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5 October 2010

Dear Kevin

**Exposure Drafts ED 200A and ED 200B**

We write in response to the request for comments on Australian Accounting Standards Board (AASB) Exposure Drafts 200A *Proposals to Harmonise Australian and New Zealand Standards in Relation to Entities Applying IFRSs as Adopted in Australia and New Zealand* and 200B *Proposed Separate Disclosure Standards*.

We fully support the convergence of Australian and New Zealand Accounting Standards and the elimination of differences between the standards in each jurisdiction. Transferring the remaining additional disclosure requirements to a separate standard will make it easier to identify differences between the Australian Standards and International Financial Reporting Standards (IFRS).

We also welcome the removal of disclosures that are not required under IFRS and the simplification of the remaining additional disclosures. However, we would not object to retaining the requirement to disclose a reconciliation of operating profit to operating cash flows. This requirement has been in place for many years and, to our knowledge, there have not been any indications that preparers find it particularly difficult to compile. Furthermore, respondents to the IASB's discussion paper on financial statements presentation have expressed a strong desire for such a reconciliation should the IASB make direct cash flow statements mandatory.

In terms of the individual key management personnel (KMP) disclosures in AASB 124 *Related Party Disclosures*, we note that the Corporations and Markets Advisory Committee (CAMAC) is currently reviewing the requirements surrounding the disclosure of executive remuneration. We encourage the Board to liaise with the CAMAC to ensure this review focuses not only on the disclosures that are already covered by the *Corporations Act 2001* or the *Corporations Regulations 2001* but also considers those that are still included in AASB 124. We would prefer if all of the detailed disclosures were removed from the standard and instead addressed comprehensively in the legislation or the associated regulations.

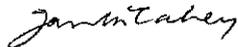
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Our detailed responses on the specific matters for comment are provided in Appendix A.

We would welcome the opportunity to discuss our views at your convenience. Please contact me on (03) 8603 3868 or Meina Rose on (02) 8266 2341 if you would like to discuss this further.

Yours sincerely



Jan McCahey

Partner

Assurance

Kevin Stevenson  
5 October 2010

**Appendix A: Specific matters for comment**

**(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 in Australia and New Zealand?**

We fully support harmonisation of the reporting requirements in relation to for-profit entities in Australia and New Zealand.

**(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 the disclosures (which is the current practice)?**

We prefer a separate disclosure standard as it will make it easier to identify remaining differences between the Australian and New Zealand standards and International Financial Reporting Standards.

**(c) Do you agree with the specific proposals in this Exposure Draft regarding alignments, deletions, relocations and relocation and harmonisations? Please provide reasons supporting your responses.**

The approach taken by the Boards is generally reasonable and appropriate.

However, even though we are a strong supporter of Australian accounting standards that are identical to their international counterparts, we would not object if the Boards decided to retain the requirement to provide a reconciliation of operating profit to operating cash flow.

This requirement has been in place in both jurisdictions for many years. To our knowledge, preparers have never expressed any significant concerns in relation to this requirement. In fact, users have indicated in their responses to the IASB's Financial Statement project that this information would be particularly useful, as it highlights non-cash items and links the statement of cash flows to the income statement and the balance sheet. The IASB has therefore tentatively agreed to require such a reconciliation in their forthcoming exposure draft.

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On that basis, we believe there are arguments to retain the requirement, although it should be moved to the new disclosure standard.

**(d) Which of the disclosures proposed to be included in separate disclosure standards AASB ED 200B/ 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**
- (ii) in New Zealand, qualifying entities. Please provide reasons for your response.**

The separate disclosure standard should include the same exemptions for entities reporting under Reduced Disclosure Requirements that were included in AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*. That is:

- Disclosure of compliance with Australian Accounting Standards, of the statutory basis/reporting framework and whether the financial statements are general or special purpose financial statements (paragraphs 2,3 and 4) should be required for all entities.
- Disclosure of audit remuneration (paragraph 5) and imputation credit disclosures (paragraphs 6.1 to 6.4) should not be required for entities applying the Reduced Disclosure Requirements.

Paragraph RDR16.2 of AASB 101 *Presentation of Financial Statements* as amended by AASB 2010-2 should also be included in the new separate disclosure standard.

**(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 do not believe that there are any regulatory or other issues that would affect implementation of the proposals in Australia.

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**(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 for your response.**

We believe that the proposed amendments are in the best interests of users of general purpose financial statements of entities in Australia, as they eliminate arguably unnecessary disclosures and simplify others.

**(g) The Boards note that the proposed auditor remuneration disclosure requirements in AASB ED 200B/ FRSB ED 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?**

We agree that the separate disclosure of fees paid to related practices of the auditor is not necessary. However, we are concerned that the removal of the reference to 'related practice' could imply that fees paid to such entities no longer need to be disclosed at all. While we appreciate that the New Zealand standard never distinguished between the auditor and a related practice, we understand that the issue of related practices may not be as prevalent in New Zealand as it is in Australia.

In our view, fees paid to related practices of the auditor should be included in the audit remuneration disclosures, as it should not make a difference how an audit firm is organised, ie whether there is only one firm or whether there are separate legal entities for various reasons.

We also found the reference to 'auditors (each auditor)' confusing, as it is not clear whether this includes auditors of subsidiaries. Arguably, auditors of subsidiaries are not auditors of the group and have no responsibility for the group audit opinion. However, parent entity auditors often rely on the audit work of the auditors of subsidiaries. We therefore believe that the fees paid to auditors of subsidiaries should also be disclosed.

A possible solution could be to include a definition of 'auditor' in the disclosure standard. This would confirm that a reference to the entity's auditors includes auditors of subsidiaries as well as related practices of any auditor in the group, and provide the previous definition of related practice from AASB 101.

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**(h) In relation to the proposed deletion of paragraph Aus7.1 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 believe that the removal of paragraph Aus7.1 from Interpretation 113 would affect current practice. However, if an entity would be able to justify a change in their accounting policy as a result of the removal, this change should be made retrospectively as required under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

**(i) Should the AASB retain disclosure requirements related to the compensation of individual key management personnel of managed investment schemes that are disclosing entities (AASB 124 *Related Party Disclosures* paragraphs Aus25.2 to Aus25.6, Aus25.7.1 and Aus25.7.2)?**

As far as managed investment schemes are concerned, we note that the IFRIC has tentatively agreed to propose an amendment to IAS 24 in the next improvements project. This would clarify that a responsible entity, for example, is not a KMP but a related party with the result that fees paid to the responsible entity would need to be disclosed, but not remuneration paid by the responsible entity to its own staff.

This amendment would resolve some of the issues surrounding the specific paragraphs referred to in the question above, but it would not change the fact that the requirements for detailed KMP disclosures (compensation, loans, equity holdings and other transactions) are currently in three different places: the *Corporations Act 2001*, the *Corporations Regulations 2001* and AASB 124.

We note that the Corporations and Markets Advisory Committee (CAMAC) is currently reviewing the requirements surrounding disclosure of executive remuneration. We encourage the Board to liaise with the CAMAC to ensure this review focuses not only on the disclosures that are already covered by the *Corporations Act 2001* or the *Corporations Regulations 2001* but also considers those that are still included in AASB 124. We believe that it would be preferable to remove all of the detailed disclosures from the standard and instead address them comprehensively in the legislation or the associated regulations.

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**(j) Editorial comments**

It is proposed that the new separate disclosure standard should only apply to reporting entities or financial statements that are, or are held out to be, general purpose financial statements. On this basis, the requirement in new paragraph 4 to disclose whether the financial statements are general purpose or special purpose would appear to be superfluous, as it would not be applicable to non-reporting entities.

We also note that non-reporting entities currently have to make all of the disclosures that are included in the new separate disclosure standard, including audit remuneration and imputation credit disclosures. Limiting the scope of the new standard to reporting entities and general purpose financial reports will reduce the disclosures that are mandatory for non-reporting entities.

There would appear to be two options:

- Expand the scope such that the full standard also applies to entities that are required to prepare financial reports under the *Corporations Act 2001* and that are non-reporting entities. This would retain the status quo in terms of the mandatory disclosures mentioned above.
- Specify that only paragraph 4 applies to non-reporting entities. This option would result in a reduction of mandatory disclosures in special purpose financial statements.

Lastly, new paragraph 3 refers to "full IFRS as adopted in Australia". This is different to the terminology used in AASB 1053 which refers to "Australian Accounting Standards" and "Australian Accounting Standards – Reduced Disclosure Requirements". The wording should be revised to be consistent throughout all standards.

The same applies to the proposed revised wording in paragraph 17 of AASB 101 (ED 200A).