



# Memorandum

<b>To:</b>	AASB members	<b>Date:</b>	5 February 2013
<b>From:</b>	Ahmad Hamidi	<b>Agenda Item:</b>	9.1 (M129)
<b>Subject:</b>	Possible policy implications of the results of research into accounting by lodging entities	<b>File:</b>	P 52

## Action

Consider a staff paper setting out possible policy implications of the results of research into accounting by certain lodging entities with a view to providing comment on staff recommendations and direction as to the way forward, including further due process.

## Attachments

Agenda paper 9.2: Possible policy implications of the results of research into accounting by certain lodging entities.

## Overview

Agenda paper 9.2:

- (a) provides a summary of the results of the research work based on the latest draft research report;
- (b) identifies issues in the area of financial reporting by entities lodging on a public register in particular companies lodging with the Australian Securities and Investments Commission (ASIC);
- (c) identifies possible policy options that fall within the mandates of AASB and other regulators; and makes recommendations. In summary they include adopting ED 192 *Revised Differential Reporting Framework* proposals regarding change of focus of accounting standards from reporting entity to GPFs and clarification of GPFs; and measures that would need to be considered by other regulators; and
- (d) seeks the Board's view on the future status of SAC 1 *Definition of the Reporting Entity* in the context of implementing ED 192 proposals.

## Background

ED 192 included proposals for:

- (a) establishing a second tier comprising Reduced Disclosure Requirements for preparing GPFs; and
- (b) changing the focus of application of Standards from reporting entity to general purpose financial statements (GPFs) and clarifying the meaning of GPFs in an Australian context,

including that financial statements that are made publicly available and held out to be prepared in accordance with Australian Accounting Standards are GPFSSs.

Proposal (a) gave rise to AASB 1053 *Application of Tiers of Australian Accounting Standards*.

The comments from constituents on the proposals in (b), particularly the divergence of views as to the functionality of the reporting entity concept, led to the Board deferring its decision on those proposals pending further research into the incidence and nature of special purpose financial reporting.

A research project, commissioned by the AASB, is being progressed by Brad Potter (Melbourne University), Peter Carey (Deakin University) and George Tanewski (Deakin University). The thrust of the research is to profile the characteristics of lodging entities and their accounting policies with a view to shedding further light on (i) whether there is a consistency in the current treatment of entities as non-reporting entities; and (ii) the nature of the accounting policy choices being made by those entities.

### ***Progress reports by research contractors***

At the June, September and December 2011 and April 2012 Board meetings, the research contractors informed members about the progress of the project including preliminary findings about the consistency in the treatment of entities as non-reporting entities with focus on the population of entities that lodge financial statements with the ASIC.

At the December 2012 meeting, the Board considered a draft final report from the research contractors that focused on the population of entities that lodge financial statements with the ASIC under the *Corporations Act 2001*. The draft report, which is used as the basis for preparing Agenda paper 9.2, includes research findings about whether there is consistency in the treatment of entities as non-reporting entities based on the criteria in the Statement of Accounting Concepts SAC 1. The draft report also examines the financial reporting practices of sampled entities across two primary dimensions:

- (a) the application of recognition and measurement requirements and, where relevant, disclosure requirements of accounting standards by lodging entities; and
- (b) the quality of accruals raised by large proprietary companies lodging with the ASIC with a view to gaining an understanding of whether accrual-based profit is being accurately measured. Examining the dimensions of quality of accruals is intended to assist in understanding the differences between companies preparing GPFSSs and those preparing special purpose financial statements (SPFSSs).

The (draft) report also includes findings in relation to the nature of financial statements lodged by Co-operatives and Associations with Consumer Affairs Victoria (CAV) and the final version of the report is expected to also include findings in relation to financial statements lodged by Associations and Co-operatives with relevant New South Wales and Queensland registries.