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Ref: TJB:SDAH

23 June 2006

CommentLetters@iasb.org
International Accounting Standards Board

Dear Sir/Madam

Proposed Amendments to IAS 1

Our comments in response to questions raised by the IASB on proposed amendments to IAS 1 are provided below.

We also take this opportunity to urge the IASB to revisit the context in which financial reporting standards are being developed. We consider that the IASB is becoming more entrenched in a theoretical debate concerning "value" and "performance" that is set in the context of "financial information useful to an investor or a financial analyst in a capital market". Consequently, the financial information being generated through application of IFRS has *decreasing* relevance for privately held enterprises, non-corporate enterprises, and possibly for application in developing economies.

The objectives of the IASB refer to "public interest" but the nature and extent of "public interest" varies significantly in respect of different types of organisations, such as those included above. Given that IFRSs are being adopted in different jurisdictions throughout the world, and applied to different types of entities within those jurisdictions, it is important that the IASB clearly communicates the relevant context for use of the financial information being provided through adoption of IFRS.

Therefore to enable global regulators to appropriately mandate adoption of IFRS, including improving understanding of the relevance and usefulness of IFRS, we consider that the IASB should clearly articulate that the financial information produced by IFRS is most suited to the information needs of participants of capital markets.

We would also like to convey our more general concerns regarding the reliability of financial reports that contain an increasing level of management judgments and estimation uncertainty. Although disclosure of significant judgments and assumptions may be provided in the notes to the financial report, the fact that such information is

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audited as "true and fair" further contributes to confusion as to the meaning and reliability of that financial information. We have previously presented our representations to the IAASB as auditors frequently can only concur that estimates and judgments are *not unreasonable* rather than "true and fair". As the IASB continues to develop the fair value reporting model, we urge your urgent liaison with the IAASB to ensure that the appropriate audit reports can be developed.

Our responses to your questions concerning proposed amendments to IAS 1 follow:

Question 1 re change to proposed titles

We do not concur with the proposed titles of the financial statements. The titles "Statement of Financial Position" and "Statement of Financial Performance" were introduced in Australia in 1999 and have been used in this jurisdiction to comply with the applicable Australian Accounting Standards since that time.

On first-time adoption of IFRS in Australia in 2005 we have reverted to use of "Balance Sheet" and "Income Statement". Despite several years of using the alternative terms, our clients, partners and staff, *without exception*, have welcomed the change back to use of terms that are clearly understandable. We concur with the views expressed by the fifth Board member in paragraphs AV8 to AV11, that the proposed titles *do* confuse constituents, that they are ambiguous, cumbersome and not consistent with a goal to use plain language.

Question 2 re statement of financial position at the beginning of the period

We do not concur with the proposal to present three statements of financial position for a number of reasons relating to both understandability of the financial statements and costs to prepare.

- From a practical perspective the financial reporting template will need to revised and financial reporting software will need to be re-written to enable the automated production of this information. This will mean significant costs to update financial reporting information systems. Also, if three reporting dates are presented in the statement of financial position, all related notes would also require three-column disclosure for consistency. Given the extent of detailed notes that are cross-referenced from this statement, there will be significant additional work required. Audit checks will also be required to ensure the completeness and accuracy of information brought forward.
- In the event of retrospective adjustments being required to financial information previously reported, the period for retrospective adjustment is effectively transferred back to the opening balance of the third (earliest) year for disclosure of comparatives. This is onerous reporting with unproven benefits.
- Further, it is already often difficult to present four columns of information in a consolidated statement of financial position on a single page. This means that separate statements would be required for the consolidated entity and the parent, which reduces the ready availability of comparison between parent and group information.
- From a user perspective it is questionable as to whether three years is sufficient to provide an indication of trends and movements in balances, or whether five or ten years might be more appropriate periods. Currently, certain entities already provide disclosures of several years of financial results and balances. Given the

extent of information already provided in the financial report, "cluttering" pages with an additional column of information will simply add to the mounting confusion arising through "information overload".

- Information relating to the beginning of the reporting period is already provided by reference to the prior year financial report. Access to this information is sufficient.

Question 3 re reference to "recognised income and expenses"

We do not concur with the use of this phrase to relate to items credited or debited directly to equity. We consider that the reference to such items as "income" or "expense" will cause significant confusion and misunderstanding.

Income as defined in the framework includes both revenue and gains. The framework also includes the statement "Gains represent increases in economic benefits and as such are no different in nature from revenue." However, typically the term "income" is used to represent items recorded in the income statement rather than gains recorded directly to equity. There is similar discussion in the framework regarding expenses, which comprise both losses and expenses in the ordinary course of business.

Items adjusted directly to equity often comprise valuation adjustments that relate to capital maintenance rather than continuing operations. Reference to these adjustments as "recognised income and expenses" fails to appreciate the nature of such adjustments and provides an inappropriate description.

Adjustments recorded directly to an equity account should be described quite simply as "items recorded directly to equity".

Question 4 re separation of non-owner changes in equity

We do not concur with the proposal for non-owner changes in equity to be presented separately from owner changes in equity. We consider that a single statement that reconciles all movements in equity provides users with the most relevant information in a readily useable format.

We would recommend that the statement contains separate line items and further analysis as appropriate for:

- Opening equity
- (Net) profit or loss for the period
- Items recorded directly in equity
- Dividends or other distributions
- Transactions relating to share capital
- Closing equity

Question 5 re presentation formats for recognised income and expense

The rationale behind the alternative presentation formats is not clearly discernible. Increasingly, there is a need to identify realised and unrealised items in these statements to determine (for example) distributable profits, taxable profits etc. The presentation formats (and titles) proposed do not respond to users' needs.

Question 6 and 7re reclassification adjustments and related tax

No specific comment.

Question 8 re EPS on face of statement

Earnings per share is the only audited per-share measure that can be determined by reference to an accounting standard. In the absence of acceptable criteria to determine other per-share measures such as net tangible assets or EBITDA, it is not appropriate to include other measures within the audited financial statement.

Please contact Dianne Azoor Hughes (dianne.azoorhughes@pitcher.com.au) if there are any matters arising from this submission that require further clarification.

Yours sincerely

TERRY BENFOLD
Partner

S.DIANNE AZOOR HUGHES
National Technical Director

cc. David Boymal
Chairman
Australian Accounting Standards Board