16 August 2018

Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West, VIC 8007

Dear Kris,

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

The Australian Banking Association (**ABA**) welcomes the opportunity to respond to the Australian Accounting Standards Board's (**AASB**) proposals to remove the reporting entity concept in Australia contained in its Consultation Paper – *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* (**the CP**).

Please consider the following to be our response to both Phase 1 and Phase 2 of the consultation.

With the active participation of its members, the ABA provides analysis, advice and advocacy for the banking industry and contributes to the development of public policy on banking and other financial services. The ABA works with government, regulators and other stakeholders to improve public awareness and understanding of the industry's contribution to the economy and to ensure Australia's banking customers continue to benefit from a stable, competitive and accessible banking industry.

Broadly, the ABA supports the principles of Option 5 with some revisions as outlined later in Appendix A.

The ABA agrees that the International Accounting Standards Board's (**IASB**) revised *Conceptual Framework* (**the revised *Framework***) should be issued in Australia to maintain consistency with IFRS. Whilst we acknowledge that the introduction of the revised conceptual framework causes inconsistency in the definition of r*eporting entity* between the revised *Framework* and SAC 1 *Definition of the Reporting Entity,* we believe this could be best managed in the short term by renaming the reporting entity concept in SAC 1 (similar to Option 5).

The proposed approach would result in a number of entities in the finance sector being captured by Phase 1 of the proposals an outcome which we believe is inappropriate and unnecessary as there are no external users of the accounts of these entities. Therefore, we suggest that if the proposed approach is to be implemented, more work will needed on the definition of "publicly accountable" to avoid increasing the reporting burden for these entities.

The ABA is concerned that the AASB's proposals will lead to a significantly increased reporting burden that will ultimately lead to the production of financial statements that do not meet the objective of general purpose financial reporting as described in the revised *Framework*. The resulting flood of unnecessary financial reporting will add to user confusion and curtail efforts to provide more understandable, simplified and direct financial reporting. They will also result in significant extra cost to business.

Entities in the financial sector are subject to rigorous regulatory reporting requirements. We do not believe that regulators are dependent on general purpose financial reporting. Regulators such as the Reserve Bank of Australia (**RBA**) and the Australian Prudential Regulation Authority (**APRA**) require very specific and detailed reporting from our members. In many cases this reporting is prepared on recognition and measurement bases that are not aligned with Australian Accounting Standards so as to satisfy specific regulatory needs. It is highly doubtful that the increased reporting the AASB is proposing will be useful to regulators.

The ABA strongly recommends that the AASB perform further consultation and consider other options to incorporate the revised *Framework* without imposing an unreasonable reporting burden.

The attached appendix sets out our detailed responses to the questions posed in the consultation paper.

Yours faithfully,

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Appendix A

This Appendix sets out the ABA's responses to questions posed regarding both Phase 1 and Phase 2 of the AASB's proposals. In addition, further analysis and suggestions are provided following our responses to the AASB's questions. The appendix is structured as follows:

1) Phase 1 specific matters for comment
2) Phase 1 general matters for comment
3) Phase 2 specific matters for comment
4) Phase 2 general matters for comment
5) Analysis of interaction between the revised *Framework* and SAC 1

1. Phase 1 specific matters for comment

Q1 – Do you agree with the short-term approach to maintain IFRS compliance by introducing the RCF in Australia? That is, do you agree that the RCF should be applicable for publicly accountable for-profit entities that are required to prepare Tier 1 GPFS and other entities that are voluntarily reporting compliance with IFRS, and the existing Framework should continue to be applicable to other entities in the short term until the medium term solution is implemented? Please indicate reasons for your response and if you disagree, please provide suggestions for an alternative approach for the AASB to consider.

Q2 – Do you agree that the short-term approach should be made applicable to both publicly accountable for-profit private sector and public sector entities? That is, do you agree that the RCF should be applicable for publicly accountable public sector entities that are required to prepare GPFS in accordance with Tier 1 reporting requirements (who are currently claiming compliance with IFRS) as well? Please indicate reasons for your response and if you disagree please provide suggestions for an alternative approach for the AASB to consider.

The ABA **does not** agree with the AASB's preferred two-phase implementation option.

An analysis of the conceptual reasons why the ABA is not convinced of the need to immediately remove SAC 1 is provided in Section 5 to this appendix. Nonetheless, the ABA agrees that the interaction between the revised *Framework* and SAC 1 could be confusing to some. Accordingly, we recommend the AASB create guidance material that assists in their interpretation.

Notwithstanding the above, the ABA does agree that the revised *Framework* should be issued in Australia to maintain consistency with IFRS. However, the ABA instead suggests that the reporting entity concept in SAC 1 be renamed (similar to Option 5) in the interim. This would permit continued alignment with IFRS while allowing the AASB and other regulators to seek a more holistic approach to the ultimate removal of the SPFS self-assessment.

Q3 – Are you aware of publicly accountable for-profit entities currently self-assessing as non-reporting entities and preparing SPFS that would have implications under the AASB's short-term approach? If so please provide specific examples including why these entities are not currently applying AASB 1053 and preparing Tier 1 GPFS although they would otherwise meet the definition of public accountability.

1.1 Securitisation vehicles

Entities in the finance sector establish a range of special purpose entities to facilitate bespoke transactions between a narrow group of investors and the entity that originates the transaction. One such example is when an entity (which may be a bank or other non-banking entity) securitises assets it holds. Such a transaction can be generally analogised to the factoring of receivables in other sectors. In other cases, banks will securitise assets for the sole purpose of having high quality liquid assets available for the RBA to purchase in satisfaction of contingent liquidity regulatory requirements.

In a securitisation a 'sponsor' agrees to sell an equitable interest to future cash flows arising on assets it originated. The purchaser of the equitable interest is a special purpose vehicle (typically a trust) that will issue bonds/notes to fund the acquisition. To facilitate future principal and interest payments the notes are entered on the Austraclear system, which is run by the ASX.

> Austraclear is established for the deposit of securities, the safe custody of deposited paper securities, the entry of and facilitation of the settlement of transactions, the transmission of information relating to dealings between participants, the movement of funds between the participating banks of participants, and includes the computer facilities established and operated by Austraclear for those purposes.[1]

Participants in the Austraclear system are limited to professional and sophisticated investors as defined in the Corporations Act. Nonetheless, as indicated in the above definition, Austraclear facilitates the entry and settlement of transactions between participants. Therefore, any trade that occurs between participants must occur through the Austraclear system.

The definition of public accountability in AASB 1053 *Application of Tiers of Australian Accounting Standards* includes entities that have debt instruments traded in a public market (including an over-the-counter market). The IASB's Q&A 2011/03 *Interpretation of 'traded in a public market' in applying the* IFRS for SMEs provides further guidance that even if trades only a occur a few times a year, the instruments would still cause the entity that issued them to be publicly accountable. Accordingly, securitisation entities will meet the definition of public accountability. This is further supported by the ASX describing unquoted debt listings as being included in an over-the-counter trading venue settled through Austraclear.[2] The ABA is aware of differing interpretations in the industry, which in itself highlights that the definition of public accountability introduces a key area of judgement. As a result, the AASB's proposals are at risk of introducing divergence in practice where there previously was none.

However, the above analysis is only relevant if the entity determines that it is a reporting entity under SAC 1, thereby being required by SAC 1 to prepare general purpose financial statements. Paragraphs 11 and 13 of AASB 1053 **only** apply to the general purpose financial statements of an entity, and it is only paragraph 11 that introduces the need to assess the definition of public accountability. Therefore, if an entity determines that it is not a reporting entity then the definition of public accountability will only apply if that entity voluntarily decides to prepare general purpose financial statements.

The vast majority of securitisation vehicles prepare special purpose financial statements because management has determined those entities are not reporting entities. This outcome is achieved when considering the definition of a reporting entity in both AASB 1053 and SAC 1.

AASB 1053
Reporting entity means an entity in respect of which it is reasonable to expect the existence of users who **rely** on the entity's general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources…

[emphasis added]

Securitisation vehicles have a very narrow group of interested parties, comprising solely investors and the RBA (in respect of only those securities that are repo-eligible). The RBA obtains its information through defined data fields on a monthly basis.[3] The RBA does not request any financial reporting from securitisers, even if that information is otherwise available.

Investors are provided with monthly investor reports that provide details about the assets which back the notes issued. These reports are tailored to the needs of investors in making their resource allocation decisions. The information is provided at a level of detail far higher than that of a general purpose report, which by its nature

1 https://www.asx.com.au/documents/rules/austraclear_system_regulations.pdf
2 https://www.asx.com.au/listings/debt-listing.htm
3 http://www.rba.gov.au/securitisations/data-to-be-reported/index.html

does not consider the special needs of securitisation investors in particular.

Finally, the securitisation vehicles have no employees, creditors or other activities. Accordingly, there are no current or potential users who would **rely** on general purpose financial statements.

SAC 1
Identifying whether existing or potential users exist who are **dependent** on the entity's general purpose financial statements might not be readily apparent in all cases. For this reason, SAC 1 provides additional indicative factors to consider that might be relevant.

[emphasis added]

Separation of management from economic interest

Securitisation vehicles operate in accordance with their governing documents. The vehicles may not enter into any activities not expressly permitted within those documents. These governing documents form part of the information memorandum provided to potential investors (a prospectus is not required as per the Corporations Act). Distributions and loss allocation mechanisms are fully described in the governing documents without any provision for a 'management override'. Therefore, it is arguable that there is no 'management interest' in a securitisation vehicle.

Economic or political importance/influence

Securitisation vehicles have no employees and do not create any impact on the welfare of external parties. Investors are exposed solely to the performance of the underlying mortgages they purchase an interest in. It is the performance of individual mortgages that has the potential to impact investor returns, not the securitisation vehicle.

Financial characteristics

Securitisation vehicles do have significant asset and liabilities balances. However, these financial characteristics are concentrated on the performance of the underlying mortgage pool. General purpose financial statements do not provide sufficient information on the performance of the underlying mortgage pool to be useful to investors. Accordingly, users would not be dependent on the information contained in general purpose financial statements.

It is evident from the discussion above that securitisation vehicles are not reporting entities. Accordingly, paragraphs 40 and 41 of SAC 1 do not apply and these entities are not required to prepare general purpose financial statements. By extension, paragraph 11 of AASB 1053 does not apply to these entities because they do not prepare general purpose financial statements and therefore the definition of public accountability does not apply to them.

The removal of SAC 1 and the reporting entity definition from various Standards would require securitisation vehicles to prepare Tier 1 general purpose financial statements. As noted above, no existing or potential users exist for this information. Therefore, we do not believe that any user benefit would arise from the AASB's proposals in this respect.

The ABA envisioned two scenarios for securitisation vehicles and sought costs in applying both:

1) Continued application of Australian Accounting Standards

2) Amendments made to trust deeds to stipulate appropriate framework to apply to financial statements.

1.1.1 Continued application of Australian Accounting Standards

To ascertain the potential costs that would be imposed, the ABA obtained estimates from its members and also with auditors to identify incremental costs for transition and ongoing application of the proposals. The table below outlines the estimated impact on entities in the securitisation sector[4]:

Activity	Transition ($'000)	Ongoing ($'000)
Review disclosures, in particular: - AASB 1 *First-time Adoption of Australian Accounting Standards* - AASB 7 *Financial Instruments: Disclosures* - AASB 13 *Fair Value Measurement* - AASB 124 *Related Party Disclosures* The transition impact is based on an average of 1 FTE (internal or contractor) required for 6 months at a manager experience level. This FTE will be required to assess the changes required to financial reporting templates per **entity**.[4]	68.4 – 75.6	-
Transition audit, calculated as a third of current average audit expense per **issuance** (each issuance prepares individual financial statements).[4]	7.9 – 8.7	-
Ongoing preparation effort for all but AASB 1 identified above. Calculated based on an average of 0.1 FTE (internal or contractor at manager level) required for 2 months every year to prepare / review financial statements. This cost will be incurred for each issuance.	-	2.3 – 2.5
Ongoing audit fee increase (SPFR vs Tier 1 GPFR). This is based on the one exception noted previously where a securitisation vehicle prepares Tier 1 GPFR and consultation with auditors. Expectation is an average 40% increase in audit fees for each issuance.	-	10.0
Incremental cost arising from AASB proposals	**76.3 – 84.3**	**12.3 – 12.5**

1.1.2 Amend trust deeds to stipulate applicable accounting framework

Securitisation trust deeds could be amended to specify the framework to be applied to financial statements prepared for each issuance. We expect the costs involved in specifying the framework, obtaining agreement from auditors and engaging legal advice to make the amendments would be similar to the transition costs noted for the continued application of Australian Accounting Standards. Under this approach there would be no incremental impact to ongoing costs.

[4] Note: see information published by the Australian Securitisation Forum (ASF): https://www.securitisation.com.au/ASJ/Full%20versions/ASJ_Issue11_webready.pdf and the RBA: https://www.rba.gov.au/speeches/2016/sp-so-2016-11-22.html, which indicates there were 54 sponsors and over 1,100 issuances at the time of publication in 2016.

1.1.3 Overall

The ABA is strongly of the view that the above incremental costs do not provide any user benefit. Therefore, the ABA strongly urges the AASB to consider amendments to the definition of public accountability to avoid this unintended consequence. Such an amendment could be tied to whether the financial statements of an entity are made publicly available or otherwise lodged with a regulator.

1.2 Internal registered managed investment schemes

The ABA is aware that some of its membership have established managed funds that do not accept investments from outside their respective Group. These internal funds only accept investments from other managed funds within the Group in order to pool funds for exposures to particular asset classes. Because these internal funds are associated with other funds that are registered schemes and the internal funds often accept investments from more than 20 other funds within the Group, the internal funds must themselves be registered schemes under the Corporations Act. All registered schemes are deemed to meet the definition of public accountability by paragraph B1 of AASB 1053.

The internal funds have no employees, nor do they have any external investments. However, because of their nature of being registered schemes they are subject to the financial reporting requirements of the Corporations Act. Currently, these internal funds prepare special purpose financial statements because they are not reporting entities. Under the AASB's proposals these internal funds would be required to apply Tier 1 GPFR requirements.

The ABA strongly encourages the AASB to reconsider its list of entities it has deemed to be publicly accountable should the AASB decide to pursue its preferred option.

Q4 – Do you agree with the AASB's amendments to the definition of 'public accountability' in AASB 1053 per IFRS for SMEs Standard (refer to Appendix A)? Please indicate reasons for your response and if you disagree, please provide suggestions for the AASB to consider.

Q5 – Do you agree with the proposed amendments to SAC 1 *Definition of the Reporting Entity* and the following Australian Accounting Standards, as set out in Appendix A.

The ABA notes the amendments to the definition of public accountability do not provide significant additional guidance, nor do the amendments assist in the issues noted previously. Accordingly, the ABA neither agrees nor disagrees with the proposed amendments to the definition of public accountability.

The ABA **disagrees** with the proposed amendments to SAC 1 for the reasons outlined previously. We have also identified the following fatal flaws in the proposed amendments:

1.2.1 Update to AASB 3 conceptual framework cross-references

When issuing the revised *Framework* the IASB noted that it would not update the cross-reference contained in IFRS 3 *Business Combinations* for the following reasons explained in its consequential amendments to the Basis for Conclusions accompanying IFRS 3:

> BC114A IFRS 3 contains references to the definitions of an asset and a liability in the *Framework for the Preparation and Presentation of Financial Statements* (*Framework*). It requires those definitions to be used when deciding whether to recognise assets and liabilities as part of a business combination. In developing the revised *Conceptual Framework for Financial Reporting*, issued in 2018 (2018 *Conceptual Framework*), the IASB considered whether it should replace those references with references to the revised definitions in the 2018 *Conceptual Framework*. In some cases, applying the revised definitions could change which assets and liabilities qualify for recognition in a business combination. In some such cases, the post-acquisition accounting required by other IFRS Standards could then lead to immediate derecognition of assets or liabilities recognised in a business combination, resulting in so-called *Day 2 gains or losses* that do not depict an economic gain or loss.

BC114B Although the IASB intended to replace all references to the *Framework* with references to the 2018 *Conceptual Framework*, the IASB did not intend to make significant changes to the requirements of IFRS Standards containing those references. Consequently, the IASB decided to retain the reference to the *Framework* in paragraph 11 of IFRS 3 until it completes an analysis of the possible consequences of referring in that paragraph to the revised definitions of an asset and a liability. Once that analysis is complete, the IASB intends to amend IFRS 3 to replace the reference to the Framework in a way that avoids unintended consequences, such as *Day 2 gains or losses*.

The AASB's proposals intend to insert a reference to the revised *Framework* in paragraph 10 of AASB 1048 *Interpretation of Standards*. That paragraph effectively updates all cross-references in all other Australian Accounting Standards and Interpretations to refer to the revised *Framework*. This proposed change is contrary to the IASB's amendments and does not reflect the outcome that **two** conceptual frameworks will remain in existence for the foreseeable future.

The AASB will need to make significant amendments to Paragraph 10 of AASB 1048 to implement the IASB's approach of utilising the revised *Framework* in all cases except IFRS 3. Currently, the AASB's proposed amendments create uncertainty as to which framework applies in a given situation given that all references in other Standards will effectively refer to two different frameworks operative at the same time.

1.2.2 No requirement to prepare general purpose financial statements

Currently SAC 1 is the only legal pronouncement affecting our members that prescribes when they ought to prepare general purpose financial statements. As noted previously, the definition of public accountability in AASB 1053 only applies to the general purpose financial statements that an entity prepares. Merely including publicly accountable entities within the scope of all Standards does not require entities applying those standards to prepare general purpose financial statements. Consequently, an entity may validly argue that Australian Accounting Standards do not apply because it has chosen not to prepare general purpose financial statements in the absence of SAC 1 requiring otherwise.

2. Phase 1 general matters for comment

Q8 – Whether, overall, the proposals would result in financial statements that would be useful to users.

Q9 – Whether the proposals are in the best interests of the Australian economy.

The ABA **does not** agree that the proposals would overall result in financial statements that would be useful to users. As noted, securitisation vehicles and internal pooled funds do not have current or potential users reliant on the general purpose financial statements of the entities concerned. Therefore, by extension there will be no use for the financial statements under the AASB's proposals.

The ABA is of the view that imposing costs that do not provide a clear user benefit is not overall in the best interests of the Australian economy.

3. Phase 2 specific matters for comment

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

The ABA **does not** agree with the Phase 2 approach. As indicated in our response to Questions 1 and 2 relating to Phase 1, the ABA prefers Option 5, with some amendment.

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In addition, the ABA notes that APRA-regulated entities are prohibited from entering into deeds of cross guarantee[5] and therefore all subsidiaries of those regulated entities are unable to obtain ASIC relief from preparing financial statements.

The table below sets out an estimate of resources that would be required to transition to Tier 2 GPFS from current SPFS reporting. Given the CP is proposing two high-level options for the future of Tier 2 we are unable to provide accurate cost estimates for the lack of specific proposals.

The expected costs below are **per entity**.

Activity	Transition ($'000)	Ongoing ($'000)
Review disclosures. The transition impact is based on an average of 0.1 FTE (internal or contractor) required for 6 months at a manager experience level. This FTE will be required to assess the changes necessary to financial reporting templates. Furthermore, members will be required to assess impact on related party transaction questionnaires that directors are required to complete in order to populate related party disclosures.	6.8 - 7.6	-
Transition audit, calculated as a quarter of current average audit expense (each subsidiary would prepare individual financial statements in compliance with Tier 2 GPFS requirements).[4]	9.5 - 10.5	-
Ongoing preparation effort for all Standards identified above. Calculated based on an average of 0.1 FTE (internal or contractor at manager level) required for 2 months every year to prepare / review financial statements.	-	2.3 - 2.5
Ongoing audit fee increase (SPFR vs Tier 2 GPFR). Expectation is an average 20% increase in audit fees.	-	7.6 - 8.4
Incremental cost arising from AASB proposals	**16.3 – 18.1**	**9.9 - 10.9**

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.

Given the option, the ABA would prefer specified disclosures (SDR) over the current reduced disclosure regime. However, we note that current reduced disclosure requirements were determined based on user need and cost-benefit considerations. Therefore if the AASB were to proceed with SDR the ABA would question why certain disclosures, previously determined to be of little user need where costs would exceed benefits, would be required once more despite this previous analysis.

The ABA's preferred outcome in this regard would be specified Standards that are further considered on a user need and cost-benefit basis.

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.

As mentioned in our response to Question 12, we do not believe that all disclosures mandated under the SDR regime would best meet user needs. This is particularly evident where the AASB had previously determined that these disclosures **did not** satisfy any particular user need under the current RDR. Therefore, requiring all disclosures that don't meet any user need would have the opposite effect by filling financial reports with information of little use, ultimately defeating the purpose of targeted and useful financial reporting.

[5] On 28 September 2016, ASIC issued a new relief instrument replacing Class Order 98/1418 *Wholly-owned entities*, under which APRA regulated entities can no longer be a party to a deed of cross guarantee.

Q18 – Do you have any other suggested alternative for the AASB to consider as a GPFS Tier 2 and whether this would be applicable for for-profit and not-for-profit sectors? Please explain rationale (including advantages and disadvantages and the costs and benefits expected).

As indicated in our response to Question 12 above, the ABA prefers SDR but while retaining the current RDR requirements in those specified Standards. Therefore the outcome would be reduced disclosure requirements contained in specified accounting standards.

This approach allows the AASB to simplify Tier 2 while leveraging the AASB's previous work to identify disclosures that satisfied user needs and where the benefits of making the disclosures exceeded the associated costs for making them.

4. Phase 2 general matters for comment

Q23 – Whether, overall, the proposals would result in financial statements that would be useful to users.

Q24 – Whether the proposals are in the best interests of the Australian economy.

Ultimately the finance sector is attempting to be more concise and transparent in its financial reporting to users of financial statements. The general purpose consolidated financial statements of financial institutions reflect the highly regulated and complex nature of the entities they relate to. Nonetheless, efforts to simplify these financial reports and effectively communicate to users of the financial statements are ongoing.

The AASB's proposals under Phase 2 will create additional confusion for users who will observe an increase from a handful of general purpose financial reports to hundreds covering each subsidiary of an APRA-regulated entity. This outcome would appear at odds with efforts to consider user needs from a preparer perspective in determining how to best present financial information in a transparent and understandable way.

In some respects, having all entities who apply Australian Accounting Standards comply with some form of GPFS reporting regime shares many similarities to issues explored in AASB Research Report No. 6 *Improving Financial Reporting for the Australian Public Sector*. In that report the AASB notes that "there are significant costs of having every entity in the public sector prepare GPFS when there is uncertainty over the value of the reporting to users".[6] Considering the AASB's sector neutral policy, it appears contradictory that on one hand the AASB is arguing for a reduction in the need for mandated GPFS in the public sector but argues on the other that all private sector entities must prepare GPFS if they apply Australian Accounting Standards.

The ABA appreciates the AASB's intention to remove the ability for entities to self-assess whether to prepare general purpose financial statements to improve fairness, transparency and comparability in the financial reporting framework. However, the current proposals introduce a high risk of imposing an unreasonable reporting burden on entities that clearly have no users of their financial information. Thus, more time and consideration needs to be spent to make sure that the AASB's efforts target an appropriate group of preparers.

5. Interaction between revised *Framework* and SAC 1

The CP notes that two 'problems' are the cause for the proposals. The first is a 'reporting entity' definition clash, which requires immediate attention. The second relates to the perceived abuse of special purpose reporting and concerns about transparency and comparability arising as a result.

An analysis of the revised *Framework* and SAC 1 regarding their use of the 'reporting entity' terminology does not support the AASB's claim that a fundamental 'clash' exists. The CP claims that under the revised *Framework* any entity required to prepare financial statements will meet the definition

[6] http://www.aasb.gov.au/admin/file/content102/c3/DP_IFRPS_06-18.pdf, page 14

of a reporting entity under that framework. Consequently, all such entities will be required to prepare general purpose financial statements if accounting standards are not amended to address this.

The above claim can be refuted with reference to footnote 7 on page 22 of the revised *Framework* as well as Appendix A to the revised *Framework*, which both clearly state all references to 'financial statements' throughout the revised *Framework* are references to general purpose financial statements. Accordingly, only those entities preparing general purpose financial statements would be considered reporting entities under the revised *Framework* and SAC 1.

The CP further claims that the 'boundary of the reporting entity' is fundamentally different under the revised *Framework* and SAC 1. Further analysis also refutes this claim. Both SAC 1 and the revised *Framework* describe the boundary of a reporting entity in the context of the needs of users of the financial statements. The revised *Framework* provides additional guidance to assist in this determination with reference to the economic activities of the entity.

The ABA agrees that confusion might arise in how these two pronouncements use the 'reporting entity' terminology. Therefore, the ABA agrees that SAC 1 could adopt a different term, as proposed under Option 5 in the CP, to avoid such confusion.