerned with the retrospectivity of these proposed amendments given that entities with 31 December balance dates will have less than two months to incorporate any ED 143 amendments in their Financial Report. However if the AASB reduces the compliance burden on entities, the Institute would be prepared to support such retrospectivity. It is a pity that ED 143 has been issued some 15 months after the Parliament made clear its position on Disclosure of Director and Executive Remuneration via CLERP 9.

Our third major concern is with the removal of guidance and commentary from the standards. ED 143 covers an area that gives rise to many queries to the ICAA. Without authoritative guidance there is likely to be an unacceptable divergence of practice. SMEs and their auditors in particular do not have access to large technical departments, and should not be disadvantaged by the AASB removing useful guidance from the standards. We anticipate the removal of guidance will increase the divergence in interpretations, which is an undesirable outcome.

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We appreciate that the IFRS are principle based. However, we do not believe this should preclude the AASB issuing guidance in this difficult and often contentious area. Additionally, the requirements for directors and executives remuneration differ from the other accounting standards. Paragraphs Aus25.1 to Aus 25.7.3 are not based on an IFRS, disclosures are deemed material and they need to interact with the Corporations Act. We therefore believe guidance is necessary and would not be in conflict with the concept of principle based standards.

Whilst the Institute has answered each of the 15 'Matters for Comment' that the AASB has sought comment on in ED 143, our Comments are predicated on the above Principles.

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 Claire Locke CA on 02 9290 2702.

Yours sincerely

Keith Reilly FCA
Technical Standards Adviser



Specific Matters for Comment

1. Proposal to remove parent relief from AASB 124

Do you support the proposals to:

(a) remove parent relief from AASB 124; and

Paragraphs 1-22

We do not support this proposal on the grounds that it will increase compliance costs for entities despite the generally accepted position that users of the financial report are interested in the consolidated disclosures.

We do not find the argument persuasive that this proposal 'facilitates' compliance with IFRS. The existing version of AASB 124 gives entities the option of presenting parent and consolidated disclosures and indicates this will result in compliance with IFRS. If the AASB is now of the view that the existing version of AASB 124 is flawed, we request the reasons for this be clearly articulated so there can be an informed debate.

Paragraphs Aus25.1 to Aus 25.7.3

Our reading of the ED indicates the disclosures required by paragraphs Aus25.1 to Aus25.7.3 are required for consolidated and parent financial reports, although the example disclosures in the Appendices are on the consolidated basis only. IFRS compliance is not an issue for these disclosures. Accordingly we recommend the standard apply these paragraphs only to consolidated financial reports, and this be very clearly stated in the standard.

(b) rely on the definition of KMP and remove the requirement that the director and executive disclosures apply to the directors of the parent entity and at least five specified executives?

We agree with this proposal for consistency between disclosing and non-disclosing entities.

We strongly disagree with the removal of the detailed commentary on which individuals should be included in the disclosures. This is an area that gives rise to many queries to the ICAA. Without authoritative guidance in this area there is likely to be an unacceptable divergence of practice. SMEs and their auditors in particular do not have access to large technical departments, and should not be disadvantaged by the AASB removing useful commentary.

Do you consider that the removal of parent relief from AASB 124 is appropriate and sufficient to ensure IFRS compliance in respect of both parent and group entities?

See comments for (a) above.



2. Scope of AASB 124

Do you agree with the proposal that AASB 124 be required to be applied by non-corporate for-profit entities (and not AAS 22)?

We agree that there should be a sector-neutral standard applying to for-profit and not-for-profit entities.

However, we recommend there be clarity in which entities are required to comply with AASB 124 and which with AAS 22, particularly in the use of the terms for-profit and not-for-profit. We do not find the preface to ED 143 clear.

AAS 22 must also be amended to reflect the application of AASB 124.

3. Amalgamation of AASB 1046 with AASB 124

Do you agree that the quality and quantity of disclosing entity disclosures will not be detrimentally affected by amalgamating AASB 1046 with AASB 124?

As stated in our covering letter, in our view the accounting standards are not the appropriate place for disclosure requirements beyond IFRS, given the Governments action in legislating for these disclosures.

If the disclosures are to be in an accounting standard we agree, provided the scope of each set of disclosures is clearly stated.

4. Specified director, executive and specified executive

Do you agree with the proposal to use the term KMP and remove the definitions of specified director, executive and specified executive?

We agree with this proposal for consistency between disclosing and non-disclosing entities.

We strongly disagree with the removal of the detailed commentary on which individuals should be included in the disclosures. This is an area that gives rise to many queries to the ICAA. Without authoritative guidance in this area there is likely to be an unacceptable divergence of practice. SMEs and their auditors in particular do not have access to large technical departments, and should not be disadvantaged by the AASB removing useful commentary.

5. Subtotals for compensation and loans for directors and non-director KMP

Do you agree with the deletion of the requirement to disclose subtotals for compensation and loans for directors and non-director KMP (i.e. requiring only one KMP total)?

We disagree.

We believe the distinction between directors and non-directors is useful information to the users of the financial report and should be retained.

6. Former KMP

Do you agree with the proposal to delete the requirement for separate disclosure of transactions or balances with former KMP?



We disagree, as this opens up scope for entities paying substantial amounts after the KMP has left without clear disclosure.

7. Prescribed benefits

Do you agree with the proposal to delete the AASB 1046 requirement for separate disclosure of prescribed benefits in each component of the five categories of compensation?

We disagree.

We believe shareholders in particular are interested in payment of the amounts they approve.

8. Entities that have to disclose details of KMP

Do you agree with the proposal that all entities covered by AASB 124, not only disclosing entities, be required to disclose certain minimum descriptive information in respect of each key management person (refer to paragraph Aus16.1) and information on changes that occur in the period after the reporting date and prior to the date when the financial report is authorised for issue (refer to paragraph Aus16.2)?

We do not agree this is necessary for non-disclosing entities.

9. Incorporation of section 300A(1)(ba) into AASB 124 paragraph Aus25.3

Do you agree with the Board's proposal to incorporate section 300A(1)(ba) of the Corporations Act into AASB 124?

As previously stated we do not believe an accounting standard should be covering disclosures covered by the Corporations Act.

If the disclosures are to be in an accounting standard we strongly agree with this proposal, provided all relevant parts of S300A, and not just some, are incorporated and that the commentary clearly states this.

10. Do you agree that the "other transaction" disclosures in paragraphs Aus25.5.3 to Aus25.7 should be by individual director when the disclosures in paragraph 18 are disaggregated into "key management personnel of the entity or its parent" and "other related parties"?

We agree.

11. No Appendices to final revised AASB 124

Do you agree with the Board's proposal to delete all the Appendices to this ED when issuing the final revised AASB 124?

We strongly disagree.

Preparers and auditors of financial reports are using their best endeavours to comply with all the standards. In order to do this they need more guidance, not less. The Guidance contained in Appendix 1 to AASB 1046, coming from UIG Abstract 14, is particularly useful. We note this appendix is not replicated at the back of the ED.

12. Transitional provisions



Do you consider that transitional provisions should be included in AASB 124 in respect of paragraphs Aus25.1 to Aus25.7.3, since it is the first time that disclosing entities are required to make the disclosures required by paragraphs Aus25.1 to Aus25.7.3 in respect of KMP rather than specified directors and specified executives?

We strongly consider that transitional provisions should be included to reduce the burden on entities.

13. Application to managed schemes (including MIS)

- (a) Do you agree that when a managed scheme (including a MIS) pays a management fee to its responsible entity, the managed scheme indirectly provides the compensation of the KMP for managing the MIS for the purposes of paragraph 16?

We agree, but believe this is similar to many commercial transactions.

- (b) Do you agree that the KMP of managed schemes that are disclosing entities (including MIS) should be subject to the same disclosure regime as all other disclosing entities in paragraphs Aus25.1 to Aus25.7.3 or should be required to make fewer disclosures, and perhaps only those required by paragraphs 1 to 22 of AASB 124?

We believe disclosure of the fee basis and the total fees paid to the MIS is of more relevance. Accordingly, should disclosure for KMP be included we believe paragraphs 1 to 22 would be adequate, provided there is full disclosure of the total fees paid to the RE.

- (c) Do you agree that the KMP of a managed scheme are among the individuals paid by the responsible entity (or by another entity that provides services to the responsible entity)?

We believe this depends on the circumstances.

14. Are there any other disclosure requirements you believe should be:

- (a) added; or

No

- (b) deleted?

No

15. Are the proposals in the best interest of the Australian economy?

We do not agree the following proposals are in the best interest of the Australian economy:

- detailed directors' remuneration disclosures are required by the Corporations Act. We believe that duplicating, but changing slightly, these requirements results in significant unnecessary costs***
- extension of disclosures to the parent entity is not useful information***
- the removal of useful authoritative commentary is likely to lead to increased compliance costs and increased divergence of practice***
- the issue of a standard in December 2005 applicable 31 December 2005, particularly with significant changes for some entities and no transitional provisions, is an unreasonable burden on entities.***