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**AASB Exposure Draft 295 'General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities' ('ED 295')**

Dear Ms Peach

We welcome the opportunity to provide our comments in relation to ED 295.

As specialists in preparing financial statements, we consider the current General Purpose Financial Statements ('GPFS') - Reduced Disclosure Requirements ('RDR') framework (Tier 2) to remain appropriate, as evidenced by our observation of the recent increase in clients preparing RDR financial statements in response to the tax legislation for Significant Global Entities ('SGE') to prepare GPFS. We believe that the reason for the slow uptake of RDR previously was because entities simply chose to prepare Special Purpose Financial Statements ('SPFS') on the basis that it was more cost effective than any type of GPFS. As such, we do not believe there is a need to change the Tier 2 disclosure framework.

The AASB has indicated that it intends for the ED 295 proposals to be the forerunner to the IASB's project '*Subsidiaries that are SMEs*' which may result in the release of a disclosure framework with application in Australia, as noted in BC 24 of ED 295. If Australia intends to move to the IASB's potential new disclosure framework for SME's given the FRC's directive for Australia to adopt IFRS standards where possible, we question why Australia would want to second guess those proposals in the hope that the IASB would simply take Australia's ED 295 work and adopt it as their own.

Should Australian entities be required to move to the proposed simplified disclosure requirements ('SDR') in ED 295, and then later to the IASB's revised SME framework, there is a risk that this could represent an unwarranted cost burden for affected entities which is why we also believe that no change is currently necessary. Also, moving not-for-profit entities and public sector entities into the ED 295 framework as a temporary measure before the finalisation of the respective not-for-profit and public sector AASB frameworks could similarly lead to unnecessary costs.

We also refer to the objective of remaining substantially harmonised with New Zealand reporting requirements and note that ED 295 would represent a difference to New Zealand reporting.



We understand that with the change in thresholds under the Corporation Act 2001 and the proposed removal of SPFS under ED 297, large proprietary companies will be required to prepare GPFS. We believe that the RDR framework is appropriate for these companies to use. If one of the advantages of the ED 295 framework is that it has fewer disclosures, we would suggest removing disclosure requirements from the current RDR rather than creating an entirely new reporting regime.

As noted in our written response to ITC 39 'Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems (Phase 1)', we suggested a streamlined version of RDR instead of an entirely new framework since we believe there are a number of disclosures that seem unnecessary and add time and cost to financial report preparation which exceeds the benefit of their inclusion.

In our experience, when moving from SPFS to RDR, excluding consolidation, the additional disclosures represent approximately a 15% increase in the volume of the report, which translates to a one-off increase in compilation costs of 15-30%. Subsequent to this, there is an approximate ongoing increase of 10% compared to the pre-RDR fee. On top of this, consideration needs to be given to the additional costs of auditing such additional disclosures.

The appendix attached contains our responses to your specific matters.

Should you wish to discuss any aspects of our submission, kindly contact either:

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Yours faithfully

Financial Reporting Specialists

**Financial Reporting Specialists**

**Financial Reporting Specialists ('FRS')**

*FRS is a firm of chartered accountants that are specialists in preparing financial statements, both directly to our clients and indirectly via auditor outsourcing arrangements. We have significant experience in compiling GPFS Tier 1, GPFS Tier 2 (RDR) and SPFS as well as providing technical accounting guidance to our clients. Our clients range from ASX multinationals to NFP charities.*

## Appendix

### Specific matters for comments

- 1. Do you agree with the overarching principles on which the proposed Simplified Disclosure Standard is based and the methodology described in paragraphs BC33-BC43 to this ED? If you disagree, please explain why.**

#### Response 1

We disagree with the principles in the proposed Simplified Disclosure Standard. The AASB is basing its new disclosure framework on an IFRS for SME standard that is potentially subject to change under the IASB's *Subsidiaries that are SMEs* project. We believe that the IASB should complete its project on *Subsidiaries that are SMEs* first instead of the AASB trying to develop a framework that would appear to be temporary only (as it would be replaced by a standard issued by the IASB). This would help minimise the cost involved from changing disclosure frameworks for Tier 2 entities.

We do not see that the bottom-up approach has any more merits than a top-down approach. Starting with a full-IFRS disclosure list and eliminating those that are not deemed required for a simplified disclosure regime appears to be an entirely logical methodology. If the AASB wishes to bring RDR more into line with the IFRS for SMEs disclosures on the basis that the IASB has undertaken the cost-benefit analysis in deriving IFRS for SME disclosures and has applied appropriate principles in developing those disclosures, we believe that the AASB has the ability to reduce the current RDR disclosures where required.

- 2. Do you agree that these proposals should replace the current RDR framework? If you disagree, please explain why.**

#### Response 2

As expressed in our comment letter on ITC 39, our view is to retain the RDR framework because introducing a new framework is potentially confusing and costly for all involved, including preparers, users, software providers and auditors. Our preference is to remove some of the current disclosures in the RDR framework instead of replacing it entirely.

- 3. Do you agree with the following key decisions made and judgements exercised by the AASB in drafting the proposed Simplified Disclosure Standard in relation to:**

**(a) the replacement of AASB 7 Financial Instruments: Disclosures, AASB 12 Disclosure of Interests in Other Entities, AASB 101 Presentation of Financial Statements, AASB 107 Statement of Cash Flows and AASB 124 Related Party Disclosures and in their entirety as explained in BC46?**

#### Response 3(a)

On the basis that we do not agree with the overall proposals, the following response presumes that the proposals nonetheless proceed.

We would agree with the treatment of these Australian Accounting Standards ('AAS') to the extent that any significant guidance contained in either Basis for Conclusions to such standards or Interpretations is also replicated in the new standard.

**(b) adding, removing or amending disclosures, for example the disclosures for lessees, revenue, borrowing costs, revalued property, plant and equipment (PPE) and intangible assets as explained in BC46-BC62?**

**Response 3(b)**

We do not agree with the overall proposals. We believe that the decisions made in adding, removing or amending disclosures of the IFRS for SMEs standard highlights how a bottom up approach is problematic in determining the appropriate disclosures. This indicates that the IASB may also find it difficult as they progress through their *Subsidiaries that are SMEs* project and may reach different conclusions that would result in a very different disclosure framework.

**(c) the inclusion of the audit fees disclosures from AASB 1054 Australian Additional Disclosures for the reasons set out in BC62?**

**Response 3(c)**

On the basis that we do not agree with the overall proposals, the following response presumes that the proposals nonetheless proceed.

We would agree with the inclusion of audit fees as such information in the current environment would be useful to users.

**(d) not including certain Australian Accounting Standards and Interpretations in this Simplified Disclosure Standard as explained in BC63-BC65?**

**Response 3(d)**

On the basis that we do not agree with the overall proposals, the following response presumes that the proposals nonetheless proceed.

We would agree with the decision made with respect to not including certain AASs and Interpretations in the proposed standard.

**(e) retaining the following disclosures from the IFRS for SMEs Standard that are not currently required under RDR framework or full AAS (see BC59 for explanations):**

Section in the Simplified Disclosure Standard	Paragraph number	Nature of disclosure
Additional disclosures compared to RDR framework		
Section 3 <i>Financial Statement Presentation</i>	3.24 (a) and (b)	Domicile, legal form and description of the nature of the entity's operations and principal activities
Section 12 <i>Other Financial Instrument Issues – Hedging disclosures</i>	12.29(a)	For cash flow hedges – the periods when the cash flows are expected to occur and when they are expected to affect profit or loss
Section 14 <i>Investments in Associates</i>	14.13	Amount of dividends and other distributions recognised as income
Section 19 <i>Business Combinations and Goodwill</i>	19.25(g)	Qualitative description of the factors that make up recognised goodwill
Section 20 <i>Leases</i>	20.13(b) 20.30(b)	Lessees: Maturity analysis of future lease payments Lessors with operating leases: variable lease payments recognised as income
Section 28 <i>Employee Benefits</i>	28.41(g)(i),(j)	For defined benefit plans: - amounts recognised in profit or loss as expense - actual return on plan assets

Section in the Simplified Disclosure Standard	Paragraph number	Nature of disclosure
Section 32 <i>Events after the End of the Reporting Period</i>	32.4	Requirement to adjust disclosures as a result of adjusting events
Section 33 <i>Related Party Disclosures</i>	33.11	Disclosure of parent-subsidiary relationship by government-related entities
Section 35 <i>Transition to Australian Accounting Standards – Simplified Disclosures</i>	35.12, 35.13(a) and (c), 35.14 and 35.15	Explanation of how transition has affected reported amounts, description of nature of each change in accounting policy, reconciliation of profit or loss with separate identification of errors, and (where applicable) a statement that the entity did not present financial statements for previous periods
Additional disclosures compared to full AAS		
Section 6 <i>Statement of Changes in Equity and Statement of Income and Retained Earnings</i>	6.5 (a) to (e)	Disclosures where an entity has applied the option of not presenting a separate statement of changes in equity
Section 12 <i>Other Financial Instrument Issues – Hedging disclosures</i>	12.28 (a) and (b)	For fair value hedges: separate disclosure of the amount of the change in fair value of the hedging instrument and of the hedged item
Section 20 <i>Leases</i>	20.23 (d)	Lessors with finance leases: disclosure of the loss allowance for uncollectable minimum lease payment receivables
Section 28 <i>Employee Benefits</i>	28.41(g) and (j), 28.42 and 28.43	For defined benefit plans: -the cost relating to defined benefit plans for the period that have been included in the cost of an asset - for group plans, subsidiaries must make all of the disclosures for the plan as a whole, without exemption and without being able to cross-refer to another group entity's financial statements.  Information about the nature of termination benefits and other long- term benefits, the amount of the obligations and extent of funding.

***If you disagree with any of the decisions, please explain why.***

#### **Response 3(e)**

On the basis that we do not agree with the overall proposals, the following response presumes that the proposals nonetheless proceed.

We do not believe that the additional disclosures (compared to full AAS) should be included on the basis that (i) they are not required under full AAS; and (ii) since they are additional to current AAS, it goes against the objective to reduce disclosures as suggested by past respondents.

- 4. Do you agree with providing Tier 2 entities with an option of not having to prepare a separate statement of changes in equity as per paragraph 3.18 of AASB 10XX? If you disagree or are concerned that this option could have unintended consequences, please explain why.**

#### **Response 4**

We disagree with providing an option because it promotes inconsistency and incomparability. We also consider that a statement of changes in equity without any significant movements is easy to prepare and therefore there is no significant cost saving by not preparing one.

5. ***Do you agree with the other disclosures for Tier 2 entities as set out in Sections 3 to 35 of the proposed new Simplified Disclosure Standard that have been identified by applying the proposed methodology and principles? If you disagree with the outcome, please identify, with reasons:***
- (a) which of the disclosures proposed should not be required for Tier 2 entities; and***  
***(b) which disclosures not proposed in this ED should be required for Tier 2 entities.***

#### **Response 5**

If this framework was to proceed, the disclosures proposed that should not be required are as follows:

- all the additional disclosures added as a result of IFRS for SMEs;
- 4.12(a)(i) number of shares authorised (not applicable in Australia);
- 4.12(a)(iii) par value per share (not applicable in Australia);
- 7.18 An entity shall disclose such transactions elsewhere in the financial statements in a way that provides all the relevant information about those investing and financing activities;
- Aus11.41(g) .....showing separately: (i) financial assets that are measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of AASB 9; and (ii) investments in equity instruments designated as such upon initial recognition in accordance with paragraph 5.7.5 of AASB 9;
- 19.25(g) a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, or intangible assets or other items not recognised in accordance with paragraphs 10-14 of AASB 3;
- 21.14 For each class of provision, an entity shall disclose all of the following... (a) a reconciliation showing: (employee benefit provisions should be excepted from such disclosures); and
- 23.30 An entity shall disclose: (a) information about its performance obligations in contracts with customers, including a description of when the entity typically satisfies its performance obligations, the significant payment terms, the nature of the goods or services that the entity has promised to transfer, obligations for returns, refunds and other similar obligations and types of warranties and related obligations; and (b) ..... disaggregated into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity may apply the guidance in AASB 15 Revenue from Contracts with Customers paragraphs B87-B89 when selecting the categories to use to disaggregate revenue.

The disclosures that should be required are the following:

- income tax reconciliation

6. ***Do you agree that the proposed Simplified Disclosure Standard should also be made available to NFP private sector entities and all public sector entities that can apply Tier 2 reporting requirements as set out in AASB 1053? If you disagree, please explain why.***

#### **Response 6**

If this standard was to proceed, we would prefer that the respective conceptual frameworks of NFP and public sector entities were finalised prior to implementing a new disclosure regime for such entities.

**7. Do you agree:**

- (a) with the principles applied to identify the additional disclosures for NFP private sector and public sector Tier 2 entities (as explained in paragraph BC45)? If you disagree, please explain why.**
- (b) that previous decisions made under the RDR Framework in relation to the cost vs the benefits of these disclosures do not need to be revisited (as explained in BC68.) If you disagree, please explain why.**

**Response 7**

Refer to our Response 6. In implementing a disclosure framework based on IFRS for SMEs on the basis that both the principles used by the IASB and work undertaken on cost versus benefit is deemed superior to that of the AASB's when RDR was devised, we query whether it is appropriate for the AASB to determine that prior RDR decisions relating to cost and benefit are now to be relied upon for determining disclosures for NFP private sector and public sectors.

**8. Do you agree with the disclosures identified for NFP private sector and public sector Tier 2 entities in this Simplified Disclosure Standard? If you disagree, please identify, with reasons:**

- (a) which of the disclosures proposed should not be required for NFP private sector and public sector Tier 2 entities; and**
- (b) which disclosures not proposed in the ED should be required for NFP private sector and public sector Tier 2 entities.**

**Response 8**

Refer to our Response 6. We have no further input on this issue.

**9. Do you agree with using the proposed title of AASB 10XX Simplified Disclosures for Tier 2 Entities? If you disagree, please explain why.**

**Response 9**

If this framework was to proceed, the proposed title is appropriate.

**10. Do you agree with the approach taken in this ED to include all the disclosure requirements for Tier 2 entities in one stand-alone standard (as explained in BC41)? If you disagree, please explain why.**

**Response 10**

We do not agree with the approach to present the Tier 2 disclosures in a separate standard. We note that ED 295 cites some users that consider the current shading technique confusing. We would argue that putting disclosures in a standard which would be separate from the requirements and associated discussion of measurement and recognition which underlies the disclosure would introduce risks of preparers missing the context of disclosure requirements, exacerbate checkbox mentality to disclosure compliance, and necessitate referral to more than one standard when attempting to understand why certain disclosures are required and the sort of information that should be provided. The shading technique allows a user to quickly ascertain the differences between Tier 1 and Tier 2 reporting and allows efficient reference to recognition and measurement discussion.

- 11. Do you agree that, once approved, the amended Tier 2 disclosure requirements should be effective for annual periods beginning on or after 1 July 2020 with early application permitted (as explained in BC78- BC80)?**

**Response 11**

If this framework was to proceed, we agree with the proposed effective date. However, it should be noted that large proprietary companies may be required to move from SPFS to GPFS as a result of the view expressed by both the AASB and ASIC that such entities ought to be viewed as having “economic significance” and therefore be deemed reporting entities under SAC 1. We would agree with this view, however for such entities, they will therefore have to move to GPFS - RDR for 2020 and then GPFS - SDR for 2021.

Even though early adoption for SDR is available, the timing of when the final standard is issued will most likely not allow enough time for entities and software providers to prepare themselves for SDR reporting. These entities may therefore incur additional costs of preparing RDR in the first year and then be required to change to SDR in the following year.

- 12. Do you agree with the transitional requirements proposed in this ED (as explained in BC72-BC77)? If you disagree, please explain why.**

**Response 12**

If this framework was to proceed, we agree with the proposed transitional provisions.

**General matters for comment**

- 13. Whether the AASB’s For-Profit Standard-Setting Framework and Not-for-Profit Standard-Setting Framework have been applied appropriately in developing the proposals in this ED?**

**Response 13**

The framework has not been applied appropriately as it does not seek to minimise differences between Australia and New Zealand. In particular, paragraph 39 of the For-Profit Standard-Setting Framework requires discussion with NZASB and a justifiable specific legislative or other rationale for differences, which does not seem to be considered in ED 295.

- 14. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Financial Statistics (GFS) implications?**

**Response 14**

We are not aware of any other regulatory or other issues.



**15. Whether, overall, the proposals would result in financial statements that would be useful to users?**

**Response 15**

On its own, we do not consider that the proposals of ED 295 would result in financial statements that are any more useful to users than the current RDR framework. We believe introducing a new Tier 2 disclosure framework at a time when many large proprietary companies and other large non-corporate businesses must transition to RDR one year (on the basis of becoming reporting entities due to deemed economic significance) and another framework the next year (i.e. SDR) is confusing and costly. Further, we believe that the RDR framework should be allowed to exist for at least another three years whilst entities restabilise their financial reporting under the current regime, provide reporting certainty for additional entities that must report as SGE's for the first time under the expanded definition of SGE that has recently been proposed by Treasury, and the AASB can work to finalise frameworks for the NFP and public sectors.

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

**Response 16**

We do not believe that the proposals are in the best interests of the Australian economy because:

- it could be confusing to users to introduce a new disclosure framework;
- the costs of implementing may outweigh the benefits;
- it does not harmonise with New Zealand and therefore is contrary to an established and accepted policy;
- the current RDR framework can be further streamlined which will be less confusing, less costly and minimises any differences with New Zealand; and
- the IASB may issue a new standard as a result of its *Subsidiaries that are SMEs* project which can then be adopted by Australia.

**17. 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.**

**Response 17**

As noted earlier, the transition from SPFS to GPFS RDR, excluding consolidation, based on our experience with transitioning many SGE entities requires a one-off increase in compliance costs of approximately 15%-30% and an ongoing increase of about 10% to prepare the Tier 2 GPFS. This excludes the costs to audit the additional disclosures.