

Group Finance

26/500 Bourke Street
Melbourne

Telephone + 61 3 8641 5670
Facsimile + 61 3 9208 8768

19 April 2004

Mr Jonathan G Katz

Secretary, Securities and Exchange Commission
450 Fifth Street, NW
Washington DC 20459 – 0609

Forwarded by e-mail to: rule-comments@sec.gov

Dear Mr Katz

Subject: File Number S7-15-04 Proposed Rule: First time application of International Financial Reporting Standards

Thank you for the opportunity to provide comments on the proposed rule: First time application of International Financial Reporting Standards.

National Australia Bank Limited (“the National”) supports the Commission’s efforts to facilitate the transition to International Financial Reporting Standards (“IFRS”) for foreign issuers and considers the main accommodation in the proposed rule, namely the requirement to provide one, rather than two years of IFRS compliant comparative primary financial statements is entirely appropriate. The proposed rule brings the Commission’s requirements in line with the guidance in International Financial Reporting Standard 1 – First-time Adoption of International Financial Reporting Standards (“IFRS 1”). Should such relief not be provided the National considers that:

- foreign issuers would encounter significant difficulties in attempting to accurately and reasonably prepare financial information in respect of an accounting period for which certain significant IFRS’s had not been finalised;
- a requirement to present two years of comparative information would impose costs out of proportion to the benefits to investors;
- arbitrary assumptions arising through the application of hindsight may be used in preparation of the second year of comparative financial information.

However, we do have reservations about certain other aspects of the proposed rule, namely:

- requirements for detailed commentary on the application of IFRS 1 exemptions in excess of that required by IFRS 1;
- usefulness of the provision of condensed US GAAP information;
- disclosures pursuant to Industry Guide 3;
- transition year interim period information, and

- the application of a definitive cut-off date.

Our comments on these items are set forth below.

.Specific matters for comment

Information requirements in excess of IFRS 1

Item 5 of the proposed rule requires foreign issuers to provide significant qualitative commentary concerning the application of the mandatory and elective exemptions detailed in IFRS 1 within the operating and financial review narrative.

We consider this detail excessive, particularly with regard to the mandatory exceptions:

- Section III A states: *“When relying on a mandatory exception, the issuer must describe the exception and state that it complied”*, the statement of compliance is redundant as in order to be eligible to apply the proposed rule the foreign issuer must be able to state: *“unreservedly and explicitly that its general purpose financial statements comply with IFRS, and whose audited financial statements are not subject to any qualification relating to the application of IFRS”*;
- if the aim of the commentary is to highlight the effects on the IFRS financial statements of management’s decisions regarding the application of the exceptions, the inclusion of information on the mandatory exceptions appears needless as management clearly had no choice in the matter.

This detail is in excess of that required by IFRS 1 which does not require detailed commentary surrounding the application of the mandatory and elective exemptions. We consider that the reconciliations required by paragraphs 39(a) and (b), 40 and 41 of IFRS 1 provide sufficient detail to enable users to understand the impacts on the financial statements of the transition to IFRS. As the proposed rule also requires the presentation of these reconciliations, we do not see the need, nor foresee significant benefits to investors in the presentation of detailed narrative on the application of exemptions.

Condensed US GAAP financial information

The proposed rule requires condensed US GAAP income statements and balance sheets for the three most recent financial years to be presented as part of the US GAAP reconciliation. We understand that this requirement has been included on the basis that the Commission believes investors will find three year trend information prepared on a consistent basis of accounting valuable.

We question whether the benefits investors could potentially gain from this condensed information are in excess of the costs and burden imposed on foreign issuers in preparing it. Some foreign issuers, including the National, are not required to file condensed interim information as a matter of course. Procedures are therefore not in place to create, review and audit this information. This would create an additional burden and distract critical resources from IFRS implementation and reporting.

We question the usefulness to investors of condensed income statements and balance sheets without any supporting notes or cash flow information, particularly as the operating and financial review narrative is to be focused on: *“the financial statements for the two most recent financial years prepared in accordance with IFRS. The company should refer to the reconciliation to US GAAP for those years and discuss any aspects of the differences between IFRS and US GAAP not otherwise discussed in the reconciliation”*, (General Instructions (G)(e)), without specifically covering the 3 years of condensed US GAAP information. Also, US GAAP reconciliation information has always been sufficient in the past for users to consider trends and this information will continue to be disclosed.

Disclosure Pursuant to Industry Guides

The National is subject to the disclosure provisions of Industry Guide 3 – Statistical Disclosure by Bank Holding Companies and accordingly provides additional information with respect to distribution of assets and liabilities, applicable interest rates, the investment and loan portfolio and loan loss experience. This information usually covers a three or five year period and is generally based on Australian GAAP information.

We note that the Commission is not proposing any specific amendments to information required to be disclosed by Industry Guide 3 and further states that: *“the change from previous GAAP to IFRS for foreign registrants that are subject to Industry Guide 3 should not affect the availability of information required by the Guide or impose significant burdens or expenses on those registrants to provide that information”*.

We do not agree with the above statement and consider that there are significant Guide 3 requirements for which information would not readily be available following transition to IFRS, for example:

- Section A1, average balance sheet information – data prepared under IFRS will not be available to present the third year of IFRS compliant information; and
- Section C, Loan portfolio – requires data to be presented in respect of five financial years. Following the transition to IFRS, data will only be available for two years.

The transition to IFRS will make pervasive changes to the balance sheet of most financial institutions, including the National. The information required by the above bullet points will be significantly affected by transition and requiring information for three or five financial years is not consistent with the thrust of the balance of the proposed rule.

We believe the Commission needs to specifically address the requirements of Guide 3 and, where applicable, provide an accommodation limiting the number of years for which data is required on transition to IFRS.

Transition year interim period information

The Commission has provided no relief from the requirement that interim financial information for the year of transition be prepared on the same basis of accounting as the issuer's previously published annual financial information.

In respect of its 31 March 2006 interim period, the National will be required to provide interim financial information for the 31 March 2006 and 31 March 2005 interim periods based on Australian GAAP, with accompanying reconciliations to US GAAP. The same information will also be presented based on IFRS.

This requirement will require the National to maintain two sets of financial information, based on Australian GAAP and IFRS, for the period ending 31 March 2006, thereby preventing the transition to a full IFRS accounting environment for 6 months longer than would otherwise be the case.

We do not consider that these proposals are reasonable and are in the best interests of investors or issuers:

- the enforced delay in transitioning to an exclusively IFRS accounting environment adds significantly to complexity of an already difficult and resource consuming process;
- investors will potentially be confused by the presentation of two sets of financial information for the same period prepared on different bases of accounting, particularly without the provision of any reconciliation between the two;
- the questionable benefits to investors are likely to be outweighed by the costs and burden imposed on issuers.

We consider that an appropriate alternative approach would be to require issuers presenting interim information in their year of transition to provide information based on IFRS, with an accompanying reconciliation to previous GAAP. IFRS 1 paragraph 45 addresses this issue and sets out the required level of reconciliation and disclosure.

We consider this solution to be practical, in not requiring issuers to maintain two sets of accounting records for longer than they would otherwise need to and also provides a bridge between the last set of annual financial statements prepared under previous GAAP to the interim information prepared under IFRS.

1 January 2007 cut off

The imposition of a 1 January 2007 cut-off date appears to be arbitrary.

The inclusion of a definitive cut off date creates the potential for foreign issuers to become ineligible to benefit from the proposed rule due to delays in transition to IFRS in their home jurisdiction. These delays may be caused by external political, regulatory or commercial influences.

We do not believe that the proposed rule should only be applicable to those foreign issuers that transition their basis of accounting to IFRS for a financial year that begins no later than 1 January 2007. Given:

- the current situation in Europe arising from the European Central Bank's stance on the fair value accounting requirements of the current IAS 39 and the resulting political pressure on the European Commission. Endorsement of IAS 39 in Europe may be delayed until at least the last quarter of 2004, with a corresponding impact on the transition to IFRS as a whole;
- the IASB has indicated that it will make changes to its proposed "stable platform" of Standards; and
- there is ongoing amendment to IAS 39, a standard with pervasive and far reaching effects on financial reporting, particularly for the financial services sector,

the potential exists for transition to IFRS in some countries to be delayed by more than one year and we therefore consider the inclusion of the 1 January 2007 cut off date is not appropriate. We see no reason why the proposed accommodation should not be indefinitely extended to apply to any foreign issuer located in a jurisdiction that transitions to IFRS in years after 2007. Such an approach would accommodate any delays in a foreign issuer's transition to IFRS caused by the above.

Conclusion

The National supports the steps taken by the Commission as a pragmatic response to lessening the burden placed on foreign issuers by the transition to IFRS. We welcome the Commission's progress towards acceptance of IFRS financial information as satisfying US filing requirements.

However, in our view, the Commission should constructively evidence its stated support for convergence towards a single set of high quality financial reporting standards by aligning and limiting its information requirements where possible to that detailed within IFRS 1. The Commission should also look to the guidance provided by IFRS 1 in its requirements for interim financial information in the year of transition.

Further consideration needs to be given to the information requirements of Industry Guide 3 and we believe that the time constraint imposed by 1 January 2007 is not necessary and should be removed from the rule.

Yours sincerely

David Holden
General Manager
Group Finance