



June 2010

## National Executive

### Canberra Dinner and Meeting

National Executive hosted a dinner with Chris Bowen – Minister for Corporate Law and Superannuation, and Lindsay Tanner – Minister for Finance and had frank roundtable discussions on a range of issues including corporate law, corporate governance and taxation and progress made in the development of a corporate bond market in Australia.

Members present indicated their strong support for the proposed Corporations Law amendments particularly those relating to parent entity financial statements and the introduction of a solvency test for the payment of dividends.

### Member CFOs attend meeting

Executive was pleased that four member CFOs attended its meeting in Canberra as observers and valued their insights and contribution to the discussions. This follows the decision to encourage CFOs to attend meetings and participate in discussions on issues affecting CFOs. National Executive looks forward to further involvement at future meetings.

### G100/Ernst & Young Lunches

Major items discussed at the CFO lunches in Melbourne and Sydney on 8 and 15 June were the forthcoming reform to the Corporations Law relating to parent entity financial statements and a solvency test for dividends, the development of a corporate bonds market in Australia, the Henry Tax Review, executive remuneration and company positioning as economies transition from the GFC.

The EY publication “*Lessons from Change*” [www.ey.com/lessons-from-change](http://www.ey.com/lessons-from-change) which deals with responding to the new environment formed the basis of discussion.

### ‘Financial Reporting Certification’ publication

A copy of the Group of 100/Ernst & Young publication “*Financial Reporting Certification- June 2010*” has been sent to members and is also available on the website. This is a practical Guide to implementing and enhancing the certifications required by Corporations Act 2001 and Principle 7.3 of the ASX Corporate Governance requirements.

### Disclosures Project

A report on the outcome of the road-testing of the disclosure principles in “*Less is More*” by member companies and analysts is being prepared for presentation to the IASB.

#### DIARY DATES

##### Executive Meetings

5 August	Melbourne
13 October	Brisbane
1 December	Sydney

##### Member Activities

**27 and 30 July** President's luncheons with Saul Eslake in Melbourne and Sydney

**4 August Dinner** with Tony D'Aloisio, Chairman ASIC, in Melbourne

**24 August CFO Forum** in conjunction with the Corporate Executive Board.

**12 October Dinner** with Andrew Fraser MP – Queensland Treasurer

Details will be forwarded separately

## Women on Boards

National Executive is considering actions it might take in contributing to increasing the participation of women in senior executive positions. The significance of this issue is emphasised by the ASX CGC proposals regarding how companies are addressing issues relating to gender diversity.

## AGM - 5 August 2010

The Annual General Meeting will be held in Melbourne on 5 August 2010. Notices for the meeting and call for nominations to vacancies on National Executive will be sent to members shortly.

## Sustainability Project

The G100 is participating in a CPAA initiated research project, in conjunction with the University of Melbourne, on sustainability issues in capital investment decisions. This project will inform input to the HRH Prince of Wales' Accounting for Sustainability initiative. National Executive encourages participation in this survey which will be sent to members shortly.

## Taxation

### The Henry Review

The G100 has written to the Treasurer encouraging the adoption of the Henry Review recommendation about the establishment of an ATO Advisory Board with the purpose of advising on management, culture and governance issues. The G100 proposed the formation of such a Board in its submission to the Review.

### Resources Super Profits Tax

The President, Peter Lewis, led a G100 delegation which met with the RSPT Consultation Panel on 20 May 2010. The views expressed to the Panel reflect input received from G100 members and details are available on the website.

The Consultation Panel plans to issue a discussion document by the end of July and Executive will again seek the views of members when preparing the G100 response.

## Accounting Standards

### IASB/FASB Convergence

The IASB and FASB are developing a modified strategy to address concerns of constituents that the number and complexity of discussion documents impaired their ability to properly review proposals and provide high quality input. This is likely to be achieved by:

- prioritising major projects to permit a sharper focus on significant items.
- staggering publication of EDs etc (by issuing no more than four significant or complex EDs in any one quarter).

Note: In the present circumstances proposals on leases, employee benefits, presentation of financial statements, revenue recognition and financial instruments will continue to stretch the capacity of constituents to respond appropriately.

### Extractive Activities

National Executive agreed that the G100 submission on the IASB Consultation Paper should:

- support the retention/use of historical cost as the measurement basis for extractive activities;
- support the objective of the project to develop common requirements;
- not support proposals relating to disclosure of fair value measurement and the extent of detailed disclosures about reserve estimates and assumptions;
- not support disclosure proposals based on standardized inputs not used for management purposes and proposals relating to disclosures of payments to governments; and

- question whether separate asset recognition and impairment measures from those in other IFRSs are justified for extractive activities.

A Working Group is preparing a submission which is due to the IASB by 30 July 2010.

### **Financial Liabilities – Measurement**

The IASB has issued ED/2010/4 “*Fair Value Option for Liabilities*” and comments are due by 16 July 2010.

The proposals respond to the view expressed by investors and others that volatility in the profit and loss resulting from changes in credit risk of liabilities measured at fair value gives counterintuitive results (profit increases as a result of worsening credit risk) and does not provide useful information except for derivatives and liabilities that are held for trading.

The ED proposes that all gains and losses resulting from changes in ‘own credit risk’ for financial liabilities that an entity measures at fair value should be transferred from the profit and loss to other comprehensive income and as such will not affect reported profit or loss. However, the amount transferred would be shown in the profit and loss.

The proposals will only affect those entities choosing to apply the fair value option to measure financial liabilities.

The G100 submission on an earlier ED (ED2009 ‘*Credit Risk in Liability Measurement*’) observed that seeking to extract the credit risk component of a financial instrument measured at fair value involved a degree of subjectivity and arbitrariness which would impair the reliability of the information reported.

### **Financial Instruments: Amortised Cost and Impairment**

National Executive approved the basis of the G100 submission on the IASB’s ED. The G100 considers that the ED focuses too heavily on financial institutions with the result that all entities would be required to apply techniques designed to address issues more relevant to financial institutions.

### **Employee Benefits**

The IASB issued ED/2010/3 ‘*Defined Benefit Plans*’ which proposes amendments to IAS 19 ‘*Employee Benefits*’. Comments are requested by 6 September 2010. The amendments seek to address perceived deficiencies in IAS 19 by:

- removing options (in particular the corridor approach) that allow a company not to recognize some gains and losses when there are changes in the defined benefit obligation or the fair value of plan assets;
- proposing a new presentation approach to clearly distinguish between different components with service cost and finance cost included in the profit and loss and re-measurement changes in other comprehensive income;
- proposing improved disclosure requirements about matters such as:
  - ~ the characteristics of defined benefit plans
  - ~ amounts recognized in financial statements
  - ~ risks arising from defined benefit plans
  - ~ participation in multi-employer plans.

The IASB expects to issue a revised Standard by mid 2011.

Defined benefit plans are significant for a number of member companies. In its submission on the IASB Discussion Paper (Sept 2008) the G100 opposed proposals to remove the corridor approach. However, the submission indicated that if the IASB were to proceed with the proposals value changes of balance sheet items should be recognized directly in equity or as a component of other comprehensive income.

National Executive decided to form a Working Group to develop a submission. Members wishing to participate are requested to contact the Secretariat [g100@group100.com.au](mailto:g100@group100.com.au)

## Presentation of Items of Other Comprehensive Income ED/2010/5

The IASB has issued the ED 2010/5 which proposes:

- that all entities present profit or loss (OCC) as separate sections of a continuous statement (as occurs with US GAAP) rather than as separate statements as permitted by IAS 1;
- separate presentation in the OCI section of OCI items that will be reclassified to profit and loss in a subsequent period and those OCI items that will not be reclassified.

The proposals relate to presentation only and do not affect recognition and measurement of revenue, expenses and items of OCI.

Submissions are requested to the IASB by 30 September 2010.

## Forthcoming EDs

### *Financial Statements Presentation*

The forthcoming ED (Discussion Paper issued in October 2008) is expected to propose:

- direct operating cash flows with a reconciliation of operating profit cash flows as part of cash flow statement;
- classification approach based on function as a requirement rather than management discretion as proposed in DP;
- cohesiveness as a principle to be achieved at a category level rather than on item-by-item basis as proposed in DP;
- disaggregation on the face of the primary statements – expected that ED will permit most disaggregation to be shown by way of note;
- net debt reconciliation – proposal to require reconciliation as a single note;
- analysis of changes in balances of select items. Expected to replace detailed line-by-line reconciliation as proposed in DP; and
- remeasurements expected to be disclosed in a single note.

The IASB is expected to issue an ED in late June and will have a longer than normal exposure period. Given the significance of this project National Executive will form a Working Group to prepare a draft submission. Members wishing to participate in the Working Group are requested to contact the Secretariat [g100@group100.com.au](mailto:g100@group100.com.au).

**Note:** G100 submission on the DP dated 6 April 2009 supported the IASB's objective but was concerned about a number of aspects of the proposals including:

- mandating additional disclosures to ensure inter-entity comparability is inappropriate and inconsistent with the principle underlying the management approach;
- the separation of cash and cash equivalents in the cash flow statement. The G100 believes that this is an artificial distinction which does not reflect the current cash management activities of entities and does not adequately reflect the reasons why entities 'invest' in cash equivalents. In addition, there is inconsistency between stating the principle (management approach/view) and mandating a rule on the classification of cash and equivalents;
- the considerable additional detail on the face of the financial statements;
- the lack of usefulness of the proposed reconciliation statement;
- the focus on information for estimating future cash flows and insufficient attention being given to providing information to discharge accountability functions; and
- its relevance and usefulness in respect of the activities of financial institutions.

### ***Revenue Recognition – Revenue from Contracts with Customers***

The ED is expected to be issued in June and key issues include:

- proposals to recognize revenue based on transfer of control over goods and services;
- customer perspective of control over goods and services rather than that of the entity;
- segmenting contracts and identifying performance obligations of multiple deliverables (for example, contract includes provision of equipment such as a telephone and associated service, customer loyalty programs etc).

The G100 submission on the DP (12/6/2009) expressed the view that recognition of revenue should reflect the performance of economic activities occurring under the contract as that activity occurs and the entity has claims against the customer.

### ***Leases***

The IASB has finalised its technical discussions and is expected to issue an ED in June 2010. A G100 Working Group has been formed and any members interested in participating are requested to contact the Secretariat.

## **SBR**

The SBR project which will streamline business to government reporting commences on 1 July 2010. Attention is being given to developing a large business methodology to enhance implementation and participation by large businesses. Auskey, an online security credential, that is able to be used as a single key to access government online services has also been released and is an important part of SBR. Further information is available at [www.sbr.gov.au](http://www.sbr.gov.au).

## **ASX Corporate Governance Council**

The ASX CGC is expected to approve amendments to its principles and recommendations at its meeting in June. Final changes are expected to be released on 30 June 2010 with application for years beginning 1 January 2011. Early transition is encouraged.

The amendments relate to analyst briefings, remuneration committees and disclosures in respect of gender diversity policies. The G100 submission is on the website.

## **ASIC**

Recent ASIC meetings with constituents have indicated that:

- the outcomes of the accounts surveillance process in respect of December 2009 accounts will be issued shortly as well as information about the focus of the June 2010 program; and
- a guidance statement is being prepared on 'Non Statutory Profit Reporting' in response to concerns about entities using alternative measures of profit such as underlying profit to explain their performance.

## **Corporations Law**

The Corporations Amendment (Corporate Reporting Reform) Bill 2010 has been introduced and is expected to be passed in the current Parliamentary session. The key measures include:

- modifying parent entity reporting so that parent entity information can be provided by way of note disclosure rather than a full set of parent entity financial statements;
- providing greater flexibility for companies to pay dividends by replacing the profits-test with a solvency based test; and
- making it easier for companies to change their year-end date.

## Submissions

Copies of the following recent submissions are available on our website ([www.group100.com.au](http://www.group100.com.au)):

- 'Reporting Entity' ED/2010/2 - IASB
- Review of Tax Issues Entry System (TIES) – The Board of Taxation
- Formation of ATO Advisory Board – Dr Henry and the Federal Treasurer
- ASX Proposed Amendments to the Principles and Recommendations – ASX CGC