La Trobe financial

how finance should be

22nd February 2010

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS ST WEST VIC 8007

Dear Mr Stevenson,

Submission -- Differential Financial Reporting

We have read with significant interest the Consultation Paper titled *Differential Financial Reporting – Reducing Disclosure Requirements* dated December 2009 and issued by the Australian Accounting Standards Board ("AASB"), as it has significant impact on the financial reports prepared by La Trobe Financial. By way of background, La Trobe Financial is a niche non-bank mortgage lender and funds manager. La Trobe Financial comprises a number of commonly controlled entities, but does not have a holding company structure. The entities' reporting ranges from non-lodging small proprietary limited companies to disclosing entity reporting for a retail managed investment scheme.

Accordingly, we have elected to make a submission to the AASB in response to the Consultation Paper.

In our view, the preparation of financial reports can be fundamentally split into two components:

- Recognition and measurement; and
- Presentation and disclosure.

Recognition and measurement

Our understanding of the International Financial Reporting Standard for Small and Medium-sized Entities ("IFRS for SMEs") as issued by the International Accounting Standards Board ("IASB") is that it is a self-contained standard (ie no linkage or reference to other International Financial Reporting Standards) and has different recognition and measurement criteria from IFRS. We are of the opinion that the concept that one country should run two different measurement systems is absurd and as demonstration of this, we suggest you put the following hypothetical to the Board members of the AASB and gauge their response:

> As part of the Free Trade Agreement with the United States, all large retailers are to display product information using the imperial measurement system. Small retailers can continue using the metric measurement system. This means that a trip to buy apples at Barkly Square in Brunswick, will have Safeway displaying prices in dollars per pound and the local Gangemi's Fruit & Veg using dollars per kilo.

We suspect that the Board members (after the laughter) would probably campaign for the use of only one measurement system for product information. Financial information, whilst often wrapt up in jargon, still has the same purpose as product information – providing users information to make decisions. Even though the level of other disclosed information (eg country of origin) may vary, the Safeway example clearly demonstrates the importance of having the same measurement criteria for users to make comparisons and hence their decisions.

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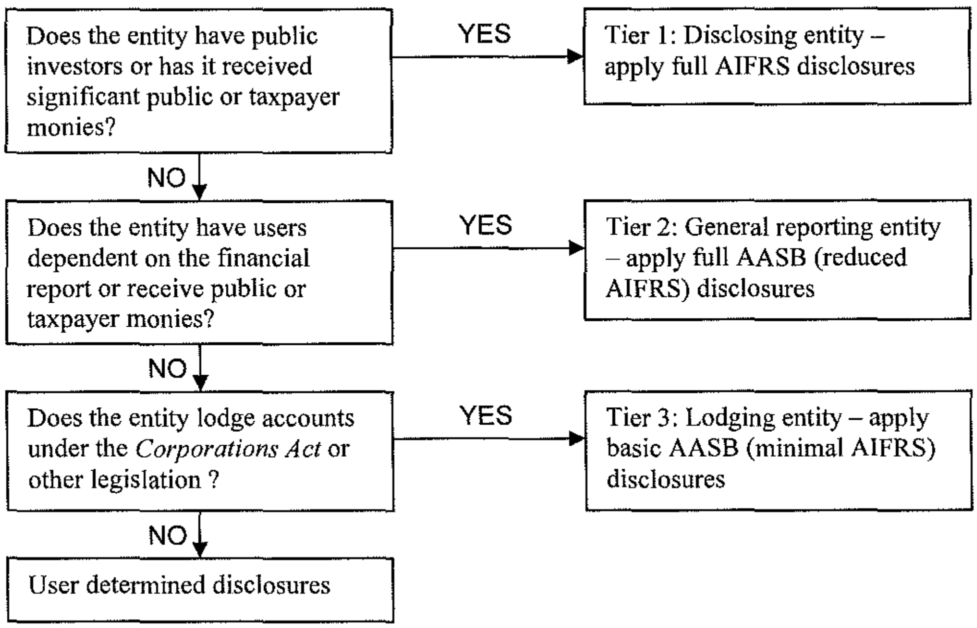
In addition, and as with many SMEs, La Trobe Financial has only a small finance team. Under IFRS for SMEs, this finance team will be required to both remain up-to-date with two measuring system as well as explain to other executives the results prepared in two different bases (especially financial instruments given the nature of La Trobe Financial's operations), depending on the measurement system applicable to each entity. Ultimately, this appears to be extra cost for the "benefit" of extra complexity in reporting.

Accordingly, we think IFRS for SMEs is inappropriate for Australia and that Option 2 should not be adopted.

Presentation and disclosure

With regards to presentation and disclosure, we are of the opinion that New Zealand's three tier structure is the appropriate concept for setting presentation and disclosure (but not recognition and measurement, which should be the same for all entities). In some ways, this can be seen as modification of the existing Australian structure by having a greater differentiation between disclosures made by disclosing entities and those made by non-disclosing entities with general purpose reporting. This approach to disclosure can be summarised as follows:

DISCLOSURE LEVEL DECISION TREE



In relation to the decision tree, we highlight the following:

- *Not-for-profits* – we fully support the aim of sector neutrality. There are many instances, where not-for-profit and government entities compete with for-profit entities and accordingly such entities should be obliged to follow the same disclosure requirements as their competing for-profit entities, especially given there is either taxpayer investment or ongoing taxpayer monies provided by way of revenue appropriations/grants.
- *Disclosing entities* – we believe this should follow the *Corporations* Act definition of disclosing entity with a modification to capture the important not-for-profit and government entities (based on a public significance criterion or nomination by regulation). Using a different definition of disclosing entity for financial reporting purposes for private entities from the *Corporations Act* adds another layer of confusion for both users and preparers of financial reports. If the AASB believes the definition in the *Corporations Act* is inadequate, then representation should be made to the Parliament for change to the legislative definition.

- *General reporting entities* – as noted in the Consultation Paper, the current full IFRS disclosure requirements are considered by some to be overkill where there is no public accountability. Accordingly, we believe differential disclosures are relevant and the AASB should publish its own disclosure requirements. For simplicity, this should be based on a modified sub-set of AIFRS disclosures, with the ability of any entity to optionally upgrade to full AIFRS disclosures.
- *Lodging entities* – whilst in theory it would be nice to not require lodgement of financial reports for non-reporting entities, we believe this situation is unlikely to change. It also must be acknowledged that currently ASIC has effectively mandated the minimum AIFRS disclosure standards to be applied by lodging entities. Accordingly, these should be adopted as the disclosure requirements for lodging entities, although it would be our preference to reduce the disclosures to a level similar to that in half-year financial reports with accounting policy disclosures replaced by a short statement on the key recognition and measurement standards and elections under those standards. This is because many special purposes financial reports just copy verbatim text from pro-forma accounts in relation to accounting policies. This verbatim text is not usually helpful for the users as they often merely reiterate mandatory requirements in accounting standards.

The above approach involves retention of the "reporting entity" concept outlined in the *Statement of Accounting Concept 1: Definition of the Reporting Entity* with reporting entities effectively classified as either disclosing entities or general reporting entities based on public accountability.

We note that the Consultation Paper identifies concerns over "abuse" of the reporting entity concept (and this may be part of the reason for abolition of special purpose financial reports), however we do not accept this, as a significant portion of currently lodged special purpose financial reports are subject to audit. In order for the auditor to opine that the financial reports are true and fair, the auditor would have to agree with the assessment that entity is not a reporting entity. If there is a systemic issue of abuse, then the first port of call should be discussions with the Auditing and Assurance Standards Board.

Similarly we believe the concerns over regulators not giving sufficient consideration to their nature of information they require in special purpose reports are not warranted. Given that regulators can and do demand extra information from entities, regulators are demonstrating by their actions that they are not dependent on financial reports and that the assessment that an entity is not a reporting entity is appropriate.

In summary from a practical viewpoint, we believe by merging Options 1 and 3 into a three tiered approach, a framework can be established which provides disclosures appropriate to the level of accountability of each entity.

Consultation paper questions

We provide comment to the six questions identified in the Consultation Paper taking into account the above, as follows:

1. We support differential reporting and believe a three tier rather than two tier framework is required.
2. We believe the level of disclosures should reduce with each tier. We are of the opinion that the same recognition and measurement requirements should apply to all entities in Australia.
3. All Government Departments, Government Business Enterprises and Statutory Authorities that involve significant taxpayer investment or funding should be classed as disclosing entities.
4. We have no view on this matter.

5. As it stands from La Trobe's perspective, Option 2 will increase our costs and decrease usefulness of financial reports whereas the three-tiered approach outlined above will have a small impact on our costs, but improve the usefulness of financial reports. Option 1 by itself will have a significant increase in costs and a minor improvement in usefulness (as many entities have no dependent users) and accordingly we believe the increased costs outweigh the benefits. There is no change in costs or benefits with Option 3.
6. Option 2 is not in the interest of the Australian economy. We believe the three tiered approach outlined above is in the interests of the Australian economy.

Conclusion

We strongly believe the above approach provides an appropriate framework for Australia and that it is essential that a single approach to recognition and measurement be retained for financial reporting, regardless of the disclosure framework adopted.

If you have any further queries regarding the above, please do not hesitate to ring me on (03) 5177-1796.

Yours sincerely,

Rob Clough
Chief Financial Officer & Vice-President