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Prof. David Boymal
Chair
Australian Accounting Standards Board
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Our ref PE_Submissions_ED151_PC_0223

28 February 2007

Dear David

**ED 151 *Australian Additions to, and Deletions from, IFRS***

We are pleased to have the opportunity to comment on ED 151 *Australian Additions to, and Deletions from, IFRS* (ED 151) issued by the Australian Accounting Standards Board (AASB).

**Executive summary**

Overall, KPMG supports the AASB's initiative to reduce differences between Australian equivalents to IFRS (AIFRS) and IFRS.

The changes proposed will assist Directors in assessing whether, under AASB 101 *Presentation of Financial Statements*, an entity is IFRS compliant. The proposed changes will also reduce perceptions overseas that AIFRS is not IFRS compliant.

Whilst we are supportive of the overall content of ED 151, there are a number of matters we would like the Board to consider in the finalisation of these Standards. These include:

- inclusion of transitional provisions;
- consideration of impacts of proposals on certain Australian standards and existing Australian interpretations;
- impacts of the introduction of the consolidation exemption; and
- various wording and terminology differences.

We also have attached as an Appendix specific paragraphs of standards which we believe require further consideration.

**Inclusion of transitional provisions**

ED 151 proposes the reinstated optional treatments in IFRS be available for application to annual reporting periods beginning on or after 1 July 2007, however it does not specify any transitional provisions.

ED 151 may result in entities applying changes in accounting policy, for example:

- changes in the recognition basis (the option to use proportional consolidation for jointly controlled entities);
- changes in the measurement basis (the option to use corporate rates to discount post-employment benefit obligations); and
- changes in the presentation basis (the option to use the indirect method in cashflow statements, the option to deduct a government grant in arriving at the carrying amount of a related asset).

When an entity changes an accounting policy upon initial application of an Australian Accounting Standard that does not include specific transitional provisions applying to that change, under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, it applies the change retrospectively. As such, our view is that the changes arising from ED 151 as it stands would be applied retrospectively.

However, given the potential significance of changes in accounting policy and that the changes in ED 151 will affect a total of 21 existing Australian Accounting Standards, we recommend the proposal clarify how changes to existing accounting policies should be made through specific transitional provisions. Specific matters that may be important to consider include:

- interaction of the changes in accounting policy with first time adoption provisions (for example, if proportional consolidation was applied);
- the impracticable exemption; and
- disclosure requirements.

**Consideration of impacts of proposals on certain Australian standards and existing Australian interpretations**

Whilst ED 151 addresses some of the significant differences between AIFRS and IFRS within the accounting standards, it does not address certain differences that continue to exist in Australian standards and existing Australian interpretations. We have highlighted these ongoing differences and our recommendations of how to eliminate these differences in the attached Appendix.

**Impacts of the introduction of the consolidation exemption**

ED 151 does not highlight the introduction of the consolidation exemption as one of the "key proposals", but we understand for certain company groups, it may have a significant impact. For example, in a large unlisted private Australian group, the parent company may be a pure holding company for a series of operations which individually are insignificant, but as a group would constitute a reporting entity. Under the previous AASB 127, consolidation would have been required, however, if the parent entity is not a reporting entity, under the revised AASB 127, consolidation would no longer be required. Groups that are unlisted and privately owned could thus potentially perform legal restructurings to avoid consolidation requirements.

Whilst we agree with the overall change in consolidation criteria, as it provides closer convergence with IFRS, we question the addition of an Australian specific limitation. The new paragraph Aus 10.1, limits the exemption from consolidation that exists in IAS 27.10 stating "Notwithstanding paragraph 10, the ultimate Australian parent shall present consolidated financial statements that consolidate its investments in subsidiaries in accordance with this Standard when either the parent or the group is a reporting entity." We are of the view that the this limitation is not consistent with the objective of ED 151 to reduce differences between AIFRS and IFRS and that the issue of whether Australian subsidiaries of foreign publicly listed companies should be required to prepare consolidated financial statements would be better addressed as part of the on-going review of the "reporting entity" concept.

**Various wording, terminology and other differences**

Aside from the differences considered between existing AIFRS and IFRS within ED 151, and others not identified in ED 151 relating to differences in scope, we have identified various wording and terminology differences between AIFRS and IFRS that continue to exist. These are listed, together with recommendations of how to eliminate these differences, in the attached Appendix.

Although there are no conceptual differences between the AIFRS and IFRS definitions of materiality, the application of materiality may differ due to additional guidance in AASB 1031 *Materiality*. AASB 1031 includes additional consideration of whether omissions affect the discharge of accountability by the management or governing body of the entity and also quantitative presumptions of materiality. In AASB 124 *Related Party Disclosures* materiality is "deemed" to apply to disclosing entity remuneration disclosures in paragraphs Aus 25.1 to Aus 25.9.3. The equivalent IAS 24 *Related Party Disclosures* contains no such provisions. We recommend the AASB in its initiative to reduce differences between AIFRS and IFRS, consider whether there are any Australian specific circumstances that would justify keeping the additional Australian specific guidance on materiality in AASB 1031 and AASB 124.

**Other comments**

Whilst ED 151 considers most of the significant existing differences between AIFRS and IFRS, it does not contain a comprehensive list of all differences between AIFRS and IFRS. To support the continued initiative of the AASB to reduce differences between AIFRS and IFRS, we recommend a detailed list of all on-going differences be published. We also recommend that the AASB include a summary of any deleted IFRS paragraphs at the end of the each AASB standard, similar to that published in the AASB 8 *Operating Segments*. We are of the view that these measures would further assist Directors and other constituents in assessing whether, under AASB 101 *Presentation of Financial Statements*, an entity is IFRS compliant

We also recommend that the AASB consider whether a separate project should be undertaken to review the appropriateness of existing UIG interpretations that represent Australian guidance that has been largely carried forward from pre IFRS transition. Specifically, we would recommend a review of UIG 1017 *Developer and Customer Contributions for Connection to a Price-Regulated Network,* as internationally there is continued debate as to whether the interpretation complies with IFRS.

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 (03) 9838 4118, or Benjamin Seumahu on (07) 5577 7464.

Yours sincerely

Peter Carlson
*Partner*

# Appendix

**Specific Recommendations relating to ED 151**

| | Paragraph(s) | Issue noted | Recommendation |
|---|---|---|---|
| **1** | **AASB 138.44** | Under AASB 138.44, an entity initially recognises acquisition of an intangible asset by way of a government grant at fair value. Under IAS 38.44, an entity may choose to recognise the intangible asset and the grant initially at fair value or at a nominal amount plus any directly attributable expenditure. | We recommend the wording in AASB 138.44 be amended to be identical to IAS 38.44. However, as this would create a conflict for not for profit entities, we recommend the inclusion of an additional "not for profit" paragraph.<br><br>We recommend the following wording be included as AASB 138 Aus 44.1: "Notwithstanding paragraph 44, Not for profit entities are required to recognise the intangible asset and the grant initially at fair value in accordance with *AASB 1004 Contributions*" |
| **2** | **UIG 113.4** | The scope of UIG 113 is limited to jointly controlled entities (JCEs) using the <u>equity</u> method of accounting. The inclusion of proportional consolidation as an option in AASB 131 now creates an inconsistency with UIG 113. | We recommend that the AASB revise UIG 113 to ensure it is clear that it applies to JCEs using either the proportional consolidation or equity method. |
| **3** | **UIG 113 Aus 7.1** | This paragraph allows recognition of the unrealised gain or loss that has been eliminated by the venturer as contributed assets are <u>consumed</u> or sold. IAS 31.48 and AASB 131.48 only permit recognition when the venturer resells the asset | We recommend that paragraph Aus 7.1 be deleted from UIG 113, which will remove an additional difference between AIFRS and IFRS. |

| | Paragraph(s) | Issue noted | Recommendation |
|---|---|---|---|
| 4 | **AASB 127 Aus 10.1** | This paragraph restricts the exemption from consolidation in paragraph 10 such that the ultimate Australian parent shall present consolidated financial statements when either the parent or the group is a reporting entity.<br><br>Our view is that the phrase "when either the parent or the group is a reporting entity" is redundant given that consolidation is now required only when the parent entity is a reporting entity | We recommend rewording the paragraph Aust 10.1 from ED 151 to delete reference to "when either the parent of the group is a reporting entity" |
| 5 | **AASB 107.6** | AASB 107 currently defines financing activities as activities that result in changes in the size and composition of the contributed capital and borrowings of the entity. IAS 7 refers to contributed equity rather than contributed capital. | We recommend the AASB 107 definition of financing activities be modified to be identical to the IAS 7 definition. |
| 6 | **AASB 1 Aus 34B.1** | AASB 1 Aus 34 B.1 requires that entities adopting AIFRS on or after 1 January 2005 apply AASB 5 to comparative information. We do not see any substantive difference with the equivalent IFRS 1.34B requirement to apply IFRS 5 retrospectively to entities with a transition date on or after 1 January 2005 | We recommend that the requirement in AASB 1 Aus 34B.1 be replaced with the requirement in IFRS 1 34B. |