



Australian Government

Australian Accounting
Standards Board

Level 7, 600 Bourke Street
MELBOURNE VIC 3000
Postal Address
PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600
Facsimile: (03)9617 7608

8 February 2010

Mr Bede Fraser
The Manager
Corporate Reporting and Accountability Unit
Corporations and Financial Services Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Bede

Corporations Amendment (Corporate Reporting Reform) Bill 2010

Thank you for the opportunity to comment on the proposed reforms circulated by the Minister for Financial Services, Superannuation, Corporate Law and Human Services. As you know, the Board is in the process of revising its differential reporting regime and is proposing changes that would be facilitated by a number of the proposed reforms to Corporations law. In revising its differential reporting regime, the Board has so far issued draft Consultation Paper *Differential Financial Reporting – Reducing Disclosure Requirements*.

This letter focuses on those topics addressed in the Bill that would have an impact on financial reporting.

Chapter 1 – Companies limited by guarantee

The Board supports the Corporate Reporting Reform proposals that would exempt ‘small’ companies limited by guarantee from preparation and lodgement of financial statements with the ASIC.

Under the Board’s differential reporting proposals, financial statements lodged with the ASIC are general purpose financial statements (GPFSS), which need to be prepared in accordance with all relevant accounting standards. Without the proposed reform, all companies limited by guarantee would be compelled to prepare GPFSS. The Board considers that it is reasonable for the financial reporting burden to be less for those companies limited by guarantee that are judged to be of less significance and to have less accountability.

In relation to the proposals for a simplified directors’ report for certain companies limited by guarantee, particularly the proposal for the directors’ report to disclose service performance type information, the Board notes that it is currently progressing a project on service performance reporting by private sector not-for-profit entities that will also address such matters. In due course, there may be a case for rationalising the location of such information.

Chapter 2 – Parent entity financial statements

The Board supports the proposal to remove the need for parent entities to prepare and lodge financial statements when consolidated financial statements are provided. However, the Board does not support a requirement for summary parent information to be disclosed in either annual or interim financial reports. In particular, the Board opposes adding parent

entity information to interim reports.

The Board notes that the explanatory material mentions both usefulness (paragraph 2.3) and cost (paragraph 2.4) as a basis for the proposals. The Board considers that, if the full parent financial statements are not useful, extracts from those statements are unlikely to be useful either.

The basis for consolidated financial statements is that information about an economic entity as a whole is useful for users and that the legal structures within a group are generally of little relevance. Information about the various risks to which the group is exposed and the various different activities in which a group may be engaged, for example, through the parent, can be provided in risk-based and disaggregated information, such as that required by AASB 7 *Financial Instruments: Disclosures* and AASB 8 *Operating Segments*.

Chapter – 3 Requirements for paying dividends

The Board supports removal of the ‘profits test’ for dividends and replacing it with a ‘solvency test’, which should focus on future cash flows. The Board supports the use of principle-based criteria, but does not support tying the payment of dividends to the balance sheet through a ‘net assets test’.

It is not clear whether the first criterion of the Reform proposal is to be based on:

- * assets and liabilities recognised in the balance sheet at the measured amounts in the balance sheet;
- * assets and liabilities recognised in the balance sheet at amounts other than those used in the balance sheet, which might include directors’ valuations; or
- * assets and liabilities that may or may not be recognised in the balance sheet.

The Board notes that there is said to be diversity in practice on this matter in New Zealand where a similar test is employed.

Even in the event that the requirement were definitively based on amounts recognised and measured in balance sheets, the ‘net assets test’ may suffer from similar problems to those experienced with the ‘profits test’ since there are currently optional treatments available in Standards, such as cost versus revaluation for property, plant and equipment and intangible assets. Start-up entities, particularly those with material intangible assets, may have difficulty meeting the ‘net assets test’, even though they may have the capacity to pay dividends.

Chapter 7 – IFRS declaration

The Board agrees that, where relevant, directors should be required to express an opinion in the directors’ declaration in relation to the compliance of financial statements and notes with IFRSs. However, the Board notes that many companies are not required to comply with IFRSs (for example, not-for-profit entities) and that the directors’ declaration should, consistent with Australian Accounting Standards’ requirements, include a directors’ opinion about compliance with IFRSs only where (rather than whether) the financial statements and notes are prepared in accordance with IFRSs. The approach to expressing IFRS compliance taken in the Standards is also taken in respect of the related requirements the audit report.

In its current form, the proposal would create unnecessary work for not-for-profit companies that do not need to comply with IFRSs because they would have to determine whether or not

they comply. This is because a company applying additional 'Aus' paragraphs in the accounting standards that relate to not-for-profit entities may be affected either: in a manner that does not cause a departure from IFRSs; or in a manner that does cause a departure from IFRSs.

AASB 101 *Presentation of Financial Statements* includes the following:

- 16 An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs.**

Aus16.2 Compliance with Australian Accounting Standards by for-profit entities will not necessarily lead to compliance with IFRSs. This circumstance arises when the entity is a for-profit government department to which particular Standards apply, such as AASB 1004 *Contributions*, and to which Aus paragraphs in various other Australian Accounting Standards apply, and the entity applies a requirement that is inconsistent with an IFRS requirement.

Aus16.3 Not-for-profit entities need not comply with the paragraph 16 requirement to make an explicit and unreserved statement of compliance with IFRSs.

In order to comply with paragraph 16, an entity must determine if it complies with all IFRSs. One of the reasons that paragraph Aus16.3 was included in AASB 101 was to alleviate the need for not-for-profit entities to assess whether they comply with all IFRSs.

Chapter – 8 Lost capital reductions

The Board supports the proposed change to section 258F.

The Board notes that, although probably not intended, under the existing section 258F, it is presently feasible to justify recognising items directly against equity that would otherwise be expenses in the income statement in accordance with accounting standards.

Other matters – Individual key management personnel disclosures

In 2008 the Board issued AASB 2008-4 *Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities*, which excludes disclosing entities that are companies from the application of AASB 124 *Related Party Disclosures* paragraphs Aus25.2 to Aus25.6 and Aus25.7.1 and Aus25.7.2, as the individual key management personnel remuneration disclosure requirements for these entities are now incorporated into the Corporations Law.

AASB 124 paragraphs Aus25.2 to Aus25.6 and Aus25.7.1 and Aus25.7.2, relating to individual key management personnel remuneration disclosures remain applicable to disclosing entities other than companies. In addition, AASB 124 paragraphs Aus25.7 and Aus25.7.3 to Aus25.9.3 relating to individual key management personnel equity holding, loan, and other transaction and balances disclosures still apply to all disclosing entities.

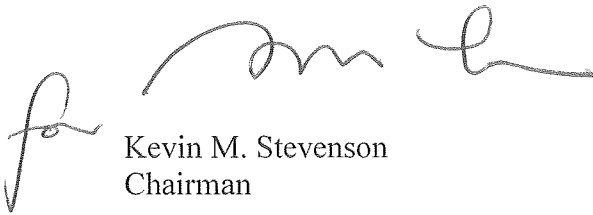
In the process of promulgating AASB 2008-4 the Board issued ED 162 *Proposed Amendments to Key Management Personnel Disclosures by Disclosing Entities*. Most of those who commented on ED 162 expressed the opinion that all of the individual key

management personnel disclosure requirements in AASB 124, in respect of all types of disclosing entity, should be considered for inclusion in the Corporations Act. This opinion, which is shared by the Board, is based on two factors:

- * a view that individual key management personnel disclosures are a governance matter that would be most appropriately dealt with directly by government through the Corporations Act; and
- * a desire to remove as much Australian specific text from the AASB's Standards that correspond to IFRSs so that those Standards replicate as closely as possible the content of the IFRSs as issued by the IASB, which, consistent with the tenor of the work of the Trans-Tasman Accounting and Auditing Standards Advisory Group, would aid the convergence of the Australian and New Zealand standards on this topic.

Consistent with the proposed extension of section 299A, the Board encourages the Treasury to address incorporating the all of the AASB 124 individual key management personnel disclosure requirements into the Act in respect of all types of disclosing entities.

Yours sincerely



Kevin M. Stevenson
Chairman