



Australian Government

Australian Accounting
Standards Board

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Dear Mr Graham

ASIC Consultation Paper 126 *Facilitating debt raising*

Thank you for the opportunity to comment on the ASIC's Consultation Paper 126 *Facilitating debt raising*.

As you would be aware, the AASB makes accounting standards that must be applied by companies lodging financial statements under Part 2M.3 of the *Corporations Act 2001* and is also responsible for developing a conceptual framework in the context of which the standards are made.

The AASB has limited its comments on the Paper to those that most directly impact upon financial reporting. The AASB is not commenting on the merits of the proposals for relief, but on the financial reporting aspects that are raised.

Information in annual reports

The AASB notes that the proposed simplified requirements in relation to offers to institutional investors rely, to a degree, on the market being provided with relevant information through annual reports and include proposals that issuers have certain ongoing information in their annual reports. Information is proposed, for example, in relation to relief from the on-sale provisions for the on-sale of underlying quoted securities issued on the conversion of convertible notes. This includes the number of notes that can still be converted, the number of underlying securities they will convert into, the price (if any) to be paid on conversion and the circumstances in which conversion may occur. Such information may already appear in financial statements by virtue of disclosure requirements in AASB 7 *Financial Instruments: Disclosures*. However, the requirements of AASB 7 are broadly expressed and may not capture the specific information that ASIC considers important in the context of the proposed relief. Accordingly, provided this specific information does not detract from, or conflict with, the information required by AASB 7, the AASB would have no concern with ASIC seeking to have that specific information included in annual reports.

Annual reports as an effective source of information for investors

Section E of the Paper asks general questions about the current operation of the annual reporting regime and how annual reports might be improved as an effective source of information for investors. In that context, the AASB notes that all of the projects being conducted by the AASB and the International Accounting Standards Board (IASB) – whose standards are adopted by the AASB – are aimed at improving the usefulness of the financial statements to users, including investors. The key test for determining whether a requirement should be included in an accounting standard is whether the benefits to users are considered to exceed the costs of preparing and conveying that information. This test is embedded in the Board's *Conceptual Framework for the Preparation and Presentation of Financial Statements*.

The AASB, IASB and other standard setters use a variety of methods for identifying and analysing the needs of users and have found that general surveys in the nature of Section E of the ASIC Paper have been of limited use. More insightful input has come from empirical research in financial markets and from users who have been asked to focus on specific issues and proposals. In part, this is because user needs are conditioned by what is or could be provided and are not absolute. Furthermore, Section E appears incongruous with the particular subject matter of the ASIC paper, and seems unlikely to come to the attention of a meaningful range of users. If there were any doubt about the importance of financial reports, we would refer you to the findings in the *Report of the Financial Crisis Advisory Group* – 28 July 2009. That *Report* also sets out various lessons that standard setters could learn from the global financial crisis, lessons that seem to be generally accepted as valid by standard setters.

There are a number of current projects of the AASB and the IASB that are of particular relevance to considering the needs of users of financial statements. The IASB is currently revising its Conceptual Framework that includes the following phases:

- * Objectives and qualitative characteristics
- * Definitions of elements, recognition and derecognition
- * Measurement
- * Reporting entity concept
- * Boundaries of financial reporting, and Presentation and Disclosure
- * Purpose and status of the framework
- * Application of the framework to not-for-profit entities

The Objectives phase, in particular, involves an in-depth analysis of users' needs.

The issues that will be considered in the 'Boundaries of financial reporting phase' is also being tested in another project on guidance for Management Commentary, which is the subject of a current IASB Exposure Draft (see AASB ED 183 *Management Commentary*), and has a strong connection with assessing the needs of users.

The AASB is also having to examine the needs of users in its proposals for a Reduced Disclosure Regime of requirements for non-publicly accountable entities (see AASB Consultation Paper *Differential Financial Reporting – Reducing Disclosure Requirements*), which would generally not be issuers of debt securities.

Furthermore, the IASB has important projects in place aimed at reforming both presentation and disclosure in financial reporting. The AASB is closely monitoring those projects.

Feedback

The AASB would welcome knowing about any helpful feedback that the ASIC receives on its questions in Section E of Consultation Paper 126.

Please contact me if you require further information about this submission and the work of the AASB.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K. M. Stevenson', with a stylized flourish at the end.

Kevin M. Stevenson
Chairman

Copy to: Doug Niven, Senior Executive Leader of the Accountants and Auditors Team, ASIC

