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11 May 2011

Ms Jodie Wise
Executive Assistant
Accountants and Auditors
Australian Securities and Investments Commission
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Dear Ms Wise

The ASIC consultation paper CP 150 'Disclosing financial information other than in accordance with accounting standards' was discussed at a meeting of the Financial Reporting Council (FRC) on 18 April 2011 and we agreed a number of high-level points on the matters put forward in the paper. Please note that ASIC, while represented on the Council by Michael Dwyer, is not represented in this submission.

A key general point Members wish to make is that the way parts of the paper is worded does not serve to clearly communicate the scope and nature of the measures ASIC is proposing to take. The draft needs to be read very carefully to understand its nuances. In this regard we found the definitions to be critical but not self-evident as to meaning.

The FRC Members had differing views as to whether a Regulatory Guide is needed, with some not believing that there is a problem that needs to be addressed. Michael Dwyer explained, however, that ASIC has sufficient evidence of problems that warrant regulatory action.

Given the fact that ASIC believes that a Regulatory Guide is justified, the FRC offers the following key points for your consideration:

1. If information is to be precluded from being disclosed in financial reports, related documents and transaction documents, the guidelines will need to be very clear. Otherwise we will see confusion and cost.
2. Guidance that would assist directors discharging their responsibilities for governance would be welcome.

3. Many companies are now disclosing additional information intended to help investors better understand financial information. The contentious aspects of the Regulatory Guide relate to what constitutes alternative profits and when such profits can be reported.
4. The AICD /FINSIA publication “Underlying Profit: Principles for Reporting Non-Statutory Information” has been very helpful to companies. It would have been of assistance to see the relationship between that publication and the Regulatory Guide explicitly addressed.
5. Some Members were concerned that the Regulatory Guide appears to be prescriptive and would prefer a more principles-based approach.
6. There was some concern that, in practice, it will be difficult to distinguish between what additional line items, headings and sub-totals would meet the definition of non-conforming financial information and what would not.
7. The Australian Prudential Regulation Authority (APRA) questioned whether certain prudential reporting adjustments to statutory financial reports will be captured by the Regulatory Guide as non-conforming financial information.

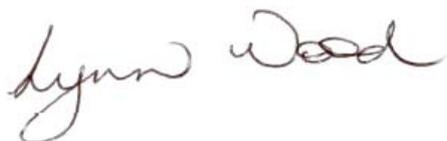
The Commonwealth Department of Finance and Deregulation has questioned whether information required in addition to that required by accounting standards relating to government-owned companies, charities and other community organisations will also be captured by the Regulatory Guide.

8. As alluded to above, the definition in the Regulatory Guide of non-conforming financial information could be clearer and multiple versions of that definition should be avoided. While there is a prescribed definition it is used differently throughout the Regulatory Guide. Perhaps it would be better to define conforming information rather than non-conforming information, as then it would be easier to understand what is non-conforming.
9. It is questionable whether cash basis profit is widely used outside of some parts of the banking industry. If not, is there a need to use the term alternative profit to cover both cash basis profit and underlying profit? Rather than coin a new term that is not well understood, would it be better to use an already accepted and used term, i.e. underlying profit?
10. Statutory profit is more readily applied to past financial information whereas underlying profit can be applied to both past and future profit, including pro forma accounts. Whichever way is used to relate the terms employed, it should be kept as simple as possible and as near to common parlance as is practicable.
11. When underlying and statutory profits are reconciled, it is important that the reconciliation takes place in the context of the related required disclosures in financial reports, to avoid wrong or simplistic impressions that might come from “with and without” type representations of profit.
12. FRC Members would not wish to see the Regulatory Guide enforced in a way in which reporting entities become reluctant to add information for the benefit of users.

Many FRC Members will be sending you detailed submissions from their respective organizations; and we thought this overview, noting key concerns, would be useful.

I am happy to meet with ASIC to explain our comments if you consider it useful.

Yours sincerely

A handwritten signature in cursive script that reads "Lynn Wood". The signature is written in black ink on a white background.

Lynn Wood
FRC Chairman