

**Submission for: ITC 39 Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems [Phase 2]****Submitted on: 9 November 2018****Background:**

IFRS SYSTEM develops and distributes statutory financial reporting software. By working with our users, auditors, professional bodies and regulators we aspire to deliver the world's best statutory financial reporting software.

We have analysed 1,784 Annual Reports (incorporating the financial statements) for Australian reporting entities for the 30 June 2018 year end, that were prepared using IFRS SYSTEM and lodged with ASIC (and for listed entities ASX) as part of our consideration and research for the answers below.

*Q11 - Do you agree with the AASB's Phase 2 approach (described in paragraph 166) Why or why not?*

Yes.

Special purpose is inconsistent with other countries and reduced disclosure requirements (RDR) general purpose is not that much extra work in return for the benefit of the robust framework it provides.

The step to converting from special purpose to RDR general purpose financial statements is not as bad as many people fear. Our research shows that a typical set of special purpose financial statements converted to RDR general purpose only increases the content in the notes by 15%. Put into context, this means that a 30-page set of special purpose financial statements becomes a 33-page set of RDR general purpose financial statements. Also, most people agree that the additional disclosures add significantly to the financial statements and therefore it is a positive step up. So, by converting from special purpose to RDR general purpose it is possible to produce more meaningful accounts without the burden of full general purpose reporting.

We publicly supported the conversion from special purpose to RDR general purpose in the following LinkedIn article 'The end is nigh for special purpose, but is step up to RDR so bad?':

<https://www.linkedin.com/pulse/end-nigh-special-purpose-step-up-rdr-so-bad-michael-berrington/>

*Q12 - Which of the AASB's two GPFS Tier 2 alternatives (described in paragraphs 167-170) do you prefer? Please provide reasons for your preference.*

RDR Existing Tier 2, as identified in 166(b)(i), so two existing frameworks are maintained: RDR general purpose and full general purpose.

*Q13 - Do you agree that we only need one Tier 2 GPFS alternative in Australia (either Alternative 1 GPFS - RDR or the new Alternative 2 GPFS - SDR described in paragraphs 167-170)? Why or why not?*

Yes.

As per Q12, we are proposing RDR Existing Tier 2, as identified in 166(b)(i), so two existing frameworks are maintained: RDR general purpose and full general purpose.

The more frameworks that exist, the more complexity and confusion there is (and opportunity to choose the incorrect framework). If you look at Ireland and the United Kingdom they follow FRS 101 (which is RDR general purpose) and FRS 102 (which is full general purpose). You are either one or the other and it prevents entities falling through the gaps or try to fly under the radar. With the current third option of special purpose, there were plenty of entities adopting special purpose and this has somewhat been corrected with the ATO enforcement for significant global entities of general purpose. As per the ATO's guidance, we remind those companies that RDR general purpose is sufficient. Refer to our LinkedIn article on this matter:

<https://www.linkedin.com/pulse/significant-global-entities-sges-can-lodge-australian-berrington/>

Here is the link to the ATO guidance:

<https://www.ato.gov.au/Business/Public-business-and-international/Significant-global-entities/General-purpose-financial-statements/>

*Q14 - Do you agree with the AASB's decision that GPFS - IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not-for-profit sectors.*

Yes.

The reduced disclosures in RDR general purpose are sufficient (and if you open up discussion on what else could be reduced, we would ask to consider eliminating the disclosures for fair value measurement, aggregate compensation for key management personnel and share-based payments). There is no need to introduce another framework.

*Q15 - If the AASB implements one of the two proposed alternatives (described in paragraphs 167-170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.*

No specific relief, but a window to adopt the new framework should be given. For instance, if the new rules are finalised during 2019, then they should apply to reporting periods commencing on or after 1 January 2021 or 1 January 2022.

*Q16 - What concerns do you have on consolidating subsidiaries and equity accounting associates and joint ventures as proposed in the AASB's medium-term approach? What transitional relief do you think the AASB should apply? Please provide specific examples and information.*

This is perhaps more of an urban myth than anything. We checked 1,058 single entity 30 June 2018 Annual Reports and only 9 (5 unlisted public and 4 proprietary) of these reports (less than 1%) have subsidiaries and do not produce a consolidated report. So, based on our data, this scenario is extremely rare and not worthy of special exemptions, these reports should simply fall into line with the RDR framework.

*Q17 - If the new Alternative 2 GPFS - SDR (described in paragraphs 167-170) is applied, do you agree that the specified disclosures would best meet users' needs? If not, please explain why and provide examples of other disclosures that you consider useful.*

We do not believe a new framework should be introduced, retain the existing RDR general purpose and full general purpose as they currently exist; and remove special purpose. This is consistent with our answers above, which explain the position in more detail.

Signed on behalf of IFRS SYSTEM.



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