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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

We refer to the terms of reference published for the Joint Parliamentary Committee inquiry into Australian Accounting Standards and submit the response of BHP Billiton on this matter.

BHP Billiton is a strong supporter of the program of convergence of Australian accounting standards with those issued by the International Accounting Standards Board (IASB). BHP Billiton has been an active contributor through submissions to exposure drafts, participation in field trials and representation on a consultative panel.

In all of our submissions, we have emphasised the view that harmonisation should be done in a manner that ensures Australian accounting standards are identical to those of the IASB. This means that where an IFRS contains options for the basis of accounting applied, those options should remain in the converged Australian standards to ensure no GAAP to GAAP differences exist. In all of our submissions, we also emphasised a preferred relationship between the AASB and the IASB. Specifically, where the AASB did not hold the same view as the IASB, we believe it should work with the IASB to resolve those differences, rather than reinforce them in a divergent set of accounting standards.

Despite the above views being shared by many respondents to the AASB exposure drafts, the resulting accounting standards have diverged from the policy choices available under the IFRS equivalents. This outcome creates the risk that Australian entities with multiple-jurisdiction reporting obligations may not be able to satisfy all of its IFRS reporting obligations with one set of IFRS financial statements. It also creates the more common risk that Australian entities will not be able to present transactions and arrangements on a comparable basis with their international peers. This can create material deficiencies in the financial competitiveness of Australian entities and therefore fail the objective of the Corporations Law to protect the interests of the Australian economy and to improve the ability of Australian entities to compete for funds in the global capital markets.

A primary example of the departure of AASB accounting standards from their IFRS equivalent concerns choice as to the use of equity accounting or proportional consolidation for joint venture entities. BHP Billiton undertakes a large part of its operations through joint ventures, some of which are structured through legal entities. Under IFRS, an entity can achieve consistent accounting for all joint ventures, regardless of their legal structure, by choosing to use the proportional consolidation method. This method provides the most transparent view of the impact of joint ventures on an entity, ensuring, for example, that revenue, depreciation, income tax, external debt and other account balances arising from the joint venture are presented as such. Under the AASB standard, an entity i]will be forced to present the results of its joint venture entities as a single item of net income and net asset in the profit and loss account and balance sheet respectively. While supplementary information can be provided on the breakdown of these two items, the headline financial information conveyed in the market place lacks that clarity.

A consequence of the above issue is that key financial performance metrics, such as net profit return on sales revenue, net debt, net interest cover, gearing and effective income tax rate are all modified under AASB standards compared to the IFRS equivalent. On this issue, the AASB standard is driven by consideration of the legal form in which a venture is undertaken rather than the substance of the arrangement.

While the actual accounting standards issued by the AASB under the convergence program should be the primary concern of the Joint Committee, there are other aspects of this program that require consideration. In particular:

There is little understanding of what amendments are proposed to be made to the Corporations Law in support of the revised accounting standards. The Law continues to specify requirements for disclosure of certain information also addressed in the accounting standards (such as remuneration of directors) and to specify the primary content of the financial report. Further clarification is required of the intent of the Government with respect to consequential law reform that will better facilitate the converged accounting standards.

The accounting required for equity-based remuneration arrangements has the potential to conflict with income tax law through the potential tainting of share capital. More general Law reform in support of the converged accounting standards has accordingly been inadequate.

The approach towards authoritative interpretation of the converged accounting standards remains unclear and controversial. Because of the hierarchy of authoritative guidance that Australian entities will need to follow in the absence of an accounting standard on a specific matter, the interpretations of IFRS in foreign jurisdictions may become binding. Furthermore, the capacity and desire of the Urgent Issues Group to issue interpretations of the converged accounting standards remains untested. Finally, in an environment of significant change in accounting standards and a questionable level of education about their requirements, we believe careful consideration should be given to the interpretative and regulatory environment established to enforce them. During the transition period, we believe corporate entities and their auditors should be recognised as having a valuable and legitimate role in the interpretation and application of the new requirements.

Yours sincerely,

Nigel Chadwick
Vice President Group Accounting / Controller