Submission to:	Parliamentary Joint Committee on Corporations and Financial Services
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Time constraints prevent a detailed analysis of all the standards made in 2005 by the Australian Accounting Standards Board (AASB) in its rubber-stamping of International Financial Reporting Standards (IFRSs). However, some general observations are made and some critical deficiencies noted.

My view is that the decision to adopt IFRSs was ill advised. It was made without considering the quality of those standards or wether they were reasonably capable of being understood or enforced. While IFRSs deal with some areas previously unregulated in Australia (for example the recognition of financial instruments), the expanded regulation achieves little – if anything – if the rules are poorly conceived, poorly implemented, or both poorly conceived and implemented (a prime example being AASB 139). It is my belief that the rubber-stamp approach of the AASB in adopting IFRSs has put back the

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regulation of financial reporting in Australia by 20 years. We are little better off – if we are better of at all – than we were before the establishing of the Accounting Standards Review Board.

My main areas of concern are listed below. I have concentrated on a small selection of the problems I have so far identified.

- The AASB has done nothing to remedy the extremely poor drafting if the IFRSs. The drafting is so poor that it effectively excludes those with reading disabilities from accessing the standards, thus there is in my view unlawful discrimination against those with reading disabilities. The standard also fail to satisfy the requirements of s. 224(a)(v) of the *Australian Securities and Investments Commission Act 2001* (ASIC Act) that standards be "readily understandable". In particular, the inclusion of editorial comments (or implementation guidance) makes the standards extremely difficult to read, navigate, and interpret. The drafting can only reasonably be described as an exemplar of the worst drafting practice possible.
- Some of the standards may be beyond the powers of the AASB, in particular:
  - AASB 1048: This standard purports to interpret other accounting standards; the interpretations and abstracts incorporated by reference are written in a form that one would normally find in a determination of a judicial tribunal, not a statutory authority making delegated legislation. There is nothing in either the ASIC Act nor the *Corporations Act 2001* that invests the AASB with the judicial powers of the Commonwealth; its role is to make standards, nothing more and nothing less. Also, even if those Act purported to authorise the AASB to exercise judicial functions, to do so would – as I understand it – be beyond the powers of the Parliament, as s 71 of the Constitution requires that the judicial powers of the Commonwealth be:

> "vested in a Federal Supreme Court, to be called the High Court of Australia, and in such other federal courts as the Parliament creates, and in such other courts as it invests with federal jurisdiction".

  It is my understanding that the AASB sought advice on this matter before making AASB 1048.

  - The prohibition in AASB 138 on the recognition of internally generated intangible assets is beyond the Board's power as it is inconsistent with the requirements of the Act that the financial statements must give a true and fair view. The prohibition is incapable of producing a true and fair view; it is not a matter may arise in limited circumstances. It is my understanding that the AASB does not agree with the prohibition but adopted it because it was in the IFRSs. I find it hard to see how, in these circumstances, the requirements of AASB 138 can be characterised as being consistent with the Corporations Act.
- The AASB has allowed choices in the standards that undermine comparability. This problem is exacerbated by recent amendments made by the AASB to AASB 119 that allows a choice of three methods in recognising actuarial gains and losses. All but one of these methods is, in my view, nothing but financial reporting shonk. It is beyond me how honest and ethical prepares could think that a treatment other than one that involves immediate recognition in determining the profit or loss is proper.
- The standards are riddled with inconsistencies, both in expression and in technical requirements. Inconsistencies in usage include:
  - In AASB 110 the title of the standard refers to "after balance date events" yet the term used in the standard itself is "after reporting date events". In other standards, we find instances of both usages.
  - In AASB 101, we have a statement called an "Income Statement" but the thing to which it is directed is the reporting and explanation

of the profit of loss for the reporting period. We also find in the same standard that accumulated (or retained profits) is described as retained earnings. No explanation is given of how or why profits metamorphosis into earnings. Such inattention to detail is inexcusable; it is not consistent with the standards of conduct we would expect of competent professionals.

  - Inconsistent usage: in some standard reference is made to "revaluation reserve" but in others to "asset revaluation reserve".
  - The 2005 standards rely on a distinction between gains and revenues (the two components of income) and losses and other expenses (the two components of expense), yet no criteria is provided to distinguish gains from revenues and losses from other expense. The different reporting consequences of the classification mean that the utility of the information present is greatly reduced. Ultimately, the distinctions are meaningless.
- The absence of definitions of key terms makes the standards unnecessarily difficult to interpret. The reader has to decide if the term is intended to have a technical meaning or an every day meaning. If it is the former, is that meaning the one generally understood in Australia before the making of the 2005 AASB standards, or is it to be found in one or more other 2005 standards? What do we do when the usage differs in those other standards? I find it hard to understand how competent, skilled professionals could think that the standards are easier to understand without defining key terms. The AASB cannot excuse its failure to do so merely because the IASB has not done so. That is not what the community is entitled to expect from the AASB. Having accepted the task, it should be done properly.

Another matter, not strictly within the terms of reference, is the adopting by the AASB of the IASB's *Framework for the Preparation and Presentation of Financial Statements* (the Framework). In making the AASB 2005 standards, the AASB relied heavily on the Framework, particularly through cross-

references to it to explain meaning and usage. It is my belief that in adopting the Framework, the AASB acted contrary to s. 227(1)(a) which includes in the AASB's functions:

> to develop a conceptual framework, not having the force of an accounting standard, for the purpose of evaluating proposed accounting standards and international standards

Adopting, without significant modification of a conceptual framework developed by another cannot, in my view, be described as developing a conceptual framework. Further, the Framework is, compared to the displaced Statements of Accounting Concepts 3 and 4, far less comprehensive, and is nowhere near as rigorous. By moving from the SACs to the Framework, the development of Australian financial reporting requirements has been set back by at least a decade.