Regulation Impact Statement

Reducing the Financial Reporting Burden: a second tier of requirements for general purpose financial statements

June 2010

Australian Government

Australian Accounting Standards Board

Regulation Impact Statement

Reducing the Financial Reporting Burden: a second tier of reporting requirements for general purpose financial statements

Background

Under section 227(1) of the *Australian Securities and Investments Commission Act 2001* (ASIC Act), the functions of the AASB are to:

- develop a conceptual framework, not having the force of an accounting standard, for the purpose of evaluating proposed accounting standards and international standards;
- make accounting standards under section 334 of the *Corporations Act* for the purposes of the corporations legislation;
- formulate accounting standards for other purposes; and
- participate in and contribute to the development of a single set of accounting standards for world-wide use having regard to the interests of Australian corporations that raise or propose to raise capital in major international financial centres.

In general, the AASB issues Australian Accounting Standards that incorporate International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

The AASB issues one series of Standards applicable to both for-profit and not-for-profit entities, including public sector entities.

Accordingly, where appropriate, the AASB uses relevant IFRSs as the 'foundation' Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment, and additions are made, where necessary, broadening the content to cover matters affecting not-for-profit entities that are not addressed by an IASB Standard and domestic, regulatory or other issues. There are a limited number of Australian Accounting Standards that are specific to the not-for-profit private and public sectors or that are purely of a domestic nature.

Australian Accounting Standards that incorporate corresponding IFRSs with modifications for not-for-profit entity specific issues and other domestic Standards dealing with domestic and not-for-profit issues are described as

Australian Accounting Standards (Tier 1) in this Regulation Impact Statement (RIS). They are distinguished from Australian Accounting Standards – Reduced Disclosure Requirements (Tier 2), which are given effect through AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*.

Australian Accounting Standards – Reduced Disclosure Requirements provide a second Tier of reporting requirements for preparing general purpose financial statements (GPFSs) that substantially reduces the reporting burden of many Australian entities that are currently required to prepare GPFSs. The establishment of this second Tier is consistent with the AASB's functions under the ASIC Act.

Tier 2 is also consistent with the Government's policy of red tape reduction. In particular, Tier 2 is expected to reduce the reporting burden of the vast majority of entities in the business sector preparing GPFSs by limiting the more onerous Tier 1 requirements to publicly accountable entities, which are essentially limited to listed companies and entities holding assets in a fiduciary capacity for a broad group of clients.

Identification of options, impact analysis, conclusions and recommendations

Impact assessment methodology

The expected impacts of introducing a second Tier of reporting requirements can be divided between three impact groups – preparers, users and the accounting profession. Typical impacts of an option for the second Tier on preparers might be changes in the amount and type of information provided, costs of adjusting internal reporting systems to provide the information and costs of auditing that information. Typical impacts of an option on users may be the effect on their decision making ability by reducing the volume of information previously provided. Typical impacts on the accounting profession may be costs of training staff and amending related audit and accounting manuals and processes.

The assessment of impacts in this RIS is based on a three-point scale (negative, neutral, positive). The impacts of each option are compared with the equivalent impact of the status quo option. If an impact on a particular impact group would, relative to the status quo, benefit the impact group, the impact is allocated a positive rating. On the other hand, if the impact on the impact group would result in a cost to the group, the impact is allocated a negative rating. If the impact is assessed to be the same as that imposed under the status quo option, a neutral rating is given.

The ratings for each type of impact compared with the status quo are aggregated to arrive at an overall effect at the option level. If the overall effect at the option level is positive, it indicates that the option is more likely to produce a favourable cost-benefit ratio than the status quo. If the overall effect at the option level is negative, it indicates that the option would be more likely to provide a less favourable cost-benefit ratio than the status quo. If the rating at the option level is neutral, it indicates that there would be no overall benefit or cost from the option relative to the status quo.

Reducing the disclosure burden of many Australian entities

1. Problem

1.1 In the past, Australian Accounting Standards have included only one tier of reporting requirements for preparing GPFSs.

1.2 Concerns have been expressed by AASB constituents that the disclosure requirements of Australian Accounting Standards are onerous for small and medium-sized entities. It has been argued that the costs incurred by small and medium-sized entities in both the private and public sectors to comply with disclosure requirements of Australian Accounting Standards outweigh the benefits to users of those entities' financial statements.

1.3 In addition to this general concern, wholly owned subsidiaries of listed companies that cannot avail themselves of relief under ASIC class order [CO 98/1418] *Wholly-owned entities*, have expressed concern that, while they have to apply the parent's recognition and measurement accounting policies based on Australian Accounting Standards, they should not be required to include all the disclosures required under those Standards. They argue this on the basis that there are few external users for the information disclosed and their disclosures result in an unwarranted cost.

1.4 Similarly, many not-for-profit private and public sector entities find the disclosure requirements in Australian Accounting Standards burdensome. In the not-for-profit public sector, many entities within the whole of government that apply Australian Accounting Standards in their financial statements and are included in the consolidated financial statements at the whole-of-government level find including disclosures required under Australian Accounting Standards in their financial statements burdensome.

2. Objectives

2.1 The objective of introducing a second Tier of reporting requirements for GPFSs is to facilitate reduction of the disclosure burden of many Australian entities in both the private and public sectors without significantly affecting the usefulness of their GPFSs to users. While there is a need for GPFSs to cater for the information needs of a wide range of users, the objective is to find a balance between the benefits of financial information to the users and the cost to the preparers of providing that information. The AASB is also keen to help ensure that the relevant users are not overburdened with unnecessary information that makes financial statements less understandable to them.

3. Options

Option 1:

3.1 Establish Australian Accounting Standards – Reduced Disclosure Requirements as a Tier 2 that retains the recognition and measurement requirements of Australian Accounting Standards but reduces the disclosure requirements under those Standards substantially. Accordingly:

- entities with the highest reporting obligations would prepare GPFSs using Australian Accounting Standards (Tier 1); and
- other entities (see paragraphs 3.4-3.9 below) that prepare GPFSs could use Australian Accounting Standards – Reduced Disclosure Requirements (Tier 2).

Tier 2 would be updated as the underlying Australian Accounting Standards undergo changes or new Australian Accounting Standards are issued.

Option 2

3.2 Use the IFRS for Small and Medium-sized Entities (*IFRS for SMEs*) issued by the IASB as the 'foundation' Standard for an Australian Tier 2, to which material is added, where necessary, broadening the content to cover matters affecting not-for-profit entities that are not addressed by it, including material related to domestic, regulatory or other issues. Accordingly:

- as for Option 1, entities with the highest reporting obligations would prepare GPFSs using Australian Accounting Standards (Tier 1); and

- other entities (see paragraphs 3.4-3.9 below) that prepare GPFSs could use the *IFRS for SMEs* as adopted in Australia (Tier 2).

Tier 2 would be updated periodically (every 2 years), after an initial 3-year stable platform, as the underlying *IFRS for SMEs* is updated by the IASB.

Compared with Option 1, Option 2:

(a) omits certain accounting topics;

(b) modifies or omits some recognition and measurement requirements of Australian Accounting Standards; and

(c) in some cases introduces new recognition and measurement requirements.

Option 3

3.3 Status quo (do nothing), in which case all entities preparing GPFSs are required to apply Australian Accounting Standards (the only Tier of reporting requirements).

Entities eligible to adopt Tier 2 or required to adopt Tier 1

3.4 Under either Option 1 or Option 2, Tier 2 would be available to:

- for-profit private sector entities that are not publicly accountable (as defined – see paragraph 3.5 below), unless relevant regulators do not permit its use;

- not-for-profit private sector entities, unless relevant regulators do not permit its use; and

- not-for-profit public sector entities, (other than those required by the AASB to apply Tier 1 reporting requirements, being Australian Government and, State, Territory and Local Governments), unless relevant regulators do not permit its use.

3.5 Accordingly, many preparers in both the for-profit and not-for-profit sectors are expected to be affected by any second Tier of reporting requirements for preparing GPFSs (whether Option 1 or Option 2), in particular:

(a) all for-profit entities in the private sector that do not have public accountability and currently preparing GPFSs under Australian Accounting Standards would potentially benefit from a second Tier of reporting requirements. These include those entities among the approximately 7,000 unlisted public companies limited by shares that lodge GPFSs with ASIC;

(b) there are approximately 11,000 public companies limited by guarantee that lodge financial statements with ASIC. Many of these companies are in the not-for-profit private sector and would have a reduced disclosure burden in preparing GPFSs by applying a second Tier of requirements;

(c) in the public sector, there are potentially thousands of entities that would be able to apply a second Tier of reporting requirements; and

(d) there are potentially thousands of entities established under legislation other than the Corporations Act and that operate in the not-for-profit sector that would be able to apply a second Tier of reporting requirements.

3.6 Publicly accountable for-profit entities are those that meet either of the following conditions:

(a) have their debt or equity instruments traded in a public market or who are in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

(b) hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses (typical examples are banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks).

3.7 For-profit entities in the Australian environment that are deemed as having public accountability are:

(a) disclosing entities, even if their debt or equity instruments are not traded in a public market or are not in the process of being issued for trading in a public market;

(b) cooperatives that issue debentures;

(c) registered managed investment schemes;

(d) superannuation plans registered with the Australian Prudential Regulation Authority (APRA) other than small APRA funds as defined by APRA Superannuation Circular No. II.E.1 *Regulation of Small APRA Funds,* December 2000; and

(e) Authorised Deposit-taking Institutions.

3.8 Accordingly, entities that are listed on a stock exchange or are in the process of listing and entities that have a primary business of holding clients' funds for investment would not be able to avail themselves of concessions under either Option 1 or Option 2.

3.9 The disclosure requirements in Australian Accounting Standards were developed with entities that have the highest reporting obligations in mind. Under all three Options listed above, those entities, being publicly accountable entities in the for-profit private sector and the Australian Government and State, Territory and Local Governments in the public sector, would continue to be subject to the requirements of Australian Accounting Standards, and therefore would be no worse off compared with their current situation.

3.10 Although Tier 2 reporting requirements under either Options 1 or 2 would be available to all non-publicly accountable for-profit entities, not-for-profit private sector entities and public sector entities other than those required to apply Tier 1 reporting requirements, other regulators in each sector may exercise a power to require the application of Tier 1 reporting requirements by entities they regulate.

Effect of reduced disclosures on users

3.11 The principles used for reducing disclosure requirements under Option 1 compared with the status quo are user needs and cost-benefit considerations. For example, in relation to the for-profit sector, users of financial statements of non-publicly accountable entities are particularly interested in knowing about:

(a) short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities;

(b) liquidity and solvency;

(c) measurement uncertainties;

(d) the entity's accounting policy choices;

(e) disaggregations of amounts presented in the financial statements; and

(f) transactions and other events and conditions encountered by such entities.

3.12 Accordingly, most disclosures that are useful to users of GPFSs of publicly accountable entities, but not to users of GPFSs of non-publicly accountable entities, are not included under Option 1. Removing such disclosures would not affect the decision making capacity of users of GPFSs prepared under Option 1.

3.13 In relation to the not-for-profit sector the same user needs and cost benefit considerations are also relevant.

3.14 Option 2 also uses similar principles. However, the various differences between the recognition and measurement requirements of Option 1 and Option 2 and omission of certain topics from Option 2 would result in corresponding differences in disclosures under the two options.

4. Impact Analysis

4.1 In the process of setting Accounting Standards, the AASB issues Invitations to Comment, Consultation Papers and Exposure Drafts to consult with stakeholders. Comments received from constituents are taken into account in setting the Standards. In particular, the AASB specifically seeks comment from constituents on whether the proposals are in the best interests of the Australian economy and on whether there are regulatory or other issues that may affect the implementation of the proposals.

4.2 The AASB assesses from a public interest perspective whether the costs of requiring certain financial information to be provided exceed the benefits to be derived from its provision. There is no universally accepted methodology for quantitatively measuring costs and benefits of information presented in financial statements. However, as described in the impact assessment methodology section above, the following impact analysis converts nonquantifiable factors into a proxy for quantities using a three-point scale of positive, neutral and negative impacts.

4.3 The costs of providing financial information are incurred, in the main, by preparers of GPFSs, but benefits extend in various direct and indirect ways to the users of GPFSs. Accordingly, the costs incurred by entities may not ultimately be borne by those who derive the benefits.

Cost and benefit assessment of different Options

4.4 The following tables provide an assessment of each option in respect of the overall effect on preparers, users and the accounting profession.

4.5 As described in the impact assessment methodology section above, when the assessment of the impact of Tier 2 reporting requirements on an impact group indicates a net benefit, a positive rating is assigned to that assessment. When such assessment indicates a net cost, a negative rating is assigned and when there are no identified net benefits or costs, a neutral rating is assigned. All the ratings are compared with the status quo, that is, 'doing nothing'.

4.6 The ratings for each impact group are summed up to determine the overall effect of the option on the group. A positive overall effect indicates that the option is likely to produce a net benefit to the impact group, a negative overall effect indicates the option is likely to result in a net cost for the impact group and a neutral overall effect indicates no net benefits or costs are likely to arise from adopting the option.

Option 1:
Australian Accounting Standards – Reduced Disclosure Requirements

Preparers

Impact	**Assessment**	**Analysis**
Reduced preparation costs relating to disclosures	Positive	Application of Australian Accounting Standards – Reduced Disclosure Requirements has the potential to reduce preparation costs significantly. The number of disclosures an entity would be required to make is likely to be a fraction of those under the status quo.
Unchanged preparation costs relating to recognition and measurement	Neutral	Preparation costs relating to recognition and measurement would not be affected as there would not be any change in recognition and measurement requirements relative to the status quo. However, compared with Option 2, preparers of GPFSs in all sectors can draw on a common knowledge pool revolving around a single integrated set of reporting requirements. .
Reduced audit and assurance costs	Positive	On the basis that there are significantly fewer disclosures, the extent of audit and assurance work in connection with the GPFSs is expected to be reduced with a commensurate reduction of costs.
Limited transition costs	Neutral	For many entities adopting Australian Accounting Standards – Reduced Disclosure Requirements, there would be no significant costs involved in reconstructing financial statements when migrating between Tiers (from Tier 1 to Tier 2, or from Tier 2 to Tier 1), other than those that are faced by any entity moving to Tier 1 because there are no changes in the ongoing recognition and measurement requirements.
One set of pronouncements	Neutral	Although neutral relative to status quo, compared with option 2, having all the requirements of Tier 1 and Tier 2 in one set of pronouncements would readily enable those entities applying Australian Accounting Standards – Reduced Disclosure Requirements to benefit from relevant

Impact	Assessment	Analysis
		additional explanations if the need arises.

Users

Impact	Assessment	Analysis
Usefulness to users	Neutral or positive	Users, including analysts who represent them, will be faced with a substantially reduced volume of information. This may mean that the GPFSs are less useful. However, on the basis that Australian Accounting Standards – Reduced Disclosure Requirements have been designed to meet the particular needs of users of GPFSs of such entities, the information that would no longer be provided is regarded as being less relevant, and therefore, of less value to those users. For the same reason, the financial statements may be more understandable (by avoiding 'information overload') and, therefore, more useful to users.
Unchanged comparability	Neutral	The financial statements prepared under Australian Accounting Standards – Reduced Disclosure Requirements are comparable to financial statements prepared under Tier 1, that is, Australian Accounting Standards. This is because Australian Accounting Standards – Reduced Disclosure Requirements uses the same recognition and measurement principles as Australian Accounting Standards. The reduction of disclosures would not affect comparability (that is, it would maintain comparability) since only less relevant disclosures would be omitted.

Accounting profession

Impact	Assessment	Analysis
Unchanged costs of education and professional development	Neutral	Since the recognition and measurement requirements under the Australian Accounting Standards – Reduced Disclosure Requirements and Australian Accounting Standards would be the same, there are no significant costs involved either initially or ongoing in training professionals to apply and audit the GPFSs prepared under the Australian Accounting

Impact	Assessment	Analysis
		Standards – Reduced Disclosure Requirements. A single integrated body of requirements will continue to be the focus. This is particularly beneficial for smaller accounting firms that may not be able to afford additional strain on their resources.

Option 2:
The IFRS for SMEs

Preparers

Impact	Assessment	Analysis
Reduced preparation costs relating to disclosures	Positive	Application of the *IFRS for SMEs* has the potential to reduce preparation costs significantly. The number of disclosures an entity would be required to make under the *IFRS for SMEs* as adopted in Australia is likely to be a fraction of these under the status quo. However, in contrast to Option 1, preparers of GPFSs cannot draw on a common knowledge pool revolving around a single integrated set of reporting requirements. The costs of there being only intermittent changes to the *IFRS for SMEs* under the IASB's policy for its maintenance could prove significant, depriving SMEs of planned generic improvements in full IFRSs along the way and accumulating changes to be made after gaps of two or three years.
Preparation costs relating to recognition and measurement	Neutral or negative	Adverse consequences of having recognition and measurement requirements in Tier 2 different from Tier 1 include: ▪ additional costs of training within the firms and at the tertiary level; ▪ not being consolidation friendly; ▪ reduction in comparability; ▪ new start up costs; ▪ problematic for moving between Tiers; and ▪ deprives entities of current and ongoing improvements in full IFRSs.

Impact	Assessment	Analysis
		Changed recognition and measurement requirements (and consequential differences in disclosure requirements) could disadvantage entities engaging in business combinations or being compared for funding or other reasons with peers applying Tier 1. This option also deprives entities from drawing on a common knowledge pool developed in relation to Tier 1. The *IFRS for SMEs* does not allow revaluations of fixed assets and this would undermine the possibility of transaction neutrality across sectors. This would be potentially harmful to preparers in the public sector. The costs of there being only intermittent changes to the *IFRS for SMEs* under the IASB's policy for its maintenance could prove significant, depriving SMEs of planned generic improvements in full IFRSs along the way and accumulating changes to be made after gaps of two or three years.
Reduced audit and assurance costs	Mainly positive	As for Option 1. Offsetting effects will exist in groups when parents comply with Tier 1 and in relation to particular transactions (e.g. business combinations) if they require IFRS financial statements to be prepared.
Increased transition costs	Negative	In the event that an entity moves between Tiers, there are costs involved in migrating from one tier of reporting to another due to differences in recognition and measurement requirements under the two tiers.
Separate pronouncements	Neutral	There may be an advantage to having a separate 'smaller' book for entities applying the *IFRS for SMEs*. However, this advantage would be mitigated by the likely need for reference to be made to Tier 1 requirements when issues arise which are explained more comprehensively in Tier 1. Furthermore, the same advantage could be obtained through Option 1 by reproducing Australian Accounting Standards – Reduced Disclosure Requirements in a separate publication.

Users

Impact	Assessment	Analysis
Unchanged usefulness to users	Neutral	As for Option 1, but subject to limitations on comparability (see below).
Reduced comparability	Negative	GPFSs prepared under Option 2 are not comparable to those prepared under Tier 1 to the extent the differences in recognition and measurement requirements (and consequential differences in disclosure requirements) between the two tiers are applied. Users will potentially find differing approaches to measuring equity, assets, liabilities and profit or loss confusing.

Accounting profession

Impact	Assessment	Analysis
Increased costs of education and professional development	Negative	Since the recognition and measurement requirements under the *IFRS for SMEs* and Australian Accounting Standards differ, there are additional costs involved in training professionals to apply and audit the GPFSs prepared under the *IFRS for SMEs*. Option 1 can be achieved within the existing single set of accounting standards and can be maintained over time in an integrated fashion as one body of information. Option 2 would lead to two sets of standards that would not always be synchronised, given the IASB's intended policy for updating the *IFRS for SMEs*, but whose relationship would need to be carefully tracked by professionals, commentators and students. Option 2 may put additional strain on the resources of smaller accounting firms that have already incurred costs to train staff on first Tier Standards. However, after bearing the additional costs of training and updating manuals, there may be savings for firms that only deal with SMEs but this could adversely affect the ability of staff to move across the profession.

Option 3: The status quo

4.7 The analysis above considers the benefits and costs of adopting Options 1 and 2 relative to continuing with Option 3 and, therefore, also reflects the benefits and costs of maintaining the status quo. It demonstrates that overall, relative to Options 1 and 2, Option 3 would deprive preparers, users and the accounting profession of positive impacts. For example, entities that currently prepare special purpose financial statements that are subsequently required or choose to prepare GPFSs, would not have available to them a significantly reduced reporting burden and preparation costs since they would be left with a single tier of requirements for preparing GPFSs, that is, Australian Accounting Standards. Accordingly, the current level of red tape would not be reduced. The number of disclosures an entity would be required to make under Options 1 or 2 are a fraction of those required under Australian Accounting Standards. Furthermore, users would not derive the benefit of information that is more oriented to their needs. Given the nature of the needs of the users of those entities' financial statements, they could be better satisfied using the lower volume of information provided under another Option such as Option 1.

Summary of Impact Analysis

Issue	Option 1	Option 2
Preparers		
Preparation costs relating to disclosures	Positive	Positive
Preparation costs relating to recognition and measurement	Neutral	Neutral or negative
Audit and assurance costs	Positive	Mainly positive
Transition costs	Neutral	Negative
Nature of pronouncements	Neutral	Neutral
Users		
Usefulness to users	Neutral or positive	Neutral
Comparability	Neutral	Negative
Accounting profession		
Education and professional development	Neutral	Negative
OVERALL	**POSITIVE**	**NEGATIVE**

5. Consultation

5.1 The AASB issued Invitation to Comment (ITC) 12 *Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of A Proposed IFRS for Small and Medium-sized Entities* in May 2007 with proposals for a second tier of reporting requirements based on the *IFRS for SMEs*.

5.2 ITC 12 also proposed that the entities that could avail themselves of a second tier of reporting requirements would be determined largely on the basis of dollar thresholds. Most constituents rejected this approach on the basis that such thresholds are difficult to determine and are arbitrary in their impact.

5.3 Following consideration of the responses to ITC 12, the AASB issued a Consultation Paper titled *Reducing the Burden of Financial Reporting Requirements: A Proposed Reduced Disclosure Regime for Non-publicly Accountable For-profit Private Sector Entities and Certain Entities in the Not-for-profit Private Sector and Public Sector* and an Exposure Draft ED 192 *Revised Differential Reporting Framework* in February 2010.

5.4 Respondents included the following:

(a) Accounting firms and accountants

(b) Banks

(c) Non-bank mortgage lender

(d) Industry Representative Bodies

(e) Owner/Manager Small Business

(f) Proprietary companies

(g) Government Fund Manager

(h) Government bodies

(i) Academia

(j) Professional bodies

(k) Insurers

(l) Individuals

5.5 The consultation addressed two major concerns with the existing reporting framework in Australia:

(a) costs of preparing GPFSs for some entities are greater than benefits for the users of those GPFSs, because the framework results in requirements for GPFSs that are overly burdensome for many entities; and

(b) user needs are not being satisfied for other entities, because the framework is being applied in a way that some entities (which should prepare GPFSs) are being treated as non-reporting entities and preparing only special purpose financial statements.

5.6 Following its review of comments on the Consultation Paper and ED 192, the Board decided to deal with concern (a) first (see section 1 above) and to undertake further research prior to deciding how it would deal with concern (b).

5.7 Accordingly, this RIS only addresses the Board's decisions relating to concern (a). Should the Board make a decision about dealing with concern (b) after considering the results of the further research work it has commissioned, a separate RIS will address the impact of that decision.

5.8 Respondents to ITC 12, the Consultation Paper and ED 192 generally supported Option 1 rather than Option 2 as being suitable for Australian circumstances for the following reasons (many of which are noted in the tables in section 4 above):

(a) it retains the current recognition and measurement system and therefore its introduction would not require additional costs of training and updating the reporting system;

(b) it helps make the financial statements of Tier 1 and Tier 2 entities comparable because it does not involve different recognition and measurement accounting policies;

(c) it is consolidation friendly since it does not create the need for accounting policy adjustments on consolidation with a parent entity applying Tier 1;

(d) it is transaction neutral and therefore can be consistently applied by entities in all sectors;

(e) it reduces disclosure for current IFRS appliers; and

(f) it facilitates moving between Tiers since the entities reporting under the two Tiers apply the same recognition and measurement requirements.

5.9 Respondents who did not find Option 2 appropriate in the Australian reporting environment mainly noted the following reasons:

(a) problems entities would face on consolidation if modified recognition and measurement requirements of Option 2 are applied;

(b) the financial statements of the entities reporting under the two Tiers would not be comparable; and

(c) an additional layer of complexity (costs of training, administration, audit, and updating of the requirements of Tier 2) would be involved.

5.10 Respondents who supported Option 2 for the Australian reporting environment mainly noted the following reasons:

(a) recognition and measurement simplifications;

(b) it may be adopted in overseas jurisdictions;

(c) it is an IASB Standard and, therefore, has credibility; and

(d) it provides a stable platform for adoption since for the first three years it will not be updated.

The Board considered and rejected these arguments, as noted in paragraph 6.2 below.

6. Conclusion and Recommendation

6.1 As demonstrated in section 4 above, compared with the status quo, Option 1 offers a greater level of benefits and lower costs than Option 2. Accordingly the AASB concluded that Option 1 is the most appropriate.

6.2 The AASB regards Option 2 presently as less appropriate in the Australian business environment on the grounds that the changes to recognition and measurement requirements under the *IFRS for SMEs* would not be attractive to entities that express concern about the disclosure burden rather than the complexity of recognition and measurement requirements under Australian Accounting Standards. The nature and extent of the recognition and measurement changes under Option 2 would not offer much, if any, economy to Australian entities currently applying full Australian Accounting Standards. The AASB also notes that there is evidence that many such entities prefer recognition and measurement accounting policy options included in Australian Accounting Standards to facilitate consolidation with their parents. The AASB sees no particular advantage for entities in applying simplified or modified recognition and measurement requirements in the *IFRS for SMEs* since they generally have already implemented the recognition and measurement requirements of Australian Accounting Standards.

6.3 However, the Board is open to the possibility of adopting *IFRS for SMEs* in the future, should the changes in that Standard make it practicable in the Australian business environment. Accordingly, as noted in section 7 below, the Board will continue to monitor and contribute to further changes in the *IFRS for SMEs*.

6.4 Option 3, which would keep the status quo, is seen as burdensome for many Australian entities as reflected in constituents' comments on ITC 12, the Consultation Paper and ED 192.

7. Implementation and Review

7.1 The AASB's Tier 2 of reporting requirements for preparing GPFSs will be subject to review and subsequent revision taking account of international developments.

7.2 The implementation experience will also be used as a basis for providing feedback to the IASB to assist with its further deliberations on differential reporting matters and to help shape future amendments to the *IFRS for SMEs*.

7.3 Reforms are currently being considered to reduce the complexity of full IFRSs in the area of financial instruments, which would help reduce complexities in that area when adopted in Australia. Tier 2 (and Tier 1) will be amended to reflect these and other reforms to simplify reporting requirements for Australian entities.