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The Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.,
Washington DC 20549

Dear Sir

File number S7-15-04
First Time Application of International Financial Reporting Standards

General Comments

We are pleased to have the opportunity to provide our comments on the proposals of the Securities and Exchange Commission ("SEC") to amend Form 20-F to provide a one-time accommodation relating to the first financial statements prepared under International Financial Reporting Standards ("IFRS").

We generally support the proposed changes to permit foreign private issuers for their first year of reporting under IFRS to file two rather than three years of primary financial statement information. We also support the related proposed changes to the operating and performance review, certain business and market risk disclosures and the selected financial data to only focus on the two years covered in the primary financial statements.

However, we do have some comments in relation to the additional disclosures proposed in the amendments, primarily relating to the exemptions adopted under IFRS 1, *First-time Adoption of International Financial Reporting Standards*, as well as the additional requirements for registration statements filed during the transition year. IFRS 1 requires first-time adopters to make additional disclosures regarding their adoption of IFRS in order to assist users in understanding the differences between previous GAAP and IFRS. We believe that these additional disclosures under IFRS 1 are adequate to meet the needs of investors.

Our comments to the specific matters outlined in the proposed amendments are detailed below.

Adoption of IFRS in Australia

The Financial Reporting Council in Australia ("FRC") issued a strategic direction for the adoption of IFRS in Australia commencing from financial years beginning on or after 1 January 2005. The FRC is a statutory body responsible for providing broad oversight of the process for setting accounting standards in Australia. The FRC is also responsible for overseeing the operations of the Australian Accounting Standards Board ("AASB").

The AASB has made the decision to rewrite the entire suite of Australian accounting standards by adopting the content and wording of IFRS, with any additional Australian specific guidance provided where necessary. In addition, the AASB may permit only one of a number of optional treatments available under IFRS and also require additional disclosures. These additions and amendments to the

Australian-equivalent international accounting standards will not impact on the capacity of an Australian entity to achieve compliance with IFRS.

Based on the approach adopted by the AASB, Australian companies will be prohibited from continuing to publish financial statements in accordance with previous GAAP, and Australian GAAP will effectively become IFRS compliant.

Specific Matters for Comment

(a) Eligibility requirements

Telstra supports the SEC's proposal to only include one year of comparative data in the Form 20-F and other SEC filings for the first-time adoption of IFRS. The recasting of the third financial year results under IFRS would be extremely difficult and burdensome, with some 37 new standards, 11 new interpretations and a new Framework to be analysed and implemented. Application of IFRS-equivalent standards by Australian entities for the year ended 30 June 2004 (third financial year results) is made more difficult as the Australian-equivalent IFRS standards are not expected to be finalised until June 2004. In addition, a major issue with the adoption of IFRS that is proving to be time consuming is the update of current systems and processes to be able to appropriately capture and report IFRS information, particularly in areas where there are major GAAP differences.

We believe that there should be no limit placed on the relief provided for first-time adopters. Regardless of when IFRS is first adopted, companies will still be faced with the enormous task of adopting an entirely new GAAP that could be significantly different from their current GAAP. Furthermore, IFRS is expected to further evolve beyond 2005 with a number of significant projects on the IASB's agenda (ie business combinations phase II and III, revenue recognition, USGAAP convergence, insurance contracts phase II, reporting comprehensive income, etc) and the potential for further changes post 2007.

(b) Primary financial statements

As previously stated, we support the proposed amendment to permit two years of IFRS compliant financial statement information. We believe investors will receive adequate information on which to base investment decisions and the proposed amendment will eliminate some of the confusion of adopting IFRS.

We don't believe that the presentation of three years of condensed USGAAP financial information will be a significant burden and would adequately address issues related to first-time adoption of IFRS.

We believe the inclusion of previous GAAP financial statement information would not be useful and would create confusion among investors in trying to compare information based on two different GAAPs. As noted in section (g) below a first-time adopter will be required to provide detailed reconciliations between IFRS and previous GAAP, both at the date of transition and for the last period in the entity's most recent annual financial statements. We believe that this disclosure is adequate in highlighting the major financial impacts of the adoption of IFRS.

We do not believe that previous GAAP financial statement information should be prohibited, but that any such information presented should be clearly highlighted. We note that under IFRS 1, any previous GAAP information presented should be prominently labelled as such, with disclosure of the main adjustments that would make it comply with IFRS without necessarily quantifying those adjustments. We believe that these requirements are adequate for the disclosure of any previous GAAP information that a foreign registrant wishes to make.

(c) Selected financial data

We believe that the presentation of previous GAAP financial information in the selected financial data should be discouraged, but not prohibited, on the basis that the information would not be comparable to IFRS, has little meaning in the context of the rest of the disclosures in the filing and would cause unnecessary confusion amongst investors. Furthermore, the presentation of five years of selected USGAAP data should alleviate any concerns regarding the provision of information for any trend analysis.

If previous GAAP financial information is permitted in the selected financial data then the requirements under IFRS 1 noted above should apply.

We support the inclusion of five years of selected USGAAP data with the IFRS selected data.

(d) Operating and financial review and prospects

We support the proposed amendment by the SEC for an entity to only focus on the two years of primary financial statement information when discussing the operating and performance results in the management discussion and analysis. We do not believe that there is any additional information that would be useful to investors.

(e) Financial statements and information for interim periods for the transition year

One of the proposed amendments requires that for initial registration statements filed during the transition year to IFRS, companies should be required to present interim financial statements under both previous GAAP and IFRS, where applicable. This would require those companies affected to maintain two sets of financial statements for an additional six month period during the transition year.

As previously noted, one of the major tasks of adopting IFRS for the majority of companies is to review and update all systems and processes to ensure the appropriate capturing and reporting of IFRS financial information. As proposed by the SEC amendments an entity will need to maintain two sets of financial statements for an additional six month period during the transition year. This will place undue burden on the migration of company systems and processes and potentially require new systems and processes to capture the additional information for the six month period. We believe that this requirement will discourage first-time IFRS adopters from issuing an initial registration statement during this period.

As noted above, Australian companies will be prohibited from continuing to publish financial statements in accordance with previous GAAP as AGAAP will effectively become IFRS compliant.

We also do not support the proposed alternative amendments to require full IFRS financial information with an appropriately qualified audit report or full year disclosures for interim IFRS financial data.

Where companies who file a registration statement are required to disclose half-year financial statements that overlap the transition year of adopting IFRS, we believe that the following information should be presented (using 30 June 2006 as the first IFRS year, which is applicable for the majority of Australian foreign registrants):

- Audited financial statements for the years ended 30 June 2003, 2004 and 2005 prepared in accordance with previous GAAP, containing a reconciliation to USGAAP;
- Unaudited financial statements for the six months ended 31 December 2004 and 2005 prepared in accordance with IFRS, containing a reconciliation to USGAAP. Also, financial statements for the six months ended 31 December 2004 should be presented in accordance with previous GAAP ("bridge approach"); and
- A reconciliation, similar to that required under IFRS 1, between previous GAAP and IFRS for the financial statements for the six month period ended 31 December 2004.

It should also be noted that the AASB has issued Exposure Draft 129, *Disclosing the Impact of Adopting AASB Equivalents to IASB Standards*, (ED 129) which will require Australian entities to disclose the following information regarding their IFRS adoption plan:

- In respect of financial reports for annual or interim periods ending on or after 30 June 2004, require disclosure of an explanation about how the transition to the AASB equivalents of IASB standards is being managed, with narrative explanation of the key differences in accounting policies;
- In respect of financial reports for annual periods ending on or after 30 June 2005, require disclosures that are not prospective, but are based on the wording in the Australian equivalent IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, in relation to the requirement to disclose known or reasonably estimable information relevant to assessing the possible impact of a newly issued standard that is not yet mandatory and hasn't yet been applied. That is, the financial report would disclose any known or reliably estimable information about the impact on the current

period had the financial report been prepared using the “new” standards or, alternatively, if the impact is not know or reliably estimable, a statement to that effect; and

- Encourage the disclosure explained in the above dot point in financial reports for annual or interim periods ending on or after 31 December 2004.

The standard arising from ED 129 would cease to apply once entities had adopted the AASB equivalents to IASB standards.

The inclusion of the above information would not be too onerous on companies as the majority of the information is required under the transition to IFRS (other than the reconciliations to USGAAP). Also, this information would be adequate for investors to make informed decisions as it demonstrates comparable financial performance, it clearly highlights the major transitional adjustments to IFRS and shows condensed USGAAP information for each period presented.

(f) Disclosure about exemptions to IFRS

The proposed amendment will require companies to provide detailed discussion regarding each exemption applied under IFRS 1. This will include disclosure of:

- the identification of each particular item or class of items to which each exemption was applied (ie specific business combination, pension plan, financial instrument, etc);
- the circumstances that gave rise to the use of each exemption; and
- the significance of each exemption utilised on the company’s balance sheet and income statement.

Where material, the company would also be required to identify the line items in the financial statements that were affected by the exemptions.

We do not support the proposed amendment as described above. In the Basis for Conclusions of IFRS 1, the International Accounting Standards Board (“IASB”) noted that the need for a balance between the benefits of information and the cost of providing it may constrain the provision of relevant and reliable information. As such, certain exemptions were made available to first-time adopters of IFRS where the costs of retrospective restatement were considered to outweigh the benefits to users. Also, the exemptions were permitted to decrease the risk that preparers might need to make arbitrary assumptions in applying hindsight.

We are concerned that the proposed disclosures will require companies to undertake a detailed analysis of the effects of each exemption that they apply. Each exemption provides relief for first-time adopters from restating certain past transactions under IFRS. Having to disclose the circumstances and significance of each exemption will force companies to determine what would be the impact of fully complying with IFRS (ie not undertaking the exemption), thereby eliminating the benefit of having that exemption made available under IFRS 1. The proposed amendment fails to acknowledge the basis for the IASB allowing these exemptions in the first place.

In relation to the employee benefits exemption to allow the full recognition of all gains and losses on the date of transition, the Australian equivalent standard of IAS 19, *Employee Benefits*, prohibits companies from using the ‘corridor’ option permitted under IFRS. As such, Australian companies will be required to fully recognise all gains and losses when they transition to IFRS. This makes any disclosure regarding the circumstances and significance of applying the exemption under IFRS 1 for Australian companies unnecessary and irrelevant to investors.

We believe that companies should be required to identify the significant transactions or items to which the exemptions were applied (ie specific business combination, class of assets, pension plan, etc) and provide a brief description of the exemption. However, companies should not be required, to disclose the circumstances and significance of each exemption.

(g) Reconciliation from Previous GAAP

We believe that the requirement of IFRS 1 in relation to the presentation and disclosure of reconciliations between IFRS and Previous GAAP should be adequate for users to understand the significant differences between the two GAAPs and that no additional information is necessary.

We thank you for the opportunity to comment on these proposed amendments. Please contact Garth Campbell-Cowan on +61(3) 9634 6470 if you need any further explanation on any of the comments made in this submission.

Yours sincerely,

John V Stanhope
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