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Dr Keith Kendall  
Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West VIC 8007

Our ref Submission-ED302

9 September 2020

Dear Dr Kendall

**Exposure Draft 302: : Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities**

We are pleased to have the opportunity to comment on Exposure Draft 302 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities* (ED 302).

We broadly support the proposals set out in ED 302. We acknowledge the consistent feedback received by the AASB on the need to improve comparability, consistency and transparency and enforceability in special purpose financial statements (SPFS). Given the additional disclosures proposed are based on an entity's existing financial reporting and practices, the additional compliance cost should be minimal.

That being said, we question:

- On a cost/benefit basis, the application for a single year for those entities required by legislation to prepare financial statements that comply with either Australian Accounting Standards (AAS) or accounting standards and prepare SPFS.

While gaining an understanding of the recognition and measurement compliance/non-compliance will be useful for the transition to the new Australian for-profit private sector financial reporting framework an entity would still need to draft the disclosures required by ED 302 for areas of compliance/non-compliance. These disclosures will be used for a single year only which limits the potential benefits, but not the costs.



- Whether entities applying the requirements will have sufficient time to consider and apply given any amending AAS will be issued after the commencement of the financial year of the proposed effective date (financial years ending on or after 30 June 2021). Available resources are at a premium in these COVID times.

We note that when other AAS have been issued the AASB generally prefers the first reporting date (post-application of a new AAS) to be between 12-18 months after the AAS is issued.

Given the application date for the new Australian for-profit private sector financial reporting framework is a year later – we suggest this could be an appropriate time to apply the changes in ED 302.

Please refer to the Appendix for our detailed comments on the specific and general matters for which feedback was requested.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact myself on (02) 9455 9744 or Julie Locke on (02) 6248 1190.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Voogt', written over a light blue horizontal line.

Michael J Voogt  
Director

## Appendix

### **Specific matters for comment**

***Do you agree that an amendment to Australian Accounting Standards to require entities to disclose information about their special purpose financial statements – including the material accounting policies applied in the special purpose financial statements, changes in those policies, and whether or not the entity has complied with all the recognition and measurement requirements in Australian Accounting Standards – is needed to provide more transparency to users of special purpose financial statements and improve the comparability of special purpose financial statements? If not, please provide your reasons.***

We agree that the proposed amendments are needed to provide more transparency to users of publicly lodged SPFS and to improve the comparability of those SPFS.

***Do you agree that the proposed new disclosures should apply only to those entities preparing special purpose financial statements that are:***

- (a) for-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and***
- (b) other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards. If not, please provide your reasons.***

As an overall comment we would support any entity that prepares SPFS should voluntarily comply with the disclosure requirements provided in the proposed paragraphs 9C and 9D.

Based on the proposed application date our comments are broken down into pre and post adoption of the new Australian for-profit private sector financial reporting framework.

#### ***Pre-adoption new Australian for-profit private sector financial reporting framework***

For those for-profit private sector entities considered in 2(a) above we question whether they should apply the proposed new disclosures. Further comments on this issue are contained in our covering letter – refer to the cost/benefit and sufficient time comments.

We support the proposed new disclosures for those for-profit private sector entities considered in 2(b) above which will **not** be ‘within the scope’ of the new Australian for-profit private sector financial reporting framework. In terms of those ‘within the scope’ of the new Australian for-profit private sector financial reporting framework we question whether they should apply the proposed new disclosures for the same reasons as discussed above (2(a) entities).

*Post-adoption new Australian for-profit private sector financial reporting framework*

The proposed new disclosures will only be applicable for, for-profit private sector entities required by their constituting document or another document (created or last amended before 1 July 2021) to prepare financial statements that comply with AAS. We support the proposed new disclosures applying to these entities.

We are also cognisant of the scope of the AASB’s Australian Financial Reporting Framework Project being limited to the development and maintenance of general purpose financial reporting frameworks, as special purpose financial reporting by nature is determined by users, preparers and regulators. To effectively implement the proposed disclosures in this context, we would encourage the AASB to work closely with regulators and those with enforcement powers over SPFS preparers by aligning their requirements to the proposed disclosures. Without this we question how the AASB could ‘enforce’ those entities preparing SPFS to make the proposed new disclosures.

Note all other entities considered in 2(a) and 2(b) above will no longer be able to prepare SPFS – that is they must prepare general purpose financial statements (GPFS) under the new Australian for-profit private sector financial reporting framework.

***Do you agree with the proposed amendments to AASB 1054 requiring disclosure of:***

- (a) the basis for the preparation of the special purpose financial statements (see proposed new paragraph 9C(a));***
- (b) the material accounting policies applied in the special purpose financial statements, including information about changes in those policies (see proposed new paragraphs 9C(b) and 9C(c));***
- (c) information about the consolidation or non-consolidation of subsidiaries and accounting for associates and joint ventures (see proposed new paragraph 9C(d));***
- (d) an explicit statement as to whether or not the accounting policies applied in the financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards (including the requirement to disclose an indication of how they do not comply) (see proposed new paragraph 9C(e)); and***

***(e) an explicit statement as to whether or not the financial statements overall comply with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) (see proposed new paragraph 9C(f))?***

***If you disagree with any aspect of the proposed disclosures, please provide your reasons.***

We agree with each of the above proposed amendments.

In our view, an entity should also consider discussion around the disclosure of those AAS where an entity has not made any of the disclosures in respect of balances or types of transactions. For example, if an entity had significant related party transactions but AASB 124 *Related Party Disclosures* were not present at all in the financial statements.

For the sake of clarity, we are not recommending a list of which disclosures in AASB 124 have not been made. Rather the fact that there are related party transactions and that the financial statement preparers have elected not to include any of the disclosures in AASB 124.

***The proposed Standard includes implementation guidance and illustrative examples illustrating the application of the proposed disclosure requirements. Do you agree it provides appropriate illustration of the application of the disclosure requirements? If not, please provide your reasons.***

We agree that the guidance and examples are useful – notwithstanding some potential for them to encourage boilerplate disclosures.

***Do you agree with the proposed effective date of annual periods ending on or after 30 June 2021 (with early adoption permitted)? If not, please explain why.***

We would support a proposed effective date for annual reporting periods beginning on or after 1 July 2021 – with early adoption permitted.

Refer to our covering letter for our cost/benefit and sufficient time comments.

***Do you agree that an entity that has no subsidiaries, investments in associates or investments in joint ventures should not be required to make an explicit statement to this effect? If not, please provide your reasons.***

We agree that an entity as described above should not be required to make an explicit statement.

***Do you have any other comments on the proposals?***

Any comments have been included in earlier responses (above).

### **General matters for comment**

#### ***Whether The AASB’s For-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft?***

We think the Framework has been applied appropriately in developing the proposals.

#### ***Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?***

We have not identified any regulatory or other issues arising in the Australian environment.

#### ***Whether the proposals create any auditing or assurance challenges?***

We are not aware of any auditing or assurance challenges that will be created by the proposals.

#### ***Whether, overall, the proposals would result in SPFS that would be more useful to users?***

Overall, in our view, the proposals would enhance transparency in SPFS of affected entities.

#### ***Whether the proposals are in the best interests of the Australian economy?***

We believe that by enhancing transparency the proposals are in the best interests of the Australian economy.

#### ***Unless already provided in response to specific matters for comment above, 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.***

We have no current firsthand experience in costs of these proposals.

Some entities might find it burdensome to determine whether their accounting policies comply with the recognition and measurement requirements of AAS – particularly the smaller entities. However, in our view, the benefit to users of the financial statements should outweigh the costs.