

Technical Accounting Alert

ASIC restrictions on disclosing non-IFRS financial information

Introduction

The purpose of this alert is to draw attention to the Australian Securities and Investments Commission's (ASIC) Regulatory Guide 230 'Disclosing non-IFRS financial information' (RG 230) which effectively bans the disclosure of non-IFRS financial information (ie non-complying with Australian accounting standards – AASBs) such as alternative profits, underlying profits/earnings or other disclosures in the financial statements.

Overview

RG 230 provides ASIC's view on disclosure of non-IFRS financial information in:

- a financial reports and financial statements;
- b documents other than financial reports and transaction documents (e.g. documents accompanying financial reports, market announcements, presentations to investors and briefings to analysts); and
- c transaction documents, such as prospectuses, scheme documents and takeover documents.

ASIC defines 'non-IFRS financial information' as: "financial information that is presented other than in accordance with all relevant accounting standards". Such information is also more commonly known as underlying earnings or alternative profits and is designed to disclose what directors and others consider are more core based operating results that are not distorted by accounting standards requirements such as unrealised gains or losses on investments, or one-off transactions.

A copy of RG 230 is available from the ASIC website

[http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/rg230-published-9-december-2011.pdf/\\$file/rg230-published-9-december-2011.pdf](http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/rg230-published-9-december-2011.pdf/$file/rg230-published-9-december-2011.pdf)

1 Financial Statements

Non-IFRS financial disclosures are effectively banned by ASIC in the financial statements. The only exception is where the directors state in what ASIC believes would only be 'rare circumstances', where such disclosure is necessary to give a true and fair view of the financial position and performance of the entity, and this requires specific disclosures to this effect in the

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financial statements as prescribed by Section 295 (3) (c) of the Corporations Act. Where such disclosures are given, the auditor is required to report in the auditor's report whether the auditor agrees with the directors' statement.

RG 230.30 (b) 'asserts' that non-IFRS information that excludes certain income or expense items or includes additional line items and subtotals is not in accordance with AASB 101 'Presentation of Financial Statements'. However surprisingly RG 230 makes one exception: "We accept that describing and disclosing earnings before interest and tax (EBIT) may be useful in assessing interest cover".

RG 230.36 states that a reconciliation to amounts prepared under another jurisdiction's generally accepted accounting principles (GAAP) can only be given under true and fair view grounds but then asserts that the company 'may choose' to have this additional information audited', notwithstanding the requirements mentioned earlier for the auditor to specifically comment on agreement or otherwise with the directors views!

RG 230 accepts that segment profit or loss can be on a different basis to other accounting standards, so if the Chief Operating Decision Maker requires underlying results/core earnings to be provided for decision making, this information becomes IFRS compliant - RG 230.20 (c).

Interestingly most commentators including Grant Thornton believe that ASIC's interpretation of the Corporations Act is not correct as neither the Corporations Act or accounting standards ban providing supplementary financial information. This is reflected in specific guidance that has been issued by the Australian Institute of Company Directors (AICD) and the Financial Services Institute of Australasia who have issued their publication [Underlying Profit: Principles for Reporting of Non-Statutory Information](#). Most submissions to ASIC on an earlier draft of the Regulatory Guide were also critical of ASIC's interpretation banning disclosure of non-IFRS information.

It will be interesting to see what companies will now disclose given the December 2011 ASIC Regulatory Guide.

2 Financial Report (other than financial statements)

Non-IFRS information can be disclosed in other parts of the financial report such as the Directors' Report and Chairman's/CEO review of operations. However this is subject to the ASIC guidance which is similar to that contained in the AICD/FINSIA publication that states that the non-IFRS disclosures should not be more prominent than the IFRS result, is clearly labelled, a reconciliation is made to the IFRS result, there is consistent application from year to year (ie no cherry picking of profits or losses), and reasons given as to what the disclosures are useful to a reader of the financial report.

3 Documents other than financial reports and transaction documents
Non-IFRS financial information can be disclosed as it can provide meaningful insights into the financial condition or performance of a business providing the information is not misleading. Again the disclosure is subject to the same guidelines as detailed above for the financial report.

4 Transaction documents
Non-IFRS financial information can be presented as pro forma financial information as it may be useful or necessary in transaction documents to fulfil disclosure obligations under the Corporations Act. Where non-IFRS financial information is included, it should not be presented in a misleading manner. RG 230 provides guidelines for presenting non-IFRS financial information when such information is disclosed, to help reduce the risk of users being misled. As with the financial report, it is necessary to ensure that the disclosures are appropriate.

Conclusions

Whilst ASIC's Regulatory Guide is not mandatory definitive legislation, it is ASIC's opinion on the provisions of the Corporations Act, so any departure from what is recommended in Regulatory Guides runs the risk of being queried by ASIC and ultimately that may result in a referral to the Financial Reporting Panel or Court action. If a company is considering disclosing non-IFRS financial information in the financial statements it is highly recommended that contact be made with Grant Thornton beforehand, given the risk of regulatory intervention.

Further information

For further information on any of the information included in this TA alert, please contact your local Grant Thornton Australia contact member or a member of the National Audit Support team.

Further information is available from Keith Reilly, Grant Thornton's National Head of Professional Standards at keith.reilly@au.gt.com.