Office of the Chief Executive
Geoff Rankin, FCPA
CPA Australia
ABN 64 008 392 452
CPA Centre
Level 28, 385 Bourke Street
Melbourne VIC 3000 Australia
GPO Box 2820AA
Melbourne VIC 3001 Australia
T +61 3 9606 9689
F +61 3 9602 1163
W www cpaaustralia.com au
E geoff rankin@
cpaaustralia.com.au

16 June 2006

The Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

Via email: standard@aasb.com.au

Dear David

Exposure Draft ED 148 Proposed Amendments to AASB101 *Presentation of Financial Statements: A Revised Presentation*

Thank you for the opportunity to comment on Exposure Draft ED 148 Proposed Amendments to AASB 101 *Presentation of Financial Statements: A Revised Presentation*.

CPA Australia's comments to the specific matters which the Australian Accounting Standards Board (AASB) sought comment are attached to this letter and have been prepared in consultation with members through our Financial Reporting and Governance Centre of Excellence. Our submission to the International Accounting Standards Board's request for comment dated 9 June 2006 was copied to you on that date.

CPA Australia is generally supportive of the AASB's preliminary views on the Australian text.

Our detailed comments to your questions are attached to this letter.

Should you have any queries on our comments, please contact Dr Mark Shying, CPA Australia's Financial Reporting and Governance Senior Policy Adviser at mark.shying@cpaaustralia.com.au.

Yours sincerely

Geoff Rankin FCPA
Chief Executive Officer

Attach

cc: M Shying

ED 148 Specific Matters for Comment posed by the Australian Accounting Standards Board (AASB)

(a) The AASB's preliminary views on:

(i) The Australian text that is proposed to be retained in the [revised] AASB 101 *Presentation of Financial Statements*, as noted in section A of the Preface.

A.1 Application and Materiality

It is proposed to retain paragraphs Aus1.1 to Aus1.10 of the existing AASB 101 that relate to the application of the existing AASB 101 in the [revised] AASB 101. The AASB notes, however, that the existing AASB 101 applies more broadly than most other AASB Standards. Most AASB Standards are mandatory only for reporting entities, whereas AASB 101, AASB 107 Cash Flow Statements and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors apply to entities that are required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act even when they are not reporting entities. In view of the additional requirements proposed in the [revised] AASB 101 (for example, the proposal to require a third statement of financial position), some may consider it appropriate to limit the application of the [revised] AASB 101, or at least aspects of it, to reporting entities.

We consider it appropriate that AASBs 101 [revised], 107 and 108 continue to apply to entities that are required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act even when they are not reporting entities.

A.2 Definitions of Certain Terms

Paragraph Aus11.1 provides definitions for a number of terms that are not included in the IASB ED. The AASB proposes to retain each of the following terms:

- *Annual reporting period: as the term is referred to in the application paragraphs.*
- *Australian equivalents to IFRSs: as the term is specific to Australian reporting*
- *requirements.*
- *Entity: as the term is referred to in the application paragraphs.*
- *Related practice: as the term is specific to additional Australian reporting requirements that the AASB proposes to retain.*

We agree with this proposal.

A.3 True and Fair View and Compliance with Australian Accounting Standards

Paragraph Aus13.1 explains that the Corporations Act requires an entity's financial report to comply with Australian Accounting Standards and, if necessary to give a true and fair view. Paragraph Aus13.2 requires the entity to state whether its financial report has been prepared in accordance with Australian Accounting Standards.

We agree with this proposal.

A.4 Explicit and Unreserved Statement of Compliance

Paragraphs Aus14.1, Aus14.2 and Aus14.3 relate to the circumstances under which an entity can make a statement of explicit and unreserved compliance that is specifically applicable to parent financial statements, consolidated financial statements, and entities such as for-profit public sector entities and not-for-profit entities in the context of Australian Accounting Standards.

We agree with this proposal.

A.5 English Language

Paragraph Aus45.1 requires the financial report to be presented in the English language, which the AASB considers to be an important requirement to retain, particularly since it was originally a key requirement of the corporations legislation.

We agree with this proposal.

A.6 Auditor Remuneration

Paragraphs Aus126.1 and Aus126.2 require disclosure of the payments made to auditors and related practices. The AASB considers this information to be useful to users.

We agree with this proposal.

A.7 Dividend and Franking Details

Paragraphs Aus126.4, Aus126.5 and Aus126.6 relate to the disclosure of dividend and franking details. The AASB considers this information to be useful to users.

We agree with this proposal.

A.8 Certain Illustrative Example

Example 3 of the Australian Implementation Guidance illustrates the disclosures of dividends paid or provided for and of the franking account balance. The AASB proposes to retain the example, as it believes that the example is useful to users (also see Item B.15).

We agree with this proposal

(ii) The Australian text that is proposed not to be included in the [revised] AASB 101, as noted in section B of the Preface.

B.1 Application Paragraphs

Paragraphs Aus1.5 and Aus1.6 list a number of Standards, which are no longer applicable. Paragraph Aus1.7 notes that the notice about the Standard is published in the Commonwealth of Australia Gazette. The publication of the notice is no longer required.

We agree with this proposal

B.2 Concise Financial Reports

Paragraph Aus3.1 notes that concise financial reports prepared in accordance with AASB 1039 Concise Financial Reports are treated in the same manner as for condensed interim reports prepared in accordance with AASB 134 Interim Financial Reporting. The AASB believes it is no longer necessary to retain this reminder about concise financial reports.

We do not agree with the proposal to delete paragraph Aus3.1. Without it some preparers and/or auditors may interpret paragraph 3 as preventing the operation of AASB 1039.

B.3 Directors' Report and Remuneration Report

Paragraph Aus9.1 states that the Corporations Act requires entities to present reports such as Directors' Report and Remuneration Report outside the financial report. The AASB believes it is no longer necessary to retain this reminder about the Corporations Act requirement.

We do not agree with the proposal to delete paragraph Aus9.1. Without it we are concerned that some preparers may not present reports such as Directors' Report and Remuneration Report outside the financial report. We have been told by some members that this has happened in the context of concise reporting.

B.4 Definition of General Purpose Financial Report

Paragraph Aus11.1 includes a definition of 'general purpose financial report'. Paragraph 7 of the IASB ED includes a definition of 'general purpose financial statements', which has been moved from paragraph 3 of the existing AASB 101 with some amendments. The AASB proposes not to retain the definition for 'general purpose financial report' included in paragraph Aus11.1, and proposes to adopt the definition as stated in paragraph 7 of the IASB ED. The AASB acknowledges that there might be some implications associated with this adoption, and notes that it is intending to review SAC 1 Definition of the Reporting Entity (also see Item B.6). The AASB has included a question in the Specific Matter for Comment to seek constituents' views on this particular matter. (Refer to Specific Matter for Comment, question (b)).

We do not think it appropriate to have two definitions of 'general purpose financial statements' – accordingly, we accept that paragraph Aus11.1 will be deleted from AASB 1 [revised] should the International Accounting Standards Board (IASB) agree to include a definition of GPFR in IAS 1 [revised]. We have written to the IASB that we do not support the definition as proposed as we are not able to support the inclusion of the second sentence. We encourage the AASB to take this position in its submission to the IASB.

B.5 Identification of Framework Used in Preparation of Financial Statements

Paragraph Aus13.3 explains that the framework under which the report is prepared is identified in the summary of accounting policies, and that it may also be appropriate to state the relevant statutory and other requirements adopted in the preparation of the report. The AASB believes it is no longer necessary to retain this explanation.

We do not agree with the proposal to delete paragraph Aus13.3. We think the paragraph is relevant to those entities that are subject to regulation in addition to or instead of the Corporations Act, and those entities preparing special purpose financial reports.

B.6 Disclosure whether Financial Report is a General Purpose Financial Report or a Special Purpose Financial Report

Paragraph Aus13.4 requires an entity to disclose that the financial report is a general purpose financial report (GPFR), or if applicable, a special purpose financial report (SPFR). Paragraph Aus105.1(a) comments that this disclosure normally precedes all the other items that are disclosed in the 'summary of accounting policies' note to the financial statements. The AASB notes that the IASB does not require an entity to specify in its financial report whether it is a GPFR or a SPFR. The AASB is intending to review SAC 1 and SAC 2 Objective of General Purpose Financial Reporting and the GPFR/SPFR dichotomy. Accordingly, the AASB proposes not to retain paragraph Aus105.1(a) and the definition of Special Purpose Financial Report in paragraph Aus11.1, and proposes to amend paragraph Aus13.4 to require an entity to disclose whether the financial report is a general purpose financial report.

We do not agree with the proposal to delete paragraph Aus13.4. We hypothesise that the IASB's reason not to require an entity to specify in its financial statements whether it is a GPFR or SPFR is because the IASB only allows those entities with financial statements that are the equivalent of GPFRs to make a statement of compliance with International Financial Reporting Standards (IFRSs). In contrast, we understand that many Australian non-reporting entities comply with the recognition and measurement requirements of Australian equivalents to International Financial Reporting Standards (AIFRSs) but not the requirement for disclosure – hence, the need for the retention of the paragraph.

B.7 Australian Currency

When the presentation currency is not Australian currency, paragraph Aus46.1 requires the entity to disclose the reason and justification for using a different currency. The AASB considers that the reason for using a different presentation currency, which entities are entitled to do under AASB 121 The Effects of Changes in Foreign Exchange Rates, will be evident from the financial report.

We do not agree with the proposal to delete paragraph Aus46.1. Some of our members have suggested that its inclusion was in response to a concern expressed by members of parliament.

B.8 Rounding Basis

Paragraph Aus48.1 requires an entity to assess its regulatory framework to determine a rounding basis that is permitted under that regulatory framework. The AASB believes that it is no longer necessary to retain this paragraph.

We agree with this proposal.

B.9 Operating Cycle

Paragraph Aus56.1 requires disclosure of the length of the operating cycle where it is longer than twelve months and where current assets and current liabilities are presented separately from non-current assets and non-current liabilities, respectively. The AASB believes that it is no longer necessary to retain this paragraph and that the information will be evident from the financial report.

We do not agree with the proposal to delete paragraph Aus56.1. We understand that an operating cycle longer than 12 months is unusual. Accordingly, we think that any entity adopting such an operating cycle should be required to highlight this.

B.10 Retained Earnings

Paragraph Aus68.1 requires the entity to disclose on the face of the statement of financial position retained earnings attributable to equity holders of the parent. The AASB believes that it is no longer necessary to retain this paragraph.

We agree with this proposal.

B.11 Encouragement for Using Formats Illustrated

Paragraphs Aus69.1, Aus83.1 and Aus97.1 encourage an entity to adopt one of the formats of the financial statements presented in the Appendix of AASB 101, unless an alternative format is more relevant in understanding the entity's financial position, financial performance and movements in equity. The AASB proposes not to retain these paragraphs, consistent with the proposal noted at B.15 not to retain the Appendix and the Australian Implementation Guidance. Consistent with this view, the AASB also proposes to remove paragraph Aus12.1 of AASB 107 Cash Flow Statements that encourages an entity to adopt the cash flow statement format presented in the Illustrative Examples included in AASB 107.

We agree with this proposal.

B.12 Position of Statement of Compliance with Australian Accounting Standards

Paragraph Aus105.1(b) notes where the statement of compliance with Australian Accounting Standards is normally placed in the notes to the financial statements. The AASB believes that it is no longer necessary to retain this paragraph.

We agree with this proposal.

B.13 Economic Dependency

Paragraph Aus126.3 requires an entity to make disclosures about an economic dependency where the entity is dependent on another entity for a significant volume of revenue or financial support, and that dependency is not clearly discernible from a separate line item in the income statement or statement of financial position. The IASB ED does not include this requirement and the AASB proposes not to retain it in the [revised] AASB 101.

We agree with this proposal.

B.14 Capital Commitments and Other Expenditure Commitments

Paragraph Aus126.7 requires disclosure of details of capital commitments and other expenditure commitments and also requires these details to be presented in time bands. The IASB ED does not have this requirement, although paragraph 114(d)(i) of the IASB ED (or paragraph 105(d)(i) of the existing AASB 101) notes the disclosure about 'unrecognised contractual commitments' normally follows a certain order of notes to the financial statements. The AASB proposes to adopt the same approach as the IASB with regard to the disclosure of these items.

We do not agree with the proposal to delete paragraph Aus126.7. We understand disclosure of committed future cash flows is useful information.

B.15 Illustrative Examples and Australian Implementation Guidance

The Appendix of AASB 101, Appendix – Illustrative Financial Report Structure (pages 49 to 57 of the existing AASB 101), provided illustrative examples of a statement of financial position, income statement and statement of changes in equity that meet the requirements of AASB 101. AASB 101 also included Australian Implementation Guidance (pages 58 to 74 of AASB 101). The IASB ED's Implementation Guidance (pages 78 to 95 of the IASB ED) provides illustrative examples of statements of financial position, recognised income and expense and changes in equity that meet the requirements of the IASB ED. The AASB proposes to replace the Appendix and the Australian Implementation Guidance with the IASB ED's Implementation Guidance on the basis that the IASB ED's Implementation Guidance provides examples that illustrate the new requirements of the IASB ED. These new requirements supersede the corresponding requirements of the existing AASB 101. (Refer to A.8 for the AASB's proposal to retain an example of the existing AASB 101) The AASB notes that the order of the statement of financial position items that is illustrated in the examples included in the IAS 1 and the IASB ED is different from the order that is used in the illustrations included in the Appendix of AASB 101. For example, under AASB 101, current assets and current liabilities precede non-current assets and non-current liabilities, respectively, on the statement of financial position. Under the IAS 1 and the IASB ED, the reverse applies. The AASB also notes that the illustrated order is not mandatory.

We agree with the proposal. We suggest that the AASB articulate that the illustrated order is not that traditionally used in Australia and that the illustrated order is not mandatory.

(iii) The deletion that is made by the AASB in the existing AASB 101 that is proposed to be reinstated in the [revised] AASB 101, as noted in section C of the Preface.

C.1 Fair Presentation

Paragraphs 17 to 20 of IAS 1 specify circumstances in which an entity could depart from a requirement in a Standard or an Interpretation. They were not included in the existing AASB 101 because they are inconsistent with the Corporations Act with regard to the approach to 'true and fair view' under sections 295 and 297 of that Act. In addition, the existing AASB 101 does not include the opening sentence of paragraph 15 of IAS 1 (paragraph 12 of the IASB ED), which is also inconsistent with the Corporations Act. The AASB proposes to reinstate the deleted text since these inconsistencies do not apply to the entities that are not subject to the Corporations Act.

We agree with the proposal. However, we suggest that the insertion of the paragraphs be accompanied by an Aus paragraph that clarifies that the operation of the true and fair override provisions cannot be applied by those entities that are subject to the Corporations Act.

(iv) The deletions made by the AASB in the existing AASB 101 that are proposed not to be reinstated, as noted in section D of the Preface.

D.1 IASB's Application Paragraph

Paragraph 2 of IAS 1 is not included in the existing AASB 101 because it referred to the applicability of IAS 1, which was not applicable to Australian reporting entities. This paragraph was replaced by the corresponding paragraphs Aus1.1 to Aus1.10 in the existing AASB 101. The AASB will continue to have its own application paragraphs in Australian equivalents to IFRSs and paragraph 2 is redundant in the context of AASB 101.

We agree with this proposal.

D.2 Commentary on Alternative Formats Used to Present Changes in Equity

Paragraph 101 of IAS 1 notes the alternative formats applicable for showing changes in equity. This paragraph is not included in AASB 101 and now the same paragraph has also been proposed for deletion by the IASB. Therefore the notation for the deletion in the [revised] AASB 101 will be amended from '[Deleted by the AASB]' to '[Deleted by the IASB]'.

We agree with this proposal.

D.3 Previous Application Paragraphs of IAS 1

Paragraphs 127 and 128 set out the application details for IAS 1, which are not relevant to AASB Standards. Consequently, they were replaced by the Australian application paragraphs Aus1.1 to Aus1.3 in the existing AASB 101.

We agree with this proposal.

(b) the AASB's preliminary views proposed for adopting the definition of 'general purpose financial report' as included in paragraph 7 of the IASB ED. The AASB notes that the second paragraph of the definition proposes that "General purpose financial statements include those that are presented separately or within other public documents such as a regulatory filing or report to shareholders." This statement could be interpreted as defining all financial reports filed with a regulator on a public register to be general purpose financial reports, which would include those that are filed with, for example, the Australian Securities and Investments Commission, whether or not the entities are reporting entities;

We support the proposal to include a definition of the term "general purpose financial statements" in the definitions section – however, we do not support the definition as proposed. We understand the essential characteristic of a definition is its capacity to express the essential nature of the term. We support the inclusion of the first sentence of the proposed definition "General purpose financial statements (referred to as 'financial statements') are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs." as it expresses the essential nature of a general purpose financial statement.

However, we are not able to support the inclusion of the second sentence "General purpose financial statements include those that are presented separately or within another public documents such as a regulatory filing or report to shareholders." of the proposed definition of the term general purpose financial statements, because:

- the second sentence of the definition does not express the essential nature of the term;
- the structure of the definition of general purpose financial statements is not consistent with the IASB's general approach to the definition of terms in the Glossary of Terms:
    - no defined term uses a combination of black letter (as is used for the first sentence) and grey letter (as is used for the second sentence); and
    - less than 4% of defined terms in the Glossary use the expression "include" (as is used in second sentence) to express the essential nature of the term; and
- the meaning of the words of the second sentence is not clear. Some members read the second sentence as requiring that any financial statement presented within a public document be a general purpose financial statement. We note that paragraph 50 proposes "IFRSs apply only to financial statements, and not necessarily to other information presented in an annual report, a regulatory filing, or another document." Those same members remain unsure as to the operation of "necessarily" as it relates to the second sentence of the definition. We contend that it is up to individual jurisdictions to decide whether a financial statement presented within a public document such as a regulatory filing or report to shareholders is a general purpose financial statement and therefore prepared using IFRSs. We do not see this as a role for the IASB.

(c) whether certain entities should be required to prepare an additional comparative statement of financial position as proposed. These entities may include, for example:

(i) public sector entities (for example, general government sector): The AASB notes that three statements of financial position may create practical presentation difficulties for these entities. The AASB is particularly mindful of its proposal in ED 142 *Financial Reporting of General Government Sectors by Governments* to require the presentation of an additional statement: the original budget for these entities; and

(ii) entities required to prepare financial reports under Part 2M.3 of the *Corporations Act* that are not reporting entities;

We think that the additional comparative statement of financial information should be required to apply to all entities subject to the proposed AASB 1. We suggest that the statement of recognised income and expense also be subject to the same extended requirement for comparative information.

(d) whether the proposals give rise to any public sector entity issues that you believe require additional requirements or guidance in AASB 101. If yes, please describe the issues and provide reasons supporting your response;

We are not aware of any such issues.

(e) any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

(i) not-for-profit entities; and
(ii) public sector entities;

We are not aware of any such issues.

(f) whether the proposals are in the best interests of the Australian economy.

We have written to the IASB that we do not support the proposed definition of general purpose financial statements as we contend that it is up to individual jurisdictions to decide whether a financial statement presented within a public document such as a regulatory filing or report to shareholders is a general purpose financial statement and therefore prepared using IFRSs. We do not see this as a role for the IASB. Notwithstanding this problem, we understand the AASB's adoption of the finalised proposals to be consistent with the directive of the Financial Reporting Council – accordingly, we understand the proposals to be in the best interests of the Australian economy.

Office of the Chief Executive
Geoff Rankin, FCPA
CPA Australia
ABN 64 008 392 452
CPA Centre
Level 28, 385 Bourke Street
Melbourne VIC 3000 Australia
GPO Box 2820AA
Melbourne VIC 3001 Australia
T +61 3 9606 9689
F +61 3 9602 1163
W www.cpaaustralia.com.au
E geoff.rankin@cpaaustralia.com.au

9 June 2006

Amendments to IAS 1
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Via email: CommentLetters@iasb.org

Dear Sir/Madam

Exposure Draft of Proposed Amendments to IAS 1 *Presentation of Financial Statements: A Revised Presentation*

Thank you for the opportunity to comment on Exposure Draft of Proposed Amendments to IAS 1 *Presentation of Financial Statements: A Revised Presentation*.

Our comments have been prepared in consultation with members through our Asia-Pacific Financial Reporting Advisory Group (APFRAG) which is a Board Committee representing a regional perspective from South-East Asia, Oceania and our Financial Reporting and Governance Centre of Excellence.

CPA Australia is generally supportive of the proposals. However, we have two reservations with the [draft] International Financial Reporting Standard (IFRS).

1. The decision not to consider segments A and B issues together.

CPA Australia does not support the International Accounting Standards Board (IASB) two step approach to the exposure of the draft proposals to progress its joint project with the Financial Accounting Standards Board (FASB). One outcome of the IASB's two step approach is the likelihood that IAS 1 *Presentation of Financial Statements* will be amended twice in a relatively short period of time – an outcome we consider is suboptimal.

We consider a better approach is for both standard setters to agree to expose the draft proposals at the same time – an approach that we recommend be applied to future joint projects. We are not aware of any reason for not adopting the FASB decision to consider segment A issues (the required financial statements that constitute a complete set of financial statements and requirements to present comparative information) and segment B issues (presentation of information on the face of the required financial statements and specific issues include recycling, disaggregation, and the use of totals/subtotals on the required financial statements) together, with the agreed proposals articulated in the one Exposure Draft (ED). Should the IASB proceed with the [draft] IFRS we suggest the reason for not considering segments A and B issues together should be articulated in the Basis for Conclusions.

2. The second sentence of the proposed definition of general purpose financial statements.

CPA Australia supports the proposal to include a definition of the term "general purpose financial statements" in the definitions section – however, we do not support the definition as proposed. We understand the essential characteristic of a definition is its capacity to express the essential nature of the term. We support the inclusion of the first sentence of the proposed definition "General purpose financial statements (referred to as 'financial statements') are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs." as it expresses the essential nature of a general purpose financial statement.

However, we are not able to support the inclusion of the second sentence "General purpose financial statements include those that are presented separately or within another public documents such as a regulatory filing or report to shareholders." of the proposed definition of the term general purpose financial statements, because:

- the second sentence of the definition does not express the essential nature of the term;
- the structure of the definition of general purpose financial statements is not consistent with the IASB's general approach to the definition of terms in the Glossary of Terms:
    - no defined term uses a combination of black letter (as is used for the first sentence) and grey letter (as is used for the second sentence); and
    - less than 4% of defined terms in the Glossary use the expression "include" (as is used in second sentence) to express the essential nature of the term; and
- the meaning of the words of the second sentence is not clear. Some members read the second sentence as requiring that any financial statement presented within a public document be a general purpose financial statement. We note that paragraph 50 proposes "IFRSs apply only to financial statements, and not necessarily to other information presented in an annual report, a regulatory filing, or another document." Those same members remain unsure as to the operation of "necessarily" as it relates to the second sentence of the definition. CPA Australia contends that it is up to individual jurisdictions to decide whether a financial statement presented within a public document such as a regulatory filing or report to shareholders is a general purpose financial statement and therefore prepared using IFRSs. We do not see this as a role for the IASB.

Our detailed comments to your questions are attached to this letter.

Should you have any queries on our comments, please contact Dr Mark Shying, CPA Australia's Financial Reporting and Governance Senior Policy Adviser at mark.shying@cpaaustralia.com.au.

Yours sincerely

Geoff Rankin FCPA
Chief Executive Officer

cc: D Boymal
M Shying

Exposure Draft Amendments to IAS 1

Questions 1 and 2 – A complete set of financial statements

The Exposure Draft proposes that the titles of the financial statements should be as follows:
(a) statement of financial position (previously 'balance sheet');
(b) statement of recognised income and expense;
(c) statement of changes in equity; and
(d) statement of cash flows (previously 'cash flow statement').

The Board does not propose to make the changes of nomenclature mandatory (see paragraph 31 of the draft Standard and paragraphs BC4 and BC5 of the Basis for Conclusions).

Question 1 – Do you agree with the proposed titles of the financial statements (bearing in mind that an entity is not required to use those titles in its financial statements)? If not, why?

Yes, CPA Australia agrees with the proposed titles of the financial statements. However, we are concerned by the proposal not to mandate their use. We consider that the usefulness to users of the information in financial reports should not be effected by the entity's choice of an inefficient nomenclature. We acknowledge that some jurisdictions might require the use of titles that are different from the [draft] IFRS. Accordingly, we recommend the inclusion in the [draft] IFRS of a rebuttable presumption that the use of the proposed titles of the financial statements is required – and that the opportunity to reject the rebuttable presumption be restricted to an entity being required by local legislation to use titles for the financial statements that are not those used by the [draft] IFRS.

Question 2 – Do you agree that a statement of financial position as at the beginning of the period should be part of a complete set of financial statements, and that an entity presenting comparative information should therefore be required to present three statements of financial position in its financial statements? If not, why?

Yes, CPA Australia agrees with the proposal. We note that the present version of IAS 1 requires financial statements to be presented at least annually and except when a Standard or Interpretation permits or requires otherwise, comparative information for the end of the previous period. Accordingly, we understand the only change in the [draft] IFRS is to require for a statement of financial position to include comparative information for the beginning of the previous period.

We suggest that the statement of recognised income and expense also be subject to the same extended requirement for comparative information.

Questions 3–5 – Reporting owner changes in equity and recognised income and expenses

The Exposure Draft proposes to require entities to present all changes in equity arising from transactions with owners in their capacity as owners (ie 'owner changes in equity') separately from other changes in equity (ie 'non-owner changes in equity' or 'recognised income and expense'). Non-owner changes in equity would be presented in either (a) a single statement of recognised income and expense, or (b) two statements: a statement displaying components of profit or loss and a second statement beginning with profit or loss and displaying components of other recognised income and expense (see paragraphs 81 and 82 of the draft Standard and paragraphs BC11–BC20 of the Basis for Conclusions).

Question 3 – Do you agree that non-owner changes in equity should be referred to as 'recognised income and expense' (bearing in mind that an entity is not required to use the term in its financial statements)? If not, why?

Is the terminology used in the Standard important if entities are permitted to use other terms in their financial statements? If so, what term would you propose instead of 'recognised income and expense'?

CPA Australia considers that by dichotomising changes in equity as "non-owner changes in equity" and "owner changes in equity" there will be an improvement in the understandability of the information provided in financial reports. We recommend the inclusion in the [draft] IFRS of a rebuttable presumption that the terms "non-owner changes in equity" and "owner changes in equity" are required to be used in its financial statements – and that the opportunity to reject the rebuttable presumption be restricted to an entity being required by local legislation to use terms in the financial statements that are not those used by the [draft] IFRS. We consider that the use of common terms is necessary to compare the financial reports of different entities.

Question 4 – Do you agree that all non-owner changes in equity (ie components of recognised income and expense) should be presented separately from owner changes in equity? If not, why?

Yes – for reasons of improved understandability and better comparability.

Question 5 – Do you agree that entities should be permitted to present components of recognised income and expense either in a single statement or in two statements? If so, why is it important to present two statements rather than a single statement? If you do not agree, why? What presentation would you propose for components of recognised income and expense that are not included in profit or loss?

CPA Australia supports the presentation of components of recognised income and expense in two statements: a statement displaying components of profit or loss and a second statement beginning with profit or loss and displaying components of other recognised income and expense.

We contend that the components of other recognised income and expense communicates important information which improves the understandability and transparency of the financial report – being, the subset of the components of other recognised income and expense that will be reclassified to profit and loss at a future period (e.g., the gains and losses on remeasuring available-for-sale financial assets, and the effective portion of gains and losses on hedging instruments in a cash flow hedge).[1]

Questions 6 and 7 – Other recognised income and expense – reclassification adjustments and related tax effects

The Exposure Draft requires the disclosure of reclassification adjustments relating to each component of other recognised income and expense (see paragraphs 92–96 of the draft Standard and paragraphs BC21–BC23 of the Basis for Conclusions).

Question 6 – Do you agree with this proposal? If not, why?

Yes, we agree with the proposal.

The Exposure Draft requires the disclosure of income tax relating to each component of other recognised income and expense (see paragraph 90 of the draft Standard and paragraphs BC24 and BC25 of the Basis for Conclusions).

Question 7 – Do you agree with this proposal? If not, why?

Yes, we agree with the proposal.

Question 8 – Presentation of per-share measures

The Exposure Draft does not propose changes to IAS 33 Earnings per Share. Therefore, earnings per share will be the only per-share measure presented on the face of the statement of recognised income and expense. If an entity presents any other per-share measure, that information is required

[1] We note that unreported research indicates that one statement may be acceptable.

to be calculated in accordance with IAS 33 and presented in the notes (see paragraph BC26 of the Basis for Conclusions).

Question 8 – Do you agree that earnings per share should be the only per-share measure that is required or permitted to be presented on the face of the statement of recognised income and expense? If not, which other per-share measures should be required or permitted to be presented on the face of a statement and why?

Yes. CPA Australia agrees the possible changes and improvements to per-share measures is part of segment B of the project (should the IASB decide to proceed with the [draft] IFRS).

Other comments

A. *Plain language*. CPA Australia supports the use of plain language when writing standards. We recommend the IASB utilise this principle to guide its writing. We have identified some specific paragraphs in the [draft] IFRS which we consider would be improved by the use of plain language. We also provide some more general comments.

Current liabilities

~~60~~ 69 An entity shall classify a liability ~~shall be classified~~ as current when ~~it satisfies any of the following criteria~~:

(a) it ~~is expected~~ expects to ~~be~~ settled the liability in ~~the entity's~~ its normal operating cycle;

(b) it ~~is held~~ holds the liability primarily for the purpose of ~~being traded~~ trading;

(c) ~~it~~ the liability is due to be settled within twelve months after the ~~balance sheet date~~ end of the reporting period; or

(d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the ~~balance sheet date~~ end of the reporting period.

An entity shall classify all other liabilities ~~shall be classified~~ as non-current.

This paragraph should have "or" after (b) and combine (c) and (d) into a single sentence that states "the liability is due to be settled within twelve months after the end of the reporting period unless the entity has an unconditional right that would allow it to defer settlement of the liability for at least twelve months after the end of the reporting period."

As currently stated, we understand any debt due within twelve months would trigger it being classified as current even if a right to defer settlement for over twelve months from the end of the reporting period existed. Also, the term "right to defer settlement" should require an intention to exercise that right. To allow a liability that will be settled in twelve months as non-current simply because an entity has a right to defer settlement is inconsistent with paragraph 61 that states that the classification is based on whether settlement is expected. While paragraph 73 makes it clear that both the right and expectation is required, that fact should be stated in paragraph 69 as well.

~~64~~ 73 If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the ~~balance sheet date~~ end of the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement to refinance), the potential to refinance is not considered and an entity classifies the obligation ~~is classified~~ as current.

It would be useful to reword the first sentence of paragraph 73. As stated, it reads as though the right to refinance or roll over an obligation must be for twelve months or more after the end of the reporting period, when in fact what is intended is that the right allows for the obligation to be refinanced or rolled over such that it is not due for settlement within twelve months after the end of the reporting period. As currently stated, it could be misunderstood that the right must be good for a period of at least twelve months, which would not be realistic for an obligation due within twelve months as these rights expire when the obligation is due.

~~88~~ 99 An entity shall present an analysis of expenses within profit or loss using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant.

~~89~~ 100 Entities are encouraged to present the analysis in paragraph ~~88~~ 99 on the face of the ~~income~~ statement of recognised income and expense.

While these paragraphs remain consistent with the existing version of IAS 1, the IASB has stated in meeting notes that an entity must use either the by nature or by function format for its income statement. Clearly, that is not what is stated here, as the requirement is merely that such an analysis be shown in the financial statements. Many entities do not want to use either the by nature or by function format, preferring a hybrid statement that better presents their information or some other variation. If the IASB requires these formats to be used in the income statement, it should make an explicit statement in the [draft] IFRS , and not make such statements through informal meeting notes that we are told are then applied as if a standard by accounting firms and regulators.

General comments

1. Consistent editorial approach. It appears that once the full name of a standard is stated, only the number of the standard is subsequently stated. For example, IAS 12 *Income Tax* becomes IAS 12 after its first use. We note this approach is not used consistently throughout all standards. CPA Australia recommends a consistent editorial approach.

2. The words presentation and disclosure were previously used by the IASB to distinguish between information to be presented in the statements from those to be disclosed in the policies and notes. These terms are now used interchangeably in IFRS, even though some standards still distinguish the two concepts, such as the standards on financial instruments IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures*. CPA Australia supports clarification of the meaning of these terms or alternatively an explicit clear statement that the terms are used loosely and interchangeably in the standards.

B. *Other disclosures*. We note that the Australian equivalent to IAS 1 – AASB 101 *Presentation of Financial Statements* requires the disclosure of payments made to auditors and related practices (see paragraphs Aus 126.1 and 2). CPA Australia considers the disclosure of this information results in improved transparency and suggests that the IASB consider the inclusion of similar paragraphs in the finalised IFRS (we note that references to financial report would need to change to financial statements).

Aus126.1 An entity, other than a group, shall disclose in the financial report, the amounts paid or payable to:

(a) the auditor of the entity for an audit or a review of the financial reports of the entity;
(b) the auditor of the entity for non-audit services in relation to the entity, disclosing separately the nature and amount of each of the non-audit services provided by the auditor; and
(c) a related practice of the auditor for non-audit services in relation to the entity, disclosing separately the nature and amount of each category of non-audit service.

Aus126.2 The following information shall be disclosed in the financial report of a group, the amounts paid or payable to:

(a) the auditor of the parent of the group, for an audit or a review of the financial report of any entity in the group;
(b) the auditor of the parent of the group, for non-audit services in relation to any entity in the group, disclosing separately the nature and amount of each of the non-audit services provided by the auditor;
(c) a related practice of the auditor of the parent of the group, for non-audit services in relation to any entity in the group, disclosing separately the nature and amount of each of the non-audit services provided by the auditor;
(d) the auditors of the subsidiaries in the group, other than those disclosed in accordance with paragraph Aus126.2(a), for an audit or a review of the financial reports of those subsidiaries;
(e) the auditors of the subsidiaries in the group, other than those disclosed in accordance with paragraphs Aus126.2(b) and (c), for non-audit services in relation to any entity in the group, disclosing separately the nature and amount of each of the non-audit services provided by the auditor; and
(f) a related practice of the auditors of the subsidiaries in the group, other than those disclosed in accordance with paragraphs Aus126.2(b) and (c), for non-audit services in relation to any entity in the group, disclosing separately the nature and amount of each of the non-audit services provided by the auditor.

C. *Finance Costs*. CPA Australia has been made aware that there continues to be some confusion among members as to what costs are included within finance costs. For example, do finance costs include:

- unwinding of the discount on provisions, or more widely, any liabilities measured at present values (regardless of whether the liabilities arise from borrowing)?;
- unwinding of defined benefit pension / superannuation fund liability (which is netted against the corresponding pension / superannuation asset)?;
- distributions on liabilities that are not borrowings, e.g. hybrids?;
- borrowing costs that are included in the effective interest rate calculation?; and
- bank account transaction costs?

In the process of issuing the [draft] IFRS we encourage the IASB to provide some certainty to this issue.