



17 January 2017

Ms Kris Peach
 Chair
 Australian Accounting Standards Board
 PO Box 204
 Collins St West
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Via email: standard@asb.gov.au

Dear Kris

AASB draft standard-setting frameworks

Thank you for the opportunity to comment on ITC 37, the AASB's draft *Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities*.

It is important that the AASB clearly articulates, and regularly reviews, its current standard setting policies. This is especially the case for the SME, Public and NFP sectors, where the use of IFRS is modified more substantively than for larger publicly accountable entities. However, we question the value of releasing an update to these policies at a time when there is a substantial degree of research and public consultation into appropriate accounting requirements in all of these sectors. The ITC does not clearly explain its purpose as a 'status quo' document and so comments on its content could be construed as support for concepts that need to be subject to a more rigorous thought process as part of these ongoing consultations. We believe the AASB's existing framework documents are currently sufficient to ensure constituents can adequately formulate and justify their requests for changes in the AASB Standards. Any updates they require will be more effectively identified and reviewed once all consultations on the current reporting frameworks are complete.

We also disagree with the statements made in the ITC that 'the AASB sets standards only for General Purpose Financial Statements (GPFS)' and 'does not set standards for Special Purpose Financial Statements (SPFS)'. While we agree that the AASB suite of standards is principally focussed on GPFS, the board's mandate under sections 227 and 229 of the *Australian Securities and Investments Commission Act 2001* is broader than this, allowing it to set the standards required by section 334 of the Corporations Act and for other purposes. While the 'reporting entity concept' (see Statement of Accounting Concepts 1 *Definition of the Reporting Entity*) forms part of Australia's standard setting frameworks and ASIC and other regulators accept non-GPFS that must use specific standards set by the AASB, it is clear that the AASB does have, and is exercising, a standard setting role for special purpose reporting.

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This is further evidenced by the existence of AASB 1057 *Application of Australian Accounting Standards* which details the application of a number of its standards to SPFS. We also do not believe that the AASB's standard setting role should be limited to GPFS. Our view is that the AASB has an important role to play in issuing standards and formulating guidance for all forms of financial reporting in Australia. Therefore, the statements about GPFS and SPFS in both frameworks of ITC 37 need to be revised.

AASB Specific Matters for Comment

In respect of the AASB specific matters for comment we have the following responses:

1. Is the term “not-for-profit” helpful to understand the nature of the entities in that sector? If not, what other term do you consider is more appropriate?

We consider that the term 'not-for-profit' is well understood in practice, but are aware that its current definition in accounting standards can be problematic, especially when it is applied to mixed group entities. We therefore recommend the AASB review the definition and consider providing additional guidance to support it.

2. Irrespective of your response to question one, is there enough guidance about which entities are, for-profit entities and not-for-profit entities? The NZASB is commencing a project to improve its guidance. Should the AASB work with NZASB on this?

Additional guidance to address complex situations such as mixed groups would be helpful. We agree that it would be useful for the AASB to monitor the work of the NZASB in this regard to identify other areas for improvement.

3. Do you have any other comments on the AASB's draft Standard-Setting Frameworks?

In addition to our comments on the timing of the development of these framework documents and our disagreement with statements concerning the board's standard setting responsibilities detailed above, we have the following comments.

If these documents are to help constituents understand the use of IFRS, we believe there is a need to more explicitly explore the role of the IASB's work on 'IFRS for SMEs' and the IPSASB as they impact the AASB's standard setting processes. The current focus by both frameworks on a straightforward IFRS to AASB transition ignores the fact that, for both the For-Profit and NFP sectors, there is a supplementary significant international standard setting process that modifies IFRS for users who are not its core focus. That work is fundamentally important to the development of the AASB's Reduced Disclosure Regime and Australia's public sector standards. We do not believe that the brief mentions and inclusion in footnotes of both these groups adequately explains the significance they have to the Australian standard setting frameworks.

We also consider that it would be helpful to provide constituents with more context for the document, explaining its place in the suite of documents the AASB currently has discussing its role and standard setting processes. This contextual discussion should identify more clearly, and link to, documents that will provide additional information on topics referred to throughout the document such as the broader harmonisation policies with New Zealand, the IASB and the IPSASB and the AASB's standard setting processes. It would also be helpful to include discussion on NFP harmonisation with New Zealand, especially given the content of the NFP document ITC 37 is replacing and equivalent commentary in the 'for profit' section of the ITC.

Should you have any queries concerning the matters in this submission, or wish to discuss them in further detail, please contact Ceri-Ann Ross (Reporting Leader) via email; ceri-ann.ross@charteredaccountantsanz.com.

Yours sincerely



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