



2 March 2007

Mr D Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
Collins St West
Victoria 8007

Dear Mr Boymal

ED 151 - Australian Additions to, and Deletions from, IFRSs.

Finsia, through its Company Reporting Subcommittee, is pleased to provide the attached comments to the Australian Accounting Standards Board (AASB) on the *Exposure Draft 151 – Australian additions to, and Deletions from IFRSs* ('ED 151').

Finsia, the Financial Services Institute of Australasia, was created following the merger of the Securities Institute of Australia (SIA) and the Australasian Institute of Banking and Finance (AIBF). We are committed to maintaining and raising the standards and integrity of the financial services industry. We represent almost 20,000 members and have over 15,000 enrolled students.

Should you require any further information, please contact Mark Ley, Senior Manager, Markets Policy on 02 8248 7556.

Yours sincerely

Brian Salter F Fin
Chief Executive Officer

ED 151 Proposed Amendments

1. General Comments

Finsia has been supportive of the approach to harmonise international accounting standards. We have previously acknowledged that Australia's broad adoption of the IFRS would present challenges and considerable short-term adjustment to existing practice, but that the uniform application of international accounting treatment is in the best interests of the Australian economy in the long term.

Accordingly, we support the AASB in adopting IFRS-equivalent standards for application in Australia without changing the requirements of the IASB-issued standards, unless there are compelling reasons for departing from the IASB-issued standards.

Notwithstanding these comments, we do not consider that an Australian approach to standard setting that requires additional disclosure or limits the number of options available to preparers, represents a departure from the principle of harmonisation. A central goal of harmonisation was to increase the comparability and useability of financial accounts. By limiting the options available in Australian Standards for the preparation of important items such as the cash flow statement, Australian consistency and comparability is enhanced without diminishing the comparability with international accounts.

This is acknowledged in the AASB comment that¹: "there are inevitably certain costs associated with the removal of Australian differences, for instance the level of comparability in financial reporting across Australia may be diminished by including the optional treatments in IFRSs".

However, Finsia disagrees with the AASB conclusion that "...the principle of having the same requirements for for-profits is in Australia's best interests and any associated costs will be exceeded by the potential benefits for comparability between Australian financial reporting and financial reporting under IFRSs elsewhere in the world."² In our opinion, the quality of the information provided should be considered as important, if not more so, than the costs of compliance and the consistency in accounting frameworks.

From an analyst's perspective, the greater the number of options available in the preparation of accounts; the more difficult comparability becomes and the quality of the information is potentially reduced. Additional options provide unscrupulous preparers with the opportunity to manipulate the information presented, particularly trend information.

2. Specific comments

2.1 Cash Flow statements

Finsia does not support the option to use the 'indirect method' for presentation of cash flow statements. Finsia wrote to Mr Angus Thompson on 22 December 2006 on this issue in the context of the CFA Paper: *A Comprehensive Business Reporting Model: Financial Reporting for Investors*. We concurred with Principle 9 of that Paper that the direct method is the only appropriate approach.

¹ Page v of the Exposure Draft

² Also on page v of the Exposure Draft

We also note that our recent survey of equity analysts³ on the quality of company reporting indicated that, as a result of the introduction of IFRS, analysts are now placing a greater reliance on the Cash Flow Statement.

Finsia contends that there are problems with the starting point of the indirect method of preparing a cash flow and it does not contain the necessary amount of information required by analysts.

Similarly, we believe the option to treat dividend payments as an 'operating' cash flow as opposed to a 'financing' cash flow is illogical. By definition, 'dividends paid' is not an operating item and should not be included as such. Dividends are a cost of equity funding and its inclusion in 'financing' cash flows recognises this. By analogy, if dividends are an 'operating' cash flow then, for consistency, interest paid should also be an 'operating' cash flow.

2.2 Accounting for Government Grants and Disclosure of Government Assistance

Finsia does not support the proposed adjustments to the treatment of Government Grants in AASB 120.

The Australian treatment is to record the transfer of non-monetary assets such as land, buildings or intellectual property at fair value. The IFRS approach permits entities to record the assets at a nominal amount.

This adoption of the IFRS approach, particularly relevant for bio-tech and start-up companies, can result in misleading and meaningless numbers in both the income statement and balance sheet. This will consequentially result in meaningless figures for important concepts such as 'return on assets'.

2.3 Interests in Joint Ventures

Finsia supports this proposal and acknowledges that, in some circumstances, the use of the proportionate consolidation approach achieves a more sensible result than the equity method.

2.4 Interim Financial Reporting

Finsia does not support the removal of the additional disclosures particularly the financial effect of material subsequent events and the dividends distributed, proposed or declared.

We are uncertain why IFRS would not require this information. In our opinion, investors will continue to request this information and it will continue to be provided by preparers.

³ Available at <http://www.finsia.edu.au/cms/data/live/files/23312.pdf>