CPA AUSTRALIA

13 September 2002

The Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDON

Dear Sir

**Exposure Draft of Proposed Improvements to International Accounting Standards**

CPA Australia is pleased to provide comments on Exposure Draft of Proposed Improvements to International Accounting Standards. The External Reporting Centre of Excellence of CPA Australia has prepared our submission. This submission represents the views of CPA Australia.

In light of the recent decision in Australia to adopt international accounting standards in January 2005, we believe that the proposed improvements should be considered with regard to the experiences of the many countries that will now be adopting international standards. As such the submission of CPA Australia includes discussion of the key elements that will impact Australia and lessons to be learnt from Australia's experience of the proposed improvements.

CPA Australia supports those proposed amendments which:

- do not result in a reduction of the information previously disclosed and hence minimize any reduction of existing disclosure requirements;
- clarify the application of the international accounting standards without the ability to override those requirements; and
- limit the availability of choice of accounting practices, as such proposals have the potential to seriously undermine the comparability of financial reporting in Australia.

Appendix 1 addresses specific issues that cause concern.

Should you wish to discuss any matters in relation to this submission, please contact me on
☎ 61 3 9606 9608 or *email* jim.dixon@cpaaustralia.com.au

Yours sincerely

Jim Dixon

**Jim Dixon, FCPA**
**Director, Accounting & Audit**

Attach:

# APPENDIX 1

## Comments on Specific Issues contained in Exposure Draft of Proposed Improvements to International Accounting Standards

**IAS 1 "Presentation of Financial Statements"**

We strongly support the conclusion in IAS 1.12 that "inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used or by notes or explanatory material." However, the proposed IAS 1.15 seems to contradict this fundamental concept.

Australian experience supports the fundamental premise that the financial statements should present a true and fair view of the position and performance of the entity. In the past, the true and fair override lead to the abuse of the ability to override the requirements of the standard and introduced a system requiring additional disclosure in order to present a true and fair view. Whilst the override was in place a number of entities did not apply the requirements of the standard on the basis of a true and fair view. After the override was removed from our Corporations Law there were only two instances of the need for additional disclosures to achieve true and fair, even though the standards remained fundamentally the same. We urge caution in allowing override and believe countries adopting the standard should ensure the use of the "override" is closely monitored.

Paragraph 15 as drafted includes a requirement that in the extremely rare circumstances in which compliance with a requirement in an IFRS or an Interpretation would be so misleading that it would conflict with the objective of financial statements and the relevant regulatory framework prohibits departure from that requirement, the entity reduces to the maximum extent possible the perceived misleading aspects of compliance by making specified disclosures.

While we agree with paragraphs 13, 14, and 16, we do not agree with paragraph 15, and we have a related concern with paragraph 11. IAS 1.15 states that if national law requires a presentation which is deemed misleading, the enterprise makes the misleading presentation, adds disclosure, and then describes the financial statements as conforming to IFRS. In other words, national law prevails. A similar "national law prevails" interpretation should be clearly prohibited with regard to IAS 1.11. That is, if national law or regulation mandates a particular accounting treatment that is at variance with an IFRS or Interpretation, the financial statements cannot be described as conforming to IFRS without qualification. While we disagree with IAS 1.15, we think application of IAS 1.15 will rarely occur. Pressure for a "national law prevails" view of IAS 1.11 is likely to be a more common occurrence. Hence we think it should be addressed clearly in IAS 1 by saying that such financial statements depart from IFRS.

**IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors**
**Voluntary changes in accounting policies –**
Paragraph 20 proposes removing the allowed alternative treatment for voluntary changes in accounting policies (old paragraphs 54 to 57). A voluntary change in an accounting policy would be accounted for retrospectively by adjusting the opening balance of retained earnings for the earliest period presented and restating comparative information.

**Recognition –**
Paragraph 32 also proposes removing the allowed alternative treatment for the corrections of errors (old paragraphs 38 to 40). The correction of an error would be accounted for retrospectively, by either restating the comparative amounts for the prior period(s) in which the error occurred or, when the error occurred before the earliest prior period presented, adjusting the opening balance of retained earnings for that period with restatement of comparative information.

We have concerns with the proposed improvement to the extent that it may allow performance to be manipulated by adopting changes in policy. Therefore, we suggest robust disclosure requirements to support the justification for the change in policy and the current year profit effect of the change. Further correction of errors should also be disclosed to ensure that their effect is not lost on the user of the financial statements.

**IAS 16 Property Plant and Equipment**
**Depreciation of assets temporarily idle or retired from active use and held for disposal –**
Paragraph 59 as drafted includes guidance that depreciation of an item of PP&E does not cease when it becomes temporarily idle or is retired from active use and held for disposal unless the asset's depreciable amount has been allocated fully.

We are concerned that if depreciation does not cease when an asset is idle, then there is a different answer for assets that are depreciated on a time basis versus assets that are depreciated on a units-of-production basis. Assets depreciated on a units-of-production basis would not be depreciated when idle. We therefore think that for such assets a better answer would be to suspend depreciation in when the asset is idle or held for disposal and to require an impairment test when depreciation is suspended and at each subsequent reporting date.

If depreciation is not suspended during the idle period, we recommend that the Standard should clarify whether recognition of a change in depreciation pattern (change in estimate) is still permitted.

**IAS 17 Leases**
**Allocation –**
Paragraph 11B as drafted requires that the minimum lease payments including any up-front premium be allocated between the land and the buildings elements in proportion to their relative fair values at the inception of the lease. If the minimum lease payments cannot be allocated between the land and buildings elements reliably, the entire lease would be classified as a finance lease unless it is clear that both elements are operating leases, in which case, the entire lease would be classified as an operating lease.

A lease of land should be eligible for finance lease classification, with the asset amortised over its economic life to the lessee. Therefore, we favour splitting the land and building into two asset components. We are concerned that the approach proposed would discourage such split for those property developers and others who want to be able to revalue their investment property.

**IAS 24 Related Party Disclosures**
**General comments:**
Australia currently has an exposure draft dealing with Directors' remuneration that we believe sets a high standard for reporting of items that are clearly in the interests of the shareholders and are a vital part of the accountability of directors. We support the position of the AASB in their submission.

**IAS 27 Consolidation and Separate Financial Statements**
Potential voting rights – **paragraph 12B & 15A**

Paragraph 12B proposes to include SIC-33 guidance which comments that the effect of debt and equity instruments that carry potential voting rights and that are presently exercisable or presently convertible should be considered when assessing an investor's power to govern operating and financial policies of an investee.

Our concern is with the determination of potential voting rights and the financial ability of the "holder" of those rights to exercise them. It may be open to manipulation if potential rights are allocated to a party who would never be in a financial position to exercise those rights but would eliminate the need for the majority shareholder to consolidate.

(End of Submission)