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14 August 2019

Ms Kris Peach
Chairman
Australian Accounting Standards Board
Level 14, 530 Collins Street
Melbourne VIC 3000

Dear Ms Peach

SUBMISSION – AASB ED 293 DISCLOSURE IN SPECIAL PURPOSE FINANCIAL STATEMENTS

We appreciate the opportunity to provide comment to the Australian Accounting Standards Board (the AASB) on the AASB's Exposure Draft 293 *Amendments to Australian Accounting Standards - Disclosure in Special purpose Financial Statements of Compliance with Recognition and Measurement Requirements* (the Exposure Draft).

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Overall, we are supportive of the objective to increase transparency in special purpose financial reports. We consider the Exposure Draft will go some way towards achieving that objective. However, we do not consider that the benefits of the proposals at this stage will exceed the implementation costs to business and not-for-profit entities due to:

- The short-term nature of the proposals (the Exposure Draft intends to apply to for-profit entities for one year only until the revised conceptual framework is adopted for these entities which will remove the ability for for-profit entities required to comply with Australian Accounting Standards to produce special purpose financial reports); and
- The burden already placed on not-for-profit entities (with revenue thresholds as low as \$250,000) for this coming financial year with adoption of the new accounting standards – AASB 16 *Leases*, AASB 1058 *Income of Not-for-profit Entities* and AASB 15 *Revenue from Contracts with Customers* for financial years commencing 1 January 2019 (with most of these entities adopting the new standards from 1 July 2019). Not-for-profit entities with such low reporting thresholds are not resourced to consider, implement and comprehend such an extent of changes in one reporting period.

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Further, we disagree with the premise that the amendments are 'urgently needed' as advised in the basis for conclusions (BC 43), as special purpose financial reporting has existed for many years without any additional disclosures of this nature. We note that at this time, no publicly available evidence has been produced showing that a substantial volume of users has had their decisions impacted by currently available special purpose financial reports, noting that less than 1% of trading entities produce special purpose financial reports (based on the AASB's previous analysis).

Therefore, we do not support the Exposure Draft to require additional disclosures in special purpose financial statements for financial years ending on or after 30 June 2020. Further comments on selected questions of the Exposure Draft are attached to this letter.

The adoption of a revised financial reporting framework for for-profit entities and not-for-profit entities will be a significant undertaking for the Australian financial reporting community in terms of understanding and applying the requirements. We consider users and preparers should be focused on this development, instead of implementing further disclosures to a reporting model that will be redundant in the short-term.

We note, that to date very little progress has been made on a new reporting framework for the not-for-profit sector. We are very keen to participate in the development of a simplified financial reporting framework for the not-for-profit sector and look forward to further engagement with the AASB on this matter.

Please contact either myself or Ms Kerry Hicks, Director – Technical Standards (02 9228 2272 or kerry.hicks@pitcher.com.au), in relation to any of the matters outlined in this submission.

Yours sincerely



K L Byrne
Partner



Kerry Hicks
Director, Technical Standards

Specific matters for comment:

Question 1

<p>Do you agree that an amendment to AAS to require entities to disclose information about their SPFS, including whether or not the entity has complied with all the R&M requirements in AAS, is needed to provide more transparency to users of publicly lodged SPFS and improve the comparability of SPFS? If not, please provide reasons.</p>

Response:

We are supportive of the objective to increase transparency in special purpose financial reports. We consider the Exposure Draft will go some way towards achieving that objective. However, we do not consider that the benefits of the proposal at this stage will exceed the implementation costs to business and not-for-profits entities due to:

- The short-term nature of the proposals (the Exposure Draft intends to apply to for-profit entities for one year only until the revised conceptual framework is adopted for these entities which will remove the ability for for-profit entities required to comply with Australian Accounting Standards to produce special purpose financial reports); and
- The burden already placed on not-for-profit entities (with revenue thresholds as low as \$250,000) for this coming financial year with adoption of the new accounting standards – AASB 16 *Leases*, AASB 1058 *Income of Not-for-profit Entities* and AASB 15 *Revenue from Contracts with Customers* for financial years commencing 1 January 2019 (with most of these entities adopting the new standards from 1 July 2019). Not-for-profit entities with such low reporting thresholds are not resourced to consider, implement and comprehend such an extent of changes in one reporting period.

Question 2

<p>Do you agree that the proposed amendments should apply only to those entities lodging SPFS with:</p>
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|---|
| <p>(a) ASIC under Part 2M.3 of the Corporations Act 2001; or</p> <p>(b) the ACNC?</p> |
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<p>If not, please provide reasons.</p>
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Response:

We disagree with the premise that the amendments are 'urgently needed' as mentioned in the basis for conclusions (BC 43). We note that at this time, no publicly available evidence has been produced showing that a substantial volume of users has had their decisions impacted by currently available special purpose financial reports, noting that less than 1% of trading entities produce special purpose financial reports (based on the AASB's previous analysis).

Nevertheless, if the Board chooses to proceed, the enhancements should only apply to those entities required to lodge financial reports under Part 2M.3 of the *Corporations Act 2001*. The proposals should not apply to not-for-profit entities, for the following reasons:

- Much lower reporting thresholds than for-profit entities, with no relief provided to them through an increase in thresholds (unlike the doubling of thresholds for proprietary companies from 1 July 2019); and
- The burden already placed on not-for-profit entities for this coming financial year with adoption of the new accounting standards – AASB 16 *Leases*, AASB 1058 *Income of Not-for-profit Entities* and AASB 15 *Revenue from Contracts with Customers* for financial years commencing 1 January 2019 (with most of these entities adopting the new standards from 1 July 2019).

Question 3

Do you agree with the proposed amendments to AASB 1054 requiring disclosure of:

- (a) the basis for the preparation of the SPFS (reflected in the proposed amendment to paragraph 9 of AASB 1054);**
- (b) information about the consolidation or non-consolidation of subsidiaries and accounting for associates and joint ventures (reflected in the proposed new paragraphs 9A(a) and (b));**
- (c) an explicit statement as to whether or not the accounting policies applied in the financial statements comply with all the R&M requirements in AAS (including the requirement to disclose an indication of where they do not comply) (reflected in the proposed new paragraph 9A(c))?**

If you disagree with any aspect, please provide reasons.

Response:

Refer to our response in the covering letter and this attachment.

Question 5

If the Amending Standard is issued before December 2019, do you agree with the proposed effective date of annual periods ending on or after 30 June 2020 (with early adoption permitted)? If not, please explain why

Response:

In the event that the AASB proceeds with these proposals, we do not believe that the timetable provides sufficient time for the amendments to be communicated and addressed by those affected entities.

In practice both the International Accounting Standards Board (IASB) and the AASB provide a minimum of 12-months-notice before the application date of new or revised standards. This allows for adequate communication and education of the changes to preparers, advisers, boards and the user community. It also allows for third-party software suppliers and vendors to up-date their technology for the financial reporting disclosures. We do not support a lesser time being provided for these current proposals.

We understand the urgency has been addressed in the basis for conclusions and is based on limited user feedback. We note that special purpose financial reporting has existed for many years without any additional disclosures of this nature. We also note that at this time, no publicly available evidence has been produced showing that a substantial volume of users has had their decisions impacted by currently available special purpose financial reports, noting that less than 1% of trading entities produce special purpose financial reports (based on the AASB's previous analysis).

Other matters for comment

Question 9

Whether the AASB's For-Profit Entity Standard-Setting Framework and The AASB's Not-for-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft?

Response:

The AASB's Standard Setting Framework outlines that the AASB set standards for 'general purpose financial statements'. However, the disclosures outlined in the Exposure Draft are specifically designed for special purpose financial statements which, arguably, is not in the AASBs remit.

Question 10

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

Response:

We consider that as part of any proposals that impact special purpose financial reporting disclosures, a review should take place of RG 85 *Reporting Requirements for Non-reporting entities* to ensure consistency in requirements.

Question 11

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

Response:

We consider that special purpose financial reports are currently designed to meet the needs of their specific users. Such users are able to demand whatever information they need. Therefore, based on this information it is not clear to us that the proposals would be useful to those specific users.

However, we understand the AASB has received user feedback indicating that the current disclosures are insufficient. We note that at this time, no publicly available evidence has been produced showing that a substantial volume of users has had their decisions impacted by currently available special purpose financial reports, noting that less than 1% of trading entities produce special purpose financial reports (based on the AASB's previous analysis).

Question 12

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

Response:

In our opinion, the proposals are not in the best interests of the Australian economy.

The adoption of a revised financial reporting framework for for-profit entities and not-for-profit entities will be a significant undertaking for the Australian financial reporting community in terms of understanding and applying the requirements. We consider users and preparers should be focused on this development, instead of implementing further disclosures to a reporting model that will be redundant in the short-term.