



31 January 2005

Dr. Sarah Bachelard
Committee Secretary
Parliamentary Joint Committee on Corporations and
Financial Services
Department of the Senate
Parliament House
Canberra ACT 2600

E-mail: corporations.joint@aph.gov.au

Dear Dr. Bachelard,

Re: Supplementary submission by the NIA to the Inquiry into Australian Accounting Standards tabled in compliance with the Corporation Act 2001 on 30 August and 16 November 2004

The National Institute of Accountants (NIA) would like to make the following supplementary submission. The NIA is concerned about some aspects of the debate regarding the inclusion of choices in accounting standards that have been introduced as a part of the move to adopt the standards promulgated by the International Accounting Standards Board (IASB). The supplementary submission is intended to address what we believe are misconceptions and provide the Committee with further insights that may help it in its deliberations.

Question of adoption

It would be inappropriate, however, to raise the issue of choices without a reference to what the NIA understands adoption to mean in its purest form. The term adoption is taken by the NIA to mean what a reasonable person would see as the natural meaning of the term in these circumstances: *to take on a body of work in its entirety*. The Macquarie Dictionary's definition of adoption supports our understanding of the meaning of the word. The first meaning of the word and, indeed, the most relevant to this discussion is *to choose for or take to oneself; make one's own by selection or assent*. Further support of our understanding is contained in Butterworth's Business and Law Dictionary which defines adoption as an action signifying acceptance or approval.

Any conversation related to the adoption of the accounting standards issued by the IASB then needs to focus on whether the Australian Accounting Standards Board (AASB) is in fact entitled to use the term adoption to characterise what it is actually doing. As discussed above, an ordinary person would see the word adoption and understand it to mean everything in the standards issued by the IASB would become the standards in Australia. This is clearly not the case in Australia. We do not have a policy of adoption of the international standards in its entirety, but a policy of adopting the standards in a selective fashion that involves the

removal of certain options existing in such standards. There is also the addition of paragraphs that extends the scope of standards that is in itself not the purest form of adoption. The AASB has chosen to endow the word adoption with some unique attributes. Adoption at least in the context of the AASB means taking up the accounting standards issued by the IASB but not in the form as issued by the global standard setter. Australia is engaged in selective adoption of the standards that involves an amount of editorial subtractions and additions.

The NIA fully understands the rationale underlying the behaviour of the AASB, particularly where the *Corporations Act 2001* sets conditions for the types of entities that must prepare and lodge financial statements. We do not believe the AASB should use the term adoption in an unqualified way as there has been an anecdotal evidence that some company executives and company directors have been puzzled by some incompatibilities between the two bodies of standards that exist. Even if an addition or deletion has no material impact in the practice of accounting in normal circumstances, the mere fact something is missing or has been added could raise a question in a reader's mind as to whether the standards should be read in a different manner given the difference in form.

Options in Australian accounting

We note the remarks of some commentators that have lodged submissions relating to the general objection to having more than one way in which to account for a transaction. It is also noted that some participants in the public debate have asserted that Australian accounting standards have not had options in them previously. This is inaccurate. Australian entities have been able to choose between accounting for assets living on their balance sheet at depreciated historical cost or a more contemporary value for many years. This is a choice in accounting and one that can substantially affect the appearance of an entity's balance sheet. While Australia has had a general policy of ensuring options in accounting standards are kept to a minimum it is incorrect to say Australian accounting standards have been completely devoid of choices.

Elimination of choices over time

The NIA supports the general policy of the IASB to delete choices as it works through its standards. It would be unfortunate if Australian entities were required to report using one method that could end up being the method deleted by the IASB once it has gone through its usual consultation processes. It follows that the NIA sees merit in leaving the choices in the standards so that the country is better placed to make deletions and additions as the accounting standard setting framework is developed by the London-based standard setter.

Impact of choices in financial reporting

While the NIA supports the adoption of international accounting standards as close to their original form as possible we acknowledge the market will face some challenges. There will be a potential for some entities to report different kinds of profits based on the choice of accounting method or methods, which is itself a result of the policy of adopting the new financial reporting framework. Comparability within the jurisdiction may be sacrificed in certain circumstances depending on the accounting methods chosen by companies in specific industries. A benefit of this, however, is that companies lodging accounts with regulators that have foreign parents may not have to do as much accounting compliance work to for lodgment purposes in this country.

Quality of company board decision making will be tested

Choices in accounting standards may have the additional benefit of forcing company directors and audit committees to take their financial reporting obligations more seriously because it is no longer a mere tick a box exercise. The market place will be able to assess whether a company has had the courage to reflect economic activity with the best approach it has available to it rather than being compelled to account for a transaction one way. Those in the market place engaged in monitoring companies will be able to assess whether a company has a serious commitment to quality financial reporting or, alternatively, wishes to be opportunistic and opt for window dressing of financial statements.

The NIA is happy to address any of these issues with members of the Committee. Please contact our policy adviser, Tom Ravlic, on 0407 408 000 for any further explanation or detail.

Yours sincerely,

Gavan Ord
Technical Policy Manager
National Institute of Accountants
Ph: +61 3 8665 3100
Fx: +61 3 8665 3130
Website: <http://www.nia.org.au>

The information contained in this e-mail and any files transmitted with it are privileged/confidential and intended only for the addressee. If you have received this e-mail in error you are not to copy, on send or reveal the information contained to anyone, should delete the e-mail and inform the sender of the error. The information contained does not necessarily reflect the opinions, beliefs or position of the National Institute of Accountants, and the National Institute of Accountants takes no responsibility for the information contained. The National Institute of Accountants makes endeavours to ensure messages are virus free, however for your own protection you should scan all messages for virus and bugs.

Message protected by MailGuard: e-mail anti-virus, anti-spam and content filtering.
<http://www.mailguard.com.au/mg>