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Kris Peach
Chair and CEO
Australian Accounting Standards Board
PO Box 204
Collins Street West VICTORIA 8007

29th November 2019

Dear Kris,

Exposure Draft 297 “Removal of Special Purpose Financial Statements for Certain For-Private Sector Entities”

Ernst & Young Australia is pleased to comment on the above Exposure Draft. We welcome the opportunity to contribute to the future of financial reporting in Australia.

We agree with the proposal to remove the ability for certain for-profit entities to self-assess as non-reporting entities. We agree that in Australia, the meaning of the term ‘reporting entity’ should be that as defined in the Conceptual Framework for Financial Reporting as issued by the IASB in March 2018.

We agree that entities required by Corporations Law or Federal or State legislation to prepare financial statements in accordance with Australian Accounting Standards (“AAS”) or accounting standards should prepare General Purpose Financial Statements (GPFS). We see no conceptual merit in allowing certain pre-existing entities that are required – by constituting documents or other documents - to prepare financial statements in accordance with AAS to continue preparing Special Purpose Financial Statements (SPFS). We believe this undermines the credibility of AAS, and instead suggest giving such entities additional time to either transition to GPFS or change the basis of preparation in constituting documents.

Our detailed responses to the questions raised in the Exposure Draft are provided in the appendix to this letter. We refer you also to our comments on the related Exposure Draft 295 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities in our separate letter dated 29 November 2019.

We would be pleased to discuss our comments further with either yourself or members of your staff. If you wish to do so, please contact Frank Palmer on (02) 9248 5555 or Tony Hanrahan on (03) 9635 4036.

Yours sincerely

A handwritten signature in black ink that reads 'Ernst + Young' in a cursive style.

Ernst & Young

APPENDIX

Specific matters for comment

1. ***The proposed amendments identify the for-profit entities required to comply with Australian Accounting Standards (or accounting standards) that would no longer have the ability to prepare SPFS. Do you agree that:***
 - a) ***the amendments set out in this ED effectively remove the ability to prepare SPFS for the for-profit entities identified in AASB 1057 Application of Australian Accounting Standards as entities for which the reporting entity definition is not relevant (also identified in paragraph Aus1.1 of the Conceptual Framework for Financial Reporting)? If not, please provide your reasons.***
 - b) ***as an exception, other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with AAS should retain the ability to prepare SPFS, provided that the relevant document was not created or amended on or after 1 July 2020? If not, please provide your reasons (see paragraphs BC73-BC83).***
 - c) ***for-profit public sector entities should also retain the ability to prepare SPFS as discussions about the public sector reporting framework are continuing? If not, please provide your reasons.***
 - a) We agree that the amendments effectively remove the ability to prepare special purpose financial statements (SPFS) for certain for-profit entities. We do note however that the Introduction (under 'who will be affected') and Basis for Conclusion (BC61) to the ED indicate that the requirements apply to Corporations Act entities that 'lodge' financial statements, whereas the scope refers to the preparation of financial statements.
 - b) We disagree with a 'grandfathering' clause in AAS for those that are required – by constituting documents or other documents - to prepare financial statements in accordance with AAS. Grandfathering will create non-comparability to others having the same basis of preparation; and we believe undermines the branding of "AAS" that the Board seems to want to protect. In addition, the loss of this grandfathering in the future for entities that might subsequently amend their constitution is an arbitrary basis (and could be triggered by a minor editorial change to a constitution) for imposing a significant change to its reporting requirements. Overall, we consider that compliance with AAS should require GPFS as a basis of preparation. We suggest – rather than grandfathering – either a delayed adoption of GPFS or giving entities further time to change the basis of preparation (away from AAS) in constituting documents.
 - c) We concur that whilst the broader discussion on the public sector financial reporting framework continues, for-profit public sector entities should be excluded from the scope of this ED.
2. ***Have you identified any arguments additional to those addressed in the Basis for Conclusions or unintended consequences that should be considered by the AASB in determining whether the ability to prepare SPFS should be removed from certain for-profit private sector entities as set out in this ED?***

Other than as noted in Q1(a) we have not identified any other arguments or consequences.

3. Do you agree that:

- a) for-profit private sector entities that are neither required by legislation to prepare financial statements that comply with AAS or accounting standards nor required by a document (created or amended on or after 1 July 2020) to prepare financial statements that comply with AAS; and**
- b) for-profit public sector entities;**

should be able to voluntarily prepare GPFS and in doing so apply either the Conceptual Framework for Financial Reporting or the Framework for the Preparation and Presentation of Financial Statements? Please provide your reasons, including whether there are any adverse or unintended consequences that should be considered by the AASB in determining whether the Framework for the Preparation and Presentation of Financial Statements should not be permitted to be applied in these circumstances.

In our response to ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*, we raised concerns with two conceptual frameworks co-existing due to the increased possibility of, over time, differing accounting policies applying for the same transaction. We have the same concern should both conceptual frameworks be available for these entities to voluntarily choose that to adopt. Divergence of accounting policies would create non-comparable financial reporting within the public sector and is contrary to the Board's approach of transaction neutrality (assuming same facts and circumstances).

Should both frameworks be available, and an entity chooses to adopt the Revised Conceptual Framework, then we suggest that it be prevented from voluntarily switching back to the old framework in the future.

4. Do you agree that entities that are not explicitly required to comply with accounting standards, but are required by legislation or otherwise to provide financial statements or financial information that gives a true and fair view, should not be covered by these proposals? If not, please provide your reasons (see paragraphs BC68-BC69).

We concur that these entities should not be covered by these proposals as it should be for those determining the legislative requirements to determine what constitutes true and fair view.

5. Do you agree with the proposal to amend AASB 1 to provide optional relief from the restatement of comparative information in the year of transition from SPFS to GPFS Tier 2 (see paragraphs BC112-BC122)? If not, please provide reasons. If yes, do you agree with the proposed disclosures in relation to the comparative period (see paragraph AusE8.4 for AASB 1 on page 20)? If not, please provide your reasons. Please consider these matters in conjunction with the AASB's proposals regarding a revised Tier 2 disclosure framework as set out in ED 295.

Some entities have recently applied AASB 1 First-Time Adoption of Australian Accounting Standards due to the reporting requirements of Significant Global Entities (SGEs) (under Australian tax legislation). Such entities have transitioned from SPFS to GPFS, without any transition relief apart from that already provided in AASB 1. In our experience, providing comparatives was not a significant effort. We therefore suggest no optional relief be provided for comparatives in this ED where entities self-assessed as non-reporting entities and did not follow all recognition and measurement treatments.

In addition, if the basis for the additional transition relief in this ED is to alleviate the data collection burden, and assuming the Board progresses with this relief, then we also see merit for suggesting transition relief from providing comparative disclosures for those that previously complied with all recognition and measurement treatments.

6. **Do you agree that additional transition relief is not required (see paragraphs BC112-BC122)? If not, what transition relief should be provided and what are your reasons?**

We concur that additional transitional relief is not required.

7. **Do you agree with the proposal to amend AASB 1053 requirements for the first-time adoption of Tier 2 reporting requirements relating to whether a parent entity has complied with AASB 10 Consolidated Financial Statements in its previous SPFS (see paragraphs BC123-BC125)? If not, please provide your reasons. If non-compliance with AASB 10 was the only departure from AAS in the previous SPFS, should an entity be permitted to apply AASB 1, which could allow the restatement of amounts under various transition relief options?**

We agree that where an entity had not previously complied with the recognition and measurement requirements of AAS, or had only departed from AASB 10, then AASB 1 should be applied.

8. **Do you agree with the proposed effective date of annual reporting periods beginning on or after 1 July 2020 (see paragraphs BC126-BC129), with earlier application permitted? If not, please provide your reasons.**

We concur with 1 July 2020, because the Revised Conceptual Framework and the amendments in this ED would become effective in the same reporting period.

General matters for comment

9. **Whether the AASB's For-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this ED?**

The AASB's For-Profit Entity Standard-Setting Framework recognises that IFRS should be the base for AAS, and for non-publicly accountable entities that modifications are acceptable to address Australian-specific issues where user benefits outweigh the costs. We note the AASB in this ED has removed - for an ultimate Australian parent entity - the consolidation exemption within IFRS 10 Consolidated Financial Statements. However, we also acknowledge the AASB had previously made a similar decision for Tier 1 entities. We support consistency among Tier 1 and Tier 2 entities.

Our understanding is that some other major jurisdictions do not remove the exemption in IFRS 10 for ultimate parent entities in those jurisdictions. We consider the AASB should progress a separate project on the need for an ultimate Australian parent entity (Tier 1 and Tier 2 entities), with similar characteristics as that provided in IFRS 10, to prepare consolidated financial statements.

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

We are not aware of any regulatory issues that may affect the implementation of the proposals.

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

Subject to our comments above, we consider the increase in transparency, comparability and consistency of GPFs would result in financial statements that would be useful to users.

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

We agree the proposals are in the best interests of the Australian economy.

13. Unless already provided in response to 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.

Qualitative benefits include greater transparency and comparability for entities considered economically significant, and that otherwise may have self-reported as non-reporting entities (and produced SPFS).

Qualitative costs include readiness of employees and accounting systems for the increase in disclosure, and in some cases also the adoption of IFRS recognition and measurement principles. There could also be increased costs for some entities already reporting under the current Tier 2 RDR framework to align with the new disclosures proposed in the ED.

Quantitative costs include the one-off costs of training / upskilling of preparers, and implementation of new systems and processes. Ongoing costs include the additional preparation time for those entities moving from SPFS to Tier 2 SDS, and recurring audit fees.