

STAFF PAPER
FINANCIAL REPORTING FRAMEWORK BENCHMARKING

Purpose

- 1 The purpose of this Staff Paper is to update the Board on research decisions made to date regarding the comparison of financial reporting frameworks available in other jurisdictions to the Australian financial reporting environment.

Background

- 2 At its July meeting the AASB agreed with the staff recommendation to compare the Australian financial reporting environment to those of the following countries:
 - (a) Asia/Oceania – Hong Kong, Japan, Korea, Malaysia, New Zealand and Singapore
 - (b) Other – Canada, South Africa, United Kingdom and United States of America.
- 3 The Board agreed that the above jurisdictions would provide a reasonable base for comparison due to being relatively comparable in terms of regulatory rigour as well as including countries that are traditionally compared to Australia in terms of financial reporting issues.

Assumption made in the research

- 4 Staff have made a simplifying assumption in researching the above jurisdictions in order to balance the completeness and timeliness of the information presented in Agenda Paper 7.2 and the future research report.
- 5 First and foremost, the research is focused on legislative requirements that would require an entity to lodge financial statements on the public record (regardless of any fee payable for access to such information). For example, many companies in Australia must lodge financial statements with ASIC that are made available to the public. However, there is no feasible way to assess the application of any reporting requirements applicable to financial statements that do not need to be lodged for public access.
- 6 Based on this assumption staff were able to limit the number of financial reporting frameworks addressed in a jurisdiction to those that legislators deemed appropriate for publicly available financial statements. In the Australian context this includes Tier 1, Tier 2 and Special Purpose Financial Statements, but excludes financial statements prepared on a tax basis and the financial statements of incorporated associations in some States.

Nature of comparisons made

- 7 Staff identified a number of key comparisons to be made between the jurisdictions covered by the research:
 - (a) The number of reporting frameworks available to entities.
Staff believe that this indicator provides insight into the complexity of the

financial reporting environment in a particular jurisdiction. The higher the number of frameworks, the more elaborately the landscape has been stratified.

(b) The types of business structure that are legally required to apply a financial reporting framework.

Traditional general purpose financial reporting concepts imply that a significant separation between management and ownership (such as with public companies) result in the need for general purpose financial statements. Staff are examining whether this notion is applicable in the legal requirements for the investigated jurisdictions, in particular for business structures that don't afford legal separation between management and ownership (such as partnerships).

(c) Whether business structures need to pass some sort of threshold before being required to lodge financial statements on the public record.

This question investigates whether legislation in a jurisdiction requires an entity to lodge financial statements only if it has exceeded a defined threshold. For example, in Australia a proprietary company generally is required to lodge financial statements with ASIC only if it meets the criteria for being large.

(d) Where a jurisdiction has multiple tiers of reporting requirements, each progressively reducing in complexity, how the jurisdiction determines the application of the most extensive requirements.

This question identifies the mechanisms in a jurisdiction for requiring an entity to apply the highest level of financial reporting requirement, including any special exemptions (such as wholly-owned subsidiaries) included in the general requirements. For example, in Australia, entities with public accountability and governments must apply Tier 1 financial reporting requirements. In addition, some entities are deemed to have public accountability.

(e) Whether a jurisdiction has a simplified financial reporting framework, and if so, the foundation for that framework and when an entity can apply it.

General purpose financial reporting requirements might be simplified for some entities with simpler operations. This question identifies whether a jurisdiction has developed, or adopted, a simplified general purpose financial reporting framework and the requirements an entity needs to meet in order to apply that framework.

Next steps

- 8 Staff have collected a large amount of information regarding the above questions, as indicated in the benchmarking summary Agenda Paper 7.2. Staff are developing a detailed research report that further describes the research performed and results obtained in relation to the above areas.
- 9 Considering the description of the comparisons made above, staff propose the following sections for the research report and an indication of the amount of coverage to ascribe to each section:

Section	Title	Purpose	Proportion
A	Purpose of the research report	This section will provide readers with an understanding of the research conducted and why the AASB has prepared the research report.	10%
B	Overview of financial reporting frameworks in covered jurisdictions	This section is intended to provide readers with an indication of reporting frameworks in force in the jurisdictions included in the study. Specifically, this section will not only highlight whether a jurisdiction has adopted an international set of accounting standards for entities (i.e. IFRSs or IPSASs) but also describe the levels (or tiers) of the reporting framework that might be available to entities of different sizes and with or without public accountability.	20%
C	When are publicly available general purpose financial statements required	This section will expand on Section B to describe the circumstances in which an entity must prepare publicly available financial statements in accordance with a framework identified in Section B.	30%
D	General requirements for information presented in publicly available general purpose financial reports	This section will address the application of any “tiers” or “levels” of the reporting framework for publicly available general purpose financial statements. This discussion will include an overview of any principles or quantitative thresholds applicable to the selection of a “tier” or “level”.	30%
E	Concluding remarks	This final section will conclude the research report and provide a platform for the Board to express any views in light of the research findings.	10%

10 Staff note that the nature of this research project might cause the above proposal to change as more research is conducted.

Questions to Board members

- Q1 Does the Board have any observations on the research assumption and the nature of the comparisons to be made?
- Q2 Does the Board support the proposed outline of the future research report and the purpose for each section as identified in paragraph 9?