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Kris Peach
Chairman and CEO
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

19th August 2019

Dear Kris

AASB Exposure Draft 293 "Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements"

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 believe the proposals contained in the Exposure Draft increase the transparency of the basis on which Special Purpose Financial Statements have been prepared.

Our detailed responses to the questions raised in the Exposure Draft are provided in the appendix to this letter.

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

Ernst + Young

Ernst & Young

APPENDIX

Specific matters for comment

Q1 – 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.

We agree with the proposed amendment. We consider the increased disclosure increases the transparency of the basis on which the SPFS have been prepared and will assist users to understand the potential cost and complexity of entities transitioning from SPFS to Tier 2 GPFS due to ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (expected to apply for years beginning 1 July 2020). The proposed amendment confirms the principles described in APES 205 (2015) section 6, ASIC Regulatory Guide 85 and AASB 101.112, 117-124.

Q2 - Do you agree that the proposed amendments should apply only to those entities lodging SPFS with:

(a) ASIC under Part 2M.3 of the Corporations Act 2001; or

(b) the ACNC?

If not, please provide reasons.

We consider the proposed amendment should apply to all entities preparing SPFS, including those doing so voluntarily. If the objective of the proposed amendment is to provide increased transparency and comparability to users, we see merit in extending the scope of the amendment to include all entities. We note most entities fall within the scope of APES 205 as described in BC22, however we also note per BC14 the Board does not consider the current requirements of APES 205 will necessarily provide users with sufficient information about an entity's compliance with all the recognition and measurement requirements in Australian Accounting Standards. Therefore, instead of relying on the Accounting Professional and Ethical Standards Board to make consequential amendments to APES 205, the Board could extend the scope of the proposed amendment.

We note paragraph 2 of the ED states that the amendments apply to entities and financial statements prepared in accordance with the application of AASB 1054 as set out in AASB 1057.7 (as amended by AASB 2019-1) as follows:

> *7. AASB 101 Presentation of Financial Statements, AASB 107 Statement of Cash Flows, AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, AASB 1048 Interpretation of Standards and AASB 1054 Australian Additional Disclosures apply to:*
>
> *(a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;*
>
> *(b) general purpose financial statements of each reporting entity;*
>
> *(c) financial statements that are, or are held out to be, general purpose financial statements; and*
>
> *(d) for-profit private sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards.*

We do not see how this scoping captures not-for-profit entities lodging with the ACNC.

Q3 - Do you agree with the proposed amendments to AASB 1054 requiring disclosure of:

If you disagree with any aspect, please provide reasons.

(a) the basis for the preparation of the SPFS (reflected in the proposed amendment to paragraph 9 of AASB 1054);

We agree with the requirement to disclose the basis of preparation of the SPFS.

In relation to the requirement to disclose the reason for non-consolidation of subsidiaries, we note the disclosure per AASB 127.16(a) is not mandatory for entities applying Tier 2 reporting requirements. In the interests of consistency and transparency we suggest this disclosure requirement is made mandatory for entities applying Tier 2 reporting requirements.

(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));

See our response to Q7.

(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))?

Agreed.

Q4 - The proposed Amending Standard includes implementation guidance and illustrative examples illustrating the application of the proposed disclosure requirements. Do you agree it provides appropriate illustration of the application of the disclosure requirements?

If not, please provide reasons.

We note the following in relation to the examples described in IG7 of the ED:

Example 2: The example should also describe the method used to account for the subsidiaries, consistent with AASB 127.16(c), for example at cost, or at fair value.

Example 3: In our view, having an accounting policy whereby some subsidiaries are consolidated and others are not is non-compliant with the requirements of AASB 108 in relation to the selection, and consistent application of appropriate accounting policies.

Further, we consider equity accounting to be a measurement requirement, and therefore disagree that when not equity accounting for an investment in an associate, an entity can still state compliance with recognition and measurement requirements.

Example 5: See our response in Q7. In not having an accounting policy for the treatment of investments in other entities, this example is not compliant with the requirements of AASB 108 in relation to the selection and consistent application of appropriate accounting policies.

Example 6: This scenario is not compliant with ASIC Regulatory Guide 85 sections 2.5 and 2.6.

Example 7: This scenario is not compliant with ASIC Regulatory Guide 85 sections 2.5 and 2.6.

Q5 - 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.

We agree that this is a reasonable timeline.

Q6 - Do you agree that an entity that has no subsidiaries, investments in associates or investments in joint ventures should not be required to make an explicit statement to this effect? If not, please provide reasons.

We agree. Requiring explicit statements to this effect is contrary to the IASB's IFRS Practice Statement 2 *Making Materiality Judgements* which explains that disclosure requirements in IFRS need only be applied if their effect is material, and contrary to ED 296 which proposes to amend AASB 101 to require disclosure of only material accounting policies.

Q7 - Do you agree that a not-for-profit entity that has not determined whether or not its interests in other entities give rise to subsidiaries, associates or joint ventures should be permitted to disclose only that fact, and should not also be required to disclose the reasons why?

If not, please provide reasons (refer to paragraph BC32 in the Basis for Conclusions for the AASB's consideration of this matter).

We do not agree with this situation. We believe the proposed amendments should be applied consistently across for-profit and not-for-profit SPFS preparers. We consider not making such a determination to be contradictory to AASB 108, which requires an entity to select and apply its accounting policies consistently. We are concerned such a proposal condones both inappropriate and inconsistent application of accounting policy.

Q8 - Do you have any other comments on the proposals?

We have no other comments.

General matters for comment

Q9 - 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?

Except for the matters described in our response to Q7 in relation to not-for-profit entities that make no determination on whether their investments in other entities give rise to subsidiaries, associates or joint ventures, we believe *The AASB's Not-for-Profit Entity Standard-Setting Framework* has been complied with.

Q10 - 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 such legislation.

Q11 - Whether, overall, the proposals would result in SPFS that would be more useful to users?

Agreed that these proposals, except for the concerns raised in Q7, will result in SPFS that are more useful to users.

Q12 - Whether the proposals are in the best interests of the Australian economy?

Given the relatively low compliance burden, and the advantages derived in terms of comparability and transparency for users of special purpose financial reports, we consider these proposals beneficial to the Australian economy.

Q13 - Unless already provided in response to specific 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.

We have no other comments.