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8 April 2009

Sir David Tweedie  
International Accounting Standards Board  
30 Cannon Street  
LONDON EC4M 6XH  
United Kingdom

Via "Open to comment" page on [www.iasb.org](http://www.iasb.org)



LETTER OF COMMENT NO. 51

Dear Sir David

**IASB discussion paper – Preliminary views on financial statement presentation**

Thank you for the opportunity to submit a response to the International Accounting Standards Board (IASB) discussion paper: *Preliminary views on financial statement presentation*.

The Australian Institute of Company Directors (AICD) is the peak organisation representing the interests of company directors in Australia. AICD has more than 24,000 members and provides education, information and advocacy for company directors Australia-wide. AICD members work in diverse corporations such as small-to-medium enterprises, the Top 200 listed companies, public sector organisations, not-for-profit companies, large private companies and smaller private family concerns.

AICD strives to promote the simplicity, transparency, consistency and decision-usefulness of financial reports. The International Accounting Standards Board (IASB) is to be commended for its efforts towards improving financial statement presentation.

Rather than submitting answers to the specific questions raised in the discussion paper, AICD wishes to provide the following general comments:

- AICD is supportive of the cohesive objective contained in the proposals, as we consider this will result in an improved understanding by the general user community of how the financial statements inter-relate to each other.
- The use of the management approach for classification of items is supported, provided it contains appropriate guidance to enable financial statements of companies within industries to be easily compared.
- The mandatory use of the direct cash flow statement is welcomed. As you would be aware Australian companies have been preparing a form of direct cash flow statement for many years without it being an overly burdensome exercise. Directors consider that basic cash flow information such as cash in and cash out, is important information to report to users.

- AICD does not support the disaggregation objective contained in the proposals. Directors believe that financial statements should present less, but more vital information about company performance rather than more disaggregated (and perhaps less relevant) information. We have heard anecdotal evidence that the current proposals will result in financial statements of 20-30% greater length than those currently being produced under IAS 1 *Presentation of Financial Statements*. The objective of improved presentation will not be achieved unless the presentation is made simpler, with an emphasis on decision-useful information. We draw your attention to a recent report titled *Underlying Profit: Principles of reporting of non-statutory profit information* (refer below for more information). AICD believes that “underlying profit” provides a better understood performance result for all users of general purpose financial reports. Our concerns include:
  - Lack of consideration given to separating disclosure of realised from unrealised items on the face of the statement of comprehensive income.
  - In the proposed Statement of Financial position, the extent of disaggregation resulting in the loss of ability to easily assess the working capital of the company and the lack of a requirement to present total assets and total liabilities, in our opinion lessens transparency.
  - Company systems will not cope with the proposed level of detail in the proposed cash flow statement.
  - Some members have expressed concern that the proposed level of disaggregation will reveal too much competitive information.

These issues would seem to be particularly important in challenging economic times, when readers of financial reports are seeking information about liquidity and solvency.

- The burden of full IFRS compliance on smaller companies and not-for-profit entities is far out of proportion to the benefits. AICD recognises that both AASB and IASB are currently working on ways to reduce the reporting burden for these sectors. We encourage both boards to expedite such considerations.
- AICD encourages IASB to continue to develop standards that are principles-based rather than rules-based.
- AICD notes that the Financial Accounting Standards Board (FASB) has proposed a memo column in the reconciliation schedule as a way for management to draw the attention of users to unusual or infrequent transactions or events [discussion paper question 26]. AICD believes such a column would add a layer of complexity to the disclosures that is not necessary. AICD recognises that such information is of great interest to users and should not be lost in extensive reconciliation schedules in the notes to the financial statements. We again refer you to the “Underlying Profit” publication referred to above. Because of the importance of this type of

information, this publication shows how best to present the information in a way that does not create confusion or conflict with the IFRS reported profit. We consider that such information could easily be reported in a note to the financial statements, rather than included in a detailed reconciliation note. Details of this publication are below along with another publication that may be useful to the IASB's deliberations.

### **Underlying Profit: Principles for reporting of non-statutory profit information**

On 10 March 2009, AICD and the Financial Services Institute of Australasia (Finsia) released a new publication: *Underlying Profit: Principles for reporting of non-statutory profit information*. The joint AICD-Finsia initiative arose from a recognition by directors and financial analysts that the inconsistent reporting of non-statutory profit figures has led to some difficulties in stakeholder understanding of company performance.

This initiative was not based on a view that statutory financial reporting is unimportant, incorrect or misleading. Rather, it reflects the present reality of widespread reporting of non-statutory financial results and concern that the statutory profit figure presented in the manner required by current accounting standards does not always reflect directors' understanding of results for ongoing operations.

The Principles aim to assist companies to clearly articulate the adjustments made in calculating an underlying profit figure (ie.the non-statutory profit number). The release of the Principles followed the consideration of feedback received from AICD and Finsia memberships, accounting bodies, regulators and other organisations in response to an AICD-Finsia Underlying Profit discussion paper issued in August 2008.

The seven AICD/Finsia principles for underlying profit reporting are:

1. Report underlying profit, where relevant, in addition to statutory profit
2. Use the term 'underlying profit' when describing an adjusted profit figure
3. Reconcile the underlying profit figure to the statutory profit figure and present the adjustments in tabular form, with any necessary accompanying explanation
4. Present the underlying profit and accompanying explanation in the directors' report or other management discussion and analysis of the profit result
5. Include both positive and negative adjustments to the statutory profit figure
6. Maintain consistent adjustments to the statutory profit figure between reporting periods
7. Disclose whether these principles have been relied on in reporting an underlying profit figure

Additional background, commentary on each of the principles and examples are provided in the publication, which is available as a free eBook at <http://www.companydirectors.com.au/Bookshop/>

## Principles of Good Communication with Shareholders

Many Australian listed companies produce simplified reports (annual reviews) to assist their shareholders in understanding the key messages from statutory reports. The ever-increasing length and complexity of statutory reports, coupled with the ability of Australian companies to offer shareholders the choice to 'opt out' of receiving printed annual reports, has resulted in simplified reports and media summaries increasingly becoming the major source of financial information for many stakeholders.

AICD's *Principles of Good Communication with Shareholders* are intended to provide practical guidance to company directors and others regarding the preparation of simplified reports in a wide variety of companies, where the intended audience is mainly retail shareholders.

AICD recognises that the *Preliminary views on financial statement presentation* discussion paper is founded on the premise that retail shareholders are not the primary users of statutory financial reports. However, AICD is of the view that financial reports should be useful to a multiplicity of users, and furthermore that sophisticated users also require financial reports that are simple, transparent and decision-useful.

AICD's ten principles of good communication with shareholders are:

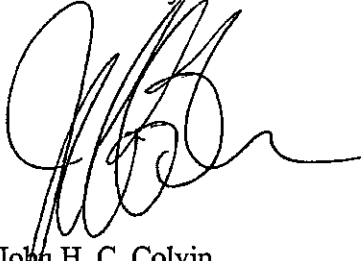
1. A simplified report should present a balanced view
2. A simplified report should be in plain English
3. A simplified report should be written specifically to inform shareholders about company performance
4. A simplified report should be designed to provide a clear understanding of the components of the financial results of the business, rather than just statements which comply with regulatory requirements
5. A simplified report should set out key highlights [ratios]
6. Company performance should be described against stated corporate strategies, although companies should assess what level of strategic disclosure is appropriate in their circumstances
7. Companies should consider their own circumstances when deciding whether to include financial forecasts or projections
8. A simplified report should include summarised divisional reports
9. A simplified report should include Reviews by the Chairman and the CEO
10. Consideration should be given to the appropriateness of a directors' declaration and/or an auditor's report [for the simplified report]

Commentary and illustrative examples for each of the ten Principles of Good Communication with Shareholders can be found at:

<http://www.companydirectors.com.au/Policy/Policies+And+Papers/2007/>

We trust the foregoing comments are of assistance. If you have any questions in connection with this letter please contact me or Rob Elliott (General Manager, Policy and General Counsel).

Yours sincerely

A handwritten signature in black ink, appearing to read 'JHC', written over a horizontal line.

John H. C. Colvin  
Chief Executive Officer

Cc: Mr. Bruce Porter, Acting Chairman, Australian Accounting Standards Board