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29 November 2019

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

Dear Kris

Combined Comment Letter - Exposure Draft ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* and Exposure Draft ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*

We are pleased to respond to the AASB's Exposure Drafts in respect of the removal of Special Purpose Financial Statements for certain for-profit private sector entities, and the replacement of the current Tier 2 General Purpose Financial Statements Reduced Disclosure Requirement ("RDR") framework with a Simplified Disclosure Standard ("SDS").

As we expressed in our response to the AASB's Invitation to Comment ITC39, we strongly support the need for Australia to maintain compliance with International Financial Reporting Standards ("IFRS") within its financial reporting framework. This includes supporting the removal of the self-assessment framework to determining an entity's reporting status, as the preparation of Special Purpose Financial Statements ("SPFS") results in financial statements on public record that serve little use, and may even in some cases provide information that is misleading. For example, we consider that parent entities who made use of unintentionally ambiguous wording within ASIC's Regulatory Guidance RG85 *Reporting requirements for non-reporting entities* to avoid preparing and lodging consolidated financial statements by self-assessing as non-reporting entities have often produced financial statements which contain very little useful information.

We therefore believe that requiring private sector entities with regulatory or legislative requirements to prepare financial statements in accordance with Australian Accounting Standards, to prepare General Purpose Financial Statements ("GPFs") would result in financial statements which are more useful to users, and better align Australian financial reporting requirements with those of the rest of the world. Following the recent increase in the size thresholds in the Corporations Act 2001, we believe it is reasonable to expect entities which are "large" to prepare General Purpose Financial Statements.

We are supportive of the Board's proposed relief from restating and presenting comparative information in the year of transition, assuming an effective date of 1 July 2020, to minimise the burden of transitioning to a new framework. Where entities have previously been preparing SPFS applying the full recognition and measurement requirements described in RG 85, and have applied the consolidation or equity accounting standards, we would expect the transition to be minimally disruptive. Where entities have previously not applied full recognition and measurement requirements, or have not applied the consolidation standard, this transitional relief is an appropriate way to minimise the costs of transition.

We support the proposals to avoid creation of a third tier of financial reporting, and the AASB's decision not to adopt the IFRS for SMEs Standard as a replacement for the existing RDR framework. Neither of these options would result in the desired outcome of increased consistency, comparability and transparency in financial reporting.

We consider the approach taken by the Board to identifying the minimum extent of disclosures which should be required from in-scope entities to be logical. While we have previously questioned the need to modify the existing RDR framework, we understand that the post-implementation review by the AASB has shown that the framework did not yield expected results, and therefore welcome a modest revision. However, we question the inclusion of disclosures from IFRS for SMEs where these exceed the existing RDR framework. While generally the disclosure requirements of SDS are presented as being less arduous to compile than those in the current RDR framework, the process of updating financial reports and auditing them for consistency with a new reporting framework will impact more than just the entities scoped in by this ED. As a general principle, we believe the approach taken for each disclosure should be to adopt whichever is least onerous out of IFRS for SMEs and the current RDR.

We set out more detailed reasons for our position below, responding to certain of the AASB's specific and general matters for comment in both Exposure Drafts.

We would be pleased to discuss our firm's views further with you. Please contact me on 08 9261 9374 should you wish to discuss our comments.



Ralph Martin
National Technical Director
RSM Australia

RSM'S RESPONSES TO SPECIFIC MATTERS FOR COMMENT [ED 297]

Q1 - The proposed amendments identify the for-profit entities required to comply with Australian Accounting Standards (or accounting standards) that would no longer have the ability to prepare SPFS.

Do you agree that:

- a) **the amendments set out in this ED effectively remove the ability to prepare SPFS for the for-profit entities identified in AASB 1057 Application of Australian Accounting Standards as entities for which the reporting entity definition is not relevant (also identified in paragraph Aus1.1 of *the Conceptual Framework for Financial Reporting*)? If not, please provide your reasons.**
- b) **as an exception, other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with AAS should retain the ability to prepare SPFS, provided that the relevant document was not created or amended on or after 1 July 2020? If not, please provide your reasons (see paragraphs BC73-BC83).**
- c) **for-profit public sector entities should also retain the ability to prepare SPFS as discussions about the public sector reporting framework are continuing? If not, please provide your reasons.**

We believe that the amendments to AASB 1057 are insufficiently clear to the extent that the definition of a "reporting entity" from SAC 1 is retained to an extent, and then clarified as being irrelevant to entities in scope of ED 297.

We appreciate the difficulty caused by delaying the application of ED 297 to Not-for-profit entities, for example; however, this appears to retain the issue caused by having two simultaneous definitions of "reporting entity" in place within the *Conceptual Framework for Financial Reporting* and within this standard.

Further clarification to explain that the definition of 'reporting entity' within AASB 1057 differs to the definition of 'reporting entity' within the Revised Conceptual Framework would assist in determining the scope of the standard.

We agree that for-profit entities with no legislative or constitutional requirement to prepare financial statements for lodgement in the public domain should retain the ability to self-select disclosure requirements which they believe are appropriate for their users rather than being in full compliance with AASs. We believe that they should only be compelled to prepare General Purpose Financial Statements if the financial statements will be lodged in the public domain.

Public sector entities should not have the ability to prepare SPFS, ultimately being part of Whole of Government accounts and therefore having public accountability; however, in order to mitigate the risk that they be required to transition from SPFS to GPFS from the issue of this ED, but then not be required to prepare GPFS at the end of discussions of the public sector reporting framework, we would agree with the proposal for them to retain the ability to prepare SPFS temporarily until this matter is clarified.

RSM'S RESPONSES TO SPECIFIC MATTERS FOR COMMENT [ED 297]	
<p>Q2 - Have you identified any arguments additional to those addressed in the Basis for Conclusions or unintended consequences that should be considered by the AASB in determining whether the ability to prepare SPFS should be removed from certain for-profit private sector entities as set out in this ED?</p>	<p>While not within the AASB's remit, we consider that the issuance of these EDs is an opportune time for the issue of specific guidance summarising requirements from Statutes about which entities need to lodge financial statements in the public domain, including the various reliefs and class orders available.</p> <p>We would encourage the AASB to work with ASIC, Treasury and other stakeholders to "tidy up" legislation and guidance in this area, as the current situation where financial reporting requirements are spread across different legislation and legislative instruments is often confusing for preparers.</p>
<p>Q3 – Do you agree that:</p> <p style="padding-left: 20px;">a. for-profit private sector entities that are neither required by legislation to prepare financial statements that comply with AAS or accounting standards nor required by a document (created or amended on or after 1 July 2020) to prepare financial statements that comply with AAS; and</p> <p style="padding-left: 20px;">b. for-profit public sector entities should be able to voluntarily prepare GPFS and in doing so apply either the Conceptual Framework for Financial Reporting or the Framework for the Preparation and Presentation of Financial Statements?</p> <p>Please provide your reasons, including whether there are any adverse or unintended consequences that should be considered by the AASB in determining whether the <i>Framework for the Preparation and Presentation of Financial Statements</i> should not be permitted to be applied in these circumstances.</p>	<p>We agree that these types of entities should be able to voluntarily prepare GPFS, but that there should be only one framework –this should be the Conceptual Framework for Financial Reporting.</p> <p>This will increase the consistency of financial reporting frameworks and will avoid unintentional creation of a third tier of reporting.</p>
<p>Q4 – Do you agree that entities that are not explicitly required to comply with accounting standards, but are required by legislation or otherwise to provide financial statements or financial information that gives a true and fair view, should not be covered by these proposals? If not, please provide your reasons (see paragraphs BC68- BC69).</p>	<p>We agree that these proposals should only apply to entities which are required by legislation to place accounts on the public record, such as the Corporations Act 2001.</p> <p>Entities which are otherwise required to prepare financial statements which are true and fair, but need not comply with Australian Accounting Standards should not be covered by these proposals.</p>
<p>Q5 Do you agree with the proposal to amend AASB 1 to provide optional relief from the</p>	<p>We agree in principle with the proposal for the additional relief proposed for the first year of</p>

RSM'S RESPONSES TO SPECIFIC MATTERS FOR COMMENT [ED 297]	
<p>restatement of comparative information in the year of transition from SPFS to GPFS Tier 2 (see paragraphs BC112-BC122)?</p> <p>If not, please provide reasons.</p> <p>If yes, do you agree with the proposed disclosures in relation to the comparative period (see paragraph AusE8.4 for AASB 1 on page 20)? If not, please provide your reasons.</p> <p>Please consider these matters in conjunction with the AASB's proposals regarding a revised Tier 2 disclosure framework as set out in ED 295.</p>	<p>application of the proposed standard. In particular, we understand the rationale behind making it a time-limited exemption.</p> <p>However, we would recommend a quantification of the transitional adjustment made to opening balances. Among the objectives of this ED is the need to provide complete, consistent, comparable financial information to produce information which is useful for users. We contemplate that in the initial transition, users would find the transitional adjustment of interest, and while the qualitative description will help understand it, an explicit quantification and disclosure would provide further clarification.</p> <p>We believe additional explicit notes may be welcome for any entities contemplating transitioning from SPFS to Tier 1 GPFS. While this is unlikely to impact a large number of entities, we can envision that some entities may decide to transition to full compliance. They should be permitted the same transitional relief as entities transitioning to the revised Tier 2, SDS.</p>
<p>Q6 – Do you agree that additional transition relief is not required (see paragraphs BC112-BC122)? If not, what transition relief should be provided and what are your reasons?</p>	<p>We agree that AASB 1, combined with the time-limited relief from restatement of comparatives, is sufficient transitional relief for transition to GPFS Tier 2.</p>
<p>Q7 – Do you agree with the proposal to amend AASB 1053 requirements for the first-time adoption of Tier 2 reporting requirements relating to whether a parent entity has complied with AASB 10 Consolidated Financial Statements in its previous SPFS (see paragraphs BC123-BC125)?</p> <p>If not, please provide your reasons.</p> <p>If non-compliance with AASB 10 was the only departure from AAS in the previous SPFS, should an entity be permitted to apply AASB 1, which could allow the restatement of amounts under various transition relief options?</p>	<p>We agree with the proposal to provide relief from restating business combinations before the transition date; but would reconsider the wording itself for clarity, as we consider the proposed wording may be confusing for users.</p>
<p>Q8 – Do you agree with the proposed effective date of annual reporting periods beginning on or after 1 July 2020 (see paragraphs BC126-BC129), with earlier application permitted? If not, please provide your reasons.</p>	<p>We agree with the proposed effective date. While it appears time-sensitive, our experience is that levels of preparedness for transitional changes does not increase in line with time available to implement the changes.</p>

RSM'S RESPONSES TO SPECIFIC MATTERS FOR COMMENT [ED 297]

We believe that it is necessary to resolve “the SPFS problem”, and that delaying the transition period will not provide any substantial relief or benefit.

RSM'S RESPONSES TO SPECIFIC MATTERS FOR COMMENT [ED 295]

Q1 - Do you agree with the overarching principles on which the proposed Simplified Disclosure Standard is based, and the methodology described in paragraphs BC33-BC43 to this ED? If you disagree, please explain why.

We agree with the principles and methodology applied to draft the SDS. We consider that it achieves the objective of providing a disclosure framework which sits between the requirements of RDR and the previously proposed SDR.

Q2 - Do you agree that these proposals should replace the current RDR framework? If you disagree, please explain why.

While we had previously advocated for the retention of the existing RDR framework, we understand that the post-implementation review by the AASB highlighted some limitations to the usefulness of this framework, shown by a low level of adoption from preparers of SPFS, and a 13% uptake level from entities previously preparing Tier 1 GPFS.

We are also not supportive of the creation of a third tier of financial reporting; and therefore support that any changes to the levels of disclosures required as presented in RDR should replace the existing RDR framework.

Q3 - Do you agree with the following key decisions made and judgements exercised by the AASB in drafting the proposed Simplified Disclosure Standard in relation to:

- a. the replacement of AASB 7 Financial Instruments: Disclosures, AASB 12 Disclosure of Interests in Other Entities, AASB 101 Presentation of Financial Statements, AASB 107 Statement of Cash Flows and AASB 124 Related Party Disclosures and in their entirety as explained in BC46?
- b. adding, removing or amending disclosures, for example the disclosures for lessees, revenue, borrowing costs, revalued property, plant and equipment (PPE) and intangible assets as explained in BC46-BC62?

We mostly agree with the proposals in this standard. We are particularly supportive of the avoidance of differences to recognition and measurement which could have unintentionally arisen, through – for example – the update of the definition of materiality from IFRS for SMEs to that contained in AASB 101.

However, we make the following two comments:

Firstly, we would encourage references within AASB 10XX to the guidance contained within the replaced standards, to the extent that it does not contradict the requirements of the relevant sections of AASB 10XX derived from the IFRS for SMEs; and

Secondly, we do not believe that avoiding differences between AASB 10XX and IFRS for SMEs should be a principle which overrides that of providing an appropriate level of relief from unnecessary

RSM'S RESPONSES TO SPECIFIC MATTERS FOR COMMENT [ED 295]	
<p>c. the inclusion of the audit fees disclosures from AASB 1054 Australian Additional Disclosures for the reasons set out in BC62?</p> <p>d. not including certain Australian Accounting Standards and Interpretations in this Simplified Disclosure Standard as explained in BC63-BC65?</p> <p>e. Retaining [certain] disclosures from the IFRS for SMEs Standard that are not currently required under RDR framework or full AAS (see BC59 for explanations) [as listed]?</p> <p>If you disagree with any of the decisions, please explain why.</p>	<p>disclosures. We do not agree with requiring additional disclosures where they are not currently required of Tier 2 (RDR) entities, as they would result in additional disclosure compared to the levels of disclosure provided by publicly accountable entities. This is counterintuitive, and contrary to the objective of these proposals.</p>
<p>Q4 - Do you agree with providing Tier 2 entities with an option of not having to prepare a separate statement of changes in equity as per paragraph 3.18 of AASB 10XX? If you disagree, or are concerned that this option could have unintended consequences, please explain why.</p>	<p>While we understand that this proposal would not result in loss of disclosure – insofar as the information which would otherwise be presented in the Statement of Changes in Equity would be presented in the Statement of Income and Retained Earnings – we would discourage this inclusion in the SDS. We believe disparate presentation would reduce comparability between SDS financial statements, and reduce ease of consolidation into Tier 1 financial statements.</p> <p>We also believe that because users will not be familiar with the format of a single statement of income and retained earnings, the resulting financial statements may not be as useful.</p>
<p>Q5 - Do you agree with the other disclosures for Tier 2 entities as set out in Sections 3 to 35 of the proposed new Simplified Disclosure Standard that have been identified by applying the proposed methodology and principles? If you disagree with the outcome, please identify, with reasons:</p> <p>a. which of the disclosures proposed should not be required for Tier 2 entities; and</p> <p>b. which disclosures not proposed in this ED should be required for Tier 2 entities.</p>	<p>We consider the following disclosures are not proposed, but should be required:</p> <ul style="list-style-type: none"> • Assets held for sale; • Individually material income or expenditure line items; <p>We consider the following disclosures are proposed, but should not be required:</p> <ul style="list-style-type: none"> • Section 28 disclosures on Employee Benefits; and • Disclosure of qualitative factors that make up goodwill; • Disclosure of adjusting events that occurred after the end of the reporting period.

RSM'S RESPONSES TO SPECIFIC MATTERS FOR COMMENT [ED 295]	
Q6 - Do you agree that the proposed Simplified Disclosure Standard should also be made available to NFP private sector entities and all public sector entities that can apply Tier 2 reporting requirements as set out in AASB 1053? If you disagree, please explain why.	<p>While IFRS for SMEs is worded for for-profit entities explicitly, we agree to minimise reporting options available to varying entity types; and therefore support the SDS being made available to all entities required to apply Australian Accounting Standards, and able to apply Tier 2 requirements under AASB 1053.</p> <p>We particularly support the inclusion of a specific section including additional disclosures for NFPs and Public Sector entities for clarity; and would propose that any NFP paragraphs should be confined to this section, rather than within the core body of the text (for example, disclosures about leases at significantly below market rent, currently in section 20).</p> <p>We make no comment on questions 7 and 8.</p>
Q9 - Do you agree with using the proposed title of AASB 10XX Simplified Disclosures for Tier 2 Entities? If you disagree, please explain why.	We agree with the proposed title, and the approach to include all requirements for Tier 2 entities in one standalone standard.
Q10 - Do you agree with the approach taken in this ED to include all the disclosure requirements for Tier 2 entities in one stand-alone standard (as explained in BC41)? If you disagree, please explain why.	We believe this will be more user-friendly for preparers, and minimise the risk of oversights when identifying required disclosures.
Q11 - Do you agree that, once approved, the amended Tier 2 disclosure requirements should be effective for annual periods beginning on or after 1 July 2020 with early application permitted (as explained in BC78- BC80)?	As in our comments in relation to ED 297, we agree with both the timeframe for implementation of this ED, and the transitional provisions.
Q12 - Do you agree with the transitional requirements proposed in this ED (as explained in BC72-BC77)? If you disagree, please explain why.	

RSM'S RESPONSES TO CERTAIN GENERAL MATTERS FOR COMMENT [ED 297 AND ED 295]**Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?**

We note that the following issue is not within the remit of the AASB, but we do believe it should be considered in conjunction with the implementation of these proposals.

Our recent submission to the Parliamentary Inquiry on the regulation of audit in Australia highlighted the timing of reporting deadlines for the lodgement of financial statements within Australia. In particular, we questioned the need for a four month deadline for proprietary companies under the Corporations Act, and noted that the deadline in Australia is shorter than in most comparable jurisdictions.

For entities affected by these proposals, there will be significant additional work required when they have not previously fully complied with recognition and measurement requirements of AASs, or where consolidated financial statements are being prepared for the first time.

Further time will additionally be required to be expended on entities currently preparing Tier 2 RDR financial statements moving to a SDS framework; and also on any entities adopting Tier 2 SDS in preference to Tier 1 GPFS – where entities have no public accountability. While the disclosure requirements in these two scenarios will be lower than under extant frameworks, the audit of the transition, updates to accounts preparation processes, and the tailoring and performance of new disclosure checklists will require further time in the year of transition.

This will present challenges and time-pressures for both preparers and auditors of financial statements. We encourage the AASB to act as an advocate for legislative change to the four month deadline for submission of financial reports by proprietary companies.

