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Dear Kevin

**Exposure Draft Revised Differential Reporting Framework (ED 192) and  
Consultation Paper: Differential Financial Reporting – Reducing Disclosure  
Requirements (CP)**

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board (AASB) with its comments on the AASB's Differential Reporting documents which were released on 26 February 2010 and require comment by 23 April 2010. Our comments update our 23 December 2009 submission to the AASB which commented on an earlier 4 December 2009 version of the CP

Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies and businesses, and this submission has benefited with input from our clients, our earlier submissions made to the AASB on ITC 12 in 2007 and the CP in 2009, and discussions with key constituents.

Our 23 December 2009 submission was made even though the AASB had not provided at that time a submission deadline date, as Grant Thornton believed that it was important that the AASB and the Financial Reporting Council (FRC) were both aware of our significant concerns over the AASB's stance on differential reporting, so that more appropriate reforms which include allowing non-publicly accountable entities (i.e. generally other than listed companies) the option to adopt the International Accounting Standards Board's (IASB) IFRS for SMEs accounting standard for 30 June 2010 balancers, could be implemented.

Unfortunately we have had no indication that the AASB has changed its views at all, and our earlier submission remains relevant to this debate. In short Grant Thornton believes that:

- (i) Denying Australian reporting entities the 'option to adopt the IFRS for SMEs accounting standard issued by the IASB is not in the best interests of the

Australian economy as those non-publicly accountable (NPAs) (i.e. generally non-listed) reporting entities the opportunity if they wish to move to a simpler and method of accounting which will be less costly for them to use and would be more relevant to those readers of the financial statements. This is exactly what the International Accounting Standards Board said when it issued IFRS for SMEs as an alternative to full IFRS.

- (ii) Requiring those non-reporting entities that have not adopted a full IFRS recognition and measurement basis will add considerable costs to those entities. It may be that IFRS for SMEs would be an acceptable alternative, however we believe that it would be better to see how IFRS for SMEs works in Australia over a period of time before making any decisions on the future reporting requirements of non-reporting entities.
- (iii) The AASB's proposals whilst providing some cost savings to those NPAs that wish to stay on a full IFRS recognition and measurement platform, will clearly not deliver the savings that an IFRS for SMEs regime will provide, given the simpler and less complex recognition and measurement requirements, and more simplified disclosures compared to the RDR disclosures.
- (iv) The South African experience where that country adopted the then IFRS for SMEs ED in 2007 and then migrated to the 2009 IFRS for SMEs accounting standard is clear evidence to us that adopting an IFRS for SMEs framework will result in real savings for NPA reporting entities, and we cannot understand why the AASB is not prepared to allow the use of IFRS for SMEs as an option. The submissions made to the UK Accounting Standards Board were strongly supportive of allowing IFRS for SMEs as an option, and we encourage the AASB to re-think its opposition based on transaction neutrality and update the Australian financial reporting environment to a consistent global framework that allows full IFRS and IFRS for SMEs to operate together.

**AASB's Differential Reporting Proposals not supported, IFRS for SMEs is supported for early 30 June 2010 adoption**

We do not support the AASB's proposals for reducing the disclosure requirements of full International Financial Reporting Standards (IFRS) on which our Australian Accounting Standards (AASB's) are based, without a simplification of the recognition and measurement rules of full IFRS. Instead we support allowing the IASB's IFRS for SMEs accounting standard which does provide significant simplification of full IFRS accounting standards (10% of full IFRS disclosures and 10% of the size of full IFRS).

Grant Thornton also believes that the AASB should be able to issue an Australian equivalent to IFRS for SMEs in time for 30 June 2010 balancers, given the process that the AASB currently follows with automatic issue of IASB accounting standards. However we have copied this submission to the Chairman of the Financial Reporting Council (FRC)

given the comments made in the AASB's 12 December 2009 Action Alert and as slightly modified in ED 192 that state:

“In releasing this Consultation Paper, the AASB is taking the approach of exposing a proposed Reduced Disclosure Regime for comment and an Exposure Draft showing how the regime is intended to apply. If the proposed regime is adopted, the AASB would hope to be able to issue a final pronouncement before the end of June 2010 and to allow early adoption. It is the prospect of early application that is driving this consultation approach. However, it must be stressed that the AASB is open to alternative views. If the consultation process leads to an alternative approach, it may be that more due process will be needed and a different time scale adopted.”

### **No Change to Corporations Act Non-Reporting Entities**

We do not support the AASB's proposals to 'clarify' that non-reporting Corporations Act entities be deemed as reporting entities who would be required to produce general purpose financial reports. Instead we question the AASB's motives for such change and reject the assertion that this is a 'clarification'. The reporting entity concept was introduced by the former AASB in 1991 (AASB 1025) as a way of relieving smaller entities from what was then seen as increasingly complex accounting requirements that were designed for listed companies. Over 90% of the submission to the AASB on ITC 12 in 2007 supported the retention of the reporting entity for Corporations Act entities that prepare and lodge financial restatements with regulators such as ASIC.

When Australia first debated the adoption of IFRS in the 1990's it was never intended that IFRS would apply to non-listed entities, and when Australia adopted IFRS in 2005 the AASB accounting standards specifically scoped out non-reporting entities apart from the 3 disclosure accounting standards, as stated in the Consultation Paper. We note reference in the CP (9.6) to the ASIC view that Corporations Act entities preparing financial statements should adopt all of the IFRS measurement and recognition requirements of IFRS and also note that the CP (11.3) refers to the increased burden that non-reporting entities will face where they do not adopt all of the IFRS provisions and instead just follow the mandated AASB disclosure requirements.

The IASB has acknowledged that full IFRS is only intended for generally listed companies (publicly accountable) and instead has issued the IFRS for SMEs accounting standard as a more suitable accounting standard for non-publicly accountable reporting entities. The IASB has not designed the IFRS for SMEs accounting standard for non-reporting entities.

We believe that IFRS for SMEs should also be an option for non-reporting entities, and following a short say 2 year period of implementation of IFRS for SMEs along with the IASB's review of its implementation world wide, it then seems appropriate to consider what if any changes should be made to non-reporting entities financial statements requirements. We further see some benefit in allowing non-reporting entities to, at their option, adopt the relevant IFRS for SMEs disclosure requirements rather than the existing applicable full

IFRS disclosure accounting standards (e.g. accounting policies, cash flow and presentation of financial statements).

On the matter of timing, whilst we support the AASB in attempting to seek a reduction in costs for entities preparing 30 June financial statements, we are concerned that the 8 week comment period for submissions which includes the Easter holiday break, is a tight time frame and we would encourage the AASB to accept late submissions but at the same time make the submissions publicly available as they are lodged with the AASB.

We are also disappointed in the AASB's approach to the differential reporting debate given that IFTS 12 was issued in May 2007, the IASB released IFRS for SMEs in July 2009, and whilst the AASB released its earlier CP in December 2009, other jurisdictions such as the UK and New Zealand have had responses to similar issues raised in ED 192 and the CP in February 2010, before the AASB issued ED 192 and its revised CP. We would expect the AASB to quickly move on the differential reporting framework and provided there is support in the submissions, see no reason why the AASB cannot have a differential reporting regime which we expect would include IFRS for SMEs in place so that they could be early adopted for 30 June 2010 financial years. To not do so, would in Grant Thornton's opinion, be inconsistent with the Federal Government's mandate to reduce un-necessary red tape compliance costs.

Our responses to the questions in the ED 192 are attached in Appendix 1.

If you require any further information or comment, please contact me.

Yours sincerely  
GRANT THORNTON AUSTRALIA LIMITED



Keith Reilly  
National Head of Professional Standards

# Appendix

## Specific AASB Questions

(a) Whether you agree with the introduction of a second tier of reporting requirements for preparing general purpose financial statements (GPFSs) for:

- (v) for-profit private sector entities that do not have public accountability;
- (vi) not-for-profit private sector entities; and
- (vii) public sector entities other than those required by the AASB to apply Tier 1?

If not, and you support differential reporting, what other classifications of entities do you think would be more appropriate for differential reporting and why?

## Response

No. We agree with the principle of reducing the regulatory burden on non-publicly accountable entities that are reporting entities whether they are private or public sector, by simplifying the accounting standards requirements that currently apply to them. However we do not believe that the AASB's proposals give sufficient simplification by just reducing some of the disclosure requirements. Instead we support the option of applying the IFRS for SMEs accounting standard as this will provide significantly less costly and complex recognition, measurement and disclosures compared to the AASB's proposals.

For non-reporting entities we believe that for those entities that do not currently adopt full IFRS recognition and measurement requirements, there will be significantly increased costs in following the AASB's proposals, compared to the current mandated AASB disclosure accounting standards.

(b) Whether you agree that entities within the second tier should be able to apply the proposed reduced disclosure regime, which retains the recognition and measurement requirements of full IFRSs or would you prefer another approach (e.g. IFRS for SMEs)? If you prefer the IFRS for SMEs, what do you consider to be the specific advantages of the individual differences of recognition and measurement requirements in the IFRS for SMEs compared with full IFRSs?

**Response**

No, we do not support the AASB's proposals for a second tier and instead support allowing IFRS for SMEs as an option to current requirements for both reporting (full IFRS) and non-reporting entities. Adoption of such an option would lead to far greater cost savings than the AASB's proposals. However we are not opposed to having as an option a reduced disclosure regime (RDR) for those companies that are say wholly owned subsidiaries of listed companies and wish to adopt full IFRS recognition and measurement but reduced disclosures. However we believe that some of these companies are non-reporting entities and therefore do not have significant disclosure requirements. For such companies we would support the addition of the IFRS for SMEs disclosures which would be less burdensome compared to the proposed RDR disclosures.

We support the IASB's IFRS for SMEs recognition and measurement requirements and believe as does the IASB, that they are significantly simpler and less costly to use, and more understandable compared to full IFRS for the non-publicly accountable market.

(c) The definition of public accountability (which is used to identify those for-profit entities that must apply Tier 1) and whether there are categories of entities in the Australian environment that should be cited as examples of publicly accountable entities other than those already identified in paragraph 26;

**Response**

Perhaps. We are not opposed to the examples of entities recognised in paragraph 26 of ED 192 from being considered as examples of publicly accountable entities, however we see those entities as being examples and not necessarily always being a publicly accountable entity. In particular we believe that Self Managed Superannuation Funds would not be publicly accountable.

(d) Whether you would require any other classes of public sector entities, such as Government Departments, Government Business Enterprises or Statutory Authorities, to be always categorised as 'Tier 1' reporting entities and, if so, the basis for your view;

**Response**

No. We believe that any categorization should be left to the Commonwealth, State and Local Governments for agreement between those respective bodies. Hopefully IFRS for SMEs with any public sector modifications will prove beneficial to many public sector entities where there is not the need for full IFRS recognition and measurement.

(e) The clarification of the meaning of GPFs and modifying the way the reporting entity concept is used;

**Response**

No. We do not believe that just because a company lodges financial statements with a regulator such as ASIC, that automatically makes it a reporting entity, and we note that the AASB's proposals overturn established practice since the reporting entity concept was first release in 1991.

We also note that over 90% of submission to ITC 12 in 2007 opposed this proposal and we believe that the AASB needs to explain why it has not responded to its constituents, and provided more detailed justification on why it has rejected those arguments. Just because financial statements are publicly available, does not automatically make them a reporting entity and we note that there have been minimal examples of requests by readers of those financial statements to ask for reporting entity financial statements. In short the AASB has no evidence to support its proposals.

As detailed elsewhere in our submission, a decision to make all such companies reporting entities will add significant costs in most instances to those companies where they have to migrate to a full IFRS environment.

We also have concerns over whether grandfathered companies that do not lodge financial statements or other non-lodging entities will be required to prepare GPFs when there is no public benefit but a real cost issue if Special Purpose Financial Reports (GPFRs) are no longer allowed.

(f) The extent and nature of the proposed disclosures under the RDR (Tier 2), including whether the RDR would be effective in reducing sufficiently the disclosure burden on entities in preparing their GPFs;

**Response**

No, we are not supportive of the extent of the reduction disclosures as whilst they appear to be about 50% less than full IFRS according to an independent study, they are still 50% more than the IFRS for SMEs disclosures on which the RDR was based, and on that basis do not reduce the burden as much as adopting IFRS for SMEs.

(g) Any particular disclosure requirements that:

- (i) have been retained in the RDR that you consider should be excluded from the RDR, and your reasons for exclusion;
- (ii) have been excluded from the RDR that you consider should be retained, and your reasons for retention;

**Response**

No, we are unable to comment as detailed in our response to (f) above. Picking and choosing disclosures based on the principles of the IFRS for SMEs accounting standard but maintaining a full IFRS recognition and measurement model does seem to us to be inconsistent with the disclosures that the IASB believes are necessary where full recognition and measurement is adopted.

(h) Transitional provisions for entities applying Tier 1 or Tier 2 for the first time and moving between Tiers;

**Response**

We have no particular concerns with the transitional provisions. However we believe that as the AASB has stated it is 'open to alternative views' and IFRS for SMEs is clearly identified by the AASB in ED 192 and the CP as an alternative and is benchmarked against the AASB's RDR proposals, it is imperative that the AASB also give thought to how IFRS for SMEs can be adopted in Australia as an option, for 30 June 2010 financial statements.

We see no reason why the AASB cannot in a short space of time (a week) turn its resources to having IFRS for SMEs issued as an Australian accounting standard without any changes apart from the introductory Australian regulatory references that are common to all AASB badged IFRS accounting standards.

(i) Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals;

**Response**

Yes, we believe that there is a regulatory issue that will impact implementation of the AASB's proposals. Unless Australia adopts IFRS for SMEs as an option for non-publicly accountable entities, Australia will be out of step with the Corporations Act requirements to be in compliance with the IFRS framework. In addition non-reporting entities are not part of the IFRS framework and therefore they should not be reclassified as reporting entities.

(j) Whether, overall, the proposals would result in reducing the costs of preparing GPFSS that would remain useful to users; and

**Response**

No, whilst we acknowledge that the AASB's proposals may lead to some reduction of costs for reporting entities with decreased disclosures, the adoption of IFRS for SMEs as an option would lead to a far greater reduction in costs given simplified recognition and measurement requirements, and IFRS for SMEs only disclosures, and no reduction in usefulness. For non-reporting entities, we believe that the AASB's proposals will generally considerably increase the cost of preparing and having audited financial statements without any increase in usefulness to readers.



(k) Whether the proposals are in the best interest of the Australian economy.

**Response**

No, we do not believe that the AASB's proposals are in the best interests of the Australian economy as this:

- would put Australia out of step with the IASB framework;
- would not lead to the significant reduction in the costs of preparing and having audited non-publicly accountable reporting entities that would have to maintain full IFRS recognition and measurement when the IASB has stated that full IFRS is not suitable for such entities, whereas the option of having IFRS for SMEs as an option would, and;
- would significantly increase the cost for many non-reporting entities that would either have to maintain or step up to full IFRS recognition and measurement when the IASB has stated that full IFRS is not suitable for such entities.