

Professor David Boymal FPNA  
Chairman  
Australian Accounting Standards Board  
Level 4  
530 Collins Street  
Melbourne VIC 3000

Dear David

**Re: Submission on ED 148**

The National Institute of Accountants (NIA) is generally supportive of the exposure draft dealing with financial reporting and presentation. Our detailed comments on the exposure draft and specific domestic questions are in the analysis that follows below.

We consider that adoption by the Australian Accounting Standards Board (AASB) of pronouncements issued by the International Accounting Standards Board (IASB) is in the economic interests of Australia. Any reservations or remarks we have about the proposals contained in ED 148 are intended to be constructive and assist in making these standards better and more robust.

This submission focuses only on those areas we believe need further consideration. On all other matters such as the domestic revisions, deletions or additions the AASB should assume that the NIA agrees with the proposals unless it is indicated otherwise in the text of this submission. Questions asked by the AASB are dealt with first and the IASB requests for comment are dealt with later.

Before we address other technical matters on which questions were asked we need at the outset to address a point of controversy that has arisen with the expanded definition of general purpose financial statements.

**Paragraph 7 and general purpose financial statements**

Amendments to Paragraph 7 add a line to the definition of general purpose financial statements that have caused some debate amongst accounting professionals. A concern has emerged that the addition of the paragraph significantly alters the meaning or application of the reporting entity concept. We do not believe that the proposals to add a line to the definition of general purpose financial statements mean the end of the reporting entity concept. They just enhance and further clarify what reporting entities should do when they apply financial reporting standards when they prepare financial statements. Paragraph 7 of the exposure draft states that where general purpose financial statements are contained in other documents or are lodged with a regulator of some description they should comply with the standards issued by the International Accounting Standards Board (IASB). This does not of itself destroy the reporting entity concept as some

commentators have sought to assert, but provides additional guidance to assist people in identifying the true reporting status of their entity. The worst that can be said about paragraph 7 is that it will compel those entities and their auditors that have failed to comply with accounting standards to follow the pronouncements accordingly.

The debate surrounding the additional line to paragraph 7 in ED 148 takes place in the context of a review of lodgement criteria in the *Corporations Act 2001* as a part of a red tape review. It is the ultimate role of the Federal Parliament to decide what entities must lodge financial statements with the corporate regulator. We submit the AASB should not alter or delete the additional line in the proposed accounting standard as it is committed to ensuring the standard is consistent with the international pronouncements. In addition, the NIA believes that entities lodging with the corporate regulator should be preparing a full set of financial statements because they meet the criterion of economic significance set down in the reporting entity concept. The law sets down the benchmarks for economic significance in Section 45A of the *Corporations Act 2001* for proprietary companies. Those entities that are large proprietary companies, disclosing entities or are public companies limited by shares or guarantee should prepare a full set of financial statements for lodgement with the corporate regulator. The existing size test thresholds in the law are an issue that are presently the subject of consultation between Federal Treasury and the business community.

It should also be remembered that a previous AASB issued an exposure draft known as ED 72 that embodies the notion that those entities that are required to lodge financial statements under the Corporations Law as it was at that time were reporting entities. It is our view that this should be the practice. Any change to lodgement requirements by government will lead naturally to a change in the number of entities that report to a regulator such as the Australian Securities and Investments Commission (ASIC). This does not mean, however, that this approach is the only way in which the reporting entity concept should be interpreted by the business community.

We disagree with the sentiments published in media articles that argue that all entities will be subject to more complex reporting requirements. Some of the coverage has had no regard for the distinction between disclosing entities, public companies limited by shares or guarantee and large proprietary companies. It has contributed to a misunderstanding of the reporting requirements rather than enhancing the ability of constituents to respond responsibly to the proposals. This is unfortunate in an environment where the NIA as an organisation is constantly trying to raise awareness of financial reporting matters in a manner that encourages informed discussions and meaningful responses to the standards board.

It is in all of our interests to ensure that an informed debate on these matters takes place. We would encourage the AASB to further consider as a part of its communication strategy how best to combat misinformation that may lead to unreasonable fears within the financial reporting community as a whole. Such publicity is counterproductive when it comes to creating a culture of compliance with financial reporting requirements and a respect for a new body of accounting standards.

### **Australian text proposed to be retained in the revised AASB 101**

The NIA supports the retention of the Australian text in the revised AASB 101.

### **Australian text proposed not to be included in the revised AASB 101**

The NIA supports without reservation the removal of Australian text in the revised AASB 101 except in the instances outlined below.

#### *Special purpose financial statements*

The NIA opposes the deletion of the requirement for people to declare whether the report is a general purpose or special purpose set of financial statements. Such a reference to a requirement for a declaration on the status of the report should be retained so that preparers in all sectors are not encouraged to think that an absence of a reference to SPFR in the contemporary standards permits them to refer to statements not prepared in accordance with all accounting standards as general purpose financial statements.

The term GPFR has a discipline and quality assurance associated with it, particularly as it relates to the presentation of the financial performance and position of a consolidated entity. There is also the linkage between the auditing standards and the professional standards of the professional bodies that do require members to comply with all of the standards when preparing a general purpose financial report. The AASB should consider redeliberating this matter given the linkages throughout the professional literature.

A risk also exists that the AASB will be besieged by requests from constituents or via a directive from the Financial Reporting Council (FRC) to prepare accounting standards for other purposes should there be no requirement to declare that anything less than a set of financial statements that complies with all of the requirements of GAAP is an SPFR.

The NIA suggests such a requirement could be contained in a standalone Australian pronouncement dealing with disclosures for Australian entities should the AASB continue to believe following redeliberation of the proposed standard that the deletion of the requirement from AASB 101 is appropriate.

#### *Economic dependency*

We understand the AASB's motivations for seeking the removal of this requirement but we do believe that some guidance in an Australian basis for conclusions should be given as a prompt to entities that may be in situations of economic dependency to disclose this information. An absence of a specific reference to economic dependency could encourage a preparer to fail to disclose this information.

It is our view that this information must be disclosed for an entity to claim that it is presenting a picture of its financial state that is both true and fair and in accordance with the accounting standards. We consider that such disclosure is required under Paragraph 112 in the financial reporting

standard as revised for the purpose of exposure by the IASB and we would encourage the AASB to express a similar view in a basis for conclusions.

### **Deletion made by the AASB in the existing AASB 101 that is proposed to be reinstated**

The AASB is exposing the reinstatement of the paragraphs that permit in rare circumstances an alternative form of accounting to that outlined in an accounting standard where those in charge of governance at an entity believe an alternative but unprescribed accounting treatment provides a better representation of the economic state of a reporting entity. This is a contentious for the reinstatement of the 'fair presentation' paragraphs and one that needs further reflection in the context of non-Corporations Act entities before it proceeds.

It is our view that a reinstatement of the 'override' will create an environment where the standards, which will be viewed in this context to be sector neutral, will invite government entities to report in alternative ways should agencies believe accounting standards issued by the AASB do not reflect the economics of the public sector in an appropriate fashion. This would create an unfortunate precedent as it would mean that even the sector specific standards issued by the AASB can be challenged on these grounds and an alternative accounting policy chosen as a result.

While we understand the objective underlying the AASB's proposed reinstatement we urge the board to reconsider its proposed reinstatement in the light of the impact this may have for the board's attempts work on government accounting.

### **Deletions made by the AASB in the existing AASB 101 that are proposed not to be reinstated**

The AASB's proposal to maintain these deletions is supported.

### **Matters requested for comment by the IASB**

#### *Non-mandatory titles for financial statements*

The changes to the titles of financial statements should be mandatory so that there is a uniform change at the one time. While changing the titles is disruptive in the short term it is far better to have entities reporting their results using the same terminology rather than variations on the theme.

For example, we understand that some commentators may prefer 'balance sheet' to 'statement of financial position' because people have gotten accustomed to the use of the shorter term. We consider the introduction of the new terminology in mandatory form is more appropriate. It also nullifies the need for alternate expressions for other statements.

It is the responsibility of organisations such as ours to ensure that preparers and investors are kept fully informed of changes that are a part of the introduction of these standards.

#### *Three column statement of financial position*

While the three column format will be useful for users analysing financial statements it may be complicated to introduce in Australia because of our requirement for parent company accounts. The NIA agrees with the proposals but we note there may be complications introducing it in Australia given the requirement for the publication of parent entity financial statements.

*Recognised Income and Expense title for non-owner movement in equity*

We agree with this proposal and as stated above we would prefer it to be mandatory so that there is consistency in labelling across entities irrespective of the home jurisdiction of the entities concerned. The concept of a single set of accounting standards is to enable users to understand an entity's operations and for them to be in a position where they can see common terminology flowing through in each jurisdiction.

*Single statement format preferred*

We believe the single statement format is easier to read and comprehend from a user standpoint and as such would prefer the IASB to use the single statement approach rather than the two statement approach as illustrated in the exposure draft. In addition, users are accustomed to seeing a single statement where an 'income statement' or 'statement of financial performance' is concerned. A single statement would be in keeping with past practice as well as being easier to read.

*Splitting the tax effect amount from other recognised income and expense*

The approach of splitting the tax amounts may be useful for analysts requiring the split for the purposes of analysis. We support this approach but note that it will need explanation when such a standard is introduced.

*Earnings per share on face of statement*

We have no objection to earnings per share being permitted on the face of the financial statements. We would encourage, however, the IASB to indicate in its literature that other measures considered meaningful by entities for the purpose of analysis may be disclosed in the notes to financial statements.

Please feel free to contact me at any stage for further information on either 03 8665 3143 or [tom.ravlic@nia.org.au](mailto:tom.ravlic@nia.org.au) .

Kindest Regards

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10 July 2006

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Dear David

**Re: Supplementary submission on ED 148**

The National Institute of Accountants (NIA) wishes to further amplify several points following the recent uploading of submissions related to the extension of the definition of general purpose financial statements (GPFS) on the web site of the Australian Accounting Standards Board (AASB).

It appears that the submissions uploaded in the past week contain in large part a misunderstanding of the financial reporting framework. This supplementary submission focuses only on these questions.

We reaffirm at the outset our support for the reporting entity concept and our belief that opposition to ED 148 has been engaged in by those that have misunderstood the text of the proposed standard. It may also indicate misapplication by various parties of the reporting entity concept in the past.

*Reporting entity concept*

We stated in our initial submission and continue to believe that the proposals in the exposure draft do nothing to the concept of the reporting entity. The reporting entity concept is still relevant in the context of financial reporting regulation in Australia despite suggestions to the contrary.

The proposals in the exposure draft have nothing to do with the reporting entity concept and the concerns expressed by a large number of submitters – some of which use similar or the same words – seem incapable or unwilling to acknowledge that the reporting entity concept is unaffected by the exposure draft.

Our view of the application of the reporting entity concept is as follows. Any entity that is either a large proprietary company, a disclosing entity or a public company limited either by shares or guarantee is a reporting entity as far as the NIA is concerned. These entities are all regulated by the Corporations Act 2001.

In addition, we are yet to find any entity structured in the forms outlined above that has no owners, creditors, debtors, employees or stakeholders of some kind. We submit to the board that the only non-reporting entities

are small proprietary companies. All other entities are caught either on the basis of their structure or the size test that establishes an objective benchmark for economic significance.

We were and remain unconvinced that the reporting entity concept is under threat following the introduction of a single line into the definition. We remain equally unconvinced that entities required to report under law in the manner described in the Corporations Act 2001 are capable of being non-reporting entities and therefore allowed to apply a lesser level of disclosure.

The failure of various entities and their advisers to prepare financial statements in accordance with the full set of accounting standards is indicative of a general lack of ability to interpret and apply standards in a principles based environment. More will need to be done in Australia before we correctly apply standards in a principles-based manner given that we seem not to have done so correctly even given the fact we have a principles-based reporting entity concept.

#### *General purpose financial statements*

The proposed amendments merely state that the definition captures general purpose financial statements that are contained in regulatory filings or are lodged on their own or are reports to shareholders. It does nothing to alter the reporting entity concept. Suggestions to the contrary indicate a misreading of the conceptual framework.

Entities that lodge financial statements with the corporate regulator that have creditors, suppliers, employees and shareholders are reporting entities and should prepare general purpose financial statements.

#### *Non-Corporations Act entities*

The NIA will prepare material dealing with the reporting by non-Corporations Act entities and the accounting standards for such entities as part of its work on accounting for small-to-medium enterprises. Our views on issues relevant to determining the appropriate reporting requirements for smaller entities will be forwarded to the AASB as it is completed.

Kindest Regards

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