9 August 2018

Ms Kris Peach
Chair
Australian Accounting Standards Board
Podium Level,
Level 14, 530 Collins Street,
Melbourne VIC 3000

By email: standard@aasb.gov.au

Dear Kris,

AASB ITC 39 Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems – Phase 1: Short-term approach

We welcome the opportunity to provide the Australian Accounting Standards Board ("AASB", "the Board") with our views on Phase 1 of the AASB's Consultation Paper ITC 39.

Comments on Phase 1: Short-term approach

Fundamentally, Phase 1 proposes that the IASB's Revised Conceptual Framework ("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.

Issues the Board is attempting to address

As stated in paragraph 35 of ITC 39, "inconsistency between the RCF and AAS and SAC 1 could result in misinterpretation, the wrong application of AAS, non-compliance with IFRS, and potential liability for preparers and directors and those charged with governance".

The Board purports that that the 'do nothing' option will result in all entities losing the ability to claim IFRS compliance and that the conflict between the RCF and SAC 1 is insurmountable.

We note that, in the main, Australian not-for-profit entities are unable to claim compliance with IFRS because the AASB introduced a number of amendments to Australian Accounting Standards ("AAS") that are inconsistent with IFRS. Adoption of the RCF will have no effect on the ability of those not-for-profit entities to claim compliance with IFRS.

It is proposed that the IASB RCF be applied to publicly accountable for-profit entities that are required to prepare Tier 1 GPFS. Prima facie, this would have no effect on those entities as they currently comply with full IFRS.

Paragraph 3.10 in the RCF defines a reporting entity as '…an entity that is required, or chooses, to prepare financial statements. A reporting entity can be a single entity or a portion of an entity or can comprise more than one entity. A reporting entity is not necessarily a legal entity.' In other words,

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according to the RCF, an entity that prepares financial statements is a reporting entity and the financial statements of reporting entities could differ based on the 'boundary' of economic activities included in their financial statements (ie a reporting entity's financial statements could be consolidated financial statements, single entity financial statements or part of an entity's financial statements).

The AASB accepts that "to date, the AASB is not aware of any significant issues caused by using the term 'reporting entity' in these Standards as the term could be read in the context of the Australian reporting entity concept without causing confusion (ie until now the IASB has not defined the term). However, because the RCF includes a chapter specifically on the reporting entity and defines the term differently to the Australian reporting entity concept, it will become increasingly difficult to read the term in two different ways, particularly as and when AAS are amended/revised and there are more references to the term as defined in the RCF."

The AASB has not made it clear why, or in what circumstances, a conflict (if there is one) between the RCF and SAC 1 would affect that population of publicly accountable for-profit entities applying Tier 1 GPFRs, such that they could not claim IFRS compliance if the AASB did not immediately adopt the RCF.

In our opinion, the AASB has not made the case for why the RCF should be introduced immediately for publicly accountable for-profit entities as part of Phase 1.

Justification for change

Although not requested as part of the feedback requested on the Phase 1 proposals, in our view, the AASB has not justified the urgent need for the changes contained in ITC 39. For example, through its own presentations and publications the Board acknowledges that:

- only 0.6% of all companies registered with ASIC (approximately 14,000 entities) prepare SPFR; and
- only 0.1% of all companies registered with ASIC (approximately 3,000 entities) prepare SPFR that do not fully comply with the recognition and measurement requirements of AAS.

We also challenge the Board's assertions that data aggregators, analysts, banks and the Australian Taxation Office are somehow disadvantaged, or not having their information needs met, by that 0.1% of entities not preparing GPFRs that comply with the measurement and recognition requirements of AAS. (ITC 39 para 53; AASB Staff Briefing presentation – May 2018)

Part of the AASB's justification for change is that some companies and entities registered with the ACNC are not properly self-assessing their status as a non-reporting entity. We suggest that if a small percentage of entities are not 'following the rules', then it is the responsibility of the regulators (ASIC and the ACNC) to address those instances rather than the AASB changing the rules for everyone.

We do not believe that the Board has sufficiently articulated a compelling case for change. Similarly, the Board has not fully considered the costs to business of imposing this change.

Our concerns

We are concerned that the adoption of the RCF in parts, that is, initially to publicly accountable for-profit entities that are required to prepare Tier 1 GPFS, will lock the AASB and other stakeholders into adopting that single RCF for all entities. This is evidenced by the fact that:

i) the AASB is not supportive of a two Conceptual Framework solution in the long-term; and

ii) The AASB's project timeline (page 9 of ITC 39) indicates the Board only intends to issue a Phase 2 Exposure Draft. We recommend that, following consideration of the responses to the ITC and the Board's responses to constituent feedback, the Board issues an Exposure Draft on the entire proposals.

We are also concerned that:

i) The early adoption of the RCF as part of the Phase 1 proposals may have unintended consequences on the Phase 2 proposals; and

ii) the Board has not fully considered the costs to business, and the potential increase in the regulatory burden on some entities, of imposing the changes described in the Phase 2 proposals.

Conclusions

For the reasons described above, we oppose early adopting the RCF to publicly accountable for-profit entities (the Phase 1 proposals) until, at least:

i) The Board receives and considers constituent feedback on the Phase 2 proposals;

ii) The ACNC legislative review has been completed and the government's proposed responses are made public; and

iii) The Board undertakes a full cost benefit analysis by way of Regulatory Impact Statement of the effects of the Board's entire proposals.

Should you wish to discuss any aspects of our submission, please contact the undersigned.

Sincerely

Nexia Australia Pty Ltd

Martin Olde

Martin Olde
Technical Director