

**Mr Keith Alfredson
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The Chairman
Australian Accounting Standards Board
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Dear Sir

ED 151 Australian Additions to, and Deletions from, IFRSs

Detailed below are various comments relating to the above exposure draft.

Let me say at the outset that I find it quite disappointing that the Board has apparently given up the original approach of the Board to try to prevent retrograde steps in establishing Australian standards based on IFRSs. In particular it was a deliberate policy of the Board generally not to introduce options into standards (based on IFRSs) where an option had been deleted when issuing Australian standards based on the old IASs as a result of the Board's original harmonization policy (which of course contrasts markedly with "word-for-word" adoption, including all options).

Further I find it disappointing that the "Basis for Conclusions" contained in the exposure draft defies logic. I note in particular that the "AASB considers that Australian differences from IFRSs (other than additional disclosures) have the potential to result in different outcomes from those that would be achieved under IFRSs". I can not possibly see how the adoption of one option from an IAS (now known as an IFRS) has "the potential to result in different outcomes from those that would be achieved under IFRSs". The adoption of the allowed option – given that it is word-for-word to the IAS – surely must result in exactly the same outcome that would result had that option been adopted from the IFRS. Of course some preparers may have wished to adopt the other option, were it made available in the equivalent AASB, but that is a different matter and a different argument.

Further, from my understanding one of the "real" reasons for some proponents of the ED proposals is that the proposed changes will allow Australian subsidiaries of overseas holding companies to adopt the same accounting in their local Australian accounts as that

adopted in the consolidated accounts of the holding company, where the controlling entity has adopted an option that has been deleted from the Australian equivalent IFRS. I believe that sort of argument has at least some logic, based on costs and benefits and should have been included in the ED's Basis for Conclusions. Further, I understand an argument put forward by some – such as the “Big 4”, is that it simplifies the adoption of IFRS worldwide, particularly when staff training is considered and staff exchanges between international offices take place. Again, I believe that sort of argument has at least some argument, based on costs and benefits and could have been included in the Basis for Conclusions. At least then, the stated reasons for the proposed changes would have been logical.

Having said the above, I am not against some of the more important proposed changes, including the option to allow the indirect method of presenting cash flows from operations and the use of proportionate consolidation of joint venture entities. I happen to believe that the first should be allowed, largely on a costs and benefits argument, as the presentation of gross cash operating inflows and outflows has little financial analysis usefulness and I remain unconvinced that equity accounting of joint venture entities is superior to proportionate consolidation, especially when the same sort of accounting is permitted in the case of joint ventures where the venturers have an undivided interest in the assets of the joint venture. I believe the difference is more in terms of legal form than real substance.

However, I believe there are two important issues that should be considered by the Board in relation to the above two matters.

Firstly, I believe it would be an extremely retrograde change if entities were allowed to use the direct method of presenting cash flows from operations, without the presentation in the notes of the reconciliation between net cash flows from operations and reported net profit. From my reading of IAS 7, no reconciliation is mandated if the direct method option is adopted. Given the many subjective judgments made under accrual accounting, I believe the presentation of the reconciliation is fundamental to a user making an examination of the quality of reported earnings. I have heard financial analysts strongly put the argument for requiring the presentation, as currently mandated in the Australian standard. Given that companies have been forced in Australia to use the direct method, it seems likely that at least some will continue to adopt the direct method, and may well then not present the reconciliation to net profit given that it will be no longer be mandatory, if the ED proposals are adopted without amendment. This would, in my opinion, be most unfortunate and a significant retrograde step in the quality of financial reporting in Australia.

Secondly, in regard to proportionate consolidation of joint venture entities, while I support the option, I understand the IASB has a project examining the accounting for joint ventures and it would seem this project may well lead to the deletion of the proportionate consolidation option. If this possibility is likely in the foreseeable future, I believe it would be most untimely for the AASB to now allow the option and then within a relatively short time remove the option. This could lead to unnecessary inconsistency

in accounting for such joint ventures. At the very least I believe the Board should debate this issue and seek to clarify with the IASB the likely outcome of its decisions on joint venture reporting.

The only other issue I wish to comment on relates to the planned removal of paragraph Aus53.1 from AASB 121 “The Effects of Changes in Foreign Exchange Rates”. I believe users of the accounts would generally expect the presentation currency of Australian financial reports to be Australian currency. While I strongly support the allowance of another currency to be the presentation currency, I believe there should be strong economic and business reasons for the use of a different currency and hence I believe it is not unreasonable for AASB 121 to require disclosure of the reason and justification for not using the Australian currency. I hence do not support the deletion of this current disclosure requirement.

Finally, it seems to me that if the AASB now intends to adopt IFRSs word-for-word for for-profit entities, the Board should encourage Parliament to make legislative changes that would permit IFRSs to be adopted in Australia (for specified entities) without the need for them to be issued as equivalent Australian standards published by the AASB. This would then allow users to refer to IFRSs (as issued by the IASB) and would allow the Board to issue separate standards solely for not-for-profit entities, including, where relevant, the public sector. Such an approach would be uncomplicated from a users viewpoint and also lead to considerable savings in time and effort by the Board and also costs incurred, given that the Board is apparently always obligated, from a practicable viewpoint, under the FRC’s strategy directions to adopt eventually IFRSs. Such an approach would also have the advantage that it would allow directors to state directly – without any confusion – that financial reports are in accordance with IFRSs and for auditors to report similarly. This is also a matter the Financial Reporting Council should consider as part of its deliberations on “sector neutral standards” – a concept I no longer support.

Yours sincerely

A handwritten signature in cursive script, appearing to read "Keith Alfredson".

Keith Alfredson