

21 January 2005

The Secretary
The Parliamentary Joint Committee on
Corporations and Financial Services
Suite SG 64
Parliament House
CANBERRA ACT 2600

Dear Sir/Madam

Inquiry into Australian Accounting Standards

The Group of 100 (G100) is pleased to respond to the Joint Committee's invitation for submissions.

The G100 is an organization representing the Chief Financial Officers of Australia's major business enterprises. The G100 was instrumental in the initial impetus for international harmonization of financial reporting requirements and in creating the environment for the development of the FRC's strategic directive relating to the adoption of IASB Standards in 2005.

The G100 has expressed some concerns about some of the requirements of IASB Standards and their impact on Australian practice in submissions to the AASB and the FRC. In addition, the G100 believes that when adopting IASB Standards the AASB should retain the optional treatments included in those Standards so that Australian entities have the same choices as entities from other jurisdictions that adopt IASB Standards. In late 2003 and early 2004 the G100 also supported the actions of some members seeking to achieve amendments to requirements such as the method of accounting for intangible assets and sought a deferral of implementing the strategy pending the resolution of uncertainties about the acceptance of requirements relating to financial instruments by the European Union.

We believe that with the promulgation of virtually all the 2005 Standards by the AASB in July 2004 and the detailed and costly preparation undertaken by our members and other entities in preparing for the implementation of the Australian equivalents to IASB Standards, delays/interruptions to this process at this stage will create confusion in the marketplace for preparers, shareholders and other users of financial reports.

However, the transition and implementation process has highlighted other issues arising from the adoption of IASB Standards. Firstly, the extent of guidance on the application of a number of the Standards developed by the IASB's predecessor is limited. The absence of detailed guidance adds to difficulties experienced in implementation. Secondly, and more significantly, there is a growing concern about the existence of appropriate mechanisms to provide timely and authoritative interpretations of the new requirements. Authoritative interpretations by the AASB and/or the IASB are essential to the Standards being applied consistently and in achieving comparability of financial reports. In the absence of such interpretations there is a risk that the major accounting firms and regulators will occupy this space and develop their own interpretations. The G100 does not believe that this would be a satisfactory outcome.

In response to the Joint Committee's requests the G100 is unaware of any inconsistencies between the requirements of the Year 2005 Standards and the Corporations Act 2001. However, an issue arises in respect of the 'true and fair view' requirement. Under the Corporations Act 2001 companies must prepare financial reports in accordance with Australian Accounting Standards even if compliance would not result in a true and fair view. While AASB 101 'Presentation of Financial Statements' is consistent with the Corporations Act 2001, the IASB Standard IAS 1 'Presentation of Financial Statements' is predicated on fair presentation and allows for a true and fair override. A further question has arisen in respect of treasury shares. The Corporations Act 2001 precludes a company from holding its own shares except in limited circumstances. Transition to, and implementation of, the Year 2005 Standards would be facilitated if the Corporations Act were to clarify that shares in the company held by investment vehicles such as managed trusts that it controls do not fall within this exclusion.

The G100 has previously drawn attention to potential tax implications of adopting IASB Standards in respect of the potential impact on the application of thin capitalization rules and tainting of share capital in respect of recognition of share options as an expense.

In addition, the G100 believes that application of the Year 2005 Standards is consistent with the objectives of the Act in enhancing the competitiveness of Australian entities in international capital markets through contributing towards increased comparability and transparency of financial reports.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John V Stanhope', written in a cursive style.

John V Stanhope
National President