GROUP OF 100

The Group of 100 Incorporated
Level 28, 385 Bourke Street
Melbourne VIC 3000 AUSTRALIA
www.group100.com.au
Telephone: (03) 9606 9661
Facsimile: (03) 9670 8901
Email: g100@group100.com.au
ABN 83 398 391 246

23 June 2006

Mr David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

Dear David

ED 148 'Presentation of Financial Statements'

The Group of 100 (G100) welcomes the opportunity to provide comments on Exposure Draft 148 'Proposed Amendments to AASB 101 Presentation of Financial Statements: A Revised Presentation". The G100 represents the interests of the CFOs of Australia's major business enterprises. Our responses to the questions raised are set out below. Our basic approach is that the recognition, measurement and disclosure requirements of IASB Standards should be adopted in their entirety and that Australian requirements should be added only where necessary to deal with specific features of domestic legislation.

AASB QUESTIONS:

Responses to the AASB's preliminary views on the matters identified in (a) follow:

i. *the Australian text that is proposed to be retained in the (revised) AASB 101, as noted in section A of the Preface;*

The G100 supports the retention of items A1 – A.5 and A.7. However, we consider that disclosure relating to auditor remuneration (A.6) is a corporate governance issue and if such disclosure is to be required it should be specified under the Corporations Act and included in the directors' report. This change could be accomplished through transferring the AASB 01 paragraphs Aus 126.1 – 126.2 requirements to the Corporations Act and revising s300 (2A) and s300 (11) of the Act.

In view of the nature of the dividend and franking arrangements in Australia, disclosure of this information is useful to shareholders. While we support the retention of paragraphs Aus 126.4 – 126.6 as an additional domestic requirement we do not support the retention of the illustrative example (A.8). If such guidance is necessary it should be provided in some other way.

ii. *the Australian text that is proposed not to be included in the (revised) AASB 101 as noted in Section B;*

The G100 supports the removal of the items specified in Section B in the revised AASB 101. The G100 considers that the Australian illustrative examples and implementation guidance should be removed from AASB 101. In the event that preparers need guidance, that provided by the IASB should be appropriate in respect of for-profit reporting entities.

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;*

While acknowledging the primacy of the requirements of the Corporations Act, sections 295 and 297, the G100 supports the reinstatement of IAS 1 paragraphs 17-20, in order that AASB 101 more closely reflects the requirements of IAS 1. However, for entities complying with the Corporations Act it is suggested that an Australian paragraph be inserted stating that these sections cannot be applied by entities subject to the Corporations Act because of its true and fair requirements.

iv. *the deletions made by the AASB in the existing AASB 101 that are proposed not to be reinstated, as noted in Section D;*

The G100 supports proposals not to reinstate these items.

Comments on 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.

The G100 shares the AASB's concerns about the implications of the amended IASB definition. We are concerned that financial information included in prospectuses and other public offer documents could be captured by the definition. We believe that it is necessary for the IASB to clarify and explain precisely what it means by filings with a regulator on a public register. It is important that a distinction be drawn between the various regulatory returns made by companies and lodgement of financial statements prepared and issued to shareholders in accordance with legislative requirements.

IASB QUESTIONS

Q1 and Q2* – *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).

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 statement)? If not, why?*

The G100 sees little need for changing the terminology unless it is made mandatory and then retained. With the extent of the changes made in recent years it would be less confusing for preparers and users if standard setters could agree on terminology, make it mandatory and then use it consistently.

The focus of standard setters should be on ensuring the reliability and relevance of the content of financial statements and not leaving a preparer or user to determine whether the renaming of a statement has some other significance. The failure to settle on appropriate titles does not reflect well on standard setters.

The Exposure Draft introduces a requirement to present a statement of financial position as at the beginning of the earliest period presented in the financial statements. Therefore, in addition to notes, an entity would be required to present three statements of financial position, and two of each of the other statements that form part of a complete set of financial statements (see paragraphs 31 and 39 of the draft Standard and paragraphs BC6 – BC9 of the Basis for Conclusions).

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?*

No. The G100 believes that providing two years of balance sheet information is sufficient comparative information. In addition reconciliations of items is also provided in respect of equity, reserves and provisions.

Q3 – Q5 – 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).

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 terms in its financial statements)? If not, why?*

If the description is not prefaced with 'other', how is it proposed that items of income and expense recognised in determining the profit or loss are distinguished from those in the second statement? We suggest that the items be termed 'net gains and losses recognised directly in equity' and not 'other recognised income and expense'.

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, but within a statement of changes in equity separately from profit and loss items.

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?*

The G100 considers it is important that users of the profit and loss statement are able to readily identify the underlying operating performance of the entity in respect of each period. In many cases the inclusion of unrealised value changes in the measure of operating performance serves to provide 'noise' and captures volatility that does not relate to the underlying operating performance of the entity. The income statement should only include profit and loss and the equity statement should include all other movements in equity.

We consider that the non profit and loss components of recognised income and expense would be better presented as 'net gains and losses recognised directly in equity'. Such items should be included in the Statement of Changes in Equity, or at least in a separate statement.

An anomaly is caused currently by clause 93B of IAS 19 'Employee Benefits'. This states that actuarial gains and losses recognised outside profit or loss shall be presented in a statement of changes in equity titled 'statement of recognised income and expense' that comprises only items specified in paragraph 96 of IAS 1. We believe such items should be included in a statement of changes in equity.

Q6 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).*

6. *Do you agree with this proposal? If not, why?*

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).

Yes. If not implemented entities can 'recycle' items through the equity statement without any disclosure of the 'recycle' component.

7. *Do you agree with this proposal? If not, why?*

Yes. Like other value movements between period ends, i.e. profit and loss, tax effects are disclosed and in this case should also be disclosed from a consistency point of view.

Q8 – 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 to be calculated in accordance with IAS 33 and presented in the notes (see paragraphs BC26 of the Basis for Conclusions).*

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?

The G100 believes that operating cash flow is a key measure used in the analysis and assessment of performance and, accordingly, entities should be permitted to disclose operating cash flow per share in addition to earnings per share. While this could be presented with the statement of cash flows we believe that all per share measures should be located together.

Yours sincerely

Tom Honan
National President