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CONSULTANT: R G PITCHER

5 August 2002

Mr Bob Charles MP,
Chairman, Public Accounts and Audit
Department of the House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Mr Charles,

Adoption of International Accounting Standards by 2005 – Impact on the Middle Market

Pitcher Partners is a large accounting firm of approximately 350 staff and partners, which provides accounting, audit and advisory services to medium and large *Australian* based businesses. We are writing to you to express our serious concerns regarding the impact of the Financial Reporting Council's proposal, for the adoption of International Accounting Standards by 2005, on financial reporting in this segment of the market. We have attached for your attention, a copy of the letter explaining our concerns, sent to Mr Lucy, Chairman FRC.

In summary, we believe that the financial information needs of large proprietary business in Australia are not being adequately addressed, too often resulting in onerous and expensive compliance costs. Together with proposed changes to auditor independence rules, (to which we have made separate submissions to JCPAA), there is a serious risk that changes to the financial reporting framework in Australia will not respond to the needs of privately owned Australian business, and will stifle rather than encourage growth. We believe that in the interests of the Australian economy, the financial reporting requirements of this segment of the market demand urgent attention. We request that you would act accordingly to secure that outcome.

Underlying the FRC proposals, there is an implicit view that a majority of reporting entities have an interest in capital markets and seeking funds overseas. However, our experience is that there are significant numbers of businesses that do not operate in capital markets, who do need to comply with the accounting standards.

The Australian Securities and Investment Commission Act 2001 section 231(4) provides that the Minister may direct the AASB to give the Minister details of a cost/benefit analysis for the adoption of new standards. We have not observed adherence to these requirements, in the provision of this information in respect of the wider Australian market, beyond the capital market. The Australian Accounting Standards Board and its consultative group are comprised of individuals and organisations that have a primary interest in capital markets. There is no representation of middle market interests, even though the middle market is significant to the Australian economy. Financial reporting compliance costs of private Australian companies are significant, and the information content is becoming less meaningful.

We appreciate your urgent consideration of the issues we raise. We are willing to assist in a process to address financial reporting information needs of the middle market, and particularly in the transition to international accounting standards.

Please do not hesitate to contact me to discuss any issues arising.

Yours sincerely

Terry Benfold
PARTNER

S. Dianne Azoor Hughes
TECHNICAL DIRECTOR

Cc The Hon. Peter Costello, MP, Federal Treasurer
 Senator The Hon. Helen Coonan, Minister for Revenue and Assistant
 Treasurer
 Senator The Hon. Ian Campbell, Parliamentary Secretary to the Treasurer
 Mr Keith Alfredson, Chairman, AASB