

## **ED 297 Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities**

### **– Roundtable Summaries**

#### **What did we do and why did we do it?**

- We ran for-profit entity focussed roundtables in Melbourne, Brisbane, Sydney, Adelaide and Perth to obtain feedback on the proposals in Exposure Draft [ED 297 Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities](#).
- The AASB also performed outreach on Exposure Draft [ED 295 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities](#). The feedback on that outreach is available in a separate summary.

#### **What did we hear at the roundtables?**

Polling Questions <sup>1</sup>		Yes	No	Unsure
Poll 1 (Q1)	Do you agree no further transitional relief is required in addition to AASB 1/ ED 297	39 or 59%	10 or 26%	17 or 15%
Poll 2 (Q4)	Is the scope appropriate?	58 or 84%	5 or 7%	6 or 9%
Poll 3 (Q5)	Is the exemption for entities a non-legislative requirement appropriate?	47 or 98%	0	1 or 2%
Poll 4	Do you agree with the effective date?	50 or 88%	3 or 5%	4 or 7%
Poll 5	Overall question - Do you support to proceed with ED 295 and ED 297?	27 or 93%	1 or 3.5%	1 or 3.5%

#### **The cost of transition**

- Participants suggested that for cost consideration, the entities should be grouped in three separate buckets:
  - i. entities preparing SPFS that comply with all recognition and measurement including consolidation,
  - ii. entities preparing SPFS that comply with recognition and measurement but not with consolidation requirements, and
  - iii. entities preparing SPFS that comply neither with recognition and measurement nor consolidation requirements.
- A common response amongst participants was that the cost of transition from SPFS to Tier 2 GPFS with full recognition and measurement and consolidation would result in an approximate 20% increase in both preparation and audit costs if the current SPFS complies with recognition and measurement requirements<sup>2</sup>.

<sup>1</sup> Not all participants took part in the voting and some had to leave part-way through a session. The percentages quoted in this document are based on the total votes that were cast for any particular question.

<sup>2</sup> When answering this question, participants were asked to consider any cost savings that would be afforded by ED 295 in their overall assessment. Information provided by participants represents high-level estimates of costs, however the actual costs will depend on the degree of change (e.g. extent of current SPFS compliance with recognition and measurement, or whether consolidation is required).

## Transitional relief – scope

- ED 297 proposes that an entity preparing general purpose financial statements (GPFS) under Tier 2 requirements for the first time that had not complied with recognition and measurement requirements (including consolidation and equity accounting) would not need to restate or present comparative information as otherwise required by AAS. Overall, the majority of participants agreed that the transitional relief proposed was appropriate.
- Many participants suggested that transitional relief from restating comparatives should be extended to entities that already comply with all recognition and measurement requirements and consolidate/equity account (where appropriate) in their current SPFS, to the extent that new disclosures are required. In particular, participants listed Related Party Disclosures – particularly around key management personnel – and tax to be the most difficult comparatives.
- Participants questioned whether entities preparing SPFS that have claimed recognition and measurement compliance but then find they must make adjustments will be able to use transitional relief or whether they need to use the correction of an error route.

## Transitional relief – presentation of the comparative balance

- Some participants suggested that it may be confusing to have an adjusted opening balance (with consolidation and recognition and measurement requirements) as comparative information in the statement of financial position, while the profit and loss comparative information is from SPFS, i.e. unconsolidated and non-compliant with recognition and measurement requirements.
- Participants raised concerns regarding the capability of software to accommodate the adjustments and presentation requirements of the proposals in ED 297. For example, whether the software packages would permit the presentation of an adjusted opening balance sheet (as opposed to a closing balance sheet) on the face of the financial statements. One participant suggested that entities would be able to export financial statements and make manual adjustments for the opening balance however it might be easier to present the prior year unadjusted closing balance with a reconciliation to opening balances in the notes.
- Concerns were expressed about the note disclosures and whether or not comparatives would be the prior year SPFS numbers or opening adjusted numbers and the audit costs of getting this right.
- Some participants were concerned whether software providers would be able to update their systems in time to reflect the requirements of the revised GPFS Tier 2 Framework.
- Some participants suggested that if the statement of financial position was left as the closing SPFS numbers, there should be a numerical reconciliation between the opening adjusted numbers and the SPFS numbers in the notes.

## Need to educate legal profession and accountants on meaning of Australian Accounting Standards

- Many participants raised concerns that the amendments of a trust deed could trigger increased financial reporting obligations and suggested that it was therefore important to educate all those involved in the preparation of trusts deeds and other constituting documents what a reference to Australian Accounting Standards would mean going forward.

## Australian Financial Services Licences

- Concerns were raised regarding Australian Financial Services Licences (AFSL), specifically how ASIC will interpret AFSL in FS70 *Australian financial services licensee profit and loss statement and balance sheet*.

## Grandfathering of large proprietary companies

- There were mixed views between participants regarding grandfathered entities which would be required to prepare GPFS if the proposals become finalised but would still be exempt from lodging the financial statements with ASIC. Participants were concerned that entities would incur unnecessary compliance costs as their financial statements are not required to be lodged with ASIC.
  - AASB staff confirmed that lodgement of financial statements is mandated by the Corporations Act and enforced by ASIC. AASB does not have a remit to remove grandfathering.

- On the other hand, many participants supported the removal of the grandfathering exemption supporting the public lodgement of financial statements of these entities<sup>3</sup>.
- One participant raised that when last reviewed there were approximately 1,300 grandfathered entities that may be affected, and that number is expected to be significantly reduced due to the doubling of the large proprietary company thresholds and the amendments to the tax law requiring significant global entities (SGE) to lodge GPFS with the Australian Taxation Office (ATO).

## Who attended the roundtables?

- 73 stakeholders attended the roundtable sessions from the for-profit sector.
- Attendees included:
  - 10 Regulators;
  - 42 Professional Services Firms;
  - 10 Preparers;
  - 4 Professional Bodies;
  - 1 Non-Executive Directors;
  - 1 Public sector audit office;
  - 3 Academics; and
  - 2 others.

## How were the roundtables structured?

- The structure of the roundtables was designed to provide education as well as to receive feedback on the AASB's ED 297, starting with a high-level presentation of the proposals followed by a brainstorming session, giving attendees the opportunity to discuss the proposals and provide their feedback.
- In addition to the **polling questions** (refer to the table above for the list of polling questions), the following questions were asked in the facilitated discussion session:
  - **Question 2:** If no (*to question 1*), what other relief do you consider would be helpful to transition from SPFS to GPFS?
  - **Question 3:** What do you think the cost of transition would be from a typical set of SPFS to Tier 2 GPFS? Can you provide a breakdown of increase in preparation cost, audit cost and/or consultancy costs<sup>2</sup>?
- To gain a view on how strongly participants felt about the proposals in ED 295 and ED 297, an **overall voting** was carried out before the roundtables concluded. Overall, there was general support to proceed with the proposals.

## What's next?

- [Comments](#) to the AASB on [ED 297](#) close 30 November 2019
- [Webinar](#): ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* 18 November 2019
- AASB Board to discuss comments on ED 297 early 2020
- Phase 1 (publicly accountable entities) will be applied for periods beginning 1 January 2020 (30 June 2021 year ends)
- Further amendments and ballot draft of amending standard mid 2020
- Phase 2 (other specified for-profit private sector entities) would be applied for periods beginning on or after 1 July 2020

## Who facilitated the roundtables?

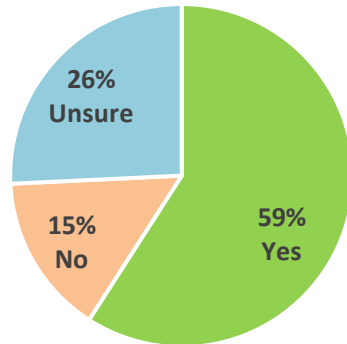
- Kris Peach (AASB Chair), Kala Kandiah (AASB Technical Director), Helena Simkova (AASB Senior Project Manager), Meina Rose (AASB Senior Project Manager) and James Barden (Project Manager).

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<sup>3</sup> However, this issue is not within the AASB's legislative remit.

## Appendix A: Poll feedback<sup>4</sup>

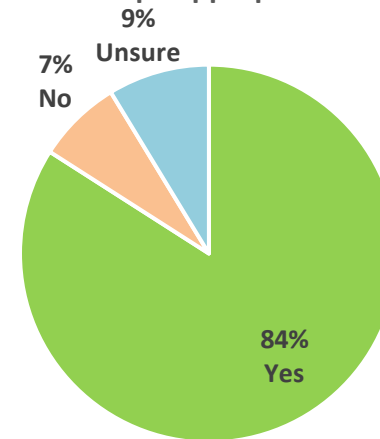
No further transitional relief required in addition to AASB 1 and proposed in ED 297?



■ Yes ■ No ■ Unsure

\*7 participants abstained to vote

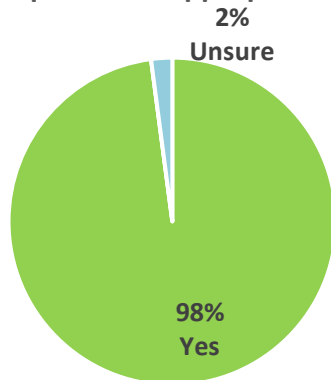
Is the scope appropriate?



■ Yes ■ No ■ Unsure

\*4 participants abstained to vote

Exemption for entities with a non-legislative requirement appropriate?

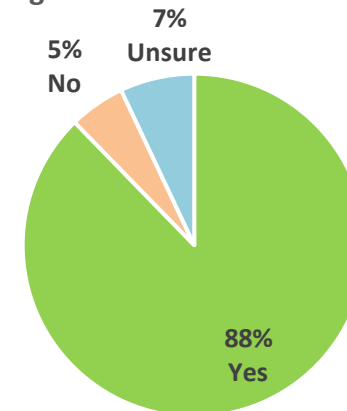


■ Yes ■ Unsure

\*2 participants abstained to vote

\*No votes taken in Sydney

Do you agree with the effective date?



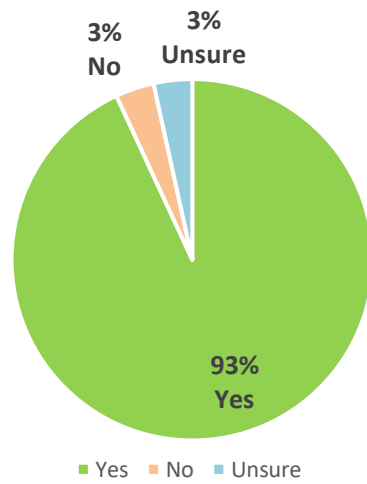
■ Yes ■ No ■ Unsure

\*16 participants abstained to vote

\*Voting was taken in conjunction with ED 295 in Sydney, Brisbane, Perth & Adelaide

<sup>4</sup> Not all participants took part in the voting and some had to leave part-way through a session. The percentages quoted in this document are based on the total votes that were cast for any particular question.

**Do you support proceeding with ED 295 and ED 297**



*\*This question was asked during the ED 295 session*

## Appendix B: Summary of feedback by location<sup>5</sup>

Total attendees: 73

		Melbourne Friday, 11-10-19	Sydney Monday, 14-10-19	Brisbane Friday, 18-10-19	Perth Tuesday, 22-10-19	Adelaide Thursday, 24-10-19
<b>Participants</b>	-	25	23	11	8	6
<b>Poll 1 (Q1) Do you agree no further transitional relief is required in addition to AASB 1/ ED 297</b>	Yes	24 or 96%	9 or 56%	0	6 or 75%	0
	No	1 or 4%	7 or 44%	0	2 or 25%	0
	Maybe	0	0	11 or 100%	0	100%
<b>Poll 2 (Q4) Is the scope appropriate?</b>	Yes	21 or 84%	13 or 65%	10 or 100%	8 or 100%	6 or 100%
	No	0	5 or 25%	0	0	0
	Maybe	4 or 16%	2 or 10%	0	0	0
<b>Poll 3 (Q5) Is the exemption for entities a non-legislative requirement appropriate?</b>	Yes	24 or 100%	N/A	9 or 90%	8 or 100%	6 or 100%
	No	0	N/A	0	0	0
	Maybe	0	N/A	1 or 10%	0	0
<b>Poll 4 Do you agree with the effective date?<sup>6</sup></b>	Yes	20 or 80%	N/A	N/A	N/A	N/A
	No	2 or 8%	N/A	N/A	N/A	N/A
	Maybe	3 or 12%	N/A	N/A	N/A	N/A
<b>Overall question - Do you support to proceed with ED 295 and ED 297?</b>	Yes	22 or 93%	18 or 96%	11 or 100%	7 or 87%	6 or 100%
	No	1 or 3.5%	1 or 4%	0	1 or 13%	0
	Maybe	1 or 3.5%	0	0	0	0
<b>Composition of attendees</b>	-	4 Regulators (ASIC, ATO, APESB, AASB), 14 Professional Services Firms, 1 Preparer, 1 Academic, 3 Professional Bodies and 2 others	4 Regulators (ATO, Treasury), 12 Professional Services Firms, 4 Preparers, 1 Professional Body, 1 Non-Executive Director and 1 Academic	1 Regulator (ATO), 5 Professional Service Firms, and 5 Preparers	8 Professional service firms	1 Regulator (ATO), 3 Professional Service Firms, 1 Public sector audit office, 1 Academic,

<sup>5</sup> Not all participants took part in the voting and some had to leave part-way through a session. The percentages quoted in this document are based on the total votes that were cast for any particular question.

<sup>6</sup> Voting was taken in conjunction with ED 295 in Sydney, Brisbane, Perth & Adelaide

## Appendix C: What we heard in each location

### Event: Roundtable session on ED 297 *Removal of Special Purpose Financial Statements for Certain For-profit Private Sector Entities*

#### Melbourne – Friday 11 October 2019

Number of attendees: 24

Composition of attendees: 4 Regulators (ASIC, ATO, APESB staff), 14 Professional Services Firms' representatives, 1 Preparer, 1 Academic, 3 Professional Bodies' representatives and 2 others

Legend to terminology used:

All = 100%	Even = 50%
Most = 99-80%	Several = 49-21%
Majority = 79-51%	Some = 20-10%

#### Question 1: Do you agree no further transitional relief is required in addition to what is currently in AASB 1 and proposed in ED 297?

- Almost all participants (23) agreed no further transitional relief is required in addition to what is currently in AASB 1 and proposed in ED 297.
- One participant (professional services) disagreed.

#### Question 2: If no, what other relief do you consider would be helpful to transition from SPFS to GPFS?

- The participant that disagreed to Question 1 suggested that, as entities currently not complying with recognition and measurement requirements in AAS and transitioning from SPFS to GPFS would have to calculate adjustments for the GPFS opening balance sheet in any case, the suggested transitional relief of not having to provide comparatives (i.e. comparative figures for previous financial year end) may not be necessary. The participant also raised a question whether entities should be required to provide quantitative reconciliations if the proposed relief is applied.

#### Question 3: What do you think the cost of transition would be from a typical set of SPFS to Tier 2 GPFS? Can you provide a breakdown of increase in preparation cost, audit cost and/or consultancy costs?

- One participant suggested that for cost consideration, the entities should be grouped in three separate buckets:
  - iv. entities preparing SPFS that comply with all recognition and measurement including consolidation,
  - v. entities preparing SPFS that comply with recognition and measurement but not with consolidation requirements, and
  - vi. entities preparing SPFS that comply neither with recognition and measurement nor consolidation requirements.

The estimate of increase in costs for iii) would be 10%-20% in preparation and audit costs.

- Some participants suggested that the cost of transition from SPFS to Tier 2 GPFS with full recognition and measurement and consolidation would result in a 20% increase in both preparation and audit costs.
- Some participants suggested the average preparation and audit cost incurred by entities on transition would be approximately \$20,000.
- One participant suggested an average entity (i.e. SPFS compliance with some R&M) would incur transition costs of approximately \$40,000.
- Some participants suggested it would be difficult to estimate the cost of transition for unconsolidated Tier 2 GPFS given the degree of variation.

#### Question 4: Is the scope appropriate?

- Most participants agreed overall that the scope is appropriate. 4 participants were unsure.
- Of those participants that did not overall agree with the scope of the proposals, one participant agreed with the scope in respect of entities required to prepare financial statements by the Corporations Act, but suggested that further research is required in respect of other entities.
- One participant raised concerns about grandfathered entities which would be required to prepare GPFS if the proposals become finalised but will still be exempt from lodging the financial statements with ASIC. It was acknowledged that the exemption from lodgement for these grandfathered entities is a matter for the government. The AASB does not decide on which entities would be required to lodge financial statements with ASIC.
- One participant raised a question whether there are any primary users of financial statements of private companies.
  - AASB Staff mentioned that over 98,000 copies of financial statements are purchased annually from ASIC and of those financial statements purchased, 80% were of proprietary companies. AASB Staff also mentioned that the [AASB For-profit User and Preparer Survey Results](#) indicates high rates of primary and other users reading large proprietary company financial statements.
- One participant suggested additional research should be done in respect of incorporated associations to confirm whether they are in scope of the proposal.

#### Question 5: Is the exemption for entities with a non-legislative requirement appropriate?

- All participants who voted agreed that the exemption for entities with a non-legislative requirement is appropriate, and one participant abstained.
- One participant suggested that the exemption from scope for entities that are not required by legislation to prepare financial statements in accordance with AAS but only by their constituting or documents (so long as not amended or created on or after 1 July 2020) should be only temporary.
- One participant suggested that in case of entities required only by their constituting or other document to prepare financial statements, further guidance is needed to clarify what those 'other' documents are.

#### Question 6: Do you agree with the effective date?

- Most participants agreed with the effective date of the proposals.
- One participant raised a concern regarding timing as not only education of the sector is required but also changes in systems and processes, particularly in respect of consolidation. Another participant raised similar concern regarding consolidated groups where subsidiaries' accounts were not audited.

#### Other comments

- Two participants raised concerns regarding trust deed amendments suggesting that entities might change parts of their trust deed after 1 July 2020 without considering what their financial reporting requirements are under the trust deeds, which would then result in them falling outside the scope exemption and possibly required prepare GPFS if their trust deeds require them to prepare financial statements in accordance with AAS. Many participants noted the need to educate lawyers and others involved in the preparation of trust deeds. AASB staff shared that they have been having discussions with lawyers and law councils about the proposals of ED 297 and the implications for entities governed by trust deeds and other constituting documents and have shared educational materials to help.
- One participant suggested that the new not-for-profit definition proposed in [ED 291 Not-for-Profit Entity Definition and Guidance](#) could push more entities into the for-profit sector than expected. This participant questioned the implications of this project for those entities.
- One participant noted that the entities will need education on AASB 1 *Preparation of Financial Statements*.
- No concerns were raised in terms of audit implications. Some participants noted that it will be a similar process to initial adoption of IFRS in 2005 or to when Significant Global Entities prepared GPFS for the first time.



## Sydney – Monday 14 October 2019

Number of attendees: 23

Composition of attendees: 4 Regulators (including ATO, Treasury), 12 Professional service firms, 4 Preparers, 1 Professional body, 1 Non-executive director, 1 Academic

Legend to terminology used:

All = 100%	Even = 50%
Most = 99-80%	Several = 49-21%
Majority = 79-51%	Some = 20-10%

### Question 1: Do you agree no further transitional relief is required in addition to what is currently in AASB 1 and proposed in ED 297?

- There were mixed views on whether no further transitional relief is required in addition to what is currently in AASB 1 and proposed in ED 297.
- Nine participants agreed that no further transitional relief is required. However, seven participants disagreed – refer to Question 2 for more details.

### Question 2: If no, what other relief do you consider would be helpful to transition from SPFS to GPFS?

- Some of the participants who disagreed with Question 1 suggested that entities that are currently complying with all recognition and measurement requirements (including consolidation and equity accounting) in preparing the SPFS and therefore have to step up in terms of their disclosures when transitioning to GPFS should be given the same transitional reliefs for their disclosures as those entities that have not complied with all recognition and measurement.
- One participant suggested that it would be preferred to only require current year disclosures as the key issues are around related party disclosures, key management personnel and tax.
- One participant noted that in the proposed relief there is a mismatch of comparatives between PL and BS which is not useful and preferred that no comparatives are required for both PL and BS (i.e. no need to provide adjusted opening balance sheet in year of transition).

### Question 3: What do you think the cost of transition would be from a typical set of SPFS to Tier 2 GPFS? Can you provide a breakdown of increase in preparation cost, audit cost and/or consultancy costs?

- Several participants suggested that for those entities that comply with some recognition and measurement requirements, preparation costs would increase between 5-15% during transition.
- One participant suggested an increase in transition costs by 20% if the entity has complied with recognition and measurement requirements, otherwise the cost would be double.
- One participant suggested that ongoing preparation costs would increase by 10% per year while the increase in costs due to transition would be 20%.
- Some participants suggested increase of 5-20% in preparation and audit costs, depending of current level of compliance with recognition and measurement requirements.

### Question 4: Is the scope appropriate? / Question 5: Is the exemption for entities with a non-legislative requirement appropriate?

- Majority of participants agreed that the scope was appropriate.
- Five participants did not agree that the scope was appropriate, mainly because they did not agree with exempting entities, which are required only by constituting and other documents to prepare financial statements in accordance with AAS and suggested that only temporary relief be provided. Two participants were unsure.
- One participant suggested finding a way to completely scope out entities that are not required by legislation to prepare financial statements with an option for voluntary adoption.

### Question 6: Do you agree with the effective date?

- Two participants raised concerns that the timing of the proposals is too tight to inform stakeholders about the change in reporting requirements for entities reporting at 30 June.

## Brisbane – Friday 18 October 2019

Number of attendees: 11

Composition of attendees: 5 Professional service firms, 5 Preparers and 1 regulator (ATO).

Legend to terminology used:

All = 100%	Even = 50%
Most = 99-80%	Several = 49-21%
Majority = 79-51%	Some = 20-10%

### Question 1: Do you agree no further transitional relief is required in addition to what is currently in AASB 1 and proposed in ED 297?

- All the participants were unsure whether any further transitional relief is required in addition to what is currently in AASB 1 and proposed in ED 297.
- Two participants suggested that it would be useful to clarify the scope of the relief and how the relief applies to the cash flow statement and Statement of Changes in Equity.

### Question 2: If no, what other relief do you consider would be helpful to transition from SPFS to GPFS?

- Majority of participants suggested that the transitional relief from disclosing the comparative information, which was previously not disclosed in SPFS, should be granted to all entities, i.e. even to those preparing SPFS, which comply with recognition and measurement requirements (in particular: tax and key management personnel comparative disclosures may be difficult to prepare).
- One participant suggested disclosing unadjusted comparative balance sheet in the statement of financial position rather than adjusted opening balance sheet and explaining transitional adjustments in the notes (and quantify them). Presentation of BS and PL would then be consistent.

### Question 3: What do you think the cost of transition would be from a typical set of SPFS to Tier 2 GPFS? Can you provide a breakdown of increase in preparation cost, audit cost and/or consultancy costs?

- Majority of participants suggested an approximate increase of 20-30% in preparation and audit costs. Costs could be lower but it depends on the quality of internal information systems, expertise and complexity of the entity.
- Several of participants suggested the following:
  - for an increase in disclosures only - one week of a manager would be sufficient for one set of financial statements;
  - for a compliance with recognition and measurement as well as increase in disclosures – three weeks of a manager would be needed for one set of financial statements;
  - for preparation of financial statements - three months of a senior accountant for 60 sets of financial statements
- One participant suggested a senior accountant would take approximately 1-2 months for 30 financial statements.

### Question 4: Is the scope appropriate?

- All participants that voted agreed that the scope is appropriate.
- One participant raised concerns that some entities may need to seek legal advice to determine whether they are in or out of the scope, especially where directors are risk adverse.
- One participant questioned whether there was any impact on grandfathered large proprietary companies.
  - AASB staff confirmed that these entities would be in scope of the ED.

### Question 5: Is the exemption for entities with a non-legislative requirement appropriate?

- Almost all participants agreed the exemption for entities with non-legislative requirements is appropriate. However, one participant was unsure, while one was abstained.

## Other comments

- One participant noted that some trusts would still be within the scope of the significant global entities legislation and hence would anyway need to lodge GPFS in accordance with commercially accepted accounting principles (CAAP) if not already required to prepare financial statements under Part 2M.3 of the *Corporations Act 2001*.
- One participant questioned how a trust or other entity not required by legislation, which is exempt from the requirements to prepare GPFS, draft their basis of preparation and whether there would be any audit consequences of this.
  - AASB Staff noted that there should not be an impact for the basis of preparation for those entities as they would still be complying with Australian Accounting Standards (i.e. the exemption is permitted by the AAS).
- One participant raised concerns regarding Australian Financial Services Licences (AFSL), specifically how ASIC will interpret AFSL in FS70 *Australian financial services licensee profit and loss statement and balance sheet*.
  - AASB Staff noted that this was a matter for ASIC to consider.
- One participant asked whether the AASB has done enough to consult small businesses.
  - AASB Staff noted that they should not be affected because they are most likely below the revised “large proprietary company” threshold under the *Corporations Act*.
- One participant suggested that we should provide clarification on what ‘amendments to the trust deed’ mean, i.e. whether amendment to FS or any amendment?
  - AASB staff confirmed that it is any amendment.
- One participant suggested to clarify meaning and limit of a ‘constituting document (what type of document would be in).

## Perth – Tuesday 22 October 2019

Number of attendees: 8

Composition of attendees: 8 Professional service firms

Legend to terminology used:

All = 100%

Most = 99-80%

Majority = 79-51%

Even = 50%

Several = 49-21%

Some = 20-10%

### Question 1: Do you agree no further transitional relief is required in addition to what is currently in AASB 1 and proposed in ED 297?

- Majority of participants agreed no further transitional relief is required in addition to what is currently in AASB 1 and proposed in ED 297.
- Two participants disagreed.

### Question 2: If no, what other relief do you consider would be helpful to transition from SPFS to GPFS?

- One participant suggested that it may be confusing to have an adjusted opening balance (with consolidation and recognition and measurement requirements) as comparative information in the statement of financial position, while the profit and loss comparative information is from SPFS, ie unconsolidated and non-compliant with recognition and measurement requirements.
- One participant suggested that the transitional relief is not necessary as preparing a comparative statement of profit and loss is not difficult and would prefer to restate comparatives. Another participant agreed and suggested that restating comparatives would be easier for entities to understand compared to the transitional relief in ED 297.
- One participant raised concerns around the compatibility of software during transition due to the adjustments and presentation requirements of ED 297. However, the same participant suggested entities could export financial statements and make adjustments manually.

### Question 3: What do you think the cost of transition would be from a typical set of SPFS to Tier 2 GPFS? Can you provide a breakdown of increase in preparation cost, audit cost and/or consultancy costs?

- One participant noted common areas of noncompliance and difficult areas on transition will be:
  - 1) Share based payments – which are often either ignored, unidentified or not measured in accordance with AASB 2 *Share-based Payment*;
  - 2) accounting for investments in associates/joint ventures that have been held at cost – in particular, some participants noted equity accounting may not be welcomed by preparers. Also, fair value of other investments held at cost that do not have an active market may not be welcomed due to the costs of valuations;
  - 3) tax effect accounting – one participant noted that entities often try to reach tax/accounting harmonisation when they don't apply full recognition and measurement – smaller entities may not like recognising new deferred tax assets/deferred tax liabilities; and
  - 4) related party disclosure – may not like giving away information on remuneration when having only 1-2 key management personal or information on transactions with related parties.
- Adoption of AASB 15 was mentioned as another driver of increased costs for entities in the construction industry.
- An estimate of 20% increase in preparation and audit cost was mentioned.

### Question 4: Is the scope appropriate?

- All participants agreed that the scope is appropriate.
- One participant suggested that large proprietary grandfathered entities will not be supportive of the requirements as they will see this as unnecessary compliance cost. The same participant suggested that common areas of non-compliance include tax effect accounting and accounting for investments in subsidiaries, associates and joint ventures.

- One participant noted there may be some very small foreign controlled proprietary companies that hold AFSL with small amounts of revenue that may be captured in the requirements. However, other participants considered those entities could likely be electively for other financial reporting relief through ASIC or exempt from consolidation by the exceptions in AASB 10.
- One participant questioned whether a new or amended trust deeds referring to 'Australian accounting standards' (i.e. 'accounting standards' not capitalised) would be within scope.

**Question 5: Is the exemption for entities with a non-legislative requirement appropriate?**

- Majority of participants did not conceptually support the idea of grandfathering all trusts and entities with a non-legislative requirement. However, ultimately, they agreed that the exemption is appropriate to meet the objectives of the project.

**Question 6: Do you agree with the effective date?**

- All participants were of the view that transition relief for disclosure of comparatives is needed.
- One participant suggested there may not be enough time for transition, especially for entities that have not consolidated in previous reporting periods. Another participant disagreed saying that entities may not use the extra time for transition anyway, similar to anecdotal recounts of the transition periods of AASB 15 and AASB 16.

**Other comments**

- One participant suggested that there may be a pushback due to some stakeholders not interpreting RG85 to require recognition and measurement. The participant made the same comment in respect of consolidation/equity accounting.
- One participant asked for clarity around whether entities preparing SPFS that have claimed recognition and measurement compliance but then find they have to make adjustments will be able to use transitional relief or whether they need to use the correction of an error route
- Two participants were concerned that large family groups may struggle to assess control due to complex corporate structures (and poor understanding of the control principle).
- One participant asked whether IFRS for SMEs would be available for trusts.
  - AASB staff provided information on the Simplified Disclosure framework suggested in ED 295.
- One participant noted that education of lawyers and accountants is necessary as some legislators may not understand the meaning of AAS. To facilitate such education, it was suggested that the AASB identifies and consults directly with association/s of self-managed superfund auditors, noting that the ATO could provide access to them.
- One participant was concerned that entities would seek to undertake complex restructures of organisations to avoid being required to prepare and publicly lodge financial statements in accordance with AAS.

## Adelaide – Thursday 24 October 2019

Number of attendees: 6

Composition of attendees: 1 Regulators, 1 Public Sector Audit Office, 1 Academic, 3 Professional service firms

Legend to terminology used:

All = 100%

Most = 99-80%

Majority = 79-51%

Even = 50%

Several = 49-21%

Some = 20-10%

**Question 1: Do you agree no further transitional relief is required in addition to what is currently in AASB 1 and proposed in ED 297? / Question 2: If no, what other relief do you consider would be helpful to transition from SPFS to GPFS?**

- All participants agreed that transitional relief from restating new comparative disclosures for entities that have previously complied with recognition and measurement requirements and consolidated/equity accounted where appropriate would be justified, in particular for related party disclosures (especially surrounding key management personnel).. (
- One participant noted that when public sector started disclosing KMP (as required by AASB 2015-6 *Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities*, there was relief from presenting and restating comparatives disclosures.
- Two participants questioned the scope of the comparative relief to the cash flow statement and statement of changes in equity (SOCIE). These participants confirmed their preference to not present a comparative cash flow statement and SOCIE as this would be particularly confusing where subsidiaries were consolidated.
- One participant questioned whether any relief was considered for entities from hedging under AASB 9. The participant was concerned whether entities would have enough time to prepare hedge documentation to facilitate hedge accounting in accordance with AASB 9 *Financial Instruments*.

**Question 3: What do you think the cost of transition would be from a typical set of SPFS to Tier 2 GPFS? Can you provide a breakdown of increase in preparation cost, audit cost and/or consultancy costs?**

- One participant provided an anecdotal indication of an increase from \$8k to \$100k+ in audit costs for a move from SPFS to GPFS for one large entity. However, this estimate was impacted by other factors, including a number of large acquisitions, and audit of two comparative periods including opening balances.
- Another participant that had previously moved down from GPFS to SPFS noted that they had not experienced a significant reduction in costs.

**Question 4: Is the scope appropriate?**

- All participants agreed that the scope is appropriate.

**Question 5: Is the exemption for entities with a non-legislative requirement appropriate?**

- All participants agreed that the exemption is appropriate for entities with a non-legislative requirement, however suggested education for lawyers and other practitioners that may be involved in amending or drafting trust deeds is important.

**Question 6: Do you agree with the effective date?**

- No specific comment on the proposed effective date. However, participants would like relief from comparative disclosures in particular in relation to related party disclosures, including key management personnel remuneration.

**Other comments:**

- One participant questioned whether AASB can remove the grandfathering of some large proprietary companies from lodging their financial statements with ASIC.

- AASB staff confirmed that lodgement of financial statements is mandated by the Corporations Act and enforced by ASIC. AASB does not have a remit to remove grandfathering.