AUSTRALIAN INSTITUTE
of COMPANY DIRECTORS

19 August 2019

Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Via email: standard@aasb.gov.au

Dear Ms Peach

Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements

Thank you for the opportunity to provide a submission on the AASB Exposure Draft 293 which proposes amendments to Australian Accounting Standards with respect to disclosure in special purpose financial statements of compliance with recognition and measurement requirements.

The Australian Institute of Company Directors (**AICD**) has a membership of more than 44,000 including directors and senior leaders from business, government and the not-for-profit (**NFP**) sectors. We aim to be the independent and trusted voice of governance, and to build the capability of a community of leaders for the benefit of society.

1. Overview

The AICD supports the need for a review of the Australian financial reporting framework, given its complexities and its impact on a wide range of entities. We also acknowledge that special purpose financial statements (**SPFS**) are not comparable because of their self-assessment approach to compliance obligations.

However, we are concerned that ED293 seeks to create a new reporting regime (for a limited interim period, from 1 July 2019) at a time when the broader SPFS regime (in the for-profit area, and in time for NFPs) is expected to be overhauled shortly by the AASB.

In summary, we are of the view that:

- The proposed regime will unnecessarily increase the reporting burden on businesses and charities, which will be most acute for smaller entities (noting the applicable revenue threshold is as low as $250,000);
- The proposals may be beyond the AASB's mandate, given its focus is on "general purpose financial statements";
- Issuing a new accounting standard after its commencement date provides inadequate time for preparers, directors and auditors to understand and adopt the new requirements.

Further observations are outlined below.

2. **Increased reporting burden**

In our view, the additional disclosures will unnecessarily increase the reporting burden on businesses and charities. We are particularly concerned about the increased reporting burden for charities, since their reporting includes entities with revenues as low as $250,000.

Entities of this size may not have sufficient internal resources to prepare their financial statements and may not understand what the recognition and measurement requirements of Australian Accounting Standards are without assistance from a qualified accountant. Receiving this advice will incur costs that may not be commensurate with the value gained by users of their reports.

3. **No need for new regime**

We note that some of the proposed additional disclosures are duplicative of existing requirements such as with respect to the decision to prepare SPFS. In addition, entities are already required to comply with a minimum set of accounting standards which include the disclosure of their accounting policies.

SPFS by their nature do not necessarily comply with all recognition and measurement requirements of Australian Accounting Standards because the accounting policies adopted are designed to meet the needs of their specific users, these users being able to demand whatever information they require. Therefore, we do not see the need for additional disclosures with respect to recognition and measurement requirements.

Further, in our view, the proposed disclosures regarding consolidation are not required, since the relevant group which has lodged SPFS has already determined that they are not a reporting entity (given the assessment that there are no users interested in this information).

Given that the AASB is already undertaking a separate, but related review, of the use of SPFS (initially focused on for-profit entities), in our view it is not advisable to create a new, bespoke regime (under ED293) which is likely to only apply for a very limited time (until the broader revision of the SPFS regime is finalised).

Implementing the proposed changes under ED293 will also introduce unhelpful additional complexity, as entities preparing SPFS will be subjected to a short-term interim reporting regime, prior to the anticipated transition to general purpose financial reporting and the introduction of a new tier of reporting.

4. **AASB's mandate**

The AASB's Standard Setting Framework outlines that the AASB set standards for 'general purpose financial statements', however these disclosures are specifically designed for SPFS which arguably is not in the AASB remit.

Given this issue, we would encourage the AASB to reconsider the need to amend the Accounting Standards per the proposals in ED293, at the very least, until the broader review of SPFS is completed.

5. **Application date**

In our view, given our comments above, the AASB should re-consider the need to amend AASB 1054 in line with the proposals set out in ED 293.

Notwithstanding our position, if the AASB decides to adopt this interim approach, we suggest that the effective date be for annual periods after 30 June 2020 to allow sufficient time to absorb the new reporting requirements.

Otherwise, little time would be left for preparers, directors, and auditors to understand, assess and adopt the new requirements for FY20. Indeed, as a matter of sound public policy, it is generally preferable for regulatory requirements to operate on a prospective, rather than retrospective, basis (noting under ED293, the new reporting obligations would apply from 1 July 2019).

6. Next steps

We hope our comments will be of assistance to you. If you would like to discuss any aspect of this submission, please contact Christian Gergis, Head of Policy, on 02 8248 2708 or cgergis@aicd.com.au.

Yours sincerely

LOUISE PETSCHLER
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