GROUP OF 100 Inc.
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The Group of 100 is an association of senior accounting and finance executives representing the major public companies and government owned enterprises in Australia.

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GROUP OF 100

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The Chairman
Australian Accounting Standards Board
P0 Box 204
Collins Street West
MELBOURNE 8007

The Chairman
International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

Dear Sirs

PROPOSED IMPROVEMENTS TO INTERNATIONAL ACCOUNTING STANDARDS

The Group of 100's (G100) comments are set out below. The comments are prepared in the context of the G100 policy on international harmonisation and the perspectives of Australian companies. In view of the recent announcement by the Financial Reporting Council that Australia is to adopt IASB standards by 1 January 2005 the outcome of the exposure process has particular significance for Australian companies.

IAS1 PRESENTATION OF FINANCIAL STATEMENTS

1. **Do you agree with the proposed approach regarding departure from a requirement of an International Financial Reporting Standard or an Interpretation of an International Financial Reporting Standard to achieve a fair presentation (see proposed paragraphs 13-16)?**

   Yes. The G100 believes that such departures should only occur in rare and exceptional circumstances. If this is not the case there would appear to be severe shortcomings in the quality and comprehensiveness of the Accounting Standards which would call into question their validity and relevance. In some jurisdictions national law such as the Corporations Act, for example, in respect - of true and fair requirement in Australia, may require additional disclosures where compliance with standards would not provide a true and fair view.

2. **Do you agree with prohibiting the presentation of items of income and expense as 'extraordinary items' in the income statement and the notes (see proposed paragraphs 78 and 79**)?

   Yes. Paragraph 79 seems superfluous as there is no need to distinguish or use the terms "the ordinary activities of the entity" - items of income and expense must relate to the activities of the entity.

3. ***Do you agree that a long-term liability due to be settled within twelve months of the balance sheet date should be classified as a current liability, even if an agreement to re-finance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue (see proposed paragraph 60)?***

No. The G100 believes that the full circumstances relating to a long-term financial liability should be considered in determining its classification as current or non-current. Such liabilities are considered to form part of the entity's long-term financing and this is evidenced by the inclusion of re-financing options etc. The occurrence of such events before finalising the financial statements may resolve an uncertainty existing at the balance date and qualify as an adjusting event. Where the proposed change is adopted additional disclosure would be necessary.

4. ***Do you agree that:***

- **a long-term financial liability that is payable on demand because the entity breached a condition of its loan agreement should be classified as current at the balance sheet date, even if the lender has agreed after the balance sheet date, and before the financial statements are authorised for issue, not to demand payment as a consequence of the breach (see proposed paragraph 62)?**
- **if a lender was entitled to demand immediate repayment of a loan because the entity breached a condition of its loan agreement, but agreed by the balance sheet date to provide a period of grace within which the entity can rectify the breach and during that time the lender cannot demand immediate repayment, the liability is classified as non-current if it is due for settlement, without that breach of the loan agreement, at least twelve months after the balance sheet date and:**

1. **the entity rectifies the breach within the period of grace; or**
2. **when the financial statements are authorised for issue, the period of grace is incomplete and it is probable that the breach will be rectified (see proposed paragraphs 63 and 64)?**

No. See question 3. The G100 supported the inclusion of these requirements in IAS 1 and is not persuaded of the need for change.

5. ***Do you agree that an entity should disclose the judgements made by management in applying the accounting poilcies that have the most significant effect on the amounts of items recognised in the financial statements (see proposed paragraphs 108 and log)?***

Yes. The proposed requirement is a reasonable response to issues arising in respect of the selection of significant accounting policies in respect of a number of corporate failures. The G100 believes that further guidance is necessary to make the requirement operational. For example, is it envisaged that the choice of a depreciation method or cost formula for inventories is the type of judgement for which disclosure would be required? if so, the extent of disclosure required is likely to become unmanageable. In addition, further discussion of significant judgements in a management discussion and analysis would be appropriate.

6. ***Do you agree that an entity should disclose key assumptions about the future, and other sources of measurement uncertainty, that have a significant risk of causing a material adjustment to* the carrying amounts of assets and liabilities within the next financial year (see proposed paragraphs 110-111)?**

Yes. However, in view of the one year timeframe in respect of the items involved, the inclusion of paragraph 114 serves to undermine the requirement and has the potential to lead to disputes between management and those auditing the financial statements and, in some cases with regulators, as to whether it is possible to do so without undue cost or delay.

IAS 2 INVENTORIES

1. **Do you agree with eliminating the allowed alternative of using the last-in, first-out (LIFO) method for determining the cost of inventories under paragraphs 23 and 24 or IAS 2?**

Yes.

2. **IAS 2 requires reversal of write-downs of inventories when the circumstances that previously caused Inventories to be written down below cost no longer exist (paragraph 30). IAS 2 also requires the amount of any reversal of any write-down of inventories to be recognised in profit or loss (paragraph 31). Do you agree with retaining those requirements?**

Yes.

IAS 8 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

1. Do you agree that the allowed alternative treatment should be eliminated for voluntary changes in accounting policies and corrections of errors, meaning that those changes and corrections should be accounted for retrospectively as if the new accounting policy had always been in use or the error had never occurred (see paragraphs 20,21,32 and 33)?

Yes. The removal of the allowed alternative treatment will mean that the results of the current period will be ‘clean’ in the sense that they will not suffer from the potential distortions of catch-up adjustments and corrections in respect of previous periods. In addition, the perceived favourable effects of opportunistic changes in accounting policy are diminished.

2. Do you agree with eliminating the distinction between fundamental errors and other material errors (see paragraphs 32 and 33)?

Yes. The G100 believes that the distinction between the fundamental errors and other errors was confusing to apply in practice and supports a more general approach dealing with errors.

Other Comments

a. Paragraphs 4 to 6

The G100 supports the inclusion of guidance on the hierarchy of authoritative pronouncements because it provides greater clarity of the requirements for preparers.

In the Australian environment matters to be resolved include the relative status of the IASB requirements via-a-vis the national requirements particularly where an Australian standard conflicts with an IASB requirement. The recent decision by the FRC on the adoption of IASB standards also raises questions about the continued relevance and applicability of Australian guidance and statements of concepts.

b. Paragraph 19

The G100 believes that the introduction of disclosures relating to future implementation of a new standard will enhance the transparency of financial reporting. However, we believe that the disclosure should be required only in respect of the financial year immediately preceding its implementation. (We have no objection to encouragement of disclosure in respect of earlier periods).

Requiring disclosure in the preceding financial year would facilitate compliance and implementation in those cases where there is a significant time between the issue of a standard and its operative date as occurred in respect of IAS 39 'Financial Instruments: Recognition and Measurement'. In addition, national standard-setters adopting IASB standards may provide reporting entities with a significant lead-time, for example, in the event pf a 2005 type target, standards may be issued as adopted with a 2005 or later operative date.

C. Voluntary changes in accounting policies

The G100 supports the removal of the allowed alternative treatment and the retrospective adjustment on accounting for voluntary changes in accounting policies. This approach has the benefit of removing out-of-period effects from the current period and subsequent distortions which impact the inter-period comparability of financial statements.

From an Australian viewpoint adoption of this change would have a significant impact on the application-of the all-inclusive concept of profit.

IAS 16 PROPERTY, PLANT AND EQUIPMENT

1. Do you agreed that all exchanges of items of property, plant and equipment should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably (see paragraphs 21 and 21A)?

Yes. The G100 supports the proposal on the grounds that the determination of a fair value amount should not be forced in those unusual circumstances where reliable measurement is not possible.

2. Do you agree that all exchanges of Intangible assets should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably? (See the amendments in paragraphs 34-348 of IAS 38, Intanglble Assets, proposed as a consequence of the proposal described in Question 1).
(Note that the Board has decided not to amend, at this time, the prohibition in IAS 18, Revenue, on recognising revenue from exchanges or swaps of goods or services of a similar nature and value. The Board will review that policy later in the context of a future project on the recognition of Revenue.)

Yes. See question 1. The Gi00 sees no point in having different principles apply to different classes of assets. We believe that tangible and intangible assets should be accounted for on a consistent basis. In this regard we do not believe that the IASB requirements in respect of internally generated intangible assets are inc onsistent with requirements relating to recognising and measuring self-constructed tangible assets -and asset recognition criteria in the IASB's Framework.

3. Do you agree that depreciation of an item of property plant and equipment should not cease when it becomes temporarily idle or is retired from active use and held for disposal (see paragraph 59)?

Where depreciation is an allocation of the cost of an asset over its useful life depreciation should be changed whether the asset is in service or not. However, where depreciation is charged on the basis of units of output, for example, in the extractive industries, it would be appropriate to cease depreciation when the plant is temporarily idle.

IAS 17 LEASES

1. Do you agree that when classifying a lease of land and buildings, the lease should be split into two elements - a lease of land and a lease of buildings? The land element is generally classified as an operating lease under paragraph 11 of IAS 17, Leases, and the buildings element is classified as an operating or finance lease by applying the conditions in paragraphs 3-10 of IAS 17.

The G100 supports the separation of leases of land and buildings.

2. Do you agree that when a lessor incurs initial direct costs in negotiating a lease, those costs should be capitalised and allocated over the lease term? Do you agree that only incremental costs that are directly attributable to the lease transaction should be capitalised in this way and that they should include those internal costs that are incremental and directly attributable?

Initial direct costs represent the costs incurred to obtain a lease agreement and, as such, it is appropriate to amortise that cost over the term of the lease. However, it is not clear how initial direct lease costs differ from those circumstances where the entity is entering contracts or negotiating terms of a long-term supply agreement with customers or for manufacturer or dealer lessors.

IAS 21 THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

1. Do you agree with the proposed definition of functional currency as the currency of the primary economic -environment in which the entity operates' and the guidance proposed in paragraphs 7-12 on how to determine what is an entity's functional currency?

Yes. However, we consider that further guidance on the determination of the functional currency may be necessary in those cases where the revenues of the group are generated in, say, US dollars and production and costs are incurred in another currency, for example, Malaysian ringgit.

2. Do you agree that a reporting entity (whether a group or a stand-alone entity) should be permitted to present its financial statements in any currency (or currencies) that it chooses?

The G100 believes that the entity should recognise and measure transactions in its functional currency and should have the flexibility to determine its presentation currency. In these circumstances domestic currency financial reports would be presented where required under national laws.

3. Do you agree that ail entities should translate their financial statements into the presentation currency (or currencies) using the same method as is required for translating a foreign operation for inclusion in the reporting entity's financial statements (see paragraphs 37 and 40)? Yes. We agree that where a functional currency approach is adopted there is no purpose in distinguishing foreign entities from integrated foreign operations.

4. Do you agree that the allowed alternative to capitalise certain exchange differences in paragraph 30 of IAS 21 should be removed?

No. The treatment of certain exchange differences should be consistent with the requirements in IAS 23 'Borrowing costs In certain cases exchange differences represent interest rate differentials and to treat this financing cost differently from interest and other borrowing costs would be inconsistent.

5. Do you agree that:

- **goodwill and**
- **fair value adjustments to assets and liabilities**

that arise on the acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation and translated at the closing rate (see paragraph 45)?

Yes.

Note: From an Australian perspective the most significant impact is the scope of the standard. Since AASB 1012 'Foreign Currency Translation' deals with foreign currency hedging transactions the adoption of an amended IAS would need to coincide with the adoption of Accounting Standards dealing with recognition and measurement of financial instruments.

IAS 24 RELATED PARTY DISCLOSURES

1. **Do you agree that the Standard should not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations (see paragraph 2)?**

   'Management' and 'compensation' would need to be defined, and measurement requirements for management compensation would need to be developed, if disclosure of these items were to be required. If commentators disagree with the Board's proposal, the Board would welcome suggestions on how to define 'management and compensation'.

   On the grounds of corporate governance accountability and stewardship the G100 believes that director and executive compensation should be disclosed. Whether such disclosures are included in related party disclosures or otherwise is not the central point at issue. Australian ED 106 'Director, Executive and Related Party Disclosures' indicates one way in which such issues could be addressed.

2. **Do you agree that the Standard should not require disclosure of related party transactions and outstanding balances in the separate financial statements of a parent or a wholly-owned subsidiary that are made available or published with consolidated financial statements for the group to which that entity belongs (see paragraph 3)? (Note that this proposal is the subject of alternative views of Board members, as set out in Appendix B).**

   The G100 believes that parent entity financial information (not a full set of parent entity financial statements) only should be provided with a consolidated financial statement. However, where the parent entity financial statements are presented on a stand-alone basis, or for lodgement, those statements should include relevant related party disclosures.

IAS 27 CONSOLIDATED AND SEPARATE ENTITY FINANCIAL STATEMENTS

1. **Do you agree that a parent need not prepare consolidated financial statements if all the criteria in paragraph 8 are met?**

   Yes. In these circumstances there would appear to be little purpose in forcing the presentation of consolidated financial statements if there are no substantive users having a need for that information.

2. **Do you agree that minority interests should be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity (see paragraph 26)?**

   Yes. Outside equity shareholders have an interest in the net assets of the economic entity and as such should not be classified as a liability. Separate presentation in equity informs the user of the aggregate interests of the controlling shareholders in the economic entity.

3. Do you agree that in vestments in subsidiaries, jointly- controlled entities and associates that are consolidated, - proportionately consolidated or accounted for under the equity -method In the consolidated financial statements should be either carried at cost or accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement, in the investor's separate financial statements (paragraph 29)?

Yes. The G100 agrees that where such investments are acquired and held exclusively with an intention of disposal within twelve months of acquisition the investment should be measured in accordance with IAS 39.

Do you agree that if investments in subsidiaries, jointly controlled entities and associated are accounted for in accordance with IAS 39 in the consolidated financial statements, then such investments should be accounted for in the same way in the investor's separate financial statements (paragraph 30)?

Yes, in the limited circumstances referred to above.

Other Comments

a. Paragraphs 19 and 21

The G100 does not support the proposed change. It believes that where an entity is a subsidiary and given that the parent has control all entities included in the consolidation should, for comparability purposes, have the same balance date and apply uniform accounting policies, unless different treatments are required by another Standard.

IAS 28 ACCOUNTING FOR INVESTMENTS IN ASSOCIATES

1. **Do you agree that IAS 28 and IAS 31, Financial Reporting of Interests in Joint Ventures, should not apply to investments that otherwise would be associates or joint ventures held by venture capital organisations mutual funds, unit trusts and similar entities, if these investments are measured at fair value in accordance with IAS 39, Financial Instruments: Recognition and Measurement, when such measurement is well-established practice in those industries (see paragraph 1)?**

Yes.

2. Do you agree that the amount to be reduced to nil when an associate incurs losses should include not only investments in the equity or the associate but also other interests such as long-term receivables (paragraph 22)?

No. The proposed approach mixes separate and distinct items and treats them as a single item. Where the carrying amount of the investment, which represents the interest in the net assets of the investee, is reduced to zero because of losses by the investee this would raise questions about the recoverability of other assets such as long-term receivables. As such these assets should be tested for impairment; There is no necessary/direct relationship between losses by the investee and reductions in the carrying amount and recoverability of receivables.

IAS 33 EARNINGS PER SHARE

1. **Do you agree that contracts that may be settled either in ordinary shares or in cash, at the issuer's option, should be included as potential ordinary shares in the calculation of diluted earnings per share based on a rebuttable presumption that the contracts will be settled in shares?**

   Yes.

IAS 40 INVESTMENT PROPERTY

1. **Do you agree that the definition of in vestment property should be changed to permit the inclusion of a property interest held under an operating lease provided that:**
- **the rest of the definition of investment property is met; and**
- **the lessee uses the fair value model set out in IAS 40, paragraphs 27- 49?**

Yes.

2. **Do you agree that a lessee that classifies a property interest held under an operating lease as investment property should account for the lease as if it were a finance lease?**

Yes. If the substance of the arrangements is such that the interest is regarded as investment property the contractual rights under the lease should be capitalised. Failure to capitalise such property interests would distort measures of performance and financial position and diminish the comparability of financial statements.

3. **Do you agree that the Board should not eliminate the choice between the cost model and the fair value model in the Improvements project, but should keep the matter under review with a view to reconsidering the option to use the cost model in due course?**

The G100 believes that the present choice in IAS4O should be retained -and kept under review. A concern in respect of the present approach in IAS 40 is that it deals with investment property as one of a number of assets and not directly with those entities, such as property trusts, whose primary activity is in investment property.

Yours sincerely

Tom Pockett
National President