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Mr Keith Alfredson
Chairman, Australian Accounting Standards Board
Level 3
530 Collins Street
Melbourne, Victoria 3000

Dear Keith,

Please accept my apologies for not sending you this letter on the IASB improvements project sooner. My time has been occupied with work-related matters and this has regrettably fallen by the wayside. I hope the views that follow assist the board in making up its mind on how best to proceed with both its own response to the exposure draft and planning for the implementation of proposals contained within the 400-plus page document. Only a handful of issues are dealt with in this submission in the interests of providing the board feedback on some aspects of the improvements exposure draft.

At the outset I wish to express my deep concern relating to the timing of the adoption deadline. European entities have been gearing up for the adoption of international standards for several years now because the political players in Europe have been flagging the prospect for a longer period of time. Australia's position, on the other hand, is somewhat different. Companies in Australia have less time to get used to the January 2005 concept than their brethren corporations in Europe. This decision was sprung on an unsuspecting market by the Financial Reporting Council and your board is now left with the task of easing a community caught by surprise into understanding what this decision means. It is unfortunate the standard setter's policy of moving forward was not followed or a timetable extending to a date such as January 2007 was selected to allow for a steady introduction of IASB standards over time. I reject the notion that it will be easier for Australian companies because we have achieved significant convergence as a result of previous work. The decision to proceed with a deadline of January 2005 is the epitome of unfairness. How well the community in general responds to the implementation and compliance headache that will emerge over coming reporting periods remains to be seen.

The board should consider starting a new set of publications that focus on implementing IASB pronouncements in Australia. Such a series of publications might be entitled 'Australian Technical Aid' or 'ATA' and be recognised as guidance for the implementation of international standards in Australia. The ATA series would contain detailed examples on how tax effect accounting should be dealt with under the IAS equivalent of our AASB 1020. The ATA would be the document that would be subject to amendments because the tax law changes so frequently. Principles in the accounting standards could be set down in a document designed to be timeless and change to those standards should only occur where significant alterations are required following deliberation at the IASB level. The ATA document must contain examples that set down the application of those standards to both the profit and not-for-profit sectors. Having the ATA series of publications would result in minimal amendments required to the IASB documentation and the provision of guidance relevant to the domestic scene.

IAS 1 revision: specific issues

Significant accounting policies

Proposed changes to IAS 1 would require companies to make explicit declarations about the accounting policies they believe have been significant in determining the final result recorded in the entity's statement of financial performance. This proposition is a sound one although it is arguable that entities should already have been declaring their accounting policies in plain English in order for those users reading the accounts to better understand the accounting. The recommendations contained in the exposure draft are relevant and particularly useful. Their existence, however, is an indictment on a corporate culture in the US and across the globe that has failed to properly take on the challenge to explain accounting policy choices better. It is almost as if explanation of accounting policy choices is a secondary consideration rather than a fundamental means of communication with the users of financial statements. Debaters fond of looking to principles-based accounting standards as a way of defeating the rule-based demons should take careful note of the above sentiments because it has been accepted that better disclosure will be welcomed by the market. Explaining concepts and decisions clearly is a means by which effective communication can take place. Here we have a situation where a disclosure rule will result in the codification of a practice companies should have been engaging in already for the benefit of the capital market. Even in a so-called principles-based regime the standard setters have to resort to specific rules in order to force companies to abandon waffle in favor of genuine explanations of accounting treatments.

Question of Enron and accounting policies

The change referred to above is stimulated by the fuss in the US over the collapse of companies such as Enron. This, too, is an unfortunate phenomenon because Enron has been used as a clotheshorse for any prejudices held by those responsible for criticising accounting and corporate regulation. It is a classic example of market hysteria driving reform rather than people thinking through what caused Enron. A fundamental reason why Enron's financial fate played out the way it did was the behavior of people. It had little to do with accounting pronouncements and whether consolidation standards in every other part of the world would have forced the off balance sheet vehicles onto Enron's books. Senior accountants and top executives have spent time talking to the press about the consolidation literature because that was the sexy part of the whole story. The unsexy but more relevant part of the accounting caper involved in Enron was a very basic fact: the company restated its financial statements because it did not comply with US accounting pronouncements from the very commencement of those off-balance sheet transactions. The mere fact of the restatement alone should speak volumes to those analysing Enron from afar. It is about people failing to behave in accordance with a framework that has been established in the US. Whether the US literature on consolidation is adequate is of secondary importance to the issue of compliance with existing pronouncements and the maintenance of good corporate governance. The latter appears to have been in short supply within the ranks of Enron's senior management.

Disclosure of assumptions in financial statements

Additional disclosures of assumptions should be encouraged and the exposure draft is right to contain such a provision within the revamped IAS 1. While a standard setter may require the disclosure of assumptions relevant to the determination of particular amounts reported on the face of the financial statements it is up to the directors and others within a company to ensure that those matters are communicated clearly to shareholders. The requirement is a step in the right direction. Its success, however, is dependent on people embracing the spirit of the requirement and demonstrating a willingness to be open and transparent about how numbers are determined.

True and fair override

IAS 1 contains amendments that would require companies to consider the accounting framework and their own regulatory system when contemplating how best to reflect the economics of a business in financial statements. Maintenance of the present system within Australia's Corporations Act should be encouraged so companies give precedence to compliance with accounting standards. The accounting pronouncements must be used as an initial benchmark to ensure comparability. Compliance with accounting standards, therefore, should facilitate the fair presentation of the economics of a business. An exception to that principle is the question of how to ensure reliable measurement of internally generated non-physical – that is, intangible – assets so certain items a company might refer to as being assets. A company is free to talk about how its processes for running the business and establishing its brand, for example, is working within the community. The general notion of presenting the economics of a company fairly is supported. I have reservations, however, about any moves that might make a virtue out of a failure to comply with accounting standards.

I believe the provisions of the proposed accounting standard relating to the fair presentation of financial statements have been misunderstood by some commentators favoring a return to a time when 'anything goes' could well have been a principle of financial reporting for some entities. The board or the Urgent Issues Group may need to issue a bulletin or abstract that clarifies what is meant by the relevant provision when it is introduced in the domestic literature. Any interaction between the accounting standards and the Corporations Act will need to be explained carefully so both practitioners and corporates understand the intended operation of the provisions contained in paragraphs 10 to 18 of the exposure draft within our jurisdiction.

Discussion and Analysis

Paragraphs seven to nine of the proposed IAS 1 look briefly at aspects of management discussion and analysis. This standard argues that MD&A is not within the scope of International Financial Reporting Standards (IFRS). This present position of the IASB on these issues will no doubt change when MD&A becomes an issue for active consideration on the international agenda. These paragraphs are – at least in principle – in conflict at the present time with the position our company law adopts on MD&A disclosures in concise financial statements.

IAS 8: some issues

Restatements resulting from errors and voluntary policy changes

Some users may find it difficult to understand why these changes will be taking place and how to deal with the change in appearance of the financial statements. It is a shift from present practice and there will need to be an educational campaign to ensure people understand why the change is occurring.

I hope the board finds some of the above comments useful and I am happy to answer any queries regarding my submission. My apologies again for being both brief and late.

Kind Regards

Tom Ravlic SIA (aff)

CC Sir David Tweedie

Warren McGregor