

16 August 2018

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

Via Email: standard@asb.gov.au

Dear Ms Peach

Submission on Consultation Paper – Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems

Thank you for the opportunity to provide a submission on the Consultation Paper – Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems (“**the CP**”).

The Australian Institute of Company Directors (**AICD**) is committed to excellence in governance. We make a positive impact on society and the economy through governance education, director development and advocacy. Our membership of more than 43,000 includes directors and senior leaders from business, government and the not-for-profit sectors.

The AICD supports the need for consultation in order to adopt the International Accounting Standards Board (**IASB**) revised Conceptual Framework (**RCF**) in Australia. We also acknowledge that special purpose financial statements (**SPFS**) are not comparable and that the Australian Accounting Standards Board (**AASB**) is concerned that the framework allows entities to ‘self-assess’ their compliance obligations.

1. Executive Summary

The AICD generally supports the short-term approach outlined in the CP. This approach will enable entities to continue to comply with International Financial Reporting Standards (**IFRS**) where relevant. For those entities where IFRS is not relevant, the AICD supports the AASB proposal to continue to allow them to adopt the existing Framework and prepare SPFS if appropriate.

However, we highlight the following matters for further consideration by the AASB:

- For publicly accountable entities within a wholly owned group structure currently producing SPFS, further assessment of user needs should be undertaken prior to any standard being introduced; and
- We consider the introduction of two conceptual frameworks into the Australian reporting framework is a significant change that warrants application of regular consultation requirements, which includes the issue of an Exposure Draft.

In regards to the AASB's medium term approach, the AICD notes that it does not support an increase in regulatory burden for for-profit entities or not-for-profit entities. Therefore, we would be unlikely to support any proposed changes to the reporting framework to be considered as part of Phase 2, without a significant financial reporting threshold increase (across for-profits and not-for-profits) sufficient to balance the increased reporting burden. We will explore this matter further in our Phase 2 submission.

2. Phase 1 – Short-term approach

The AICD supports the AASB's short-term approach in considering any changes to the reporting framework, in so far as it considers publicly accountable entities separately to those that are not publicly accountable. This approach is outlined in paragraph 70 of the CP and proposes:

- The IASB's RCF to apply to publicly accountable for-profit entities and other entities that voluntarily report compliance with IFRS
- All other entities to continue to apply the AASB's existing framework enabling them to continue to use the Australian 'reporting entity' concept
- Amendments to the definition of publicly accountable to align with the revised IASB definition.

3. Publicly Accountable entities

The AICD considers that it is important for listed companies to maintain compliance with IFRS as part of the broader development of a single set of accounting standards for worldwide use. The reason for this support is:

- IFRS facilitates the ability for listed entities to attract capital; and
- IFRS enables improved comparability with global peers.

In order to maintain IFRS compliance, these entities will be required to adopt the IASB's RCF. Therefore, we support the introduction of the IASB's RCF into the Australian Financial Reporting Framework, as it applies to listed entities.

We note the definition of public accountability includes not only listed entities but also other entities that operate in a fiduciary capacity, such as banks, credit unions, insurance companies and registered managed investment schemes. We are aware that many of these non-listed publicly accountable entities already prepare GPFS and therefore the changes proposed by AASB will have no impact. Therefore, we have no objections to the IASB's RCF applying to these entities.

However, we are aware that some wholly owned entities exist that meet the definition of publicly accountable and currently prepare SPFS (on the basis that no external users exist for the financial statements). These entities will be impacted by the AASB proposals by requiring the preparation of GPFS, resulting in an increase in reporting burden through more disclosures and possibly consolidation, arguably for no user benefit. We consider the AASB should further explore the user needs for such a requirement, particularly for entities within a wholly owned group structure, to ensure no unintended consequences result.

4. Non-publicly Accountable entities

The AICD considers that the existing Framework (i.e. continuing to allow the 'reporting entity' concept and the preparation of SPFS) should continue to be applicable to other entities (i.e. non publicly accountable entities), at a minimum in the short term.

We consider that any change to these requirements will be a compliance burden for these entities, many of whom are SMEs and have resource constraints. Therefore, any proposals for change should require extensive analysis, compelling evidence and thorough consultation as well as a reasonable transition period for implementation.

In order to present compelling evidence for change in the future we would recommend:


- A current analysis of the existence of SPFS across all sectors and the extent of adoption of accounting standards, in order to assess the impact of its withdrawal. This should include consideration of the flow-on effect for those entities preparing financial reports for non-statutory purposes.
- A current analysis of the adoption of the Reduced Disclosure Regime across all sectors, in order to assess the impact of its withdrawal
- A thorough consideration of the financial reporting framework as a whole, including consideration of financial reporting thresholds within the *Corporations Act* 2001 (which should include a review of companies limited by guarantee thresholds)
- A comprehensive study of user needs in both the for-profit and not-for-profit sectors identifying who the users are, and what information they require in an annual financial report that they cannot access elsewhere
- The review of user needs should assess whether IFRS compliance and global comparability is necessary for these entities.

5. Next steps

The AICD will consult further with members as we explore the AASB options provided in the CP, with a view to providing a Phase 2 submission in November 2018.

We hope our comments will be of assistance to you. If you would like to discuss any aspect of this submission, please contact Kerry Hicks, Senior Policy Adviser, on 61 (0) 28248 6635 or at khicks@aicd.com.au.

Yours sincerely



LOUISE PETSCHLER

General Manager, Advocacy