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ED 151 sub 4

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2 February 2007

MACQUARIE
BANK

The Chairman
Australian Accounting Standards Board,
PO Box 204
Collins Street West
Melbourne VIC 8007.

Dear Sir,

Re: Submission Exposure Draft ED 151 Australian additions, and deletions from IFRS

Please find attached a submission, in response to the exposure draft ED 151 issued in by the AASB in November 2006, on behalf of Macquarie Securities. The submission follows on from our conference call discussion with Angus Thomson, Frank Palmer and David Boymal, and Macquarie Securities represented by John O'Connell (Head or Equities Research), Neale Goldston-Morris (Divisional Director Strategy) and myself in late December 2006.

The submission that follows formalises the comments we made during that teleconference. We trust that the comments made in this submission that follows are clear with regards to the changes proposed by ED151.

Please do not hesitate to contact me if there are any outstanding questions regarding this submission.

Kind Regards

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Tanya E Branwhite

Submission Macquarie Securities (Australia) Limited to ED 151 (issued November 2007.

The submission made by Macquarie Securities, set out below, seeks to provide feedback to the AASB on the changes proposed to the Australian Accounting Standards in ED 151 issued in November 2006.

Our submission has not set out to present our views on each and every change proposed in that ED. Rather the submission is made on the basis of providing feedback to the AASB on those changes set out in ED151 which, in the opinion of Macquarie Securities (Australia) Limited (MSAL), will reduce, compromise or diminish the amount, quality, or timeliness of the financial and associated information required to be disclosed in the company accounts under the current Australian Accounting Standards. While we recognize that many of these changes are being proposed to assist users, we suggest these proposed changes will be detrimental to analysts and other stakeholders who critically relying on this information.

Further more, we would also highlight that many of our concerns relate to those changes presented in ED151 that propose to allow a greater degree of "optionality" in the presentation or derivation of the financial data disclosed in company financial statements. While we have also made special comment on these in the submissions set out below, we would wish to express our general concern regarding these proposed changes. Providing increasing flexibility puts in prospect that financial data disclosed company to company will no longer be comparable, and this we strongly believe would diminish the value of the financial information disclosed

As a general comment the importance of the quality and ability to compare company financial data available publicly cannot be stressed enough. Reliable and detailed accounting information is a bit like insurance for not only financial markets, but investors and the economy more generally. In most years it proves to be a luxury, but once every decade or so (when there are problems) it becomes critical.

In a sharp economic downturn reliable company financial data is everything, and every piece of 'hard' data becomes enormously important. Any loss of accounting/financial information in the long term therefore will be a serious lowering of overall standards. IFRS should be regarded as the basic standard, however for advanced countries like Australia which already had high and comprehensive standards of financial disclosure and with much to loose, the additional disclosure which has been available under the existing Australian accounting standards should be retained.

More particularly, the Board should pay heed to the developments in the US post Enron. Ensuring that that accounting information levels are not diluted now will reduce the potential for political intervention in the future in the event of some financial/accounting crisis even small. Political intervention, as has occurred in the US, is usually ham-fisted, costly and often with poor outcomes both for corporates, investors and financial markets. In other words, a little prevention now (the costs of which are very low) may save a large amount of regulation and economic cost later.

The strong and efficient functioning of Australia's corporate market, and ultimately financial system and economy has been well served by the strong and comprehensive accounting standards set out by the AASB. While we do understand the AASB's wish to simplify accounting standards so as to allow comparability of financial accounts across jurisdictions, we are sure the AASB would also agree that often standards are necessarily compromised in order to get the broad agreement needed for the adoption of such standards across the broad range of stakeholders.

The issue of comparability across jurisdictions we appreciate is strong. We would however suggest that comparability across jurisdictions will not be provided since companies in different jurisdictions will adopt one option or another. Comparability across jurisdictions is therefore still not achieved even allowing for these options. To preserve the utility and transparency of accounting data and so comparability, we believe the limitation of 'options' in accounting treatments is preferable to allowing a choice in the accounting treatment used.

We wish to implore the AASB to look to those aspects of the AASB's existing standards which, while different and even more onerous than those of the IASB, provide greater transparency, detail, and therefore understanding of the financial position of Australian corporates. Our 'blind' adoption of the IASB's standards in most cases will not serve the AASB's broad constituency (particularly analysts and investors who are the primary users) well and will over time diminish the relevance of the AASB if it simply serves to "rubberstamp" the standards adopted by the IASB.

Specific comments regarding proposed changes.

AASB 107

MSAL Comment –

The introduction of IFRS has in our view lessened the 'directness' of the net profit now reported under these standards. As result we are of the view given our discussions with the professional investment community, that the importance of the information provided in the cashflow statement has been elevated. These changes proposed under AASB 107 overall we view as negative and regressive, and believe that in tandem with AIFRS, will severely compromise the value and reliability of the cashflow statement.

AASB 107 Cash Flow Statements Deleted 18(b) and 20Amended 19

MSAL Comment -

The introduction of IFRS, and in particular the large number of potential non cash income and expenses that may impact on the profit, has delivered a more theoretical profit and loss statement. The inclusion of the option to use the 'indirect method' as opposed to the current direct method for the presentation of casflows will in our view lead to not only the potential non comparability across the Australian corporate market, but when chosen, the indirect method of presentation will greatly reduce the quality of the cashflow statement compared to that required under the current Australian regime.

AASB 107 – Aus 20 1-2

MSAL Comment

Again similar comments to those made above.

The introduction of IFRS and in particular the large number of potential non cash income and expenses has more delivered a more theoretical profit and loss statement. The removal of the requirement to provide a reconciliation of cashflow from operating activities to the profit and loss statement when choosing the indirect method would seriously compromise the quality of the financial statement analysis. The proposed changes will limit the understanding of the true cash position.

The option to use the indirect method for the presentation of casflows will in our view lead to not only the potential non comparability across the Australian corporate market, but when chosen, the indirect method of presentation will severely reduce the quality of the cashflow statement and the ability to reconcile the cash position of the company to reported profit or loss, in view of the current IFRS regime.

AASB 107 – Deleted part of 34

MSAL Comment

Again as above providing the option of classifying dividends paid as operating or financing lessens the value of the financial information due to prospect of less comparability of the data across companies.

AASB 116 – Property plant and Equipment

MSAL Comment

Again as above providing the option again lessens the value of the information due to prospect of comparability of the data across companies.

AASB 119 Aus 78.1 – Employee benefits

MSAL Comment

The use of one bond rate (clearly the government bond rate is the most transparent) again allows strict comparison of the value of these employee liabilities between companies. The removal of this requirement will again limit the comparability of these liabilities across companies.

We also note it is unclear whether the proposed change will require companies to disclose the discount rate under its "own judgment" and the justification of which.

AASB 119 Aus121.1-2 – Employee benefits

MSAL Comment

We hold strong views regarding this change as this will impact directly on our determination of the value of net profit and the financial position. The removal of the requirement for the disclosure of either a surplus or deficit in the accrued benefits and the asset value held to meet these obligations, will directly impact the ability to understand the impact this may have had on the reported profit and to quantify this impact.

AASB 120 – Accounting for Government Grants and Discloser of Government assistance

MSAL Comment

Again as above providing the option again lessens the value of the information due to prospect of comparability of the data across companies.

AASB 127 – Consolidation and Separate Financial Statements (Aus40.1 and 42) & AASB 128 - Investments in Associates (Aus 37.1) and AASB 131 – Interests in Joint Ventures (Aus Aus 57.1).

MSAL Comment

This area is particularly relevant given the sophistication of the Australian corporate market with many large companies holding a wide range of investments in and JV's with other corporations. The removal of the requirement for the disclosure of this information will significantly lessen the ability to understanding corporate structures, the degree of interlinking of operations and the impact (benefit or otherwise) that these have had on the company's reported profit.

AASB 130 – Disclosures in the Financial Statement of Banks and similar Financial Institutions

MSAL Comment

The current requirement for the additional disclosures includes, the analysis of interest income and expense for each major category of interest-bearing asset/liability, contractual maturities by certain categories of instrument; carrying amounts and impairment losses in relation to restructured loans and assets acquired through enforcement of security; and nature and extent of fiduciary activities. These additional disclosures are in our view very relevant to understanding the financial institutions financial position, its interest rate risk and in particular the true position of the bank's bad and doubtful debt risks. This would impact on the presentation of the average balance sheet for the institution as well.

The removal of this requirement we would strongly oppose as it severely curtail investors understanding of the true financial position and risk of the financial institution.

AASB 131 – Interests in Joint Ventures

MSAL Comment

Again as above providing the option of proportionate consolidation versus the current equity accounting approach lessens the value of the financial information due to prospect of less comparability of the data across companies.

Furthermore as we understand it, the IASB is currently proposing to delete proportionate consolidation from IFRS. On that basis it seems disruptive and of no benefit to allow this option only to have it revoked over the next year or so.

AASB 132 – Financial Instruments: Disclosures and Presentation (Aus 94.1)

MSAL Comment

The disclosure of credit standby facilities and the degree to which these have used and unused loan facilities is in our view a critical disclosure and must be retained. This information falls into the category we described in our opening pre amble as "insurance".

In period when companies are enjoying strong financial health this information may be seen as unnecessary. When the economic cycle turns or the corporate may encounter difficulties for what ever reason, this information is critical to understanding the degree and speed of that deterioration. Without this disclosure the opportunity for creditors, investors or other interested parties to assess the financial health and the risks they are holding will be severely compromised.

AASB 133 – Earnings per share, Aus63.1-5

MSAL Comment

The frequency of capital reconstruction in corporate Australia suggests the removal of this requirement will again diminish the understanding and information provided by the financial accounts.

AASB 134 – Interim Financial reporting Aus16.1-4

MSAL Comment

Again these disclosures provide a large amount of information to interested party at the release of the interim accounts. The removal of the requirement for the disclosure of this information will again reduce the value and amount of information provided by the financial accounts.