

10 August 2018

Kris Peach
Chair and CEO
Australian Accounting Standards Board

Via website : <http://www.aasb.gov.au/Work-In-Progress/Comments-to-AASB.aspx>

Dear Kris

ITC 39 Applying the IASB's Revised Conceptual Framework Phase 1

Thank you for the opportunity to comment on the AASB's proposals to Apply the IASB's Revised Conceptual Framework and Solve the Reporting Entity and Special Purpose Financial Statement Problems (ITC 39). This is a very significant reform and we commend the AASB for its efforts in researching and formulating its proposals, communicating them to all stakeholders and providing a range of opportunities for wider discussion.

This submission focuses on the proposals set out in Phase 1 of ITC 39, but also provides some preliminary feedback on Phase 2 of the proposals gained from our engagement to date with our members and other stakeholders.

Adopting the IASB's Revised Conceptual Framework in Australia

The Australian Financial Reporting Framework would benefit from simplification, particularly in the not-for-profit sector. This consultation is an important step on the path to reform.

Overall, we are supportive of the board's plan to stage the revised conceptual framework's introduction so that it is available as soon as possible to those entities that already prepare IFRS compliant general purpose financial reports and wish to continue to do so. While it is not desirable to operate with two conceptual frameworks for any length of time, we consider that a phased approach offers a practical solution to some of the adoption challenges.

While the underlying need behind the Phase 1 proposals is clear and the approach appears to be pragmatic, we do not consider that, at this stage, the AASB has sufficiently developed the case for the direction it plans to take in Phase 2 of its proposals.

Our general comments on the Phase 1 proposals are set out below, together with a preliminary indication of the nature of and reasons for our concerns about Phase 2. These comments are further developed via responses to the AASB's specific and general questions in Appendix A. Appendix B contains further information about Chartered Accountants Australia and New Zealand.

Phase 1: short-term approach

In our view, the short-term approach in Phase 1 is a pragmatic one. Using it should, in the majority of cases, resolve the impact of the IASB's "reporting entity" definition on IFRS compliant entities without them needing to incur unnecessary cost or undue effort in transitioning to the revised conceptual framework. The retaining of IFRS compliant status for these entities is of key importance and we consider that this approach will achieve that objective.

However, we are concerned that the AASB has indicated that it may not issue an Exposure Draft (ED) of the changes set out in Appendix 1 of ITC 39, should it receive sufficient support from constituents on the overall direction of its Phase 1 proposals. Given the complexity of this consultation, our view is that the AASB should release an ED of the proposed changes to its standards. The consultation period need not be lengthy, however such an approach would allow constituents time to adequately focus on those specific changes and identify any unintended consequences in a manner that may not occur when it is wrapped up within the broader consultation.

Phase 2: medium-term approach

We will be providing a more detailed submission on the Phase 2 medium-term approach in November. In the meantime we set out below some preliminary feedback from our members, which we believe will be of value to the board as it deliberates the responses to its Phase 1 proposals.

- We agree that the proposals will provide a more consistent basis for reporting for non-publicly accountable entities and should lead to greater comparability and transparency of financial reports lodged on public registers. However, at this stage, we do not consider there to be sufficient evidence of user needs to justify the tiers of reporting requirements being proposed.
- The proposals focus on accounting standard-setting alone. Attempting to "fix" the reporting framework in such a piecemeal fashion risks deferring important questions, such as which entities should have to publicly report.
- We are concerned that the cost impact of prescribing IFRS-based accounting standards and general purpose financial reporting, particularly for those entities that fall outside of ASIC or ACNC requirements, is not yet fully understood.
- The AASB has indicated that reporting requirements for registered charities and not-for-profit entities will be tied to the ACNC legislative review, the outcomes of which are not yet known by our members or the public. The timing and relative cost/benefit of any such proposals is therefore seen as uncertain.

Overall, we are concerned that the AASB's proposals for Phase 2 is likely to result in an expansion of general purpose financial reporting in Australia that is far in excess of what users need and without adequate examination of the relative costs and benefits of that approach.

We recommend that the AASB undertakes further research and consultation on these matters and uses that information to ensure that Phase 2 outcomes are based on what is in the best interests of the Australian economy. In particular, we recommend that the AASB:

- undertakes further, more in-depth research into user needs, with a focus on users of financial reports of non-publicly accountable entities and what information they require that they are not in a position to demand from the entities themselves

- seeks up-to-date, empirical data on the number and types of entities lodging publicly available financial reports and the basis on which that financial information is prepared
- surveys preparers of both special purpose and general purpose financial reports in order to estimate the financial costs of any proposed increase in reporting requirements
- continues to engage with legislators and regulators across all sectors to drive a collaborative approach to financial reporting framework reform.

We are pleased that the AASB is already taking action in some of these areas. We look forward to further opportunities to engage with the AASB and other stakeholders to ensure that reform delivers financial reporting frameworks that are fit for purpose now and in the future.

If you have any questions about our submission, please contact Ceri-Ann Ross, Reporting and Assurance Leader Ceri-Ann.Ross@charteredaccountantsanz.com.

Yours sincerely



Simon Grant FCA
Group Executive, Advocacy and Professional Standing
Chartered Accountants Australia and New Zealand



Ceri-Ann Ross FCA
Reporting & Assurance Leader
Chartered Accountants Australia and New Zealand

APPENDIX A

Specific matters for comment on Phase 1

Q1 – Do you agree with the short-term approach to maintain IFRS compliance by introducing the RCF in Australia? That is, do you agree that the RCF should be applicable for publicly accountable for-profit entities that are required to prepare Tier 1 GPFS and other entities that are voluntarily reporting compliance with IFRS, and the existing Framework should continue to be applicable to other entities in the short term until the medium-term solution is implemented? Please indicate reasons for your response and if you disagree, please provide suggestions for an alternative approach for the AASB to consider.

Answer 1 – We agree that it is important to maintain IFRS compliance for those entities that have already achieved it. The IASB's conceptual framework underpins these standards and therefore it is essential that the current version of that framework be available for adoption by those entities in Australia preparing IFRS-compliant general purpose financial reports.

Making the revised conceptual framework applicable to all for-profit entities meeting a revised definition of 'publicly accountable' appears to be a pragmatic way of achieving this outcome, given that the term is already used as the basis for determining tiers of reporting requirements in AASB 1053 *Application of Tiers of Australian Accounting Standards*. However, we have concern that there has been insufficient time to examine this concept and its revised definition well enough in the Australian context to be confident that there will not be any unintended consequences, particularly anything that may have an impact on the proposed Phase 2 approach. We therefore recommend that the use of the revised definition be more specifically addressed in an Exposure Draft of the changes proposed for Phase 1. This will allow more detailed stakeholder consideration of the effects of its application in Australia.

We do agree that more time is needed to determine the appropriate reporting frameworks for non-publicly accountable for-profit entities and not-for-profits. Leaving the existing conceptual framework in place while this discussion occurs is appropriate, and so we support a staged introduction.

Q2 – Do you agree that the short-term approach should be made applicable to both publicly accountable for-profit private sector and public-sector entities? That is, do you agree that the RCF should be applicable for publicly accountable public sector entities that are required to prepare GPFS in accordance with Tier 1 reporting requirements (who are currently claiming compliance with IFRS) as well? Please indicate reasons for your response and if you disagree please provide suggestions for an alternative approach for the AASB to consider.

Answer 2. In principle, we consider that the revised conceptual framework should be made available to any entity wishing to claim or maintain IFRS compliance. However, as in our response to Q1 above, we recommend that the revised definition of 'publicly accountable' be further examined through an ED process to ensure there are no unintended consequences of its application.

Q3 – Are you aware of publicly accountable for-profit entities currently self-assessing as non-reporting entities and preparing SPFS that would have implications under the AASB's short-term approach? If so, please provide specific examples including why these entities are not currently applying AASB 1053 and preparing Tier 1 GPFS although they would otherwise meet the definition of public accountability.

Answer 3. At this stage we are not aware of any specific examples, other than certain securitization vehicles in the financial services sector of which the AASB has indicated that it is already aware.

Q4 – Do you agree with the AASB’s amendments to the definition of ‘public accountability’ in AASB 1053 per IFRS for SMEs Standard (refer to Appendix A)? Please indicate reasons for your response and if you disagree, please provide suggestions for the AASB to consider.

Answer 4. We consider that further consultation is required to determine whether the international definition of public accountability is fit for purpose within the Australian context. This should occur via an ED of the implementation of the Phase 1 proposals, once the AASB has in principle support for its direction in this Phase.

Q5 – Do you agree with the proposed amendments to SAC 1 Definition of the Reporting Entity and the following Australian Accounting Standards, as set out in Appendix A.

Answer 5 – As above, we consider the general approach is a pragmatic one, but the exact details need the more focused and careful consideration that a specific ED on the changes would provide.

General matters for comment on Phase 1

Q6 – What are your views on whether the AASB’s Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities has been applied appropriately in developing the proposals in Phase 1?

Answer 6 – We consider that the AASB has appropriately applied its *For profit entity standard setting framework* in seeking to maintain IFRS compliance for publicly accountable entities. However we have concerns about the foreshadowed increase in regulatory burden on non-publicly accountable entities in Phase 2. At this stage, we do not consider that the AASB has sufficiently developed its case for user needs that underpin their assumptions. According to paragraph 29 of framework, user need, public interest issues and cost benefit should be key factors in developing requirements for this group.

Q7 – What are your views on whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?

Answer 7 – The Significant Global Entity (SGE) concept, introduced as part of the government’s Multinational Tax Avoidance measures, should lead to more for-profit entities preparing and lodging general purpose financial reports. This may have an impact on the “problem” the AASB is trying to solve through this consultation, by seeking to achieve an accounting outcome through tax legislation.

In our view, a more appropriate approach to the “problem” of special purpose reports would be for the accounting and auditing standard-setters, regulators and legislators to drive collaborative solutions, developing a consistent legislative approach to the types of entities that need to report publicly and the appropriate format for those reports.

Q8 – What are your views on whether, overall, the proposals would result in financial statements that would be useful to users?

Answer 8 – We consider that more research is required to understand and articulate what users need, especially for entities that are not publicly accountable, which is where this reform proposes its biggest changes.

Q9 – What are your views on whether the proposals are in the best interests of the Australian economy?

Answer 9 – We are of the view that the maintenance of IFRS compliance for entities needing or wishing to comply are in the best interests of the economy, and so change as envisaged in Phase 1 is needed. However, we consider that further research is required to demonstrate that the proposals are similarly beneficial for all other entities. We will expand on this view in our Phase 2 submission.

Q10 – Unless already provided in response to specific matters for comment above, what are your views on the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements?

Answer 10 – We consider that further research is required in order that informed assessments based on empirical evidence can be made, on the relative costs and benefits of the proposals. This research should particularly be directed to user needs and up to date and more comprehensive regulatory lodgment information.

Appendix B: About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 117,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation accounting professionals across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.