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Mr Kevin Stevenson  
The Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Victoria 8007

Our ref: Submission - ED 200

12 October 2010

Dear Sir

### **Submission - ED 200A and 200B Proposals to Harmonise Australian and New Zealand Standards**

We are pleased to have the opportunity to comment on ED 200A *Proposals to Harmonise Australian and New Zealand Standards in Relation to Entities Applying IFRSs as Adopted in Australia and New Zealand* and ED 200B *Proposed Separate Disclosure Standards* issued by the Australian Accounting Standards Board.

#### **Executive summary**

The key issues discussed in this submission are as follows:

- Overall we support the proposals to remove differences from IFRS and to reduce the differences between Australian and New Zealand standards.
- We are concerned that the proposed wording related to the disclosure of remuneration of auditors is unclear and will not lead to consistent approaches to the disclosure. The AASB should state the objective of the disclosure requirement and then provide the more detailed guidance of how to make the disclosure. Also, any disclosure requirement should not create inconsistency with the directors' report disclosures of transactions with auditors.
- We encourage the AASB to also take this opportunity to delete the requirements over the remuneration of individual key management personnel of disclosing entities that are not companies (e.g. registered managed investment schemes), on the basis that the relevant governance disclosure is the related party transactions between the scheme and its responsible entity, and any disclosures for individuals should be Corporations Act 2001 requirements, not accounting standard requirements.

Our comments on the specific matters raised for comment and on other issues are set out in Appendix 1.

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*Australian Accounting Standards Board  
Submission - ED 200A and 200B Proposals to  
Harmonise Australian and New Zealand Standards  
12 October 2010*

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact me on (02) 9455 9120, or Sarah Inglis on (02) 9455 9773.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Kim Heng', written in a cursive style.

Kim Heng  
Partner, Department of Professional Practice

## Appendix 1

Topics that the AASB has requested specific comments on, 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 in Australia and New Zealand?*

We support the concept of harmonising the reporting requirements of for-profit entities applying IFRSs in Australia and New Zealand as proposed in ED 200. Our support is conditional on the harmonisation not creating further differences from International Financial Reporting Standards (IFRSs), even if this means achieving greater harmonisation between Australian and New Zealand standards.

We have not noted any proposals that create additional differences from IFRS.

*(b) Should the retained additional disclosure 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)?*

Creating a separate disclosure standard to contain each disclosure requirement that is additional to IFRS disclosure requirements has the advantage of giving a user unfamiliar with the AASBs the means to simply and easily locate and comply with the additional requirements. Clearly separating the additional disclosure requirements will also have the advantage of being able to clearly demonstrate that the Australian-specific requirements do not create differences from IFRS and should not result in non-compliance with IFRS for most for-profit entities.

As a result, we support the separation of the additional disclosure requirements into a separate self-contained accounting standard, regardless of whether there is a 'harmonised' requirement in Australia and New Zealand. All AASB-generated disclosure requirements that are retained after these proposals have been finalised should be relocated into a separate standard.

We encourage the AASB to avoid partial separation of the additional disclosure requirements. An outcome that results in preparers having to find these requirements in both the IFRS equivalent standards and in a separate standard will be burdensome and could lead to a preparer overlooking certain requirements.

*(c) Do you agree with the specific proposals in this Exposure Draft regarding alignments, deletions, relocations and relocation and harmonisations?*

Unless we have specified otherwise below, we support the proposals in ED 200A and 200B regarding alignments, deletions, relocations and relocation and harmonisation.

### *True and fair override*

The proposed footnote to paragraphs 19-21 of AASB 101 *Presentation of Financial Statements* only refers to the Corporations Act 2001 prohibiting the 'true and fair over-ride'. However, there are numerous other statutory reporting frameworks, and we are concerned that this footnote may appear to capture all the circumstances in which the over-ride is not available, when it in fact only picks up one such circumstance.

We suggest that the AASB add a further sentence to the footnote to caution preparers and users that other frameworks may exist that also disallow the true and fair over-ride.

### *Audit fee disclosures*

We have significant concerns that the proposals will not lead to consistent disclosures in practice.

- As proposed, it is difficult to determine the extent of fees to be disclosed. We are concerned that this difficulty could lead to differences in practice. For example, a consolidated group may have overseas subsidiaries that are audited by auditors within the firm network of the auditor of the consolidated group. Each overseas subsidiary may directly compensate its local auditor. The work of the local auditor(s) may form part of the evidence for the auditor of the consolidated financial statements, but it is also possible that some of the work of the local auditor does not relate to the work on the consolidated financial statements. It is not clear whether the audit fees to be disclosed should include:
  - only the audit fees charged by any auditor(s) that relate to the audit of the consolidated financial statements, or
  - only the audit fees charged by the auditor to the parent entity for the audit of the consolidated financial statements, or
  - all audit fees charged by the auditor of the consolidated financial statements to any entity in the consolidated group, regardless of whether the work was in relation to the audit of the consolidated financial statements or the separate financial statements of other entities in the group, or
  - all audit fees charged by the group auditor to any entity in the consolidated group, without consideration of audit fees charged by subsidiary auditors, or
  - the audit fees charged by any auditors to all entities within the consolidated group, regardless of whether the work performed related to the audit of the consolidated financial statements of the group or the financial statements of subsidiaries within the group.
- We consider that the first alternative above is most relevant information for users of the financial statements, and the disclosure requirement should be worded in such a way as to make that clear, by stating that the objective of the disclosure is to inform users of the fees

paid or payable to the auditor, or auditors, for the audit of the consolidated financial statements.

- Disclosure of transactions with auditors for non-audit services is also required by S300(11B) and (11C) of the Corporations Act 2001. Any disclosure requirement of the AASB should not create a difference to the amounts disclosed under the requirement already determined by the government to be necessary for governance reasons. Creating differences will only serve to make it difficult for readers to understand the disclosures. One way to avoid unintentional differences is to use the wording from the Corporations Act 2001.
- Lastly, it is not clear whether the audit fees to be disclosed are the fees relating to the financial statements being audited, or the audit fees paid during the year in relation to the audit of the prior period.

#### *Imputation credit disclosures*

- Paragraph 6.2 of ED 200B should be more clear that the disclosure is of imputation credits arising from transactions recognised up to the balance date that are available in the future. This will then clarify that the amounts discussed in 6.3(a)-(c) are part of the amount of imputation credits available.

#### *Recognition of an elimination of an unrealised gain or loss*

- We support the deletion of paragraph Aus7.1 from AASB Interpretation 113 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. This will remove one of the final additional AASB paragraphs that had the potential to lead to non-compliance with IFRSs. We do not agree with the conclusion in the box marked “Significance of amendment”. We suggest that the AASB include a BC paragraph that explains the deletion is to remove the possibility of non-compliance with IFRSs that could result by complying with the more specific or contradictory AASB requirement. Generally, only a few Australian entities have probably had this issue, and so the impact of the deletion is probably limited in terms of the number of entities.
- The requirement to retrospectively apply this change may in certain circumstances prove to be impracticable. Such entities should be able to apply the impracticability requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to address that difficulty. Therefore, we consider that the transition requirement should refer to applying the requirements of AASB 108 in respect of changes in accounting policy, rather than simply stating that the requirement needs to retrospectively applied. If AASB 108 is not referred to, it might be read as saying the impracticability exemption is not available.
- Lastly, in the limited circumstances where an entity changes their accounting policy as a result of this amendment, they may not be able to claim compliance with IFRS unless they apply the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards*. However, because they have been complying with AASBs, there is no reason for them to re-apply AASB 1 *First-time Adoption of Australian Accounting Standards*. Therefore it is not likely that an entity that currently cannot claim compliance with IFRS

will be able to claim IFRS compliance after adopting this change. The AASB should refer to this issue in a BC paragraph, to at least highlight the issue to preparers.

*Other*

- We draw the AASB's attention to footnote 2 to the header to paragraphs 33 and 34 in AASB 132 *Financial Instruments: Presentation*. It states "The Corporations Act prohibits a company from acquiring shares (or units of shares) in itself except in limited circumstances, and an entity subject to the Corporations Act cannot have treasury shares." We suggest the AASB delete this footnote, as it leads to confusion for preparers who take its final statement too literally. Many Australian consolidated entities hold treasury shares, because they take advantage of the limited exemption that is available in relation to holding shares for employee benefit (share-based payment) plans. This results in the consolidated group recognising a balance of treasury shares.

*(d) Which of the disclosures proposed to be included in the separate disclosure standard AASB ED 200B should be required of entities applying differential reporting requirements, namely in Australia the proposed Reduced Disclosure Requirements for general purpose financial statements (qualifying entities in New Zealand).*

All disclosures in ED 200B, paragraphs 2-4 should be required by entities applying differential reporting requirements. The disclosures in paragraphs 2-4 are essential for understanding the basis of preparation of the financial statements.

The AASB has previously determined that the disclosures that are being replaced by paragraphs 5 and 6 of ED 200B are not required by an entity applying the differential reporting requirements. Therefore we consider that decision should be carried forward into the proposed separate disclosure standard resulting from ED 200B.

*(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.*

Sections 300(11B) and (11C) of the Corporations Act 2001 require certain entities to disclose information about non-audit services provided by their auditors. As noted above we consider that any requirement of AASBs should not contradict that requirement. The AASB should consider providing an exemption for such entities from having to make duplicative disclosures, similar to the exemption provided to disclosing entities that are companies for paragraphs Aus25.2-25.7 and Aus25.7.2-3 in AASB 124 *Related Party Disclosures*.

*(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 do not consider that the proposed amendments will negatively affect the information provided to users of general purpose financial statements. Individuals that use sets of financial statements prepared under both Australian and New Zealand standards will benefit from the more consistent requirements.

Topics that the AASB has requested specific comments on, applicable to specific proposals:

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

See comment above under (c). We have concerns about whether the deletion of the reference to related practices means that fees paid to such practices that are not in respect of the audit of the consolidated financial statements should no longer be disclosed in the financial statements.

*(b) In relation to the proposed deletion of paragraph Aus7.1 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?*

See response to (c) above.

An entity that is currently unable to state compliance with IFRS due to the Australian guidance in Aus 7.1 of Interpretation 113 would need to apply IFRS 1 in full in order to be able to claim compliance with IFRS. But the same entity will have no reason to apply AASB 1, and therefore is not likely to be able to regain compliance with IFRS, even with the removal of paragraph Aus7.1, regardless of whether the change in accounting policy is prospective or retrospective. Therefore, we consider that prospective application may be sufficient for this change.

However, if the AASB determines that a change in accounting policy resulting from the deletion of Aus7.1 is to be retrospective, then the transition paragraph should refer to AASB 108, rather than just a simple statement to apply the change retrospectively. AASB 108 has exemptions that allow an entity to limit the retrospective application when impracticable. These exemptions should be available to entities that need to change their accounting policy, in cases where transactions that go back a number of years.

*Other questions*

*The Boards sought comment as to whether the disclosures requirements related to the compensation of individual key management personnel of managed investment schemes that are disclosing entities should be retained.*

We consider that the disclosure requirements mentioned should not be retained. The general feedback from preparers has been that either managed investment schemes do not have individual key management personnel and so there is no disclosure to make, or that the more relevant related party disclosure is the compensation of the responsible entity.

We also consider that the individual key management personnel remuneration requirements for listed companies should be removed from AASB 124, since they are fully replicated in the Corporations Act 2001. There is no need for an Australian specific requirement in AASBs if the regulatory environment has already included those disclosures in other reporting requirements. At the same time, the AASB should determine whether the disclosures required by AASB 124 Aus25.7.3-Aus25.9.3 have been explicitly considered by Treasury in their consideration of the appropriate disclosures related to key management personnel and other prescribed individuals under S300A of the Corporations Act. If they have been considered but not taken up by Treasury, then they should be removed from AASB 124 on the basis that the more detailed disclosure requirements are a matter of governance that is more appropriately in the scope of a regulator.