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7 July 2006

Professor David Boymal
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cc: Sir David Tweedie
The Chairman
IAS 1 Amendments
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Dear David,

Proposed Amendments to AASB 101 / IAS 1 *Presentation of Financial Statements*

We write in response to the Australian Accounting Standards Board's (AASB) Exposure Draft, ED 148 Proposed Amendments to AASB 101 *Presentation of Financial Statements*.

In submitting this response, we recognise the importance of the AASB's role and the standard setting process in Australia. We are also supportive of enhanced disclosures in financial statements where it produces relevant and reliable information for the users to make informed decisions.

We are responding specifically to the AASB's request for comment on the proposal to adopt the following definition of 'general purpose financial statements', as included in paragraph 7 of the International Accounting Standard Board's (IASB) Exposure Draft of Proposed Amendments to IAS 1 *Presentation of Financial Statements*:

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 demand require an entity to prepare reports tailored to meet their particular information needs.

General purpose financial statements include those that are presented separately or within another public documents such as ~~an annual report or a prospectus~~ a regulatory filing or report to shareholders.

We do not support the proposal to adopt the above definition of ‘general purpose financial statement’, particularly the accompanying grey letter text. Our reasons for not supporting the proposal are as follows:

Role of the IASB

As set out in the International Accounting Standards Committee Foundation (IASCF) constitution and the Preface to IFRS, the IASCF’s and IASB’s objectives are to develop a single set of high quality global accounting standards, and the IASB is responsible for technical matters, including the preparation and issuing of international standards. The IASB does not have the authority or the responsibility for determining which entities are to apply IFRS.

In Australia, all entities governed by the Corporations Act 2001 must effectively comply with IFRS. However, if an entity is considered to be a non-reporting entity, then by Law it has some freedom to select the specific standards it wishes to apply (although it then cannot make an unreserved statement of compliance with IFRS, the financial statements are described as special-purpose, and the policies applied must be disclosed). Such financial statements are still considered suitable for lodgement with the Australian regulator.

If the IASB’s proposed definition of ‘general purpose financial statements’, and in particular the accompanying grey letter text, were to be adopted then in Australia this would mean all entities lodging financial statements with the regulator will be required to comply with all the accounting standards. For non-reporting entities, the IASB would have effectively removed directors’ legal rights to choose the accounting standards to be applied – an outcome we consider is beyond the IASB’s authority.

IFRS Small and Medium Enterprise (SME) Project

We note that the IASB is currently working on a project to develop accounting standards suitable for entities that (a) do not have public accountability and (b) produce general purpose financial statements for external users. While the IASB has a particular type of entity that it considers appropriate for using IFRS for SMEs, the IASB has clearly communicated that it will be for each jurisdiction to determine which entities can apply these standards. This acknowledgement further embeds the IASB’s role to solely that of setting standards.

This project recognises that most countries do not require SMEs to comply with the full requirements of IFRS when preparing financial statements, and therefore the project attempts to address this by developing more appropriate standards. We note

that an exposure draft is expected in the near future. As a result, Australia is likely to reconsider its approach to distinguishing reporting entities and non-reporting entities when such proposals are released. We consider it premature at this time for Australia to adopt the IASB's proposed guidance in determining general purpose financial statements. It would be more effective to address this issue once the IASB has published its exposure draft of IFRS for SMEs.

Costs versus Benefits

We are concerned that the proposal will significantly increase the cost of financial reporting compliance for groups that comprise a large number of Australian legal entities each required to prepare separate financial statements for lodgement with the regulator. We recognise that increased compliance costs cannot be considered in isolation, but we do not consider there to be any enhanced benefits from having a subsidiary considered to be a non-reporting entity to comply with the full set of standards making up IFRS. Being a non-reporting entity, the entity has a very limited user group and such users already have the ability to command additional information through other means if so required.

We estimate that if the proposal is finalised in its current form, then the annual preparation time to produce financial statements for Macquarie Bank Limited subsidiaries and the entities it manages would increase by approximately 4,125 hours. If this were to be extrapolated across all Australian entities potentially impacted, then we consider this would be a considerable cost for Australia and one that does not provide a corresponding increased benefit to users of financial statements.

If you wish to discuss any of these matters further, please do not hesitate to contact myself on (02) 8232.8670.

Yours sincerely,



Stuart Dyson
Executive Director
Group Financial Controller