



**Important information**

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## Responses on specific matters for comment

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

- For-profit private sector entities that do not have public accountability
- Not-for-profit private sector entities
- Public sector entities other than those required by the AASB to apply Tier 1?

Agree – the introduction of a second tier of reporting requirements for the specified groups of entities represents a practical and commercial approach to reducing financial reporting burden and cost.

*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?*

Agree – it is essential that the bases for recognition and measurement are consistent across all entities where possible to facilitate comparability. Significant efficiency gains are available through reduced reporting disclosures.

*The definition of public accountability 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.*

The proposed definition of public accountability is appropriate.

However, it may be necessary to provide further definition and examples. It is likely that many entities will seek to be classified as Tier 2 reporting entities to reduce their reporting burden. There will need to be a very clear basis on which to determine classification to ensure consistent treatment across entities.

For example, in relation to an entity that 'holds assets in a fiduciary capacity for a broad group of outsiders' it is suggested that further definition of the term 'broad' could be provided to improve clarity. It may also be appropriate to provide further definition of the term 'outsiders' and the types of users this may indicate. For example far greater public accountability is required for an entity dealing predominantly with individuals (for example a bank) than for a managed fund dealing only with a small group of corporate investors.

*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?*

No, it is not considered necessary for any other class of public sector entities to be always categorised as Tier 1 reporting entities.

In general, for both public and private sector entities, it is suggested that where the results of an entity are consolidated into the financial statements of a group, that entity should be permitted to apply the Tier 2 disclosures. The ultimate parent entity would then represent a Tier 1 reporting entity and the consolidated financial statements would present full IFRS disclosures for the entire group.

For example, where the results of a Government Business Enterprise (GBE) are consolidated into the relevant Whole of Government financial statements, that GBE should be classified as a Tier 2 reporting entity. Similarly, a corporate subsidiary for which the results are consolidated into a corporate group should be classified as a Tier 2 reporting entity.

While it is acknowledged that there is a higher level of public interest in relation to government entities, it is also important that those public sector entities that compete with private sector entities are not disadvantaged through the application of more onerous financial reporting requirements.

Of some concern is that for public sector entities the classification between Tier 1 and Tier 2 will not necessarily be clear. In particular the flowchart for classification of entities suggests a 'choice of alternatives', which could lead to inconsistent classification across jurisdictions. It would be preferable to incorporate clearer guidance into the flowchart to improve consistency of classification where possible.

*The clarification of the meaning of GPFs and modifying the way the reporting entity concept is used?*

The meaning of GPFs as set out in the exposure draft is considered appropriate. The modification of the reporting entity concept is also considered appropriate.

*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?*

The proposed disclosures under the RDR are considered appropriate for Tier 2 reporting entities.

For many entities, the RDR will be effective in reducing the current financial reporting disclosure burden.

However, for those entities whose financial statements are lodged on a public register, the requirement that they must prepare Tier 2 GPFs may initially increase the reporting burden and cost. Many entities that are required to lodge financial statements on a public register may otherwise be in a position to prepare SPFs. Requiring these financial statements to be GPFs (albeit Tier 2) will increase the disclosure burden on those entities.

It could be argued that lodgement of financial statements on the public record in itself may not necessitate GPFs, provided the financial statements clearly distinguish whether they are GPFs or SPFs. The existence of users reliant on those financial statements should be the primary consideration in assessing the necessity for GPFs. The ability to access financial statements on a public register does not necessarily imply 'reliance'.

However, provided there is a reasonable transition period, the necessity for consistency in bases of recognition and measurement applied within financial statements available publicly is considered to outweigh this argument and the initial impact on affected entities.

*Any particular disclosure requirements that:*

- *Have been retained in the RDR that you consider should be excluded from the RDR and your reasons for exclusion*
- *Have been excluded from the RDR that you consider should be retained and your reasons for retention*

No

*Transitional provisions for entities applying Tier 1 or Tier 2 for the first time and moving between Tiers*

The transitional provisions are considered appropriate.

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

QIC is not aware of any issues of this nature that may affect the implementation of the proposals.

*Whether overall the proposals would result in reducing the costs of preparing GPFs that would remain useful to users?*

The proposals would result in increased efficiency and reduced cost for Tier 2 entities overall, while producing GPFs that remain useful to users. The exception to this is for those entities that may otherwise be in a position to prepare SPFs, but that will now be required to prepare GPFs by virtue of the requirement to lodge their financial statements on a public register. It is envisaged that the cost of reporting for these entities may initially increase.

It will be important to communicate to users and stakeholders that Tier 2 reporting entities will not be considered publicly accountable and that, for those entities, financial statements disclosures that may be interesting are not necessarily essential for GPFs to be useful.

*Whether the proposals are in the best interest of the Australian economy?*

On balance, it is considered that the proposals are in the best interest of the Australian economy.

*Other*

It is noted that the concept of special purpose financial statements (SPFSs) is discussed in the consultation paper and exposure draft. It is considered essential that the ability to prepare SPFSs is retained. It would be counter-productive to enforce onerous financial reporting disclosures on entities which have, for example:

- a limited number of users
- users who can command tailored information and reports
- no legal or other requirement to prepare GPFs or lodge financial statements on a public register

The preparation of SPFSs is considered to be a practical, commercial and efficient method of financial reporting for entities of this nature.

While it is understood that SPFSs fall outside of the accounting standards regime, the continued inclusion of SPFSs as an option on the classification flowchart, and in the ultimate accounting standard on differential reporting, is considered important. This will provide clarity around when SPFSs are an allowable option and will reduce inconsistency.