Bentleys
Thinking ahead

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By email – standard@aasb.gov.au

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

Dear Sir

EXPOSURE DRAFT 192
Revised Differential Reporting Framework

I refer to Exposure Draft 192 ("ED 192") on the subject of a revised differential reporting framework and the request for comment on ED 192 by 23 April 2010. Please note that the comments and observations included in this letter are on behalf of all member firms of the Bentleys Australia network.

In broad terms Bentleys support the continued need for a differential reporting framework. The introduction in 1991 and 1992 of the reporting entity concept provided the means for tailored and reader friendly financial reports to be prepared for entities that met the definition of a reporting entity – Ian Langfield-Smith supplied Australia with an enduring and very positive contribution in this respect. At the same time our financial processes must be sufficiently robust to deal with new forms of financial reporting such as XBRL and possible future developments, for example continuous and real-time reporting. By way of background, in 1996 Bentleys responded to a then ED (ED 72) again on the topic of differential reporting. A copy of our response is attached hereto and whilst the applicable letter is now nearly 14 years old, our sentiments in the letter on the reporting entity concept remain unchanged.

We agree that there should be a second tier of financial reporting for those entities that can be defined as a non-publicly accountable entity ("NPA") but have a need to prepare general purpose financial statements. We note the proposed disclosures under a Reduced Disclosure Regime ("RDR") included as Appendix A to ED 192 and recognise the work performed by the AASB in determining the disclosure requirements retained and excluded from the RDR. In our view, however, it would be preferable to adopt the IFRS for SMEs standard as published by the International Accounting Standards Board in July 2009. We have taken this view as Australia should adopt, where possible, international financial reporting standards similar to the adoption by us in 2005 of International Financial Reporting Standards ("IFRS"). There are comments in paragraph 42 of ED 192 on the updating process and the possible slowness in the updating of the IFRS for SMEs standard. The timeliness of updates could be handled in Australia by us including "Aus" references in our IFRS for SME standard similar to such references in existing IFRS.

We note that General Purpose Financial Statements ("GPFSs") are defined in paragraph 24 of ED 192 as financial statements that satisfy the following two conditions:

(i) they are publicly available, whether under a legal mandate or voluntarily; and

(ii) they are either:

  (a) prepared in accordance with Australian Accounting Standards under a legal mandate or held out to be so prepared; or

  (b) required to be GPFSs under a legal mandate or held out to be GPFSs.

Paragraph 30, notes that the phrase 'preparation in accordance with Australian Accounting Standards' means the application of all applicable Accounting Standards and not a subset of them. Paragraph 31 states that financial statements required to be prepared under a legal mandate in accordance with Australian Accounting Standards and lodged on a public register, such as that of the Australian Securities and Investments Commission (ASIC), are GPFSs. Consequently, ED 192 will create an environment where **all** entities preparing financial statements under the Corporations Act will have to prepare GPFSs.

Linked to the above, we are strongly of the opinion that the reporting entity concept should be retained. This retention would result in a **third level of financial reporting** for those entities that can be defined as both a NPA and a non-reporting entity. The latter entities can adopt those accounting standards relevant to their business but on the basis that the special purpose financial statements show a true and fair view of the operating results and assets, liabilities and equity of the relevant non-reporting entity. We would recommend that non-reporting entities be allowed to adopt the IFRS for SMEs standard and adopt those elements of that standard which are relevant. In addition, we support the requirement of existing legislation that all entities that must prepare financial statements in accordance with Part 2M.3 of the Corporations Act 2001 adopt accounting standards AASB 101, AASB 107 and AASB 108. Based upon the comments in this paragraph, we would reject the notion included in paragraph 34 of ED 192 that the reporting entity concept would no longer be used to 'operationalise differential reporting'. As outlined in our 1996 letter, the reporting entity concept is very well understood and endorsed by corporate Australia.

To conclude, we have the concern that although ED 192 has good intents with regard to differential reporting, there will be **firstly** a divergence from overseas accounting standards (namely the IFRS for SME standard) and **secondly** the non-availability of the non-reporting entity concept. **Thirdly,** we are concerned that existing non-reporting Corporations Act entities may be required to prepare general purpose financial reports. We consider that this will be of no benefit to the Australian business community as it will add an unreasonable burden and cost to the smaller and family businesses which operate as companies.

Should you or your Board have any queries in regard to the above, or require further information, then please do not hesitate to contact me.

Yours faithfully

Martin Power

Martin Power
Chair
Audit Technical Advisory Committee of Bentleys Australia

Bentleys

Chartered Accountants

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21 June 1996

The Executive Director
Australian Accounting Research Foundation
211 Hawthorn Road
CAULFIELD VIC 3162

Dear Sir

EXPOSURE DRAFT 72
CHANGES TO THE APPLICATION OF AASB ACCOUNTING STANDARDS TO REFLECT THE FIRST CORPORATE LAW SIMPLIFICATION ACT 1995

I refer to Exposure Draft 72 ("ED 72") on the above topic and which was issued for comment by the Australian Accounting Research Foundation ("AARF") in April 1996. As requested by ED 72, included in this letter are comments and observations by the National Audit Committee of Bentleys on the said exposure draft. Would you please note that the National Audit Committee consists of representatives of the Sydney, Melbourne, Adelaide, Perth, Canberra and Brisbane firms of Bentleys.

Over the past two years, the member firms of Bentleys have viewed with interest the debate surrounding the development of the First Corporate Law Simplification Act ("the Act") which effectively commenced on 9 December 1995. In particular, we noted the means by which "large" and "small" proprietary companies were to be defined under the Act and the reporting, or non-reporting, obligations of each type of company. Bentleys have consistently maintained that the reporting entity concept, as discussed in Statement of Accounting Concept 1 ("SAC 1"), to be a more reliable and commercially prudent means of adopting differential reporting than the size tests (revenue, gross assets and employees) set out in the Act. Unfortunately our opinion, mirrored by many accountants, was not reflected in the final, enacted legislation.

From a reading of ED 72, it would appear that the exposure draft is continuing the trend away from the reporting entity concept. Can I say that the reporting entity concept is well understood by our clients following a period of client education in 1991 and, for our corporate clients, 1992. Many of the clients of Bentleys are small to medium size businesses and the reporting entity concept has given us the ability to provide tailored and reader friendly financial reports to those clients.

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I appreciate that the intent of ED 72 is for all accounting standards to only be applied by those companies which are to lodge annual financial statements with the Australian Securities Commission ("ASC"). Of concern to us is that there would be a number of large proprietary companies (as defined) and public companies which are clearly non-reporting entities (per SAC 1), but yet are now required to undergo the expense of applying these accounting standards. By the SAC 1 definition of a non-reporting entity, these companies have very restricted users of financial information. As an example, in the Brisbane firm of Bentleys we have a number of large proprietary company clients who are family owned businesses and are clearly non-reporting entities. Their respective sizes, however, render the companies to be "large". For these companies to incur the expense (both in measurement and disclosure terms) of applying all Australian accounting standards would be a waste of resources and a movement away from the qualitative characteristics of financial information as described in SAC 3.

It is noted by the National Audit Committee of Bentleys, that the proposals set out in ED 72 regarding the application of accounting standards to all companies lodging financial statements is clearly contrary to the statements of the Corporations Law Simplification Taskforce. The latter has stated in the exposure draft dealing with the second proposed bill that "the Bill does not determine the application of accounting standards to financial statements. This remains a matter for accounting standards and in particular AASB 1025 (Application of the Reporting Entity Concept and Other Amendments ..... A non-reporting entity will be required to prepare and lodge financial statements in the same way as it is required ..... at present".

It is our opinion that this Taskforce is in favour of retaining the reporting entity concept for the adoption (or non-adoption) of accounting standards. We are also aware that the position of the Taskforce is supported by public statements originating from the ASC. It does seem strange to us that the ASC is adopting a flexible approach in the exemption of large proprietary companies from the need for an audit whilst the AARF is attempting to increase the reporting requirements for these types of companies. The lodgement of unaudited financial statements, which have been prepared not necessarily by adopting *all* accounting standards, does not, to us, dilute the effectiveness of the financial statement reporting process.

In summary therefore, we view with concern the statements contained in ED 72. Whilst the First Corporate Law Simplification Act reduced the reporting obligations for most small proprietary companies, ED 72 is increasing this reporting for those large proprietary companies and public companies that are clearly non-reporting entities. This is not in the best interest for economy, effectiveness and efficiency in the financial information process.

Yours faithfully
Bentleys

R J Forbes

cc Mr K F Reilly
Director Technical Standards - The Institute of Chartered Accountants in Australia

Mr C W Parker
Director Accounting & Audit - Australian Society of Certified Practising Accountants