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The Chairman
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Director - Accounting Standards
New Zealand Institute of Chartered Accountants
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Dear Board Members

Exposure Drafts AASB ED 200A and FRSB ED 121 *Proposals to Harmonise Australian and New Zealand Standards in Relation to Entities Applying IFRS as Adopted in Australia and New Zealand* and Exposure Drafts AASB ED 200B and FRSB ED 122 *Proposed Separate Disclosure Standards*

The Australian and the New Zealand firms of Ernst & Young are pleased to submit our joint comments on Exposure Draft AASB ED 200A and 200B and FRSB ED 121 and 122 *Proposals to Harmonise Australian and New Zealand Standards in Relation to Entities Applying IFRSs as Adopted in Australia and New Zealand* (AASB ED 200A and B and FRSB ED 121 and 122 or the ED).

Overall, we support the AASB and the FRSB (the Boards) in their quest to harmonise Australian and New Zealand financial reporting standards. We believe there are significant benefits from aligning the two sets of standards, creating efficiencies for entities operating in both jurisdictions. We would also like to highlight our support of 'pure IFRS' for 'for-profit-entities' and the ultimate goal of enshrining 'IFRS as issued by the IASB' into both Australian and New Zealand regulations.

We note that the Boards have deferred consideration of the harmonisation of requirements which are the subject of current AASB, FRSB or IASB projects until after completion of the relevant project. For the majority of the standards listed in Appendix B to ED AASB 200A and ED FRSB 121 we recognise that this delay is sensible for a number of reasons. However, we believe that the Boards could consider the harmonisation of AASB 1039 *Concise Financial Reports* and FRS 43 *Summary Financial Statements*. There are a number of similarities between the requirements of these two standards and any project to harmonise is likely to provide significant benefits to entities operating across the Tasman who are required to prepare concise or summary financial statements. There is also no equivalent IASB project. We also believe there would be benefits in the harmonising AASB 119 and NZ IAS 19 as the only difference is the transitional provisions.

We have provided responses to the specific questions in Appendix A to this letter. Appendix B includes our responses to the individual standards impacted by the proposals.

We would be pleased to discuss our comments further with you. Please contact Lara Truman on (64) 274 899 896 or Georgina Dellaportas on (613) 9288 8621 if you wish to discuss any of the matters raised in this response.

Yours sincerely

Appendix A – Specific Matters for Comment

Questions Applicable to All Proposals

- (a) Do you agree with the concept of harmonising the reporting requirements in Australia and New Zealand in relation to for-profit entities applying IFRSs as adopted by Australia and New Zealand

Yes – refer to overall comments in covering letter above.

- (b) Should the retained additional disclosures be contained in a separate disclosure standard (as proposed) or contained with each Standard relevant to the topic of disclosures?

We believe a separate standard with additional disclosures is an appropriate mechanism for requiring Australian and New Zealand specific requirements. This ensures that all requirements that are additional to IFRS are kept in one document and are easy to reference for preparers.

- (c) Do you agree with the specific proposals in this Exposure Draft regarding alignments, deletions, relocations and harmonisation? Please provide reasons.

Refer to Appendix B for comments on each of the specific proposals.

In addition, we note that there are a number of other Australian specific paragraphs which have not been addressed in the exposure drafts which we believe should also be removed in order to achieve harmonisation. These include:

- ▶ AASB 6. Aus27.1 – no longer required
- ▶ AASB 7.Aus2.6 – no longer required
- ▶ AASB 7.Aus2.7 – no longer required
- ▶ AASB 7. Aus2.8 – no longer required
- ▶ AASB 102.Aus1.6 -- no longer required
- ▶ AASB 124.Aus9.1 etc. – refer to comments below in "Other questions"
- ▶ AASB 124.Aus12.1 -this disclosure is not relevant and can be deleted
- ▶ AASB 124.Aus25.1-25.9.3 – refer to comments below in "Other questions"
- ▶ AASB 127.Aus6.1 –not required as already specified in the Corporations Act
- ▶ AASB 134.Aus1.3 – should be removed. We do not understand what is a "purported special purpose financial report that has the characteristics of a general purpose financial report"

In addition we also note that the NZ IFRS Glossary will need to be amended to remove definitions that are no longer included within NZ IFRS such as the definition of imputation credits.

- (d) Which of the disclosures proposed to be included in separate disclosure standards AASB ED 200B and FRSB ED 122 should be required of entities applying differential reporting requirements, namely:

- i) In Australia, the proposed Reduced Disclosure Requirements for general purpose financial statements; and
- ii) In New Zealand, qualifying entities.

Please provide reasons for your response.

Our response to each of the requirements for Australian specific disclosures is as follows:

- ▶ Compliance with Australian Accounting Standards – this disclosure should be retained under the Reduced Disclosure regime (RDR) and amended to refer to compliance with Australian Accounting Standards – Reduced Disclosure Requirements.

- ▶ Disclosure of statutory basis – this disclosure should be retained for RDR and amended as follows: Part (c) which states “...in accordance with full IFRS as adopted in Australia or the Reduced Disclosure Requirements” should be amended to state “...in accordance with Australian Accounting Standards or Australian Accounting Standards – Reduced Disclosure Requirements” consistent with the RDR requirements. Also reference to “IFRS as adopted in Australia” can be confusing and be interpreted differently. Hence we recommend use of the term “Australian Accounting Standards” instead.
- ▶ Disclosure of GPFS or SPFS. This disclosure should be retained under RDR as it is important for users to understand that the financial statements prepared under RDR are general purpose and the framework which has been applied in their preparation.
- ▶ Disclosure of audit fees – such disclosure should not be required under RDR consistent with due process and the decisions made by the Board when issuing the current RDR standard.
- ▶ Imputation tax credits – as above, such disclosure should not be required consistent with the current RDR standard.

Our response to each of the requirements for New Zealand specific disclosures is as follows:

- ▶ Statement of compliance with NZ IFRS – this disclosure should be made (if applicable) as this is a key disclosure that should be brought to readers’ attention if differential reporters are able to assert such compliance.
- ▶ Disclosure of statutory basis – this disclosure is key to an understanding of the financial statements and therefore we suggest requiring this for differential reporters
- ▶ If a differential reporter has prepared prospective financial information then a comparison should be completed.
- ▶ Disclosure of audit fees – such disclosures should not be required for differential reporters based the overall objective of harmonisation with Australia and in recognition of the work performed in Australia on issuing *AASB 2010-2 Amendment to Australian Accounting Standards arising from Reduced Disclosure Requirements*.
- ▶ Statement of service performance – this disclosure should be required if differential reporters have a requirement to prepare a statement of service performance. We don’t believe there will be many situations where this will be required.
- ▶ Imputation credit disclosures – we do not believe a differential reporter should be required to make such disclosures.

- (e) Are there any regulatory issues or other issues arising in the Australian or New Zealand environment that may affect the implementation of the proposals? Please provide reasons for your response.

We have no concerns in this area.

- (f) Do you consider that the proposed amendments are in the best interests of users of general purpose financial statements of entities in Australia and New Zealand? Please provide reasons.

Yes - refer to overall comments in covering letter above.

Questions Applicable to Specific Proposals

The Boards would particularly value comments on the following:

- a) The Boards note that the proposed auditor remuneration disclosure requirements in AASB ED 200B and FRSB 122 are simplified and do not include the existing requirement in AASB 101 *Presentation of Financial Statements* in respect of related practice. Do you agree with the Boards' proposals?

While we agree with the Board's proposal we have a number of issues with the proposed disclosure which are explained further in Appendix B.

- b) In relation to the proposed deletion of paragraph Aus 7.1 of Interpretation 113 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*, if this causes an entity to change its accounting policy, do you agree that it should be applied retrospectively?

We do not understand how removal of this requirement could cause a change in policy in respect of the treatment of the deferred gain. We note that paragraph 8 of the Interpretation requires that, while the assets are retained in the joint venture, the venturer should recognise only that portion of the gain or loss which is attributable to the interests of the other venturers. However, to the extent that this could be the outcome of the proposal, we agree with the Boards that retrospective application should be required for the change in policy consistent with the requirements of AASB 108.

Other Questions

Although not dealt with in this Exposure Draft, the AASB is taking the opportunity to seek constituent views on whether it should retain disclosure requirements (AASB 124 *Related Party Disclosures* paragraphs Aus 25.2 to Aus 25.6, Aus 25.7.1 and Aus 25.7.2) related to the compensation of individual key management personnel of managed investment schemes that are disclosing entities.

We note that at its September 2010 meeting, the IFRS Interpretations Committee (IC) considered a request asking whether key management personnel (KMP), as defined in IAS 24 *Related Party Disclosures*, can include an entity as well as individuals. The issue arose in relation to situations in which an entity hires key management services from a separate management entity. A second question raised was whether the reporting entity should disclose the remuneration paid by the management entity to the individuals providing the KMP services for the reporting entity, or the service fees paid by the reporting entity to the management entity for the KMP services. The IC has recommended that the IASB should amend, within the Annual Improvements Project, the definition of a related party to clarify that a management entity that provides KMP services to a reporting entity is deemed as the relevant related party in respect of those KMP services. Consequently, the service fees paid by the reporting entity to the management entity would be disclosed under paragraph 16. The Committee also recommended that the individuals who are employees or directors of the management entity and are acting as KMP of the reporting entity should not be identified as a related party (unless they qualify as related parties for other reasons).

This supports the current practice in Australia where MIS which are disclosing entities generally disclose the Responsible Entity (RE) as KMP and disclose fees paid to the RE as compensation. On this basis it would be considered that removal of the Aus paragraphs listed above would not cause any significant changes to current practice.

In the interests of harmonisation, the Boards should also take this opportunity to remove the requirements of all other Aus paragraphs in AASB 124. To the extent that any of these are considered relevant for disclosure by disclosing entities which are companies, they can be addressed as part of the project to simplify remuneration report disclosures required by the Corporations Act currently being undertaken by the Corporations and Markets Advisory Committee (CAMAC).

Appendix B – Response to Question (c)

The following summarises the changes proposed in ED AASB 200A and 200B and FRSB ED 121 and 122 (the EDs) and our preliminary views at the detailed level.

Standard	Issue	Comments
AASB 1	1. Explanatory guidance on initial application of AASB 1- delete	1. Agree – this paragraph is not necessary as it provides general guidance only and removal shouldn't impact practice.
AASB 5	1. Restatement of comparatives- delete	1. Agree – this paragraph is not necessary as it provides general guidance only and removal shouldn't impact practice.
AASB 101	1. Definitions – Annual reporting period and SPFS – relocate, Entity and Related practice - delete	1. Agree with the proposal to relocate the definitions of “annual reporting period” and “special purpose financial statements” to the new Standard. Agree with removal of definition of ‘entity’ as this is already included in SAC 1.6. Agree with removal of “related practice” as will no longer be required due to simplification of audit disclosures.
	2. True and fair guidance – delete	
	3. Compliance with AAS – relocate and harmonise	2. Agree – this requirement is already included in the Corporations Act.
	4. Statutory basis – relocate and harmonise	3. Agree that relocation and rewording for harmonisation with NZ equivalent should not affect practice. Change in wording also aligns with requirement to make explicit and unreserved statement of compliance with IFRS. However, note that amended wording should also consider RDR compliance. 4. Agree to relocate and harmonise the requirements, including inclusion of profit/not for profit requirement – however part (c) which states “...in accordance with full IFRS as adopted in Australia or the Reduced Disclosure Requirements” should be amended to state “...in accordance with Australian Accounting Standards or Australian Accounting Standards – Reduced Disclosure Requirements” consistent with the RDR requirements. Also reference to “IFRS as adopted in Australia” can be confusing and be interpreted differently. Hence recommend use the term “Australian Accounting Standards”.
	5. GPFS and SPFS – relocate	
	6. Compliance with IFRS – delete	5. Agree to relocate. 6. Agree with deletion as this should not affect application of para 16. In addition, we note that this paragraph is potentially incorrect, as under IFRS it is not possible to be compliant for a parent's financial statements but not compliant for the consolidated financial statements.

Standard	Issue	Comments
AASB 101 continued	7. True and fair over-ride – reinstate T&F override to align with IAS 1	7. While we do not agree with the true and fair override, we support its re-introduction in order to harmonise the Australian Standard with the IFRS version and with NZ. While we acknowledge that this re-introduction will cause no change for entities reporting under the Corporations Act, it will be a change for entities that prepare financial statements under other Regulatory requirements. Therefore, we encourage the Board to discuss with other Regulators in Australia the possibility of restricting the use of this over-ride as part of their legislative framework. In addition we note that: a. The re-introduced paragraphs should be amended to refer to “ <i>Australian Accounting Standards or Australian Accounting Standards – Reduced Disclosure Requirements</i> ” for consistency with comment to item 4 above. b. Para 17(c) should be amended to also refer to – <i>Australian Accounting Standards – Reduced Disclosure Requirements</i> .
	8. Presentation in English – delete	8. We agree with the removal of the requirement to present in the English language. We consider that this is a matter for the regulators and should be included in relevant legislation.
	9. Audit Fees – relocate and harmonise	9. Agree with relocation and harmonisation with Australia. We see the merits in simplifying the disclosure requirements but are concerned that oversimplification could give rise to unintended consequences resulting in certain fees being excluded from the disclosures. We have two main concerns with the current drafting. Firstly as currently worded the proposals could be interpreted to mean the requirement to disclose audit fees for the group financial statements only which may not include audit fees paid to audit any of the subsidiaries of the group. We propose that the wording is amended to include a similar paragraph to what NZ IAS 1 paragraph 105.1 currently requires such as ‘fees paid to auditors include any other fees paid to auditor(s) of subsidiaries within the group’. The second concern is around the removal of ‘related practices’ from AASB 101.138.1. Removing references to other fees paid from other related practices of the auditor could mean that significant fees paid for work out of different legal entities than the partnership completing the audit are not disclosed. We believe similar wording to AASB 101.138.1 should be included in order to capture all fees paid to the related entities of the auditor as is currently required.
	10. Imputation Credit disclosures – relocate and harmonise	10. Agree with the proposal to simplify wording and to relocate and harmonise the franking credit disclosures. However we recommend that for the Australian version, disclosures are provided separately for Australian imputation credits and all other foreign imputation credits. This will ensure that where imputation credits are available in any other foreign jurisdictions, these will be captured separately.
	11. Commitments disclosures - delete	11. Agree with the removal of the capital and other commitments note as this is not required under IFRS. Most commitments would otherwise be captured by other standards.

Standard	Issue	Comments
NZ IAS 1	1. Definitions – SSP- retain NZ IFRS definition and relocate, inputs, outputs and outcomes	1. Agree with proposals to retain the definition of NZ IFRS and relocate other SSP definitions (no amendments to definitions proposed in ED 122).
	2. Presentation of financial report - delete	2. Agree – this paragraph is not necessary as it provides general guidance only and removal shouldn't impact the financial statements.
	3. Statutory basis – relocate and harmonise	3. Agree with relocation. ED 122 proposed amendments to align with AASB by removing the detailed discussion of differential reporting and also removes the requirement to disclose 'how' they have achieved differential reporting and what concessions have been chosen. They have also removed the requirement to disclose a description of the financial reporting standards applied.
	4. Compliance with FRA - delete	4. Agree deletion of guidance only
	5. Compliance with NZ IFRS – relocate and harmonise	5. Agree with relocation. However, the amendments proposed in ED 122 don't quite make sense. The sentence currently states 'An entity shall make an explicit and unreserved statement of such compliance in the notes.' However there is no reference to 'such compliance'. The draft wording should be fixed to state 'An entity shall make an explicit and unreserved statement of compliance with NZ IFRS in the notes'. Also, we should ensure this wording aligns with the statutory base requirements.
	6. True and fair over-ride – retain as foot note	6. Agree moving to Footnote will ensure standard is in line with IFRS but maintains important information.
	7. Prospective financial statements - relocate	7. Agree with relocation (no amendments to wording proposed in ED 122)
	8. Audit Fees – relocate and harmonise	8. Agree with relocation and harmonisation with Australia. We see the merits in simplifying the disclosure requirements but are concerned that oversimplification could give rise to unintended consequences resulting in certain fees being excluded from the disclosures. We have two main concerns with the current drafting. Firstly as currently worded the proposals could be interpreted to mean the requirement to disclose audit fees for the group financial statements only which may not include audit fees paid to audit any of the subsidiaries of the group. We propose that the wording is amended to include a similar paragraph to what NZ IAS 1 paragraph 105.1 currently requires such as 'fees paid to auditors include any other fees paid to auditor(s) of subsidiaries within the group'. The second concern is around the removal of 'related practices' from AASB 101.138.1. Removing references to other fees paid from other related practices of the auditor could mean that significant fees paid for work out of different legal entities than the partnership completing the audit are not disclosed. We believe similar wording to AASB 101.138.1 should be included in order to capture all fees paid to the related entities of the auditor as is currently required.
NZ IAS 1	9. Disclosure of donations - delete	9. Agree with deletion of donations. Entities are able to choose to make this disclosure if they believe it is important.
continued	10. Presentation order of certain disclosures – delete	10. Agree with removing the requirement for the order of certain disclosures. Individual entities can determine this as it is applicable to them.
	11. Elements of SSP - relocate	11. Agree with relocation of SSP (No amendments to wording proposed in ED 122).

Standard	Issue	Comments
AASB 107	1. Delete requirement for reconciliation of cash flows from operating activity to profit or loss if using direct method.	1. Disagree with the proposal. The IASB is currently considering introducing such a requirement within the Financial Statement Presentation project and is included in the Staff Draft of the proposals (Para 172). Therefore, we believe the requirement should be maintained until the IASB has concluded on this. This would save confusion with the requirement being removed and then reintroduced. Further, we believe the disclosure is helpful to users and therefore should not be deleted. In addition, the existing disclosure requirement is consistent for both jurisdictions and hence already harmonised.
NZ IAS 7	1. Reinstate indirect method 2. Delete requirement for reconciliation of cash flows from operating activity to profit or loss if using direct method 3. Delete paragraph discussing reasons for presenting receipts and payments net.	1. Agree with proposals - in order to meet the objective of alignment to IFRS these are required changes. 2. Disagree with the proposal. This is something that the IASB is considering introducing within the Financial Statement Presentation project and is included in the Staff Draft of the proposals (Para 172). Therefore, we believe the requirement should be maintained until the IASB has concluded on this. This would save confusion with the requirement being removed and then reintroduced. Further, we believe the disclosure is helpful to users and therefore should not be deleted. In addition, the existing disclosure requirement is consistent for both jurisdictions and hence already harmonised. 3. Agree with proposals - in order to meet the objective of alignment to IFRS these are required changes. However this disclosure was helpful to readers and could possibly be included as a suggested but not required disclosure.
AASB 108	1. Delete explanation that restatement of comparatives does not give rise to replacement of original financial statements	1. Agree to remove as this should not affect practice.
NZ IAS 8	1. Delete definition of NZ IFRS 2. Delete changes in significant accounting policies - reported in the accounting policy section	1. Agree with proposals - definition is included in NZ IAS 1 and therefore should not affect practice. 2. Agree with proposals - The removal of the requirement to locate the disclosures in the accounting policies should not affect practice.
NZ IAS 12	1. Delete Imputation credits and withholding taxes definitions 2. Relocate and harmonise disclosures relating to imputation credits and withholding taxes	1. Agree with proposals - definitions are not required as part of NZ IFRS. However we recommend that for the New Zealand version, disclosures are provided separately for New Zealand imputation credits and all other foreign imputation credits. This will ensure that where imputation credits are available in any other foreign jurisdictions, these will be captured separately. 2. Agree with relocation of disclosures. The proposed amendments to the disclosure in ED 122 are quite different to current requirements. The amendments provide further clarification on what makes up those imputation credits available at the reporting date. The amendments also remove the requirement for a reconciliation of imputation credits. The requirement to disclose different classes of investors with different entitlements is onerous but will provide useful information. These amendments appear reasonable.

Standard	Issue	Comments
NZ IAS 16	1. Delete discussion of the use of cost model for Investment properties	1. Agree with proposals in order to align with IFRS and AASB. See comments below.
	2. Delete requirement for independent valuers and related disclosures	2. Agree with proposals in order to align with IFRS and AASB.
NZ IAS 20	1. Delete requirements for disclosure of government grants	1. Agree with proposals to simplify the disclosure requirements.
AASB 121	1. Delete requirements to present financial report in one presentation currency	1. Agree to remove as this should not affect practice.
AASB 128	1. Delete explanation that restatement of comparatives does not give rise to replacement of original financial statements	1. Agree to remove as this should not affect practice.
NZ IAS 28	1. Delete additional disclosure for equity accounted investments in associates	1. Agree with proposals to simplify the disclosure requirements, in our view the existing IAS 28 disclosures are sufficient.
NZ IAS 31	1. Delete clarification that disclosures in NZ IAS 28 are required for JVs accounted for using the equity method.	1. Agree with proposals to simplify the disclosure requirements, as the existing IAS 28 disclosures are sufficient.
AASB 134	1. Alignment of scope of AASB 134 to IAS 34	1. While we agree with changes proposed to the rest of the paragraph, we do not agree with the additional last two sentences and bullet points (a) and (b) which align with the IFRS version as these are not relevant in the Australian environment. The use of the words "IASB encourages" could mislead Australian publicly traded entities to consider that the requirement to prepare a half-year report is only encouraged when in fact it is mandatory. Not including these sentences should not detract from IFRS and FRSB harmonisation.
NZ IAS 34	1. Align scope of NZ IAS 34 with IAS 34	1. Agree that the scope of NZ IAS 34 should align to IAS 34 and we don't see any concerns with the additional wording added.
	2. Delete requirements to comply	2. Agree – this guidance is unnecessary.

Standard	Issue	Comments
	with all of the requirements of NZ IAS 34	3. Agree – guidance not required
	3. Delete reference to NZ IAS 1	4. Agree – alignment to IAS 34 makes sense in this situation.
	4. Delete additional disclosures for condensed financial statements	
	5. Relocate assertion of compliance with NZ IAS 34	5. Agree – relocation will not affect practice.
	6. Delete requirement to disclose an additional comparative statement of financial position	6. Agree that alignment with IAS 34 makes sense. Requiring additional balance sheet increased the burden for NZ entities compared to other jurisdictions.
NZ IAS 40	1. Reintroduce use of the cost method to align with IAS 40	1. Agree with proposals in order to align with IFRS and AASB. Although there is a strong argument for removal of choice in accounting policies, we agree that alignment with IFRS is more important.
	2. Delete requirement for valuation to be done by independent valuer	2. Agree with the proposals in order to align with IFRS.
AASB Interpretation 2	1. Delete guidance relating to cancellation of membership of non-active members	1. Agree with deletion as this provides guidance on the application of the Consensus to the Australian environment and should not affect practice.
AASB Interpretation 112	1. Delete paragraph stating that the Corporations Act prohibits a company from acquiring its own shares	1. Agree with the deletion of this paragraph as this requirement is included in the Corporations Act and deletion will not affect practice.
AASB Interpretation 113	1. Delete guidance relating to recognition of elimination of unrealised gain or loss	1. Agree with deletion of this paragraph as it provides additional guidance and should not affect practice.