

18 May 2009



Sir David Tweedie  
Chairman  
International Accounting Standards Board  
First Floor  
30 Cannon Street  
London, EC4M 6XH  
United Kingdom

LETTER OF COMMENT NO. **Z19**

Dear Sir David

**Re: Financial Statement Presentation**

The National Institute of Accountants (NIA) is pleased to respond to the International Accounting Standards Boards (IASB) request for comment on the discussion paper proposing a change in the format to financial statement presentation.

The proposed change to financial statement presentation will impact on our membership irrespective of the size of the accounting firm or the entity for which they work. Current presentation standards are followed by most members preparing, auditing or analysing financial statements. If approved, these changes will mean all members working with financial statements will need to not only be trained in the changes but ensure the clients for which they compile financial statements are aware of new obligations set down in standards.

*General Remarks*

The NIA encourages the IASB to continue this process of rethinking financial statement presentation as any improvement in the way financial statements are presented will provide enhanced clarity to sophisticated users. Our concerns about the impact on a *broader audience are outlined later in this submission.*

This proposal represents a major shift in the way financial statements are presented and is driven in part by the needs of analysts and sophisticated users of the financial data reported by entities. Encouraging the greater use of disaggregation within financial statements will result in greater transparency to those users accustomed to reading financial data. We support greater transparency in financial statements and find the general approach of the discussion paper encouraging in this regard.

It is an approach that is also supported by research conducted by a team of research academics from Australia and New Zealand. The research team - made up of Anne Tarca, Philip Brown, David Woodliff, Michael Bradbury and Tony van Zijl – found that users of financial statements presented using a matrix format processed information more accurately. This research provides some support for the change in format, particularly the reconciliation that provides a basis for separating those line items that impact the financial results in cash terms and other items that constitute accruals and remeasurements. This research indicates that a more detailed approach to disaggregation does have value to users that have an advanced knowledge of financial reporting.

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### *Challenges posed by the new proposals*

While the revised format may assist those interpreting entity results to do so more accurately preparers generating the financial there will be the usual cost incurred during the initial implementation phase by accounting firms, companies and other entities in the process of training executives and accounting staff to ensure compliance with any new presentation framework.

During presentations delivered to discussion groups and other forums we have sought feedback on the general proposals from members and other stakeholders. Accountants either working for or with smaller entities questioned the merits of the changes given that the format appears to them to have a capital markets bias. They acknowledge that the standard under development for non-publicly accountable entities may provide some relief. Whether that standard applies in Australia depends on the result of the Australian Accounting Standards Board's (AASB) project on differential reporting. While this is a jurisdictional issue we note that there is an awareness of the IASB's work in the area and the resulting standard will be reviewed by the NIA through its Faculties to determine whether the standard ought be adopted in Australia.

The NIA's Faculties are groups used by the Institute to review policy matters and ensure that there is input obtained from people working in accounting firms, business, the government sector and the academe. Should IASB members or technical staff wish further information on the Faculties and how they work feel free to contact Tom Ravlic. His contact details appear below.

### *Concern with the framework*

One of the issues that emerged during our consideration of this discussion paper has been the audience to which this particular document has been addressed. Analysts and sophisticated users may be in a position to understand the new presentation format but other users such as those individuals increasingly providing for their own retirement. We have also seen a large number of people adversely affected by the performance of financial institutions that have seen their share prices plummet as a result of poor investment choices. It is probably timely for the IASB and its sister standard setter's to contemplate whether the current limitation within the framework on the definition of understandability is appropriate given the 'democratisation' of capital markets, which was referred to during the recent Ken Spencer Memorial Lecture by Mark Olson the chairman of the Public Company Accounting Oversight Board (PCAOB). While Chairman Olson's remarks dealt specifically with audit firms and the trust the community has in the audit processes that are a critical part of market integrity it applies equally to the manner in which information is communicated to the market place. His remarks made to the audience in Australia are timely given coverage accounting standards generally and the issue of fair value have been given prominence in the global financial press.

The present framework has within it a presumption that the users of financial statements will have knowledge of contemporary accounting practices. It places the onus on users to inform themselves rather than on ensuring preparers, the ones that are communicating with the market, see it as their obligation to ensure their report is capable of being understood by a broad range of constituents. It is in the broader public interest for financial statements to be better understood by a wider constituency and not just a narrow group to which the reporting framework is confined.

While the information to be reported can at times be complex there is no reason why the IASB's own framework cannot set a higher goal of understandability by a broad audience. The words within the framework at the moment can give rise to a perception that financial reporting standards are aimed at producing reports that are understandable by a narrow group of people. The onus that the framework places on users to garner sufficient knowledge to understand the reports prepared by entities seeking funds from them appears misplaced. It is the entities preparing financial statements and seeking the trust of investors

The IASB should consider reopening the discussion on the qualitative characteristics of financial reporting in order to factor in the change in the global marketplace, particularly given the impact of the global financial crisis. It is also important for these characteristics to be reconsidered given the prominence IFRS has attained over the past decade.

Please feel free to contact our policy adviser Tom Ravlic via [tom.ravlic@nia.org.au](mailto:tom.ravlic@nia.org.au) should you require further information.

Kindest Regards

A handwritten signature in black ink, appearing to read 'Andrew Conway', with a long horizontal flourish underneath.

Andrew Conway PNA  
Chief Executive Officer

CC: Bruce Porter, Acting Chairman, Australian Accounting Standards Board  
Kevin Stevenson, Chairman-elect, Australian Accounting Standards Board