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Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

Our ref ED 314 Submission

1 November 2021

Dear Dr Kendall

Exposure Draft 314 Subsidiaries without Public Accountability: Disclosures

We are pleased to have the opportunity to comment on Exposure Draft 314 *Subsidiaries without Public Accountability: Disclosures* (ED 314).

This submission provides comment on 'AASB specific matters for comment' only. The KPMG global firms' submission on the proposals in the IFRS® Standards Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures* will be made direct to the International Accounting Standards Board (IASB).

Current view

Overall, we believe that consideration on whether any IFRS Standard that results from the above IASB Exposure Draft and its impact in Australia would be best completed after the IFRS Standard setting process is completed and a final IFRS Standard is issued. This will provide us with an opportunity to understand the differences between those disclosures in a final IFRS Standard and those currently required by AASB 1060 *General Purpose Financial Statements (GPFS) – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. We see this as key to any further considerations.

Preliminary thoughts – based on current IASB Exposure Draft

Notwithstanding the above comments we have completed some initial consideration on the impact of the current IASB Exposure Draft on the existing disclosures contained in AASB 1060.

In discussing this issue with a small number of financial statement preparers and auditors we have not been able to identify a clear benefit from having two versions of a reduced disclosure standard (GPFS-Tier 2). In fact, we believe that having two GPFS-Tier 2 versions would potentially create confusion amongst financial statement preparers, auditors and users. Part of the objective when introducing the new Australian financial reporting framework was to have a consistent and easy to apply way to determine what 'type' of GPFS should be prepared for respective entities.

With only one reduced disclosure standard (GPFS-Tier 2), Australia will need to determine whether to adopt the yet to be finalised IFRS Standard or retain the current AASB 1060 with or without amendment.

We would continue to support the current guidance in AASB 1053 *Application of Tiers of Australian Accounting Standards* – where for, for-profit private sector entities, public accountability is the only test to determine whether an entity, that is required to prepare GPFS, is able to apply either Tier 1 or Tier 2.

It is our preliminary view that for Australia the current AASB 1060 should be replaced by the final IFRS Standard. This would be subject to further consideration of a final IFRS Standard which may result from the current IASB Exposure Draft. In addition, the following is relevant to this discussion:

- Adoption of IFRS Standards as issued by the IASB as the basis of preparation of Australian Accounting Standards is consistent with the directive from the Financial Reporting Council (FRC).
- We acknowledge that the current IASB Exposure Draft contains more disclosures than the existing AASB 1060. Both these documents have been compiled using a similar process – i.e., both were developed based on the disclosure requirements of the IFRS for SMEs Standard.
- From a review of these additional disclosures in the IASB Exposure Draft a number result from the IASB's process being based on a working draft of the (yet to be finalised) updated IFRS for SMEs Standard, incorporating the new revenue and leases standards and changes to financial instruments accounting to align more closely with the recognition and measurement requirements in IFRS Standards.
- In accordance with the FRC directive it would be difficult to argue that the Australian environment is different from other jurisdictions – i.e., so as to try to support a view that less disclosure in Australia is appropriate.
- We note that the IASB Exposure Draft focuses on subsidiaries, which are not publicly accountable, of a parent that prepares IFRS compliant consolidated financial statements available for public use. The current AASB 1060 focuses on any entity that is not publicly accountable.

We do not believe entities that are not subsidiaries as a 'separate class', having different types of users, such that different reporting requirements could be argued. In fact, for subsidiaries that do have a parent that prepares IFRS compliant consolidated financial statements available for public use, many users may seek out the parent consolidated financial statements given various group structures and guarantee arrangements etc. This could lead to a view that users of financial statements where the entity is not part of a group may place more reliance on the entity's financial statements. As such a second GPFS-Tier 2 reduced disclosure standard (with fewer disclosures than any IFRS Standard) would not be supportable.

The following considerations will also be relevant in replacing the existing AASB 1060 with a finalised IFRS Standard:

- AASB 1060 will be first applied by most for financial years ending on 30 June 2022. As such, we would recommend that it would be beneficial to not immediately adopt a finalised IFRS Standard for at least two years – i.e., 30 June 2024. This would assist financial statement preparers, auditors and users in transitioning – considering the cost/benefit, time taken and understanding of a consistently changing environment.
- Australian specific GPFS-Tier 2 disclosures will need to be incorporated in a finalised IFRS Standard.
- Guidance on transitioning from the existing AASB 1060 to the new finalised IFRS Standard will need to be considered and developed.
- The ability of Australia entities to claim compliance with IFRS Standards will also need to be considered.

We do not believe the above would present any additional issues to financial reporting by Australian not-for-profit (NFP) entities. Particularly considering the continued use of additional Australia NFP guidance and the project to develop a Tier 3 framework.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact myself on (02) 9455 9744.

Yours sincerely



Michael Voogt
Director