update

a news bulletin for G100 members

GROUP OF 100

December 2009

NATIONAL EXECUTIVE

Member Survey

National Executive discussed preliminary results of a survey of members and other CFOs on member satisfaction, issues impacting CFOs and how best the G100 can meet the expectations of members. National Executive will discuss the survey results and finalise its strategy for 2010-11 at its meeting on 3 February 2010.

Members' Dinner

Michael D'Ascenzo – Commissioner of Taxation, spoke to members at a dinner on a presentation *"Two to Tango"*. The main theme was that good corporate governance procedures should include approaching the ATO about business dealings where there is uncertainty in the tax laws. He called for greater liaison so that the ATO is made aware of emerging market practices that present risk in respect of interpretation and compliance. A copy of the presentation may be accessed via http://ato.gov.au/corporate/content.asp?doc=/content/00224517.htm.

DIARY DATES

Executive Meetings

3 February	Sydney
29 March	Perth
2 June	Canberra
5 August	Melbourne
13 October	Brisbane
1 December	Sydney

A Member's dinner will be held the day before each meeting.

Member Activities

Details will be provided early in 2010.

G100 initiatives bear fruit

Members will be aware that proposals relating to parent entity reporting, dividends and change of reporting date have been on the G100 Work Program for many years. We are pleased to report that the Government has issued proposals to amend the Corporations Act to reduce the unnecessary financial reporting obligations on Australian companies. The key measures to reduce red-tape include:

- streamlining parent-entity reporting;
- providing greater flexibility for companies to pay dividends, by replacing the profits test with a solvency-type test;
- allowing companies to more easily change their year-end date to minimise the burden on companies and their auditors during peak reporting periods; and
- significantly reducing the regulatory burden on companies limited by guarantee (which typically have a not-for-profit purpose), by introducing a three tiered differential reporting framework.

Submissions are required by 3 February with a view to amendments being effective for reporting periods ending on or after 30 June 2010. In addition to the G100 submission, which will support these proposals, members are encouraged to make their own submissions.

Disclosures Project

The G100 has submitted to the IASB the paper ***"Less is More"*** (prepared with the assistance of PricewaterhouseCoopers). This paper is in response to an invitation by Sir David Tweedie at the 'IFRS Experience in Australia' Workshops, to develop principles to be applied by standard-setters when developing disclosure requirements. The paper proposes that a disclosure based framework be based on the following principles:

- Relevance
- Materiality
- Transparency

The G100 has indicated that it is now appropriate to consider a principles-based framework particularly as the FASB has included a disclosure framework project on its Work Program. "Less is More' was discussed at a recent meeting of the IASB's Standards Advisory Council and influenced its view that a disclosure framework project be given a high priority when the IASB revises its Work Program.

Professional Ethics

National Executive met with Kate Spargo, Chairman – Australian Professional Ethical Standards Board (APESB) and discussed the operations of, and issues arising, in respect of accountants in business. It was noted that Section 300 of APES 110 *'Code of Ethics for Professional Accountants'* applies to members of the professional accounting bodies who are employed in the business sector. Section 300 deals with threats and safeguards, potential conflicts, preparation and reporting of information, acting with sufficient expertise, financial interests, inducements and making offers.

Corporate Bond Market

ASIC has released a Consultation Paper *'Facilitating Debt Raising'* which sets out proposals for relief to facilitate offers of quoted corporate bonds and convertible notes. ASIC is also seeking feedback on how effectively annual reports are operating as a means of providing disclosure to investors. Submissions are requested by 19 February 2010.

The proposals relating to facilitating debt raising and the development of a corporate bond market are consistent with G100 initiatives in this area.

The proposals would include relief from long-form prospectus requirements including:

- a shorter prospectus for bond offers focused on the terms of the offer and the ability of the bond issuer to meet its interest and repayment obligations; and
- a two-part prospectus designed to provide successive bond offers offering greater flexibility and speed-to-market in making bond offers.

The proposed relief would be subject to the following conditions:

- the companies are listed and have a good continuous disclosure history – eg they have not been suspended for more than five days over a period of 12 months;
- the bonds offered are simple, vanilla bonds offered to retail and wholesale investors at the same price; and
- the size of the bond offer is at least $100 million to maximise the prospects of a liquid secondary market.

ACCOUNTING STANDARDS

Financial Instruments – Impairment of Financial Assets

The IASB and AASB have issued an ED which proposes to modify the way impairment losses are recognised on financial assets measured at amortised cost. The ED proposes detailed disclosure to enable users to evaluate the financial effect of interest revenue and expense and the credit quality of financial assets. Disclosures would include:

- presentation of gross contractual interest revenue, the reduction of interest revenue reflecting the period's allocation of initial expected credit losses, and a sub total of net (economic) interest revenue;
- presentation of gains and losses resulting from changes in estimates in relation to financial assets and liabilities measured at amortised cost;
- reconciliation of changes in the credit loss allowance and the entity's policy on write-offs;
- disaggregation of gains and losses attributable to changes in credit loss expectations and other factors;
- comparison between the development of the credit loss allowance over time and cumulative write-offs;
- explanation of inputs, assumptions and methodology used in determining expected credit losses and changes thereto, and stress testing if performed internally;
- reconciliation in the movement of non-performing loans (defined as more than 90 days overdue);
- origination and maturity information for financial assets at amortised cost; and
- further qualitative and qualitative disclosures depending on the entity's specific circumstances.

These disclosures are likely to be onerous for financial institutions and others that hold financial assets at amortised cost. The proposals also apply to trade receivables.

Submissions are due by 30 June 2010 to the IASB.

Financial Instruments – Classification and Measurement

The IASB and AASB have issued IFRS 9/AASB 9. Financial assets in the scope of IAS 39 are divided into those measured at amortised cost and those measured at fair value based on the following principles:

Debt Instruments: A debt instrument that meets two conditions can be measured at amortised cost:

- Business model test: The objective of the entity's business model is to hold the financial asset to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realize its fair value changes).
- Cash Flow characteristics test: The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

All other debt instruments must be measured at fair value through profit or loss (FVTPL). Even if an instrument meets the two amortised cost tests, IFRS 9/AASB 9 contains an option to measure such instruments at FVTPL, with some restrictions. The available-for-sale and held-to-maturity categories currently in IAS 39/AASB 139 are not included in IFRS 9/AASB 9.

Equity Instruments: All equity instruments in scope of IFRS 9/AASB 9 are to be measured at fair value in the balance sheet and value changes recognized in profit or loss. There is no 'cost exception' for unquoted equities. However, if the equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income (FVTOCI) with only dividend income recognized in profit or loss. Despite the fair value requirement for all equity investments, IFRS 9/AASB 9 contains guidance on when cost may be the best estimate of fair value and also when it might not be representative of fair value.

Derivatives: All derivatives, including those linked to unquoted equity investments, are measured at fair value.

Embedded derivatives: The embedded derivative concept of IAS 39/AASB 139 is not included in IFRS /AASB 9. Consequently, embedded derivatives that under IAS 39/IASB 139 would have been separately accounted for at FVTPL because they were not closely related to the financial host asset will no longer be separated. Instead, the contractual cash flows of the financial asset are assessed in their entirety, and the asset as a whole is measured at FVTPL if any of its cash flows do not represent payments of principal and interest.

Reclassification: For debt instruments, reclassification is required between FVTPL and amortised cost, or vice versa, if the entity's business model objective for its financial assets changes such that its previous model assessment no longer applies.

IFRS 9/AASB 9, mandatory from 1 January 2013, amends some of the requirements of IFRS 7 'Financial Instruments: Disclosures' including added disclosures about investments in equity instruments designated as at FVTOCI. Early adoption is permitted.

Differential Reporting – Reducing Disclosure Requirements

The AASB has issued a Consultation Paper which proposes the following two-tier regime:

Tier 1: Full IFRS as adopted in Australia: would comprise publicly accountable (as per IASB definition) for-profit private sector entities. Not-for-profit private sector entities would be able to choose to apply Tier 2 requirements unless the relevant regulator requires Tier 1 to be applied. Significant not-for-profit and for profit public sector entities would also apply Tier 1.

Tier 2: Reduced disclosure regime: Recognition and measurement requirements of full IFRS as adopted in Australia with reduced disclosures based on IFRS and SMEs.

The proposals will lighten the disclosure load for some entities (including wholly-owned subsidiaries not included in the class order if they are not publicly accountable entities), but will increase the disclosure burden for those entities currently preparing special purpose reports.

The AASB expects to finalise the proposals so that entities may apply them for annual reporting periods ending on or after 30 June 2010.

ASIC

Surveillance Program

National Executive met with Doug Niven, ASIC Senior Executive Accountants & Auditors. Items discussed included the ASIC financial report surveillance program which has highlighted areas of concern relating to asset valuation, fair value measurement, the method of dealing with uncertainty and judgments and going concern issues. Members were informed that issues relating to segment reporting, business combinations and the use of alternative profit measures would be reviewed as part of the program.

Insolvent Trading

ASIC has released a Consultation Paper *"Duty to prevent insolvent trading: Guide for Directors"*. Comments are requested by 22 January 2010. The Guide:

- sets out the key principles that ASIC considers directors need to take into account in order to comply with their duty to prevent insolvent trading;
- provides guidance on how ASIC will assess whether a director has breached his/her duty.

STANDARD BUSINESS REPORTING (SBR)

The SBR project begins its operation on a voluntary basis from 1 July 2010. ASIC has indicated that it will accept voluntary lodgement on an XBRL basis for annual and half-yearly reports from 1 July 2010. At this stage voluntary XBRL lodgement would be in addition to the current requirement to lodge hard copy and pdf documents.

ASX CORPORATE GOVERNANCE COUNCIL (CGC)

The CGC plans to issue an ED in early 2010 which will contain proposals on an 'if not, why not basis' relating to:

- **Board diversity:** Establish and disclose a diversity policy that includes measurable objectives relating to gender diversity and reporting against those measurable objectives.
- **Margin loans and trading in 'blackout' periods:** ASX has proposed to amend ASX Listing Rules to require disclosure of trading policies.
- **Corporate briefings to analysts:** maintain a summary of topics discussed at meetings and briefings including attendees, timing and location; and where possible, giving advance notification and making group briefings widely accessible.
- **Executive remuneration:** Existing recommendation about composition of Remuneration Committee be elevated to an 'if not, why not' recommendation.

The proposed amendments would be expected to be implemented for financial years commencing on or after 1 July 2010.

SEC and Corporate Governance

The SEC www.sec.gov has issued rules to enhance the information provided to shareholders of SEC registrants so that they are better able to evaluate the leadership of public companies. The new rules require disclosure about:

- the relationship of a company's compensation policies and practices to risk management;
- the background and qualifications of directors and nominees;
- legal actions involving a company's executive officers, directors and nominees;
- the consideration of diversity in the process by which candidates for director are considered for nomination;
- board leadership structure and the board's role in risk oversight;
- stock and option awards to company executives and directors; and
- potential conflicts of interests of compensation consultants.

TAXATION

Board of Taxation (BoT)

The BoT has issued a Discussion Paper "*Post Implementation Review into Certain Aspects of the Consolidation Regime*" (www.taxboard.gov.au). The Review is dealing with:

- the operation of the single entity rule;
- the operation of the entry history rule in acquisition cases; and
- the interaction between the consolidation provisions and other parts of the income tax law.

Submissions are requested by 28 February 2010.

G100 SUBMISSIONS

The following recent submissions have been included on the website www.group100.com.au

- Rate Regulated Activities
- Annual Improvements to IFRSs
- IASC Constitution Review.