Australian Government
Australian Accounting Standards Board

Staff Paper - REVISED

Project:	**Conceptual Framework for Financial Reporting**	**Meeting**	M169
Topic:	**Phase 2 Submissions**	**Agenda Item**	4.1
Contact(s):	Kim Carney kcarney@aasb.gov.au Tom Liassis tliassis@aasb.gov.au James Barden jbarden@aasb.gov.au Kala Kandiah kkandiah@aasb.gov.au	**Project Priority:** **Decision-Making:** **Project Status:**	High High Deliberating Phase 2 submissions

Introduction and objective of this paper

1 The objective of this paper is to for the Board to:

(a) review findings of Phase 2 submissions provided for Invitation to Comment ITC 39 *Consultation Paper Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* for for-profit entities; and

(b) determine approach for progressing Phase 2 for for-profit entities.

Attachments

Agenda item 4.2	ITC 39 [supporting documents folder]
Agenda item 4.3.1	Extracts from submissions received on Phase 2 ITC 39 relating to each of specific and general matter for comment, and other matters raised by respondents [supporting documents folder]
Agenda item 4.3.2	Full submissions received on Phase 2 ITC 39 [supporting documents folder]
Agenda item 4.4	AASB Staff Paper: *Enhancing the revised Conceptual Framework and replacing Special Purpose Financial Statements, For-profit User and Preparer Survey Results* [supporting documents folder]
Agenda item 4.5	The Australian Financial Review (AFR) article: Kenneth Hayne must traverse a legal quagmire [supporting documents folder]
Agenda item 4.6	KPMG new conceptual framework – polling questions [supporting documents folder]
Agenda item 4.7	Enhancing financial reporting and replacing SPFS – Roundtable Summaries [supporting documents folder]
Agenda item 4.8	Analysis of selected submissions to Treasury in relation to reporting thresholds [Board Only]

Outline

2 This paper is set out as follows:

I. Reasons for bringing this paper to the Board today (paragraphs 3-4);

II. Introduction (paragraphs 5-6);

III. Background (paragraphs 7-11);

IV. Key specific issues considered (paragraphs 12-79);

V. General matters considered (paragraphs 80-97;

VI. Other matters raised by respondents (paragraph 98);

VII. Timeline to progress Phase 2 proposals (paragraph 99);

VIII. Summary table of written responses for each question (Appendix A); and

IX. List of respondents (Appendix B).

Reasons for bringing this paper to the Board today

3 The Board needs to consider constituent feedback, and decide whether there is a special purpose financial statements (SPFS) problem that needs to be resolved, and therefore whether to proceed with Phase 2 of ITC 39 for for-profit entities. If the Board decide to proceed with Phase 2 of ITC 39, the Board need to decide how it wishes to do this including the key matters to be consulted on in the Phase 2 Exposure Draft (Phase 2 ED).

4 This paper also interrelates with several other agenda items to be discussed at this Board meeting including:

(a) Agenda item 3: Findings on non-disclosing entities lodging with ASIC (Australian Securities & Investments Commission) (Research Paper by Brad Potter and George Tanewski)

(b) Agenda item 5: Legislation research – which for-profit entities are captured by legislation

(c) Agenda item 6: Not-for-Profit (NFP) / Public Benefit Entity (PBE) Definition

(d) Agenda item 7: IFRS for SMEs (International Financial Reporting Standards for Small and Medium-sized Entities) Disclosures - whether to progress with IFRS for SMEs disclosures for Tier 2 general purpose financial statements (GPFS)

Therefore it is important to consider these submissions today in conjunction with these other related agenda items.

Introduction

5 In preparing this paper, Staff note the importance of ensuring that the views expressed by respondents to ITC 39; participants at the September 2018 roundtables; respondents to the AASB Staff for-profit User and Preparer surveys; and other constituents with whom Staff have engaged directly are conveyed to the Board. Staff also note that the proposals that would be developed as part of Phase 2 of ITC 39 (e.g. removing the ability for entities to self-assess and prepare SPFS when required to prepare financial statements in accordance with Australian Accounting Standards (AAS)) would be one of the most significant projects undertaken by the AASB. In preparing this paper, Staff have applied their professional judgement to categorise, summarise and present the differing views fairly and ensure each stakeholder's views have been given appropriate due consideration.

6 Agenda Paper 4.3.1 includes verbatim extracts from submissions that Staff considered in making judgements relating to respondents' agreement, disagreement or suggestions. The Board can refer to Agenda Paper 4.3.1, which is structured according to the specific issues, general matters and other matters as set out in this agenda paper, where they feel they require more context or information on respondents' specific comments on a given topic.

Background

7 The purpose of this project is to apply the IASB's *Conceptual Framework for Financial Reporting* (RCF) in Australia and resolve the SPFS problem via a phased approach (detailed in ITC 39).

8 The Board reviewed findings of Phase 1 of ITC 39 and decided to proceed with Phase 1 of ITC 39 at its November Board Meeting. Please refer to Action Alert Issue No: 194 for more details on the Board's decisions to proceed with Phase 1 of ITC 39.

9 A fatal flaw review version of the proposed Standard relating to Phase 1 of ITC 39, AASB 2019-X *Amendments to Australian Accounting Standards – References to the Conceptual Framework* was issued in January 2019 with a two-month comment period ending on 22 March 2019.

10 This paper considers submissions received in relation to Phase 2 of ITC 39 in conjunction with other items detailed in paragraph 4. It should be noted that only comments/feedback relevant to the for-profit private sector have been analysed as part of this paper. Comments relating to the NFP private and public sectors will be considered separately in AASB Financial Reporting Framework projects relating to those sectors.

11 Staff have received 36 written Phase 2 submissions to ITC 39, participated in many outreach meetings, roundtables and presentations, conducted a user survey targeting users of for-profit financial statements and conducted a preparer survey targeting preparers of for-profit financial statements (refer to Agenda item 4.4 for a summary of findings of these surveys). Analysis of feedback attained through each of these mechanisms is detailed below, Appendix A provides a high-level summary of all written submissions and Appendix B provides details of the respondents.

Key specific issues that need to be considered to proceed with Phase 2 of ITC 39

12 Based on the matters to comment in ITC 39, feedback from constituents at the September 2018 roundtables, responses from users and preparers in their survey responses, preliminary research findings on ASIC-regulated entities, and responses from constituents in submissions, below are the four specific issues that need to be considered in determining how to proceed with Phase 2 of ITC 39:

(a) Specific issue 1 – Is there an SPFS problem that needs to be solved? (Refer to Specific Issue 1)

(b) Specific issue 2 - Should full recognition and measurement (R&M) principles in AAS apply to all GPFS? (Refer to Specific Issue 2)

(c) Specific issue 3 - What disclosures should Tier 2 GPFS require? (Refer to Specific Issue 3)

(d) Specific issue 4 - What transitional support should be explored? (Refer to Specific Issue 4)

Summary of Key Staff recommendations

13 Staff have included all the key recommendations below. The Other Matter section contains other recommendations in addition to what is detailed below

Specific Issue 1

Question 1: As a significant majority of respondents agreed that there is an SPFS problem that needs to be solved, Staff recommend that the Board proceeds with Phase 2 of ITC 39 by removing Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity*, and with it, the ability for entities to self-assess and prepare SPFS when they are required to prepare financial statements in accordance with Australian Accounting Standards (AAS).

Specific Issue 2

Question 2: Based on the findings in paragraphs 28-29 and analysis in paragraphs 30-36, Staff recommend that the Tier 2 GPFS framework included in the forthcoming Phase 2 ED should require full R&M in AAS given:

(a) the importance to users of having full R&M in AAS for comparability, consistency and transparency across all for-profit entities that are required to prepare financial statements in accordance with AAS;

(b) it would be less costly and more efficient for preparers that are subsidiaries of parent entities preparing consolidated financial statements; and

(c) more than two thirds of for-profit non-disclosing entities currently preparing SPFS and lodging with ASIC are already complying with R&M in SPFS (this is subject to the final findings of AASB Research on compliance with Recognition and Measurement (R&M) in AAS by for-profit non-disclosing entities lodging SPFS with ASIC).

Specific Issue 3

Question 3: Based on the findings in paragraphs 38-39 and Staff analysis in paragraphs 40-44 which suggests that majority of constituents do not prefer either RDR as it exists today (as it is too onerous and difficult to apply) or SDR (which is too onerous in some ways and is not enough in others), Staff recommend the Board considers a new Tier 2 GPFS framework which would require full R&M in AAS with the IFRS for SMEs disclosures. This would ensure consistency, comparability and transparency for users but minimise the cost burden for preparers, who have told us that they are mostly already doing full R&M in AAS but want minimal disclosures. Agenda paper 7 considers this matter and includes a Staff recommendation.

14 **Question 4:** Based on the analysis in paragraphs 48-50 which indicates there are only ~13k non-disclosing entities currently required to prepare and lodge financial statements with ASIC and given that this number would be further reduced if thresholds for large proprietary companies are increased, Staff recommend that the forthcoming Phase 2 ED should propose only one Tier 2 GPFS reporting framework.

Specific Issue 4

Question 5: Staff recommend further research and outreach be conducted (including the development of a case study) to consider whether additional transitional relief is needed. This could include:

(a) allowing entities to make transitional adjustments at the beginning of the current period and not requiring comparatives; and

(b) considering other transitional relief in addition to what is in AASB 1 *First-time Adoption of Australian Accounting Standards* (for example relief from applying AAS to subsidiaries that are not required to comply with AAS) and using existing carrying amounts in subsidiary's own books.

General Matter 21

Question 6: Staff recommend including evidence as to how the Standard-Setting Framework has been appropriately applied in the AASB Feedback Statement that will accompany the forthcoming Phase 2 Exposure Draft. Staff consider this section of the Feedback Statement should specifically include, among other matters, details of all research and outreach activities that have been conducted throughout the standard-setting process.

Other Matter 3

Question 8: Staff recommend that entities that do not have a legislative requirement to prepare financial statements but currently have a requirement in their trust deeds or other compliance documents to prepare financial statements in accordance with AAS be grandfathered from this requirement as the users of financial statements of these types of entities generally have the ability to command the specific information they need and changes in their trust deeds or other compliance documents to remove the requirement to comply with AAS might trigger unintended consequences.

While these entities would not be prohibited from preparing Tier 2 GPFS and complying with AAS should they choose to, grandfathering would ensure they were not required to change their trust deed or lending agreement to remove the requirement to comply with AAS.

Specific issue 1: Is there an SPFS problem that needs to be solved?

15 Feedback from AASB roundtables and surveys:

Feedback from September roundtables	Feedback from User and/or Preparer surveys
Attendees said there is a SPFS problem that needs to be addressed • Almost all (96%) of the attendees strongly agreed that the SPFS problem needs to be resolved (i.e. 96 of the 100 attendees that responded to the question). Refer page 16 of Enhancing financial reporting and replacing SPFS – Roundtable Summaries.	**Users said there is a SPFS problem that needs to be addressed** • 78% of primary users[1] and 73% of other users[1] said if SPFS do not consistently apply R&M requirements in AAS, then this is an issue that needs to be addressed. Refer to page 4 of AASB Staff Paper: *Enhancing the revised Conceptual Framework and replacing Special Purpose Financial Statements For-profit User and Preparer Survey Results*.

16 Feedback from submissions on whether there is an SPFS problem that needs to be solved (of the 36 submissions received, 33 provided responses addressing this question). Refer Appendix A Specific Issue 1 for more details.

There is an SPFS problem	There is no SPFS problem / there is insufficient evidence that there is an SPFS problem
85% (28 out of 33 respondents) either stated directly or by inference, that there is a SPFS problem that needs to be solved. The 28 respondents comprises: **22 respondents noted, or referred to, the lack of comparability, consistency and transparency caused by SPFS that needs to be resolved:** • Nine professional services firms (R1 – RSM, R8 – Grant Thornton, R9 – BDO, R12 – Hanrick Curran, R15 – KPMG, R16 – Crowe Horwath, R23 – PwC, R25 – Pitcher Partners and R26 –EY); • Four professional bodies (R10 – CAANZ, R13 – CPA, R17 – BCCM and R34 –IPA); • Five users (R18 – Tax Justice Network, R29 – Equifax, R31 – Richard Fakhry, R32 – Myron Ithayaraj and R33 – Richard Dalidowicz); and • Four preparers (R4 – QIC, R11 – Malcolm Bunney, R20 – IFRS System and R24 – FRS.; **Three respondents agreed that there is an SPFS problem due to issues in the enforcement of SAC 1 and other relevant regulations:** • Two professional services firm (R2 – Nexia, R19 – Westworth Kemp); and • R35 – G McMillan **Three respondents agreed there is an SPFS problem for other reasons:** • One academic (R21 – Swinburne) supports the withdrawal of SAC 1, but not without consideration of who should be required to report by law makers; and • R22 – Scott Tobutt and R36 – Ed Psaltis infer agreement that there is an SPFS problem given they only disagree with the proposed Tier 2 frameworks.	12% (four out of 33 respondents) (R5 – QBE, R6 – IAG, R14 – Keith Reilly and R30– ABA) do not believe there is an SPFS problem to be solved. Their reasons include: • R5 – QBE and R6 – IAG believes that the framework should operate with two Conceptual Frameworks, as removing SAC 1 would be too costly, and provide no benefit due to limited users of current non-reporting entities. R6 - IAG also suggests that any issues with SAC 1 could be dealt with via enforcement and further guidance. • R14 – Keith Reilly notes that by definition entities self-assessing as non-reporting entities do not have users, and hence believes there is a 'non-existent problem'. • R30 – ABA disagrees that there is an SPFS problem, as it disagrees that there is a clash between the reporting entity concept in the RCF and SAC 1, and also notes that removing the ability to prepare SPFS would be costly with no benefit to users. 3% (one out of 33 respondents) (R7 – AICD) states that insufficient evidence has been provided to demonstrate the nature of the problem with SPFS and that more research is required. However, this respondent acknowledges that SPFS are not comparable because of its self-assessment approach to compliance obligations.

Staff Analysis – Specific Issue 1: Is there an SPFS problem that needs to be solved?

---

1 Throughout User Survey Report, 'primary users' refers to users that meet the definition of primary users in AASB Practice Statement 2 *Making Materiality Judgements* (i.e. investors (and analysts), lenders and other creditors) and all other respondents are referred to as 'other users'.

17 When considering the above, it is clear that the significant majority of respondents feel there is a SPFS problem that needs to be resolved:

- 96% (96 out of 100) of participants at the September 2018 roundtables;
- 78% of primary users[1] and 73% of other users[1] who responded to the User survey; and
- 85% of respondents to the Phase 2 submissions.

18 Notably, a large number of respondents to this question referred in some manner to the lack of, or need to improve, comparability, consistency and transparency caused by SAC 1, the reporting entity concept and SPFS, both domestically and as compared to international jurisdictions.

19 Staff acknowledge that some respondents (R12 – Hanrick Curran, R17 – BCCM, R29 - Equifax) did not explicitly share a view on the existence or causes of a problem with SPFS. However, these respondents provided comments on how to proceed with revising the Tier 2 for all non-publicly accountable entities, and stressed the importance of financial statements having full compliance with R&M in AAS. As such, Staff consider these responses to imply support for the Board's proposals to remove SPFS, as currently those preparing SPFS can choose whether or not to comply with R&M in AAS.

20 Three respondents (R2 – Nexia, R19 – Westworth Kemp and R35 – Graeme MacMillan) noted that the SPFS issue is only caused due to issues with enforcement rather than there being a conceptual issue that needs to be solved. Staff consider these respondents are therefore confirming that there is a problem with SPFS, albeit may be suggesting it can be solved via a different mechanism. Staff note the findings from AASB Research Report No. 1 *Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements,* which indicates the reporting entity concept is too subjective for regulators to enforce effectively (as noted in paragraph 36(c) of ITC 39). Hence, Staff consider that it is appropriate for the Board to solve the SPFS problem to ensure that regulators are equipped with a simple framework to enforce.

21 All four disagreeing respondents (R5 – QBE, R6 – IAG, R14 – Keith Reilly and R30 – ABA) suggested that there is not a problem with SPFS, as there are no users of SPFS (noting that R5 – QBE and R6 – IAG wants SPFS with full R&M with AAS, and R5 – QBE wrote from the perspective of wholly-owned subsidiaries of listed entities). However, based on research attained from ASIC's registries which revealed that over 98,000 copies of financial statements are purchased annually from ASIC, it is clear that there are users. R29 – Equifax, Australia's largest commercial credit bureau said that they receive several million credit enquiries each year on commercial entities within Australia. Equifax are heavily reliant on the integrity of the data, and as a result, fully endorse any move to ensure financial statements provided to ASIC comply with AAS to enhance the consistency and improve the reliability of decisions being made by businesses in Australia. Staff also note the results from the September roundtables and User survey (refer to paragraph 15) whereby 96% of roundtable participants, 78% of primary users and 73% of other users said if SPFS do not consistently apply R&M requirements in AAS, then this is an issue that needs to be addressed. More information on feedback and research into user needs is contained in Other Matter 4.

22 One respondent (R7 – AICD) stated that insufficient evidence has been provided to demonstrate the nature of the problem with SPFS, and that more research is required. However, this respondent acknowledges that special purpose financial statements (SPFS) are not comparable because of its self-assessment approach to compliance obligations.

23 Staff feel comfortable that there is widespread and considered support for solving the issue with SPFS and the reporting entity concept. Notably, this discussion has been ongoing for a number of years, through AASB Research Reports and previous considerations as part of the AASB's original differential reporting framework project. Further, regulatory developments over recent years have indicated the need for GPFS for entities required to prepare financial statements in accordance with AAS, for example the Australian Taxation Office (ATO) requiring GPFS from Significant Global Entities, and Royal Commissions exploring the trust and transparency of industries including aged care and banking.

24 In addition to the above, Staff continue to identify articles in the media suggesting that SPFS are not fit for purpose. For example, a finding from an article in The Australian Financial Review[2] identified that there is a "90 per cent correlation between related party transactions and people being found guilty in court of misleading and deceptive conduct, breaches of fiduciary duties, breaches of good faith and conflicts of

[2] "Kenneth Hayne must traverse a legal quagmire", 15 January 2019, link here. Refer also Agenda item 4.5 in the supporting documents folder.

interest" and there is "a 75 per cent correlation between those involved in related party transactions and being found guilty of fraud or dishonesty." Noting that for entities producing SPFS, related party disclosures are not mandated. Refer to Agenda item 4.5 for the full article.

25 Staff consider that progressing with solving this issues for for-profit entities is imperative in a timely manner to ensure that, at least from a financial reporting perspective, the abovementioned concerns are addressed ahead of any further issues relating to trust and transparency, and also to work concurrently with the efforts of other regulators in addressing the various enquires.

26 As discussed in Other Matter 2, when deciding that Phase 2 would apply only to for-profit entities, the Board considered a number of matters, including acknowledging that the impact of removing SPFS is likely to be more significant for NFP private sector entities. Staff further note that some respondents are concerned with the AASB progressing the for-profit proposals in advance of the NFP proposals and the effect this may have on transaction neutrality. This is discussed further in Other Matter 2.

Staff recommendation – Specific Issue 1: Is there an SPFS problem that needs to be solved?

27 As a significant majority of respondents agreed that there is an SPFS problem that needs to be solved , Staff recommend that the Board proceeds with Phase 2 of ITC 39 by removing Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity*, and with it, the ability for entities to self-assess and prepare SPFS when they are required to prepare financial statements in accordance with Australian Accounting Standards (AAS)

Question 1 for Board members
Q1 Does the Board agree with Staff recommendation that as a significant majority of respondents agreed that there is an SPFS problem that needs to be solved , the Board proceeds with Phase 2 of ITC 39 by removing Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity*, and with it, the ability for entities to self-assess and prepare SPFS when they are required to prepare financial statements in accordance with Australian Accounting Standards (AAS)??

Specific issue 2: Should all GPFS require full R&M in AAS

28 Feedback from AASB roundtables and surveys:

Feedback from September roundtables	Feedback from User and/or Preparer surveys
Attendees strongly supported full compliance with R&M in AAS • Almost all (96%) of the attendees strongly agreed that Tier 2 GPFS should fully comply with R&M requirements in AAS to facilitate transparent, comparable, consistent financial statements (i.e. 93 of 97 attendees responded to the question). Refer page 16 of Enhancing financial reporting and replacing SPFS – Roundtable Summaries.	**Comparability, transparency, comprehensibility and consistency are paramount** • On average 93% of primary users[3] and over 95% of other users[3] said comparability, transparency, comprehensibility and consistency are what is most important to them when reading financial statements. Comparability of R&M was rated 88% in importance to primary users and 100% by other users. Refer to page 14 of AASB Staff Paper: *Enhancing the revised Conceptual Framework and replacing Special Purpose Financial Statements For-profit User and Preparer Survey Results*.

29 Feedback from submissions on R&M (of the 36 submissions received, 32 respondents provided feedback either directly or which could be inferred via their general comments to suggest whether or not the Tier 2 GPFS framework should require full R&M in AAS). Refer Appendix A: Specific Issue 2 for more details.

[3] Throughout the User Survey Report, 'primary users' refers to users that meet the definition of primary users in AASB Practice Statement 2 *Making Materiality Judgements* (i.e. investors (and analysts), lenders and other creditors and all other respondents are referred to as 'other users'.

24 respondents (75%) supported full R&M in AAS	4 respondents (13%) want GPFS with differential R&M explored
• The 24 respondents comprises of all preparers, all users, all professional services firms and two of the six professional bodies who responded to this question. Specifically: o Five (all) preparers (R4 - QIC, R5 – QBE, R6 – IAG (inferred), R20 - IFRS System and R24 – FRS) o Six (all) users (R11 – Malcolm Bunney, R18 - Tax Justice Network, R29 – Equifax, R31 – Richard Fakhry, R32 - Myron Ithayaraj and R33 – Richard Dalidowicz) o Two professional bodies (R17 - BCCM, and R34 – IPA (inferred)) o 11 (all) professional services firms (R1 - RSM, R2 – Nexia (inferred), R8 - Grant Thornton, R9 - BDO, R12 – Hanrick Curran, R15 - KPMG, R16 - Crowe Horwath, R19 - Westworth Kemp, R23 – PwC, R25 – Pitcher Partners and R26 – EY)	• Four respondents suggested considering a Tier 2 GPFS framework with differential R&M (e.g. IFRS for SMEs or a similar differential framework) explored as part of the reporting package. Specifically: o Three (of the six) professional bodies (R7 – AICD, R10 – CAANZ and R13 – CPA)[4] o One 'other' respondent (R21 – Swinburne) • R7 – AICD wants IFRS for SMEs considered as an option for GPFS for small to medium sized entities if Treasury does not lift the thresholds • R10 – CAANZ, R13 – CPA and R21 – Swinburne want the possibility of IFRS for SMEs (or another differential R&M framework) explored as an option with the reporting package for for-profit entities (noting that these respondents also wanted Treasury to review the thresholds first).
1 respondent (3%) supported retaining the current framework (no R&M)	**3 respondents (9%) want IFRS for SMEs as the Tier 2 GPFS framework**
R30 – ABA (a professional body) wants SAC 1 to be retained to give entities the ability not to comply with R&M.	• R14 – Keith Reilly (consultant), R22 – Scott Tobutt (auditor) and R36 – Ed Psaltis (consultant) want IFRS for SMEs as the Tier 2 GPFS framework.

Staff Analysis – Specific Issue 2: Should all GPFS require full R&M in AAS?

30 When considering the above, it is clear that a significant number of respondents support a Tier 2 GPFS framework that requires full compliance with R&M in AAS, specifically:

- 96% (93 out of 97) of participants at the September 2018 roundtables;
- 93% of primary users[3] and over 95% of other users[3] who responded to the User survey; and
- 75% of respondents to the Phase 2 submissions.

31 It is noted that 100% of users who provided submissions to ITC 39 (R11 – Malcolm Bunney, R18 - Tax Justice Network, R29 – Equifax, R31 – Richard Fakhry, R32 - Myron Ithayaraj and R33 – Richard Dalidowicz) want comparability, consistency and transparency and stated R&M in AAS will facilitate this. Staff note that three of these users (R31 – Richard Fakhry, R32 – Myron Ithayaraj and R33 – Richard Dalidowicz) were specifically asked "if not all entities preparing SPFS are consistently applying the R&M requirements of AAS, does this affect the usefulness of the information contained in those SPFS and/or your ability to make decisions based on this information" - all three responded "Yes". Furthermore, as noted above in paragraph 21, Equifax as Australia's largest commercial credit bureau are heavily reliant on the integrity of the data and fully endorse any move to ensure financial statements they use comply with AAS to enhance the consistency and improve the reliability of decisions being made by businesses in Australia. Finally, R18 – Tax Justice Network noted in their submission that "Inconsistency in accounting practices across firms is problematic as it undermines how easily accounts can be understood and compared. It also renders computer-based analysis and the use of financial statement information impossible." Staff consider this evidence provides a strong support to ensure the Tier 2 GPFS framework requires full compliance with R&M in AAS.

---

4 Staff note that the submissions received on ITC 39 state:
"We recognise that framework reform needs to provide a consistent, comparable, transparent and enforceable structure for all the entities that are required to lodge financial statements on public registers." (R10 - CA ANZ)
and"… the attributes of comparability, consistency and transparency that underpin the public interest objective" (R13 - CPA)
As IFRS for SMEs is based on differential R&M this would detract from comparability and consistency. Further providing more than one Tier 2 GPFS framework would also detract from comparability and consistency.

32 Staff also note that one of the large accounting firms in Australia asked respondents to answer a number of polling questions on the removal of SPFS for corporates. 84% of the 135 respondents that answered a polling question on this matter and prepare SPFS said that they apply all R&M requirements in AAS. Refer agenda item 4.6: New conceptual framework – polling questions for additional information. This suggests the majority of entities that are currently preparing SPFS are already complying with R&M, and the cost to move to a Tier 2 GPFS with full R&M should not exceed the benefits of improving comparability, consistency and transparency for users, particularly if there is considerable transitional relief for these entities and the disclosures requirements in the Tier 2 GPFS framework that these entities would need to apply is less onerous that the current Tier 2 GPFS framework.

33 Staff note (as noted in paragraph 28) that 13% of respondents (four respondents) want IFRS for SMEs, or an alternate framework with differential R&M requirements, considered as part of the new reporting package and a further 9% (three respondents) want IFRS for SMEs as the Tier 2 GPFS framework. As discussed in ITC 39 (refer paragraphs 20-21 and Appendix C paragraphs 18-36 of ITC 39), the main reason for not wanting IFRS for SMEs in Australia as the Tier 2 alternative is that it contains different R&M to that in AAS.

34 As noted above, consistency and comparability are one of the key reasons for respondents wanting the Tier 2 GPFS framework to require full R&M in AAS. While Staff note that having IFRS for SMEs would result in a consistent and comparable framework for entities without public accountability, this would only be the case if it were the only Tier 2 GPFS framework (i.e. entities without public accountability would not have the option to comply with full IFRS should they choose to). If entities without public accountability had the ability to choose between full IFRS and IFRS for SMEs this would still detract from having consistency and comparability amongst those entities.

35 The IASB have a current research project on their research agenda which will assess whether it would be feasible to permit subsidiaries without public accountability to use the R&M requirements in full IFRS and the disclosure requirements in the IFRS for SMEs. This project was added to the agenda as "some stakeholders suggested that introducing such an approach would have the potential to reduce costs in financial reporting for subsidiaries of listed groups, without removing information needed by the users of these financial statements. The stakeholders argue that using the IFRS for SMEs Standard is not generally attractive to subsidiaries of parent entities that are preparing consolidated financial statements in compliance with full IFRS because those subsidiaries need to report to their parent, for consolidation purposes, numbers that comply with the R&M requirements of the full IFRS Standards. For their own financial statements, they would prefer to use the same R&M requirements as what they need to report to their parent entity, but with less onerous disclosure requirements."[5] It is Staff's view that this further highlights the importance of consistency in R&M between Tier 1 and Tier 2.

36 In addition, in Specific Issue 3 (discussed below), Staff note that Agenda item 7 of this AASB meeting (February 2019) provides analysis for the Board to consider using IFRS for SMEs disclosures with full R&M in AAS. As such, some of the concerns of these constituents about compliance costs can be alleviated if recommendations in Agenda item 7 are progressed (see Agenda item 7 for more details). Furthermore, the arguments for considering IFRS for SMEs raised by these respondents have already been considered by the AASB in ITC 39 (refer paragraphs 18 – 36 of Appendix C of ITC 39), and there does not appear to be any new information raised by these respondents that would require the Board to reconsider its views expressed in ITC 39.

Staff recommendation – Specific Issue 2: Should all GPFS require full R&M in AAS?

37 Based on the findings in paragraphs 28-29 and analysis in paragraphs 30-36, Staff recommend that the Tier 2 GPFS framework included in the forthcoming Phase 2 ED should require full R&M in AAS given:

(a) the importance to users of having full R&M in AAS for comparability, consistency and transparency across all for-profit entities that are required to prepare financial statements in accordance with AAS;

(b) it would be less costly and more efficient for preparers that are subsidiaries of parent entities preparing consolidated financial statements; and

5 http://archive.ifrs.org/Current-Projects/IASB-Projects/Pages/SMEs-that-are-Subsidiaries.aspx

(c) more than two thirds of for-profit non-disclosing entities currently preparing SPFS and lodging with ASIC are already complying with R&M in SPFS (this is subject to the final findings of AASB Research on compliance with R&M in AAS by for-profit non-disclosing entities lodging SPFS with ASIC). This means that for these entities to move to IFRS for SMEs or another differential R&M framework is likely to be more costly to preparers compared to moving up those currently not complying with full R&M.

Question 2 for Board members

Q2 Does the Board agree with Staff recommendation that the Tier 2 GPFS framework to be developed for the forthcoming Phase 2 Exposure Draft should require full R&M in AAS given:

- the importance to users of having full R&M in AAS for comparability, consistency and transparency;
- it would be less costly and more efficient for preparers that are subsidiaries of parent entities preparing consolidated financial statements; and
- more than two thirds of for-profit non-disclosing entities currently preparing SPFS and lodging with ASIC are already complying with R&M in AAS in SPFS (this is subject to the final findings of AASB Research on compliance with R&M in AAS by for-profit non-disclosing entities lodging SPFS with ASIC)?

Specific issue 3: What disclosures should Tier 2 GPFS require?

38 Feedback from AASB roundtables and surveys:

Feedback from September roundtables	
SDR is too much in some ways but falls short in many other ways • 10% of participants said they liked SDR the way it has been drafted, 11% wanted less in SDR. • The vast majority of participants said that whilst the disclosures in SDR are important, requiring full disclosure of those nine Standards was too much. • Most participants further suggested that SDR might not be appropriate for all industry sectors and is missing some critical disclosures to help predict the viability of an entity such as: liquidity, contingent liabilities, subsequent events and commitment disclosures. Furthermore, most participants said that related party disclosures are fundamentally important for users. • Overall, most participants preferred the inclusion of more disclosure Standards than what is proposed in SDR, but suggested that such disclosures should be at an 'RDR level'. **A more user-friendly RDR, with further disclosure reductions a clear preference** • 13% of participants prefer RDR unamended, 63% preferred something in between RDR and SDR, 1% wanted more than RDR and 2% weren't sure what they wanted. • Participants noted that the RDR framework has been working well, has been accepted by the market, and provides a much more useful set of disclosures suitable for any industry in the for-profit sector compared to SDR. However, most participants suggested further reductions in disclosures and improvements to the usability of the RDR framework. • Many who preferred GPFS-RDR particularly liked the version of GPFS-RDR suggested in Exposure Draft ED 277 *Reduced Disclosure Requirements for Tier 2 Entities* [January 2017], specifically the principles for disclosure and the focus on disclosures that are "significant and material". • Opponents to GPFS-RDR suggested that it is difficult to apply, and going through every standard is onerous, so they urged the AASB to look at innovative ways to make the framework more user-friendly (noting that many participants still wanted the disclosure requirements within the Standards for context, even if it was also separately located for ease of application). Refer page 2 of Enhancing financial reporting and replacing SPFS – Roundtable Summaries.	**Preference for a combination of SDR and RDR** • Whilst most primary users (68%) noted that the proposed Tier 2 GPFS-SDR framework could provide sufficient information to meet their information needs, only 30% of primary users said it was their preferred framework. • 45% of primary users preferred a combination of GPFS-SDR and GPFS-RDR for the Tier 2 GPFS framework. • One respondent explained "RDR is too much and GPFS-SDR too little". Many respondents said that GPFS-SDR lacked disclosures on commitments, contingencies and liquidity, which are all necessary to understand the entity's financials. Refer to page 12 of AASB Staff Paper: *Enhancing the revised Conceptual Framework and replacing Special Purpose Financial Statements For-profit User and Preparer Survey Results*.

Feedback from User and/or Preparer surveys
Preference for a combination of SDR and RDR • Whilst most primary users (68%) noted that the proposed Tier 2 GPFS-SDR framework could provide sufficient information to meet their information needs, only 30% of primary users said it was their preferred framework. • 45% of primary users preferred a combination of GPFS-SDR and GPFS-RDR for the Tier 2 GPFS framework. • One respondent explained "RDR is too much and GPFS-SDR too little". Many respondents said that GPFS-SDR lacked disclosures on commitments, contingencies and liquidity, which are all necessary to understand the entity's financials. Refer to page 12 of AASB Staff Paper: *Enhancing the revised Conceptual Framework and replacing Special Purpose Financial Statements For-profit User and Preparer Survey Results*.

39 Feedback from submissions on the required Tier 2 disclosures. Refer Appendix A Specific Issue 3 for more details.

Staff note that there were five SMCs (12, 13, 14, 17 and 18) within ITC 39 relevant to Specific issue 3, some of which were also relevant to Specific issue 2 (on R&M). Comments relevant to Specific issue 2 have been presented and analysed in paragraphs 28-36. Therefore what is detailed below is what is relevant to Specific issue 3. Further, responses to SMC 12 (which of the AASB's two GPFS Tier 2 alternatives do you prefer?) and SMC 18 (do you have any other suggested alternative for the AASB to consider as a GPFS Tier 2?) were very similar. Therefore for the purposes of the following analysis, Staff have combined the feedback received on SMC 12 and SMC 18.

(a) SMC 12 – Which of the AASB's two GPFS Tier 2 alternatives do you prefer (combined with SMC 18 – Do you have any other suggested alternative for the AASB to consider as a GPFS Tier 2)?

27 out of 36 respondents answered SMC 12 and 23 out of 36 respondents answered SMC 18

5 respondents (18.5%) prefer RDR	• The 5 respondents comprised of four professional services firms (R1 – RSM, R9 – BDO, R16 – Crowe Horwath and R19 – Westworth Kemp) and one user (R18 – Tax Justice Network). • R1 – RSM supports retaining the existing Tier 2 GPFS-RDR but suggested if it is too onerous in its current format for SPFS preparers then their preference would be to further reduce GPFS-RDR rather than have it abandoned. They also suggested that if GPFS-SDR is introduced, it should be provided as an alternative to GPFS-RDR rather than as a replacement. • R19 – Westworth Kemp recommended lobbying for raising the small/large proprietary thresholds.
4 respondents (15%) prefer SDR	• The four respondents comprised of one preparer (R6 – IAG), one professional services firm (R8 – Grant Thornton), one user (R11 – Malcolm Bunney) and one professional body (R17 – BCCM)
8 respondents (29.5%) prefer something in between RDR and SDR	• The eight respondents comprised of four professional services firms (R2 – Nexia), R15 – KPMG), R35 – Pitcher Partners and R26 – EY), three preparers (R4 – QIC), R20 – IFRS System, R24 – FRS and one professional body (R30 – ABA) • Five of the above respondents (R4 – QIC, R15 – KPMG, R20 – IFRS System, R24 – FRS and R26 - EY) prefer GPFS-RDR, however suggested the current RDR disclosures could be further reduced. R15 – KPMG also said that a third tier may be desirable, however it was challenging to identify a logical and clear objective delineator. • Two respondents (R25 – Pitcher Partners, a professional services firm) and (R30 – ABA, a professional body) prefer GPFS-SDR. However suggest that the disclosures required SDR should be reduced to the current RDR level disclosures. • One respondent (R2 – Nexia, a professional services firm) didn't like either RDR (stating it is too excessive) or SDR (suggesting it had too much in those specified disclosures and was missing other relevant disclosures). This respondent did not provide an alternative suggestion.

5 respondents (18.5%) prefer RDR	• The 5 respondents comprised of four professional services firms (R1 – RSM, R9 – BDO, R16 – Crowe Horwath and R19 – Westworth Kemp) and one user (R18 – Tax Justice Network). • R1 – RSM supports retaining the existing Tier 2 GPFS-RDR but suggested if it is too onerous in its current format for SPFS preparers then their preference would be to further reduce GPFS-RDR rather than have it abandoned. They also suggested that if GPFS-SDR is introduced, it should be provided as an alternative to GPFS-RDR rather than as a replacement. • R19 – Westworth Kemp recommended lobbying for raising the small/large proprietary thresholds.
3 respondents (11%) want full R&M in AAS for all GPFS with additional tiers of disclosure	• The three respondents comprised of one preparer (R5 – QBE) and two professional services firms ((R12 – Hanrick Curran and R23 – PwC). • R5 – QBE felt a framework with full R&M but minimal disclosures was more appropriate [Note: R5 – QBE was specifically referring to the reporting requirements of wholly-owned subsidiaries of listed entities]. • R12 – Hanrick Curran and R23 – PwC felt that having an additional tier of Tier 2 GPFS reporting was necessary. For example, having Tier 2 GPFS-RDR for larger non-publicly accountable for-profit entities and Tier 2 GPFS-SDR for smaller non-publicly accountable for-profit entities.
4 respondents (15%) want GPFS with differential R&M explored	• Four respondents suggested considering a Tier 2 GPFS framework with differential R&M (e.g. IFRS for SMEs or a similar differential framework) explored as part of the reporting package. Specifically: o Three (of the six) professional bodies (R7 – AICD, R10 – CAANZ and R13 – CPA) o One 'other' respondent (R21 – Swinburne) Refer to paragraph 29 for more details.
3 respondents (11%) want IFRS for SMEs as the Tier 2 GPFS framework	• R14 – Keith Reilly (consultant), R22 – Scott Tobutt (auditor) and R36 – Ed Psaltis (consultant) want IFRS for SMEs as the Tier 2 GPFS framework.

(b) SMC 13 – Do you agree that we only need one Tier 2 GPFS alternative in Australia?

22 out of 36 respondents answered SMC 13

8 respondents (36%) provided other responses
• Four respondents including one preparer, two professional bodies and one academic (R5 - QBE, R7 – AICD, R10 – CAANZ and R21 – Swinburne) felt that more data needed to be collected prior to deciding if one Tier 2 GPFS alternative was sufficient. • Three respondents including two professional services firms and one professional body (R12 – Hanrick Curran, R13 – CPA and R23 – PwC) were of the view that an additional tier of Tier 2 GPFS reporting was necessary[4]. • One respondent, an advisor (R14 – Keith Reilly) felt that IFRS for SMEs should be an option for non-publicly accountable entities. • R5 – QBE also suggested that having an additional Tier of GPFS, with full R&M and minimal disclosures, was necessary for wholly-owned subsidiaries whose parents are preparing consolidated Tier 1 GPFS. • R13 - CPA recommends freezing the current RDR framework and instead focusing on developing an optional simplified financial reporting framework with reductions in R&M requirements. They also note the IASB's IFRS for SMEs for subsidiaries project as a possible alternative to the current RDR framework, as does R21 - Swinburne and R26 - EY (in their response to SMC 14). • R14 - Keith Reilly also makes the point that the Board has already acknowledged that it may consider simpler rules for NFP entities and questions why this is not also considered for for-profit entities.

14 respondents (64%) felt that only one GPFS alternative was needed
• The 14 respondents included nine professional services firms (R1 – RSM, R2 – Nexia, R8 – Grant Thornton, R9 – BDO, R15 – KPMG, R16 – Crowe Horwath, R19 – Westworth Kemp, R25 Pitcher Partners and R26 – EY)), one professional body (R17 – BCCM) and four preparers (R4 – QIC, R6 – IAG, R20 – IFRS System and R24 – FRS). • Three respondents (R19 - Westworth-Kemp, R24 – FRS and R2 – Nexia) suggested that SPFS should also be available for entities below reporting thresholds. • R2 - Nexia also added that their view may change dependent upon the outcomes of the NFP framework reforms. • R1 – RSM felt that only one Tier 2 GPFS framework was required. However if GPFS-SDR was chosen by the Board, then they felt GPFS-RDR was also required as a Tier 2 GPFS alternative.

(c) SMC 14 – Do you agree with the AASB's decision that GPFS – IFRS for SMEs should not be made available in Australia as a Tier 2 alternative for entities to apply?

23 out of 36 respondents answered SMC 14

15 respondents (65%) agree with the AASB and do not want IFRS for SMEs considered	5 respondents (22%) want IFRS for SMEs or another differential R&M framework explored	3 respondents (13%) want IFRS for SMEs as the Tier 2 GPFS framework

• These respondents comprised of nine professional services firm (R1 – RSM, R2 – Nexia, R8 – Grant Thornton, R9 – BDO, R12 – Hanrick Curran, R15 – KPMG, R16 – Crowe Horwath, R25 – Pitcher Partners and R26 – EY), five preparers (R4 – QIC, R5 – QBE, R6 – IAG, R20 - IFRS System and R24 – FRS) and one professional body (R17 – BCCM)
• These respondents stated that allowing IFRS for SMEs which has differential R&M would:
  ○ appear inconsistent with the AASB's aim to improve consistency and comparability; and
  ○ be an increased burden for entities currently preparing SPFS with full R&M (particularly subsidiaries that are part of a consolidated group which would have ongoing additional costs)
• Note: R11 – Malcolm Bunney, R23 – PwC, R29 – Equifax, R31 – Richard Fakhry and R32 - Myron Ithayaraj did not explicitly answer this question, however in response to other questions clearly articulated the need for full R&M in AAS.
	• Four of these respondents comprised of three professional bodies (R7 – AICD, R10 – CAANZ and R13 – CPA) and one 'other' respondent (R21 – Swinburne) as discussed in paragraph 29
	• R19 – Westworth Kemp who had answered SMC 12 to state preference to RDR and SMC 13 to say only one Tier 2 framework was necessary, answered SMC 14 to say they wouldn't object if IFRS for SMEs was considered as an option.
		• R14 – Keith Reilly (consultant), R22 – Scott Tobutt (auditor) and R36 – Ed Psaltis (consultant) want IFRS for SMEs as the Tier 2 GPFS framework.

(d) SMC 17 – If the new Alternative 2 GPFS-SDR is applied, do you agree that the specified disclosures would best meet users' needs?

24 out of 36 respondents answered SMC 17

1 respondent (4%) felt that GPFS-SDR would meet user needs	18 respondents (75%) disagreed that GPFS-SDR would meet user needs

• R6 – IAG, a preparer agreed that GPFS-SDR would meet user needs.	• The 18 respondents included:
	  ○ Seven professional service firms (R1 – RSM, R2 – Nexia, R9 – BDO, R15 – KPMG, R16 – Crowe Horwath, R25 – Pitcher Partners and R26 EY), three preparers (R4 – QIC, R5 – QBE, and R24 – FRS), four professional bodies (R7 – AICD, R10 – CAANZ, R17 – BCCM and R30 - ABA) and one advisor (R14 – Keith Reilly).These respondents felt that SDR was not sufficient in some areas and too burdensome in other areas.
	  ○ Three users did not specifically answer this question but did provide feedback on which disclosures are useful to them (R31 – Richard Fakhry, R32 – Myron Ithayaraj and R33 – Richard Dalidowicz).

5 respondents (21%) either did not express a clear view, or provided other suggestions
• Two respondents (8.5%) wanted to retain GPFS-RDR (R19 – Westworth Kemp and R20 – IFRS System).
• One respondent (4%) suggested that disclosures should be determined by those charged with governance (R12 – Hanrick Curran).
• Two respondents (8.5%) did not express a clear view, however one indicated that based on their feedback there was less support for GPFS-SDR (R13 – CPA). The other indicated that further consultation was required (R17 – Grant Thornton).

Staff Analysis – Specific Issue 3: What disclosures should Tier 2 GPFS require?

40 When considering the above:

- 63% of participants at the September roundtables preferred something in between SDR and RDR as the Tier 2 framework and only 10% and 13% (respectively) of participants preferred SDR as drafted and RDR as it exists currently;
- 68% of primary users said SDR would be insufficient and 45% of primary users preferred a combination of RDR and SDR in the User survey;
- Almost 30% of respondents to submissions want something in between RDR and SDR, 26% want IFRS for SMEs considered or to be the Tier 2 framework and only 15% and 18.5% (respectively) of respondents preferred SDR as drafted and RDR as it exists currently; and
- When respondents were asked specifically whether they agreed with the AASB's decision not to adopt IFRS for SMEs in Australia, 65% of respondents agreed. Their primary reasons were that they wanted full R&M in AAS for consistency and comparability. All of the users that provided submissions to ITC 39 said the same (refer to Specific Issue 1 and Specific Issue 2). That being said many respondents in their answers to SMC 12, SMC 13 and SMC 18 suggested additional tiers of disclosures be explored.

41 Staff also note that one of the large accounting firms in Australia asked respondents to answer a number of polling questions on the removal of SPFS for corporates. The results of some of the polling questions were:

- 54% of respondents (131 of the 243 respondents) stated that they supported GPFS-RDR, 37% of respondents (89 of the 243 respondents) stated that they supported GPFS-SDR and 9% (23 of the 243 respondents) stated that they did not support either alternative; and
- 45% of participants (111 of the 245 respondents) stated that disclosure requirements in the SDR mandatory standards were excessive, 45% of participants (111 of the 245 respondents) stated that the SDR disclosures were appropriate (subject to materiality) and 10% (25 of the 245 respondents) were not sure.

Refer agenda item 4.6: New conceptual framework – polling questions for additional information.

42 Therefore, as most respondents want something that is between GPFS-RDR (as it currently exists) or GPFS-SDR (as written in ITC 39) as the Tier 2 GPFS framework, another disclosure framework which has reduced disclosure requirements compared to GPFS-RDR should be considered.

43 One possible approach to develop a disclosure framework for Tier 2 GPFS can be to consider whether the IFRS for SMEs disclosures could work with full R&M in AAS. This would be consistent with feedback from several respondents including R13 – CPA who suggested "…rather than adopting the IFRS for SMEs as is, the AASB could seek to build upon this standard using requirements from full IFRS, and any other reporting requirements considered appropriate to the Australian environment..." and R26 – EY who suggested the AASB could monitor the IASB's IFRS for SMEs subsidiary project and consider "to use the R&M requirements in IFRS and the disclosure requirements in the IFRS for SMEs".

44 As such Agenda item 7 within this February Board meeting considers whether the Tier 2 GPFS **disclosures** could be based on the disclosure requirements of IFRS for SMEs (in place of RDR or SDR disclosures) alongside full R&M in AAS. This would satisfy the majority of respondents, including all the users that want full R&M and the majority preparers that are currently doing full R&M in SPFS and want full R&M for comparability, consistency and transparency; and also help alleviate some of the additional cost burden when moving from SPFS to a Tier 2 GPFS framework. Refer to Agenda item 7 for more details.

Staff Recommendation - Specific Issue 3: What disclosures should Tier 2 GPFS require?

45 Based on the findings in paragraphs 38-39 and Staff analysis in paragraphs 40-44 which suggests that majority of constituents do not prefer either RDR as it exists today (as it is too onerous and difficult to apply) or SDR (which is too onerous in some ways and is not enough in others), Staff recommend the Board considers a new Tier 2 GPFS framework which builds on full R&M in AAS with the IFRS for SMEs disclosures. This would ensure consistency, comparability and transparency for users but minimise the cost burden for preparers, who have told us that they are mostly already doing full R&M in AAS but want minimal disclosures. Agenda paper 7 considers this matter and includes a Staff recommendation.

Question 3 for Board members
Q3 Do Board members agree with the Staff recommendation to consider as part of Agenda Item 7 a new Tier 2 GPFS framework which would require full R&M in AAS with the IFRS for SMEs disclosures as the majority of constituents do not prefer either RDR as it exists today (as it is too onerous and difficult to apply) or SDR (which is too onerous in some ways and is not enough in others)? This would ensure consistency, comparability and transparency for users but minimise the cost burden for preparers, who have told us that they are mostly already doing full R&M in AAS but want minimal disclosures.

Other comments that are not directly related to whether respondents prefer GPFS-RDR or GPFS-SDR

Staff Analysis – Specific Issue 3: Other comments

IFRS for SMEs or another additional differential R&M Tier 2 Framework should be considered

46 Staff note that seven respondents want IFRS for SMEs or another differential R&M Tier 2 GPFS framework to be considered. Refer to paragraphs 33-36 above for staff analysis on this.

More than one tier of GPFS should be considered

47 Staff also note that 8 respondents out of 22 want more tiers of GPFS reporting (many of which want all of the tiers to have full R&M but with varying degrees of disclosure) (refer to paragraph 39(b)).

48 As per the data shared during the September 2018 roundtable [6], Staff note that of the 2.5 million companies registered with ASIC in 2016-2017, only ~840k are currently trading, and of those only ~13k non-disclosing entities are required to prepare financial statements. This represents approximately 1.5% of trading entities. Staff further note that should the large proprietary company thresholds be increased by Treasury as proposed in Treasury's consultative document on this matter, the number of entities required to prepare financial statements would decrease to ~0.5%[7].

49 Staff also note that one of the large accounting firms in Australia asked respondents to answer a polling question regarding whether additional tier(s) should be considered. In that, 52% (118 of the 228 respondents) stated no, 18% (41 of the 228 respondents) stated yes and 30% (69 of the 228 respondents) weren't sure. Staff note that of those respondents who answered 'yes', a number of them provided suggestions specific to the NFP sector. Refer Agenda item 4.6: New conceptual framework – polling questions for additional information.

50 It is the view of Staff that as the population of for-profit non-disclosing entities currently required to prepare financial statements and lodge with ASIC is only ~13k, it is too small a population to warrant more than two tiers of GPFS reporting. It is also too small to warrant more than one Tier 2 GPFS framework. It is also Staff's view that having only two tiers of GPFS reporting is consistent with the results of polling questions, and will help ensure consistent, comparable and transparent reporting sought by users.

[6] Refer Slide 9 of the September roundtable slides.

[7] Refer the AASB's submission to Treasury's Reducing the financial reporting burden by increasing the thresholds for large proprietary companies proposals

Staff Recommendation

51 Based on the analysis in paragraphs 48-50 which indicates there are only ~13k non-disclosing entities currently required to prepare and lodge financial statements with ASIC and given that this number would be further reduced if thresholds for large proprietary companies are increased, Staff recommend that the forthcoming Phase 2 ED should propose only one Tier 2 GPFS reporting framework.

Question 4 for Board members
Q4 Do Board members agree with the Staff recommendation that the forthcoming Phase 2 Exposure Draft should propose only one Tier 2 GPFS reporting framework given that there are only ~13k non-disclosing entities currently required to prepare and lodge financial statements with ASIC and that this number would be further reduced if thresholds for large proprietary companies are increased?

Specific issue 4: What transitional support should be explored?

52 Feedback from roundtables and surveys:

Feedback from September roundtables	Feedback from User and/or Preparer surveys
Uncertainty on whether AASB 1 is enough for transitional relief • More than 80% of participants said that the transitional relief in AASB 1 was either not enough or they were unsure whether or not it was enough. • However, most participants suggested that even if the AASB are offering more transitional relief in addition to what is in AASB 1, that AASB 1 should be provided as an alternative (i.e. entities should have the ability to choose AASB 1 if they wish to). • Participants suggested that consolidation is the biggest hurdle to these proposals. Therefore, specific transitional relief to help with consolidation would be very helpful. **Split view on grandfathering of prior consolidations** • Most participants (54%) disagreed with providing grandfathering relief from the consolidation of existing subsidiaries (i.e. suggested all subsidiaries controlled at the date of transition should be consolidated). **Most want comparatives for R&M changes** • 74% of attendees said that disclosure of comparative information should be required for changes in R&M in order to understand the financial statements. • However more than a quarter of attendees said comparative information in the first year is not necessary.	**AASB 1 does not appear to be enough** • Most preparers (65%) said the transitional relief in AASB 1 was either not enough or they were unsure whether or not it was enough. **Omitting comparative disclosure requirements in the year of transition suggested** • Many preparers suggested having an exemption from the requirement to disclose comparative information in the year of transition. **Special transitional relief for consolidation requested** • Preparers suggested specific transitional relief to help with consolidation, for example not needing to retrospectively adjust for purchase price allocations. Refer to page 14 of AASB Staff Paper: *Enhancing the revised Conceptual Framework and replacing Special Purpose Financial Statements For-profit User and Preparer Survey Results*.

Feedback from submissions on what transitional support should be explored. Refer Appendix A Specific Issue 4 for more details.

20 out of 36 respondents answered SMC 15 in respect of what transitional relief should apply

7 respondents (35%) said that AASB 1 is sufficient
• These respondents include one preparer (R5 – QBE), four professional services firms (R16 – Crowe Horwath, R19 – Westworth Kemp, R25 – Pitcher Partners and R26 – EY) one professional body (R17 – BCCM) and one preparer (R20 - IFRS System). • R16 – Crowe Horwath suggested that exemptions from the presentation and disclosure of comparative information should be expanded to, for example related party transactions, financial instruments and fair value disclosures. They also suggested that transitional relief beyond the exceptions set out in AASB 1 would undermine the project's goal of consistent, comparable, transparent and useful financial statements.

7 respondents (35%) said that AASB 1 is sufficient
• R17 – BCCM noted that the transitional relief in AASB 1 is adequate for a fully resourced entity, however suggested an additional transitional Tier 3 is introduced, which would in effect assist a less well-resourced entities with the transition from SPFS to Tier 2 GPFS.
4 respondents (20%) were unclear whether AASB 1 would be sufficient or not
• These respondents include one preparer (R6 – IAG), one professional body (R7 – AICD), one advisor (R14 – Keith Reilly) and one academic (R21 – Swinburne). • R6 – IAG noted that entities preparing SPFS are generally less complex in nature and have a limited financial statement users'. They also felt that AASB 1 is not needed as SPFS should already comply with recognition and measurement principles and hence the application of AASB 1 will not provide any meaningful information. • R7 – AICD suggested that maximum transitional relief would be appropriate, however did not provide any further information regarding what this could be. • R14 – Keith Reilly suggested a transitional period of at least 5 years is required given the changes in accounting systems that will be required should the proposals be introduced.
9 respondents (45%) said AASB 1 is insufficient and more is required
• These respondents include five professional services firms (R1 – RSM, R2 – Nexia, R8 – Grant Thornton, R9 – BDO and R15 – KPMG), two preparers (R4 – QIC and R24 - FRS) and two professional bodies (R10 – CAANZ and R13 – CPA). • R1 – RSM suggested that relief from certain disclosures (e.g. third balance sheet) on transition should be provided and that a "modified retrospective" approach conceptually similar to that in the new revenue and leases standards could be developed. • R2 – Nexia suggested that clarification is required regarding whether entities currently preparing SPFS that do not apply AASB 10 *Consolidated financial statements* would be able to apply the exemptions for previous business combinations contained in Appendix C of AASB 1 (staff note that entities transitioning from SPFS to GPFS would be able apply the exemptions in AASB 1 for past business combinations - refer to staff analysis in paragraph 54 below). They also suggested that full retrospective application of AASB 3 *Business combinations* and AASB 10 would be impracticable (staff note that this is not required by AASB 1 – refer paragraphs 61 -65 on the current requirements of AASB 1), however applying AASB 3 and AASB 10 prospectively result in a loss of comparability and arguably would not present a true and fair view of the entity's financial position or performance. They were also concerned about other unintended consequences and practical difficulties which may exist in applying AASB 1 on transition and recommended detailed field testing before deciding on transition requirements. • R8 – Grant Thornton felt that there would be benefit in providing relief from the inclusion of comparative information in the first effective period of the new standard, and that a modified retrospective approach, similar to AASB 15 would be the most appropriate option. • R9 – BDO noted that entities moving from SPFS will need to include some additional disclosures and suggested that to ease the burden and reduce costs on first time adoption, transitional relief from the requirement to include comparative disclosures in the first year be given. • R10 – CAANZ and R13 - CPA felt that transitional relief needs to include an exemption from retrospective application of consolidations (staff note that AASB 1 does provide such relief – refer paragraph 54 and paragraph 61-65 on the current requirements of AASB 1). R13 – CPA also suggested that transitional relief could include relief from challenging standards such as AASB 16 *Leases*. • R15 – KPMG noted that providing a practical expedient to apply both consolidation and equity accounting prospectively, based on current information available to the company upon adoption of the new framework may be appropriate. This may be similar to the approach in other new accounting standards such as AASB 16 and would not make it compulsory to provide comparatives disclosures for information that was not disclosed in the notes to the financial statements for the year before transition.

21 *out of 36 respondents answered SMC 16 and provided feedback in relation to their concerns on consolidating subsidiaries and equity accounting associates and joint ventures. This included suggesting any transitional relief which may be required*

Concerns, suggestions for transitional relief and other comments
• 17 respondents provided feedback. These respondents included nine professional services firms (R1 – RSM, R2 – Nexia, R8 – Grant Thornton, R9 – BDO, R12 – Hanrick Curran, R15 – KPMG, R16 – Crowe Horwath, R19 - Westworth Kemp and R25 – Pitcher Partners), three preparers (R4 – QIC, R6 – IAG and R24 – FRS), four professional bodies (R7 – AICD, R10 – CAANZ, R13 – CPA and R34 – IPA) and one advisory (R14 – Keith Reilly).

Concerns, suggestions for transitional relief and other comments
- R1 – RSM is not supportive of any transitional relief which results in the consolidation requirements of AASB 10 not being applied in full. However they felt that there should be relief from the full presentation of comparative information in the initial year of adoption.   - R2 – Nexia is concerned about the mandatory application of AASB 10 and AASB 128, and more specifically the preparation and audit of this information. They are unable to support the proposal without first undertaking significant additional outreach and analysis.   - R4 – QIC felt that mandatory application of consolidation and equity accounting would be unduly cumbersome and would not provide relevant or useful information to the users. They suggested that in lieu of updating current fund documentation to meet the 'investment entity' exemption in AASB 10, the Board should consider grandfathering existing funds to allow them to continue preparing stand-alone financial statements with all investments measured at fair value as they are managed on a fair value basis. *[Note: QIC's submissions was made in the context of them being a manager of investment funds that prepare SPFS which comply with full R&M (except for consolidations and equity accounting) and the investments in subsidiaries are carried at fair value.]*   - R6 – IAG is concerned that in the absence of the intermediate parent entity exemption in AASB 10, the cost and burden of preparing consolidated financial statements would exceed the benefits.   - R7 – AICD and R10 – CAANZ suggest that the preparation of consolidated accounts is costly and for no obvious user need. They also suggest that transitional relief could include not applying the requirements retrospectively (staff note that such relief is available in AASB 1 – see paragraph 54 and paragraphs 61-65 below), not requiring comparatives and allowing the deeming of cost as fair value for opening balances. R7 – AICD also suggests that if users had required consolidated financial statements, they would have been specifically requested and prepared under the current framework.   - R8 – Grant Thornton feel that there is benefit in providing relief for the inclusion of comparative information for consolidation in the first effective period in line with the modified retrospective approach applied in new major standards such as AASB 15.   - R9 – BDO noted that entities required to prepare consolidated or equity accounted financial statements for the first-time are likely to face a number of challenges, including: - Where the interest in the subsidiary, associate or joint venture was acquired a number of years ago, and much of the information required to prepare consolidation/equity accounting is no longer be available, e.g. fair values of assets, pre-acquisition share capital and retained earnings, etc (staff note that such information is not required based on the relief provided in AASB 1 – refer paragraph 54 and paragraphs 61-65 below)., and   - Having the resources, skills and time to complete the process.   As such, they recommend the option of a modified retrospective approach, with opening adjustments made to retained earnings on the 'date of initial application'. They also recommend no prior year consolidation or equity accounted information be provided. Where historical information is not available, they also recommend specific transitional relief (refer comment A7 in SMC 16 at agenda item 4.3.1 page 35 for additional information).   - R12 - Hanrick Curran are concerned about the conceptualisation of consolidation as an R&M issue rather than a disclosure matter.   - R13 – CPA feel that user needs and the costs / benefits of adopting consolidation and equity accounting should be the primary considerations in adopting these requirements.   - R14 – Keith Reilly does not agree that non-publicly accountable entities should be required to comply with IFRS recognition & measurement rules, and instead they should have the option to adopt IFRS for SMEs, or if they are a non-reporting entity, there should be no specific requirements. If the proposals proceed however, a transitional period of at least 5 years should be allowed.   - R15 – KPMG is concerned about the availability of detailed historical information and records around interests in associates and subsidiaries, particularly where there have been changes in ownership percentage over time. Also, AASB 1.IG27 currently provides guidance when a consolidation has not been previously prepared, and a similar type practical expedient would be needed for equity accounted investments.   - R16 – Crowe Horwath's main concerns include the availability, reliability and auditability of information that would be used on initial application of relevant standards and the ongoing financial and administrative burden on subsidiaries, associates and joint ventures to prepare information used in the consolidation and consolidated financial reporting. Some entities would also face technological challenges and a lack of consolidation skills.   - R19 – Westworth Kemp noted that while establishing fair value will be difficult (staff note that AASB 1 has exemptions for this – refer paragraphs 61-65 on current requirements of AASB 1 regarding previously unconsolidated subsidiaries and staff analysis in paragraphs 72-73 below), that in itself is not a reason for not requiring consolidation and equity accounting.   - R24 – FRS felt that additional relief would be welcome, particularly when considering the application of AASB 10 and AASB 128, and additional research should be undertaken to understand what transitional reliefs would be beneficial. They also noted that the transitional relief in Appendix C of AASB 1 does not appear to be available for transactions such as common control transaction and full business combination accounting would be required for such transactions (AASB 1 does provide similar relief for common control transactions – refer paragraph 67 of staff analysis below).

Concerns, suggestions for transitional relief and other comments
◦ R25 – Pitcher Partners noted that while consolidation and equity accounting will give rise to increased costs to preparers, it is necessary to satisfy the objectives of GPFS. In relation to transitional relief for consolidating subsidiaries and equity accounting associates and joint ventures, they feel the exemptions currently available in AASB 1 are sufficient. ◦ R34 – IPA noted that there may be modified audit opinions as a result of group and opening balance issues due to the requirement to prepare consolidated for the first time. • R5 – QBE, R17 – BCCM, R20 - IFRS System and R26 – EY provided the following 'other' comments including: ◦ R5 - QBE notes its strong support for retaining the exception from presenting consolidated financial statements in in paragraph 4 of AASB 10 *Consolidated Financial Statements*. ◦ R17 – BCCM is concerned about the value of any financial statements of an economic entity with subsidiaries / associates / joint ventures which are not prepared on a consolidated and / or equity accounted basis. ◦ R20 – IFRS System reviewed 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. Therefore based on their data they are of the view it is extremely rare that a parent entity would not be preparing consolidated financial statements. For this reason they do not believe special exemptions are required and these reports should simply fall into line with the RDR framework.

18 out of 36 respondents answered SMC 20 and provided feedback regarding legislation that refers to SPFS in respect of for-profit entities

- 15 respondents confirmed they were not aware of any legislation that refers to SPFS that might be impacted by the Phase 2 proposals. These respondents included eight professional services firms (R1 – RSM, R2 – Nexia, R8 – Grant Thornton, R15 – KPMG, R16 – Crowe Horwath, R19 – Westworth Kemp, R25 – Pitcher Partners and R26 – EY), three preparers (R4 – QIC, R5 – QBE and R6 – IAG), two professional bodies (R13 – CPA and R17 – BCCM) one advisors (R14 – Keith Reilly) and one academic (R21 – Swinburne).
- 1 respondents, a professional services firm (R12 – Hanrick Curran) noted that ASIC Forms FS 70 and FS 71 refer to SPFS.
- 2 professional bodies, (R7 – AICD and R10 – CAANZ) noted ASIC and ACNC guidance regarding acceptance of SPFS.

Staff Analysis – Specific Issue 4: What transitional support should be explored?

<u>Current transitional requirements and relief in AAS for entities transitioning from SPFS to GPFS</u>

53 AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 1 have transitional requirements and relief to assist entities with the transition from their most recent SPFS to Tier 2 GPFS.

AASB 1053 Application of Tiers of Australian Accounting Standards

54 If an entity has not applied or has selectively applied the R&M requirements in AAS in its most recent SPFS, then AASB 1053 permits the entity to either apply all relevant requirements in AASB 1 or instead apply the requirements in AASB 108 *Accounting Policies, changes in Accounting Estimates and Errors* (in relation to a change in accounting policy) to transition from its most recent SPFS to Tier 2 GPFS (Para 18A (a) of AASB 1053).

55 However, if an entity has applied all applicable R&M requirements in AAS in its most recent SPFS, then the entity will continue to apply the R&M requirements and shall not apply AASB 1 (Para 18A (b) and para 18B of AASB 1053).

56 If an entity has previously complied with all R&M requirements in AAS when preparing their SPFS and their non-compliance with AAS was limited to disclosure requirements only, AASB 1053 requires the entity to continue to apply the R&M requirements in AAS and does not allow the entity to apply AASB 1. AASB 1 paragraph 20 does not provide exemptions from presentation or disclosure requirements in other AAS. Therefore, one year of comparative information is required (per paragraphs 38 and 38A of AASB 101), unless another AAS permits or requires otherwise, e.g. if an entity has complied with all R&M requirements in AAS in its SPFS, it needs to present AAS compliant disclosures for the current period and the comparative period if presented. [Refer to paragraph 79 for possible practical expedients].

AASB 1 First-time Adoption of Australian Accounting Standards

57 The objective of AASB 1 is to help entities transition to AAS time by giving them a starting point (technically called the date of transition[8]), without needing them to apply the transition requirements of each individual AAS[9] (unless they are specifically required to do so) and to ensure that costs of transition do not exceed benefits [Para 1 of AASB 1].

58 AASB 1 contains voluntary exemptions[10] which allow an entity to avoid the general requirement for retrospective application of AAS. For example, an entity may elect to apply the requirements of AASB 123 *Borrowing costs* from the date of transition and thus would not be required to restate previously capitalised borrowing costs [Para D23 of Appendix D to AASB 1]. Additionally, to ensure the relevance and reliability of the first AAS compliant financial statements and to prevent the unacceptable use of hindsight, AASB 1 also contains mandatory exceptions[11] from retrospectively applying some requirements of AAS with majority of those relating to financial instruments.

59 The most common concern expressed by constituents in respect of the Tier 2 options and the removal of SPFS relates to the application of AASB 3 and AASB 10 for business combinations and consolidation respectively. Staff have provided a table comparing the transitional requirements for previously unconsolidated subsidiaries under AASB 1 and AASB 10. As noted in paragraph 54, an entity can choose to either apply AASB 1 or AASB 108 on transition from SPFS to Tier 2 GPFS based on its individual circumstances.

What is the existing transitional relief in AAS in relation to business combinations and consolidation?

60 A high level summary of the transitional provisions of AASB 1 and AASB 1053 for entities applying AASB 3 and AASB 10 for the first time is provided in paragraphs 61-73.

AASB 1

61 Broadly, AASB 1 gives entities an option to choose not to restate any past business combinations (which occur prior to the date of transition). This means there is no need to revisit purchase price allocations or to determine goodwill for acquisitions that occurred in prior periods.

62 An entity is required to assess the entities over which it has control (in accordance with AASB 10), that is determine its subsidiaries, at the date of transition, unless the entity chooses to apply AASB 3 retrospectively or from a date prior to the date of transition[12] [Para C1 of Appendix C to AASB 1].

63 If a subsidiary was not previously consolidated, the assets and liabilities of the subsidiary in the parent's opening AAS consolidated statement of financial position are determined based on the amounts that would be recognised in the subsidiary's financial statements if the subsidiary were applying the R&M requirements in AAS. [Para C4 (j) of Appendix C to AASB1].

---

8 AASB 1 Appendix A defines the date of transition as, "the beginning of the earliest period for which an entity presents full comparative information under Australian Accounting Standards in its first Australian-Accounting-Standards financial statements."

9 Paragraph 5 of AASB 1 states, "This Standard does not apply to changes in accounting policies made by an entity that already applies Australian Accounting Standards. Such changes are the subject of: (a) requirements on changes in accounting policies in AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors; and (b) specific transitional requirements in other Australian Accounting Standards."
Paragraph 9 of AASB 1 states, "The transitional provisions in other Australian Accounting Standards apply to changes in accounting policies made by an entity that already uses Australian Accounting Standards; they do not apply to a first time adopter's transition to Australian Accounting Standards, except as specified in Appendices B–E."

10 As contained in Appendix C, D and E to AASB 1

11 As contained in Appendix B to AASB 1

12 Para C1 of Appendix C of AASB 1, "A first-time adopter may elect not to apply AASB 3 retrospectively to past business combinations (business combinations that occurred before the date of transition to Australian Accounting Standards). However, if a first-time adopter restates any business combination to comply with AASB 3, it shall restate all later business combinations and shall also apply AASB 10 from that same date. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 20X6, it shall restate all business combinations that occurred between 30 June 20X6 and the date of transition to Australian Accounting Standards, and it shall also apply AASB 10 from 30 June 20X6."

64 If the subsidiary did not previously comply with the R&M requirements in AAS, the carrying amounts of the subsidiary's assets and liabilities are determined using the exceptions and exemptions in AAS 1 as if the subsidiary was a first-time adopter of AAS.

65 Goodwill will be a deemed amount calculated as the difference between the parent entity's interest in the subsidiary's net assets (calculated in accordance with the R&M requirements in AAS) and the cost of the investment in the parent entity's own financial statements at the date of transition [Para C4 (j) of Appendix C to AASB1]. A parent entity can elect to measure the cost of the investment in the subsidiary in its separate financial statements at either cost as per AASB 127 or deemed cost (which can be either (i) the fair value of the investment at the date of transition or (ii) the carrying value as per previous financial statements [Para D 15 of Appendix D of AASB 1]).

66 The requirements set out in paragraphs 61 to 65 above apply equally to investments in associates, joint ventures and in joint operations in which the activity of the joint operation constitutes a business [Para C5 of Appendix C to AASB 1].

67 The transitional relief under AASB 1 applies equally to all business combinations as defined under AASB 3 (including common control business combinations), regardless of how the transaction was accounted for previously (Para C4(a) of Appendix C to AASB 1).. Therefore, if the entity over which control is obtained is a business and the definition of business combination is met, then the exemptions in AASB 1 can be applied to the acquisition even though common control transactions are outside the scope of AASB 3.

AASB 1053/AASB 108/AASB 10

68 As noted in paragraph 54, if an entity has not applied or has selectively applied the R&M requirements in AAS, it has a choice between applying AASB 1 or AASB 108. AASB 108 requires an entity to apply the specific transitional provisions of each relevant AAS to account for changes in accounting policies [Para 19 (a) of AASB 108]. Therefore if the entity has not previously consolidated its subsidiaries and chooses to apply AASB 108 instead of AASB 1, the transitional provisions of AASB 10 would apply.

69 If, at the date of initial application[13] of AASB 10, an entity is required to consolidate an investee that was not previously consolidated[14], then the transitional provisions in AASB 10 require retrospective application to determine the date at which control was obtained. AASB 10 also requires the application of the acquisition method per AASB 3 to measure the subsidiary's assets, liabilities and any non-controlling interests (NCI) [Para C4(a) of Appendix C to AASB 10][15].

70 If it is impracticable to apply the requirements of AASB 3 retrospectively, AASB 10 requires that the deemed acquisition date be the beginning of the earliest period for which the application of AASB 3 is practicable. This could be the beginning of the current period for example [Para C4A (a) of Appendix C to AASB 10].

71 Any resulting adjustments i.e. the difference between the subsidiary's assets and liabilities and any the value of any NCI recognised[16] and the carrying amount of investment, are taken to equity [Para C4 and C4A of Appendix C to AASB 10].

---

13 For the purposes AASB 10, the date of initial application is the beginning of the annual reporting period for which this Standard is applied for the first time. [Para C2B of Appendix C to AASB 10]

14 In accordance with AASB 127 *Consolidated and Separate Financial Statements* and Interpretation 112 *Consolidation—Special Purpose Entities*

15 The requirements apply equally whether the investee is a business or not a business as defined in AASB 3 except for, if the investee is not a business then the entity is not allowed to recognise goodwill

16 and rolled forward to the beginning of immediately preceding period assuming one year of comparatives unless deemed acquisition date is determined to be the beginning of the current year

72 The following table highlights the key differences between the transitional requirements for consolidation under AASB 1 and AASB 10.

Table: Comparison of transitional requirements for previously unconsolidated subsidiaries under AASB 1 and AASB 10

Transitional requirements - consolidation	AASB 1	AASB 10
Retrospective	Option for entities not to restate past business combinations.	Retrospective application unless impracticable.
Which acquisition	May choose not to restate prior acquisitions.	Acquisition by acquisition. Impracticability needs to be checked for each acquisition.
Date of testing consolidation conclusion (i.e. the date at which the entity determines which subsidiaries it needs to account for)	Date of transition.	Beginning of current period.
Date when adjustments need to be made	Date of transition (beginning of comparative period presented).	Adjustments are made retrospectively. However, if this is impracticable, adjustments are made at the beginning of earliest period practicable (e.g. the current period could be the deemed acquisition date).
Nature of adjustments	• Step 1: Subsidiary's net assets need to be measured in accordance with the relevant AAS as they would be accounted for in the subsidiary's AAS compliant financial statements. • Step 2: The parent's share of the net assets in the subsidiary is calculated based on the net assets calculated in Step 1. • Step 3: Deemed goodwill is calculated as the difference between carrying amount of investment in the parent's separate financial statements and the parent's share in the net assets of subsidiary. If the difference results in bargain purchase then it is recognised in retained earnings	• Step 1: AASB 3 (i.e. acquisition method) needs to be applied in relation of each subsidiary. That is the fair value of each subsidiary's identifiable net assets needs to be determined at the acquisition date[17] • Step 2: These values are rolled forward to the beginning of immediately preceding period if one year of comparatives are provided. • Step 3: Adjustments for any differences between the values determined in Step 2 and the carrying amount of the investment at the beginning of the immediately preceding period are taken to equity. • If Step 1 is impracticable at the date of acquisition, then Step 1 to Step 3 are undertaken for the deemed acquisition date, which could be beginning of current period.

73 Based on the above, on balance, where an entity has not applied full R&M or has not prepared consolidated financial statements previously, staff's view is that the transitional requirements of AASB 1 are considerably less onerous than the transitional requirements of AASB 10. This is because AASB 1 does not require:

(a) the application of the acquisition method e.g. the recognition of identifiable assets and liabilities as per AASB 3 and the determination of the fair value of these identifiable net assets at the deemed acquisition date if not on actual acquisition date; and

(b) an impracticability test for each acquisition (i.e. retrospective restatement is not required without an entity being required to assess whether it would be impracticable.)

17 As part of acquisition accounting goodwill is recognised. However, staff considers that any gain on a bargain purchase that may arise from the consolidation process is not recognised in profit or loss because the standard only envisages the recognition of assets and liabilities. This means that any such gain is subsumed into the amount recognised in equity"

Challenges of using AASB 1

74 While applying AASB 1 to prepare consolidated financial statements for the first time would be much less onerous than AASB 10, staff consider that there might still be some challenges as outlined below:

a. For some entities, even with the transitional relief provided by AASB 1, preparing consolidated financial statements for the first time may be challenging where the subsidiaries' financial statements need to be adjusted to comply with the R&M requirements in AAS;

b. If a parent entity has a large number of subsidiaries, this may prove onerous and costly; and

c. If a parent entity has subsidiaries which are outside the scope of ITC 39 (and are therefore not required to prepare financial statements in accordance with AAS), the requirement for those subsidiaries to determine their assets and liabilities, income and expenses in accordance with AAS may be burdensome.

Other matters

75 Staff note that one of the large accounting firms in Australia asked respondents to answer a polling question regarding if they are currently preparing SPFS and do not consolidate / equity account would they have difficulty in obtaining the necessary information to consolidate / equity account. The results of the polling questions were:

- 49% of participants (103 of the 208 respondents) stated that they would not have difficulty and could consolidate / equity account in accordance with AAS;
- 31% of participants (64 of the 208 respondents) stated that they would have difficulty consolidating / equity accounting and would need transitional relief; and
- 20% (41 of the 208 respondents) were not sure.

Refer agenda item 4.6 New conceptual framework – polling questions for additional information.

76 Staff note that AASB 1 provides considerable relief to first time adopters of AAS (including significant practical relief for first time business combinations accounting and consolidation accounting). However, staff also note that there might still be some challenges (as highlighted in paragraph 74 above).

77 However, feedback received from some respondents (45% of submitters to ITC 39 and 89% of attendees of AASB roundtables) indicated that the relief provided by AASB 1 was not sufficient. A number of respondents to ITC 39 also felt that it would be beneficial to provide an exemption from the requirement to provide comparative information in the first year.

78 Some respondents to ITC 39 noted that entities may have difficulty obtaining the historical data necessary to perform historical consolidations and equity accounting. Staff note however that almost half of the respondents to the polling question noted in paragraph 75 did not expect they would have difficulty consolidating or equity accounting for the first time in accordance with AAS.

Staff recommendation

79 On balance, Staff recommend that further research and outreach (including development of a case study) be conducted to consider whether additional transitional relief is needed. This could include:

a) allowing entities to make transitional adjustments at the beginning of the current period and not requiring comparatives; and

b) considering other transitional relief in addition to what is in AASB 1 (for example relief from applying AAS to subsidiaries that are not required to comply with AAS) and using existing carrying amounts in subsidiary's own books.

Question 5 for Board members

Q5 Do Board members agree with the Staff recommendation to conduct further research and outreach (including the development of a case study) to consider whether additional transitional relief is required as outlined in paragraph 51 above?

General matters considered

80 GMC 21: Whether the AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit[18] entities have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (of the 36 submissions received, 19 responded to GMC 21):

Feedback from submissions
Standard-Setting Framework applied appropriately • Seven of the respondents (37%) said the Standard-Setting Frameworks have been applied appropriately. These respondents were: one preparer (R6 – IAG), five professional services firms (R8 – Grant Thornton, R9 – BDO, R16 – Crowe Horwath, R25 – Pitcher Partners and R26 – EY) and one user (R11 – Malcolm Bunney). **Standard-Setting Framework has not been applied appropriately** • Three of the respondents (16%) said that they did not think the Standard-Setting Framework had been applied appropriately. These respondents were R7 – AICD (professional body), R15 – Keith Reilly (advisor) and R24 – FRS (preparer). o R7 – AICD said the AASB has not provided sufficient evidence; o R14 – Keith Reilly wants IFRS for SMEs and not allowing this is contrary to the Government's expectation of reducing compliance cost; and o R24 – FRS wants the AASB to wait for the ACNC legislative review to be completed first. **It's not clear whether the Standard-Setting Framework has been applied appropriately or not** • Nine of the respondents (47%) did not explicitly state whether or not the Standard-Setting Framework had been applied appropriately but raised the following concerns: o R2 – Nexia (professional services firm) do not believe the proposals satisfy improving comparability, trust and transparency; o R5 – QBE (preparer) said that due process must include thorough and transparent research; o R10 – CAANZ (professional body) want a joint legislative, regulatory and standard setting approach. Further, CAANZ does not believe considerations relating user needs and preparer costs have been adequately addressed; o R12 – Hanrick Currant (professional services firm) said the proposals have not been appropriately prepared and represent regulatory overreach; o R13 – CPA (professional body) said the AASB has diverged from the IASB's view that non-publicly accountable entities can have a different set of reporting requirements as reflected in the IFRS for SMEs standard. Further, CPA does not believe considerations relating user needs and preparer costs have been adequately addressed; o R17 – BCCM (professional body) said we strongly advocated for use of the expression Not-for-Profit to be confined to those entities eligible for registration as a charity; o R21- Swinburne (advisor) said the AASB is not well placed to make decisions in the absence of comprehensive data and information on for-profit entities and user needs; o R22 – Scott Tobutt (auditor) said IFRS for SMEs should be an option; and o R34 – IPA (professional body) said having two conceptual frameworks (i.e. the *Framework for the Preparation and Presentation of Financial Statements* and the RCF) in operation is inconsistent with the Standard-Setting Framework. Refer to agenda item 4.3.1 page 47 for more information.

[18] As the Board has decided to defer addressing the NFP aspects, these responses consider only the for-profit Standard-Setting Framework.

Other information
Research and outreach undertaken by the AASB **AASB Research Reports** • AASB Research Report No. 1 *Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements* • AASB Research Report No. 4 *Review of Adoption of International Financial Reporting Standards in Australia* • AASB Research Report No. 7 *Financial Reporting Requirements Applicable to For-Profit Private Sector Companies* (AASB Staff note that updated research of ASIC regulated entities is currently in progress) **AASB Staff Papers** • User and Preparer Survey Results • Comparison of Standards for Smaller Entities **Further AASB outreach** • September Roundtable slides **Targeted outreach:** • Staff have conducted in excess of 160 individual meetings with Stakeholders.[19]

Staff analysis and recommendations on GMC 21:

81 It is Staff's view that the Standard-Setting Framework has been applied appropriately and proportionately to the stage of the project. Staff consider that the comments suggesting non-compliance with the standard-setting framework primarily relate to:

(a) a perceived lack of research and evidence in relation to user needs and preparer costs (R5 – QBE, R7 – AICD, R10 – CAANZ, R13 – CPA and R21 – Swinburne); and

(b) the suggestion that IFRS for SMEs should be considered as the differential reporting framework for non-publicly accountable entities (R14 – Keith Reilly, R13 – CPA and R22 – Scott Tobutt).

82 Paragraph 29(a) of the For-Profit Standard-setting framework states (as referred to by some respondents) that, when developing accounting standards for non-publicly accountable for-profit entities, the AASB's objective is to use IFRS Standards and transaction neutrality as a starting point, with modifications where justified to address:

(a) Australian-specific legislation, user needs, or public interest issues relevant to financial reporting or beyond financial reporting;

(b) issues specific to the public sector… [irrelevant for this paper];

(c) where the objectives and qualitative characteristics of financial reporting as set out in the Conceptual Framework would not be met; and/or

(d) undue cost or effort considerations.

19 While this encompasses meetings held in respect of all aspects of the ITC 39 proposals (e.g. Phase 1, NFP aspects etc) all meetings have been set with the objective of hearing from Stakeholders regarding their views in respect of the proposals, their possible impact and their concerns.

83 In response to this set of criteria, Staff note the following work that has been undertaken to date to gather the appropriate information to enable an informed decision by the Board:

(a) the Board has undertaken significant research into user needs via public surveys, participation by users at roundtables, a significant number of individual meetings, as well as monitoring regulatory and media developments on the lodgement of SPFSs (results of which are published on the AASB website);

(b) as noted in the table above, the AASB has issued research reports (AASB Research Report No.1, AASB Research Report No.4, AASB Research Report No.7) to understand the current application of the reporting entity concept, as well as to understand the degree of non-compliance with recognition and measurement, in an attempt to understand the potential cost implications of requiring compliance with full R&M.

84 Further, Staff note that at the consultation paper stage of a project, the Board is still gathering the necessary information to make its final assessments in accordance with the Standard-setting framework. The following activities, in addition to the formal submissions received and feedback from roundtables and meetings, that Staff consider will further satisfy the considerations in the Standard-setting framework are planned / underway:

(a) a Regulatory Impact Statement-like (RIS) process is being undertaken as part of the Board's usual due process;

(b) research into the compliance with R&M requirements by ASIC-regulated entities, to update and further inform the research findings from AASB Research Report No.1;

(c) further individual meetings, roundtables and public exposure documents;

(d) consideration of the relief that may be required to mitigate any undue costs in relation to both transition and disclosures (see Specific issue 3 and Specific issue 4).

85 Staff therefore believe that the research completed, planned or underway is sufficient to support the Board's position, or inform the Board otherwise, that:

(a) the benefits of Phase 2 as proposed in ITC 39 for users of financial statements would outweigh the costs involved, as well as maintaining confidence in the Australian economy (an overarching requirement of the Standard-Setting framework); and

(b) IFRS for SMEs as a possible Tier 2 framework would be more costly for entities as compared to applying full R&M, due to the number of entities preparing SPFS that are currently complying with full R&M requirements in AAS. Also Staff note there is majority support for a Tier 2 GPFS framework consisting of full R&M requirements (see paragraph 29). Thus, IFRS for SMEs does not satisfy the criteria in the framework to move away from IFRS as a base.

86 Some respondents also noted that operating with two conceptual frameworks (due to the earlier implementation of Phase 1 for for-profit private sector entities that have publicly accountable entities and are required by legislation to comply with AAS, as well as the deferral of the proposals for NFP entities), is not a solution compliant with the Standard-setting framework (R24 – FRS and R34 – IPA). In response to this, Staff note that it is not the intention of the Board to operate with two conceptual frameworks on an ongoing basis, but is rather an approach to ensure that publicly accountable entities maintain IFRS compliance (which is a crucial pillar of the Standard-Setting framework), whilst providing sufficient time for significant consultation, research and due consideration of the additional justifiable circumstances for moving away from IFRS Standards outlined in the Standard-Setting framework for non-publicly accountable for-profit and NFP entities.

87 Staff recommend including evidence as to how the Standard-Setting Framework has been appropriately applied in the AASB Feedback Statement that will accompany the forthcoming Phase 2 Exposure Draft. Staff consider this section of the Feedback Statement should specifically include, among other matters, details of all research and outreach activities that have been conducted throughout the standard-setting process.

Question for Board members

Q6 Do Board members agree with the Staff recommendation that evidence demonstrating how the Standard-Setting Framework has been appropriately applied should be included in the forthcoming AASB Feedback Statement that will accompany the Phase 2 Exposure Draft? Staff consider this section of the Feedback Statement should specifically include, among other matters, details of all research and outreach activities that have been conducted throughout the standard-setting process.

88 GMC 22: Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals (of the 36 submissions received, 18 responded to GMC 22).

Feedback from submissions

Not aware of regulatory issues that may affect the proposals

- Eight respondents (44%) said they are not aware of other regulatory issues that may affect the proposals. These respondents were: two preparers (R5 – QBE and R6 – IAG), four professional services firms (R9 – BDO, R16 – Crowe Horwath, R25 – Pitcher Partners and R26 – EY) one user (R11 – Malcolm Bunney) and one professional body (R17 – BCCM).

Are aware of regulatory issues that may affect the proposals

- Eight respondents (44%) said they are aware of regulatory issues that may affect the implementation of the proposals. These respondents were: two professional services firms (R2 – Nexia and R12 – Hanrick Curran), three professional bodies (R7 – AICD, R10 – CAANZ and R13 – CPA), one advisor (R14 – Keith Reilly), one academic (R21 – Swinburne) and one preparer (R24 – FRS).
  - R2 – Nexia believes grandfathered proprietary companies will be required to prepare GPFS irrespective of the relief they have from the lodgement of their financial statements because they are still required by the Corporations Act to prepare financial statements that comply with AAS; (*Staff note that this was highlighted in ITC 39 – refer to paragraph 186 of ITC 39.)*
  - R7 – AICD said if 'complying with accounting standards' were to mean only allowing GPFS, a substantial amount of clear evidence of SPFS not meeting the public benefit need for public reporting would be required;
  - R10 – CAANZ believes insufficient work has been done;
  - R13 – CPA said increases in regulatory burden hasn't been fully analysed;
  - R14 – Keith Reilly said not allowing IFRS for SMEs is contrary to the Government's expectation of compliance cost reduction;
  - R21 – Swinburne said the cost to preparers of the alternatives would be greater than adopting R&M model in IFRS for SMEs; and
  - R24 – FRS said the proposals would add significant costs and regulatory burden.

Responses were unclear

- Two respondents (12%) did not specifically say that were aware of regulatory issues, however provided the following comments:
  - R8 – Grant Thornton (a professional services firm) said resourcing at entity level may be a challenge; and
  - R34 – IPA (a professional body) said many entities may have to produce consolidated accounts for the first time, which may result in modified audit opinions.

Refer to agenda item 4.3.1 page 51 for more information.

Other information

Refer to Staff analysis in:

Other Matter 4 *Have not conducted enough research*

Other Matter 10 *Cost/Benefit*

Staff analysis on GMC 22:

89 Staff note that a number of respondents raised regulatory issues including the need for AASB to undertake more research and detailed cost / benefit analysis prior to proceeding with the proposals. Staff have considered these matters further in Other Matter 4 and Other Matter 10.

90 GMC 23: Whether, overall, the proposals would result in financial statements that would be useful to users (of the 36 submissions received, 25 responded to GMC 23).

Feedback from submissions

Agree the proposals would be useful to users
• 12 respondents (48%) agreed that the overall proposals would result in financial statements that would be useful to users. These respondents were: five professional services firms (R8 – Grant Thornton, R9 – BDO, R16 – Crowe Horwath, R19 – Westworth Kemp and R25 – Pitcher Partners), three users (R11 – Malcolm Bunney, R18 – Tax Justice Network and R29 – Equifax), two professional bodies (R17 – BCCM and R34 – IPA), one academic (R21 – Swinburne) and one preparer (R24 – FRS).
Did not specifically answer but indicated importance of AAS compliance
• Three respondents (12%) did not specifically answer this question. However as noted, four of the six users who responded commented specifically on the importance of compliance with AAS and comparability of disclosures, both of which are key features of the proposals. These respondents were: R31 – Richard Fakhry, R32 - Myron Ithayaraj and R33 – Richard Dalidowicz.
Disagree the proposals would be useful to users
• Nine respondents (36%) disagreed that the overall proposals would result in financial statements that would be useful to users. These respondents were: two professional services firms (R2 – Nexia and R12 – Hanrick Curran), two preparers (R5 – QBE and R6 – IAG), four professional bodies (R7 – AICD, R10 – CAANZ, R13 – CPA and R30 – ABA) and one advisor (R14 – Keith Reilly).
  ○ R2 – Nexia said increase in regulatory cost would outweigh benefit;
  ○ R6 – IAG prefer Option 2 in ITC 39 as they consider that SPFS meets user needs. IAG prepares SPFS which comply with full R&M in AAS, and has concerns over the increase in disclosures as a result of replacing SPFS with Tier 2 GPFS.
  ○ R7 – AICD said there is insufficient evidence of the users and their needs;
  ○ R10 – CAANZ and R12 – Hanrick Curran said there is an insufficient understanding of user needs;
  ○ R13 – CPA said they have seen limited evidence that users require full R&M requirements of IFRS;
  ○ R14 – Keith Reilly said IFRS for SMEs should be an option instead of full IFRS / AASB for entities that do not have public accountability; and
  ○ R30 – ABA said the proposals will create additional confusion for users.
Of the nine respondents that disagreed none are users of financial statements (including analysts). They include two professional services firm, two preparers, four professional bodies and one advisor.
Did not express a clear view
• The 1 respondent, a professional services firm (R26 – EY) (4%) did not express a clear view of whether or not the proposals would be useful, but commented that they believe the issuance of the RCF creates a need for the AASB to consider Australia-specific amendments and that ED 277, on revisions to RDR should be finalised. *(Staff note that the AASB will be considering Australian specific amendments to the RCF for the NFP private and public sector entities) and the AASB is considering options to Tier 2 GPFS, which would include considering revisions to RDR).*
 	
Refer to agenda item 4.3.1 page 53 for more information.

Other information
Feedback from AASB user survey • According to AASB research, on average 93% of primary users[3] and more than 95% of other users[3] said comparability, transparency, comprehensibility and consistency are what they need most in financial statements. Refer to *User and Preparer Survey Results*. **Information from September Roundtable slides** • As per information on slide 6 of the September Roundtables slides, 98,000 copies of financial statements are purchased from ASIC annually (>29,000 purchased directly). These represent: i) 80% proprietary companies; ii) 16% unlisted public companies; iii) 4% disclosing entities; and iv) 0.28% ASX listed companies. **Submissions from users** • Four users responded to ITC 39 Phase 2 GMC 23 and commented that they would find it helpful to see a greater level of consistency and comparability. • Three of these users were asked "if not all entities preparing SPFS are consistently applying the R&M requirements of AAS, does this affect the usefulness of the information contained in those SPFS and/or your ability to make decisions based on this information". All three responded "Yes". Refer also to Other Matter 4 in respect of users and Other Matter 10 in respect of cost / benefits.

Staff analysis

91 Based on the outcomes of the September roundtables and targeted outreach with financial statements users, the feedback received by Staff from users indicates that the proposals will indeed be useful to them.

92 While some respondents have disagreed with the usefulness of the proposals, and in doing so have expressed that the Board needs to conduct further research and perform a detailed cost / benefit analysis, Staff will continue to undertake outreach with users and will also perform a thorough cost / benefit analysis when completing the RIS like process.

93 Staff are cognisant of the need to balance user needs with the increased costs to preparers, and are currently undertaking research regarding what transitional relief may be necessary to ensure the transition from SPFS to Tier 2 GPFS is not unduly burdensome. This includes also ensuring that any ongoing compliance costs associated with these proposals do not exceed the benefits.

94 Refer to Specific issue 4 for Staff analysis and recommendations on transitional relief, Other Matter 4 for Staff analysis and recommendation in respect of users and Other Matter 10 for Staff analysis and recommendation in respect of cost / benefits.

95 GMC 24: Whether the proposals are in the best interests of the Australian economy (of the 36 respondents, 22 responded to GMC 24)

Feedback from submissions
Agree that the proposals are in the best interests of the Australian economy • 10 respondents (45%) agree that the proposals are in the best interests of the Australian economy. Those respondents include: five professionals services firms (R8 – Grant Thornton, R9 – BDO, R16 – Crowe Horwath, R19 – Westworth Kemp and R25 – Pitcher Partners), two professional bodies (R17 – BCCM and R34 – IPA) two users (R11 – Malcolm Bunney and R18 – Tax Justice Network) and one preparer (R24 – FRS). **Disagree that the proposals are in the best interest of the Australian economy** • 10 respondents (45%) disagree that the proposals are in the best interest of the Australian economy. These respondents include: two professional services firms (R2 – Nexia and R12 – Hanrick Curran), two preparers (R5 – QBE and R6 – IAG), three professional bodies (R7 – AICD, R10 – CAANZ and R13 – CPA), one advisor (R14 – Keith Reilly), one auditor (R22 – Scott Tobutt) and one academic (R21 – Swinburne). o R2 – Nexia believe the costs will outweigh benefits; o R5 – QBE said increase in costs without substantiated benefits would not be considered in the best interest; o R6 – IAG said the changes may result in a material additional compliance burden for many small and medium businesses; o R7 – AICD said there is insufficient evidence of the problems with SPFS and the proposals will create an extensive compliance burden; o R10 – CAANZ and R13 – CPA said the AASB has not provided sufficient evidence to demonstrate the proposals are useful; o R12 – Hanrick Curran believe the current Phase 2 proposals demonstrate an insufficient understanding of the needs of users, especially for entities that are not publicly accountable which is where this reform proposes its biggest changes, would not produce financial statements that would be useful to a wide range of users, and would require a significant increase in preparer burden for no demonstrable benefit. o R14 – Keith Reilly believes IFRS for SMEs should be an option; o R21 – Swinburne does not believe the AASB has established the proposals are in the best interest of the Australian economy; and o R22 – Scott Tobutt said denying clients the opportunity to reduce costs is not in the best interest. **Did not express a clear view.** • 2 respondents (9%) did not express a clear view either way, however provided the following comments: o One professional services firm (R26 – EY) said the issuance of the RCF creates a need for the AASB to consider Australian specific amendments in its adoption in Australia, including the question of maintenance or removing the existing Australian concept of ‘reporting entity’. They believe it is the Standard-Setters responsibility to provide a framework for the preparation of financial statements in accordance with AAS; and o One professional body (R30 – ABA) said the proposals 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. Refer to agenda item 4.3.1 page 58 for more information.
Other information
Refer to other information in: Other Matter 4 *Have not conducted enough research* Other Matter 10 *Cost/Benefit*

Staff analysis and recommendations

96 Staff note that views from respondents were mixed regarding whether or not the proposals are in the best interests of the Australian economy. Staff note that of the 10 respondents that felt that the proposals were not in the best interests of the Australian economy, none were users. They were instead a mix of professional bodies, professional services firms, preparers and advisors. Their main reason for disagreeing with the proposals was noted to be that the costs of the proposals exceed the benefits. However, staff also note that none of these respondents provided any evidence or support as to why they considered that the costs of implementing the proposals would exceed the benefits.

97 Staff note that matters of costs and benefits will be considered more in more detail when developing the Tier 2 GPFS framework which will be included in the forthcoming Phase 2 ED. Refer also to Other Matter 10 for Staff's analysis of the costs / benefits of the proposals.

Other matters raised by constituents

98 Respondents also raised a number of other matters relevant to the Phase 2 proposals. Each has been considered below:

Other Matter 1 – Some respondents suggested the large proprietary company thresholds should be reviewed and/or legislators should determine 'who' should prepare GPFS (Back to GMC 22 or back to GMC 24)
Feedback from submissions
Seven respondents (R7 – AICD, R10 – CAANZ, R13 – CPA, R15 – KPMG, R19 – Westworth Kemp, R21 – Swinburne and R26 – EY) suggested the thresholds for determining a large proprietary company needed to be reviewed and legislators / regulators need to confirm 'who should report' prior to or in conjunction with the AASB proceeding with the Phase 2 proposals
Other information
Treasury has proposed to double the thresholds In November 2018, the Government released for public consultation, exposure draft (ED) _Corporations Amendment (Proprietary Company Thresholds) Regulations 2018_ and an explanatory statement (ES) containing proposals to reduce the financial reporting burden for some proprietary companies by increasing the thresholds for determining what constitutes a large proprietary company under the _Corporations Act 2001_. Submissions on the ED were due 14 December 2018. _R10 – CAANZ and R13 - CPA provided mixed views on Treasury's threshold proposals_ R10 – CAANZ and R13 – CPA provided a joint submission to Treasury. AASB Staff have performed analysis on these submissions in Appendix D – Analysis of R10 – CAANZ's and R13 – CPA's submissions to Treasury on thresholds. Most notably these respondents who had originally written to Treasury to ask for the thresholds to be raised, subsequently responded to Treasury's proposals suggesting "that Treasury release the analysis behind the numbers that have been chosen to target 'larger, more economically significant companies'…. without such evidence, doubling the current levels perpetuates the arbitrary number choices that underlie the existing thresholds within the Act, and would mean any further "indexation based reviews" would be similarly flawed." Furthermore, they stated that "while the proposal to increase the large proprietary company thresholds is a welcome step, such change is only a partial solution to a bigger question" and that "if thresholds are revised independent of the AASB project, the reform could fail to ensure that all entities for which there exists genuine user need for publicly available audited financial reports, are adequately catered for. Our feedback suggests that such user need does exist, and could not be otherwise met, for some of the entities that would become 'small' as a result of the proposed threshold change." A copy of the submission to Treasury can be found on the CAANZ and CPA websites.

Staff analysis and recommendations
It is noted that constituents' submissions to ITC 39 were written and submitted prior to Treasury's consultation process. Treasury's review of the thresholds directly addresses the suggestions provided by the 19% of the total number of respondents to ITC 39 (7 out of the 36 who responded) who wanted a well-defined picture as to the population of entities required to prepare financial statements in accordance with the Corporations Act. The AASB provided a submission to the Government's invitation to comment on the thresholds: • Supporting Treasury's review of the thresholds; • Noting the proposals are integrally linked with this project and explicitly stating "…public lodgement of financial statements should only be required where there are users who cannot obtain the financial information they need for decision-making by themselves and who need general purpose financial statements…"; and • Offering observations in an effort to further enhance the threshold proposals: ○ The thresholds should be based on transparent, clear and objective criteria; ○ The impact of recent AAS on the asset threshold criterion; ○ The thresholds should be based on a rolling average of more than one reporting period; and ○ Treasury should consider requiring the submission of financial statements in a machine readable form. As this matter is being assessed by Treasury, no further work is required. Staff will closely monitor any decisions made by Treasury in relation to their proposals which will be incorporated into the basis for conclusion (BC) to the forthcoming Phase 2 ED.

Other Matter 2 – Some respondents suggested the NFP financial reporting framework should be addressed first or concurrently with the for-profit financial reporting framework
Feedback from submissions
Five respondents (R2 – Nexia, R10 – CAANZ, R12 – Hanrick Curran, R13 – CPA and R21 – Swinburne) said the AASB should either prioritise the NFP financial reporting framework reform, or should continue to work on it concurrently with the for-profit financial reporting framework reform.
Other information
Previous Board decisions The Board considered the specific needs of the NFP sector in September 2018 (refer Action Alert Issue No: 194). *Research undertaken regarding the current state of financial reporting in SPFS for large and medium sized charities* What are the reporting obligations? **ACNC:** Once a company is registered with the ACNC, most of the company's ongoing obligations are to the ACNC rather than ASIC. Specifically, in relation to reporting obligations, a company that is a registered charity only needs to submit an Annual Information Statement to the ACNC (with a financial report, if the charity is medium or large). It does not have to report to ASIC[20].

Tier	Criteria	Reporting required
1	Small charity – annual revenue is less than $250,000	Annual Information Statement (AIS), and may use accrual or cash accounting (can choose to submit a financial statement).
2	Medium charity – annual revenue is $250,000 or more, but less than $1,000,000	AIS and Annual financial report. If a reporting entity (as defined by the AASB, assessed by the charity): a) Full GPFSs; or b) RDR GPFSs. If not a reporting entity: SPFSs, complying with at least AASBs 101, 107, 108, 1048 and 1054.
3	Large charity – annual revenue is $1,000,000 or more	Same as for medium charities (see immediately above).

.

[20] https://www.acnc.gov.au/for-charities/manage-your-charity/other-regulators/companies-limited-guarantee

Staff analysis and recommendations

When deciding that Phase 2 would apply only to for-profit entities, the Board considered a number of matters, including acknowledging that the impact of removing SPFS is likely to be more significant for NFP private sector entities. When making its decision the Board confirmed that it still aimed to achieve a simple, comparable, proportionate and transparent financial reporting framework for the NFP entities. Further the Board considered it prudent to delay making any further decisions regarding NFP entities until the recommendations and feedback from the ACNC's Legislative Review were determined.

Staff note that the for-profit and NFP sectors are significantly different in many respects. For example:

(a) In the NFP sector approximately 32% of charities required to prepare a financial report either state compliance or appear to have complied with the R&M requirements in AAS.

(b) In the for-profit sector, and as noted in paragraph 52 in Appendix C of ITC 39, from AASB Research Report No. 1 Staff note that 76.1% of non-disclosing entities who publicly lodge with R&M. Staff note that this research is currently being updated.

(c) In the NFP approximately 33%[21] of charities are require to prepare a financial report.

(d) In the for-profit sector, approximately 1.5% of registered trading companies are required to prepare a financial report (note, should the large proprietary reporting thresholds be increased, the number of entities would decrease to approximately 0.5%).

(e) This represents approximately 1.5% of trading entities. Staff further note that should the large proprietary company thresholds be increased by Treasury, the number of entities required to prepare financial statements would decrease to ~0.5%[22].

(f) In the NFP sector the ACNC does not require compliance with full R&M in SPFS.

(g) In the for-profit sector, ASIC have established an expectation via RG 85 that companies should be complying with R&M at the minimum.

(h) Also, as the outcomes of the ACNC's legislative review are still unknown (e.g. reporting thresholds may change and financial reporting obligations may change) it appears to be appropriate to delay making further decisions in respect of the NFP sector until the legislative review is finalised. To proceed with NFP financial reporting reform now, may in fact be burdensome for some entities within the sector as an entity may be required by AAS (for example) to comply with R&M, however once the ACNC legislative review has been finalised may have no financial reporting obligations if the reporting thresholds are increased.

The differences between the for-profit and NFP sectors and the status of their reporting requirements is addressed in AASB Research Report No. 1 *Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements*. Research Reporting No 1 reports findings for companies lodging annual financial statements with the ASIC and state-based entities lodging annual financial statements with Consumer Affairs Victoria, NSW Fair Trading, and Queensland Office of Fair Trading, including the use of the reporting entity concept, financial reporting requirements and the application of the reporting entity concept.

Staff are currently working with researchers to identify whether there have been any significant changes in the findings of Research Report No 1.

Respondents suggesting that the NFP sector should be considered either first or concurrently with the for-profit sector as they are concerned about transaction neutrality.

While there are two key assumptions which underpin the *AASB's Not-for-Profit Entity Standard-Setting Framework* (the NFP Standard-Setting Framework) (transaction neutrality and IFRS as a base), the NFP Standard-Setting Framework provides for NFP sector specific modifications where justifiable[23]. For this reason, notwithstanding the outcomes in the for-profit private sector, a thorough consideration of their appropriateness in accordance with the NFP Standard-Setting Framework would be required, and if deemed not to be suitable for NFP entities the for-profit proposals would be modified as needed. This assessment would be required, even if the for-profit and NFP reforms were undertaken concurrently.

For the above reasons, Staff recommend:

(a) The Board continues to progress the Phase 2 proposals for for-profit entities via the forthcoming Phase 2 ED; and

(b) The Board continues to engage with the ACNC and other State and Territory regulators regarding NFP financial reporting reforms.

21 Derived from 2016 AIS data. There were 16,170 large and medium charities (including group) out of total charities of 48,782 registered with ACNC as per 2016 AIS data accessed from data.gov.au on 1 February 2019

22 Refer the AASB's submission to Treasury's Reducing the financial reporting burden by increasing the thresholds for large proprietary companies proposals

23 Refer paragraphs 18-22 of *The AASB's Not-for-Profit Entity Standard-Setting Framework*

Staff analysis and recommendations
Question 7 for Board members **Q7** Do Board members agree with the Staff recommendation that Staff should continue to progress the Phase 2 proposals for for-profit entities via the forthcoming Phase 2 Exposure Draft, and that Staff should continue to engage with the ACNC and other State and Territory regulators regarding NFP financial reporting reforms?

Other Matter 3 – Some respondents are concerned about entities that have only a non-legislative requirement to prepare financial statements in accordance with AAS being impacted

Feedback from submissions

Six respondents (R2 – Nexia, R10 – CAANZ, R13 – CPA, R15 – Keith Reilly, R24 – FRS and R25 – Pitcher Partners) shared concerns about the impact of the proposals on entities with non-legislative requirements to prepare financial statements in accordance with AAS.

Other information

As decided by the Board at the November meeting (Staff Paper 4.1) consideration of entities without a legislative requirement to prepare financial statements that comply with AAS was deferred to Phase 2. This includes for example trusts required by their trust deed, partnerships required by their partnership agreement and entities required by lending covenants, to prepare AAS compliant financial statements.

Feedback from September roundtables

At the September roundtables, Staff asked whether existing trusts and other entities only governed by constitutional documents (i.e. not those where there are legislative financial reporting requirements in place) should be grandfathered, such that the AASB's Phase 2 proposals would apply only to new and / or modified trusts / entities after the application date of the Phase 2 proposals.

- Most participants (41%) said yes, trusts should be grandfathered.
- One-third of participants (33%) said no, trusts should not be grandfathered – stating that this just leads to messiness (not knowing who is in or who is out) and entities structuring transactions through trusts (prior to application date) to avoid reporting responsibilities. One participant suggested it was already unfair that some large proprietary companies have public lodgement relief under the Corporations Act, so why would the AASB consider providing relief within the AAS – stating there should be a level playing field.
- The remaining 26% of participants were unsure on whether trusts should be grandfathered, suggesting that the AASB could explore this option.

Refer pages 2-3 of Enhancing financial reporting and replacing SPFS – Roundtable Summaries.

Targeted Outreach – discussions with legal advisors

Staff discussed providing grandfathering relief to trusts with legal advisors and learnt the following:

- There are three main species of trusts;
- The obligations placed on a trustee come from three sources: duties expressly included in the terms of the trust deed, duties imposed by trust legislation and general law duties;
- The amendment of trust deeds is possible, however as it can cause the trust to be settled and therefore lead to income tax consequences, amendments should be made with care;
- A trustee failing to comply with the financial reporting obligations that are prescribed in the relevant trust deed arguably amounts to a contravention of its duties and thereby a breach of trust;
- There are many different financial reporting provisions within trust deeds as a master trust deed upon which all other trust deeds are based does not exist; and
- Trust deeds often include a reference to 'preparing financial statements in accordance with AAS' as a means of protecting beneficiaries and ensuring minimum levels of financial reporting are achieved. Staff understand that when legal advisors were preparing trust deeds, they were generally unaware that compliance with AAS can include SPFS with no requirement to comply with R&M.

Staff also discussed if it were possible to grandfather certain trusts, and if so, how this may be achieved.

Staff analysis and recommendations
One of the fundamental aspects of the Standard-Setting Framework, is the notion of 'transaction neutrality', that is, like transactions and events should be accounted for in a like manner for all types of entities, reflecting their economic substance unless there is a justifiable reason not to do so. The Standard-Setting Framework states that "justifiable circumstances for Australian-specific amendments, standards or guidance include … **an assessment indicates that the costs of preparing and disclosing information outweighs the benefits to users**. Such considerations may arise from application issues due to unfamiliar terminology, current practice issues, or replicating disclosures required by other existing legislation (emphasis added). To assess whether it is appropriate to grandfather entities such as trusts, partnerships and other operating structures that do not have a legislative requirement to prepare financial statements, it should be noted that entities such as these report for a specific purpose and a specific user (e.g. the beneficiary/ies of the trust, partners or lenders). The specific users therefore have the ability to command whatever information they require. Based on Staff's discussions with legal advisors, Staff understand that in the case of trusts, most trust deeds would contain a reference to compliance with AAS. Staff further understand from targeted outreach that many trusts, particularly 'non-corporate' trusts prepare SPFS that may not comply with R&M. Staff recommend that entities that do not have a legislative requirement to prepare financial statements but currently have a requirement in their trust deeds or other compliance documents to prepare financial statements in accordance with AAS be grandfathered from this requirement as the users of financial statements of these types of entities generally have the ability to command the specific information they need and changes in their trust deeds or other compliance documents to remove the requirement to comply with AAS might trigger unintended consequences as discussed above. While these entities would not be prohibited from preparing Tier 2 GPFS and complying with AAS should they choose to, grandfathering would ensure they were not required to change their trust deed or lending agreement to remove the requirement to comply with AAS.
Question 8 for Board members **Q8** Do Board members agree with the Staff recommendation that entities that do not have a legislative requirement to prepare financial statements but currently have a requirement in their trust deeds or other compliance documents to prepare financial statements in accordance with AAS be grandfathered from this requirement as the users of financial statements of these types of entities generally have the ability to command the specific information they need and changes in their trust deeds or other compliance documents to remove the requirement to comply with AAS might trigger unintended consequences. While these entities would not be prohibited from preparing Tier 2 GPFS and complying with AAS should they choose to, grandfathering would ensure they were not required to change their trust deed or lending agreement to remove the requirement to comply with AAS.

Other Matter 4 – Some respondents suggested there are no users and / or the AASB haven't conducted sufficient research regarding what users need
Feedback from submissions
Seven respondents (R2 – Nexia, R7 – AICD, R10 – CAANZ, R12 – Hanrick Curran, R13 – CPA, R14 – Keith Reilly and R21 – Swinburne) suggested that the AASB had not undertaken sufficient research to identify who the users of financial statements are, and if there are users, what those users' needs are.

Other information
Outreach activities undertaken by the AASB Staff have undertaken (and will continue to undertake) significant stakeholder engagement in relation to the ITC 39 proposals with the objective of understanding stakeholder views, needs and concerns. Staff have: • Analysed and responded to the 36 formal submissions as part of this Staff paper; • conducted five roundtables; • undertaken in excess of 160 individual meetings with stakeholders[24] • Conducted targeted outreach with financial statements users; and • Conducted two conceptual framework project advisory panel meetings. In undertaking targeted outreach with data aggregators, Staff learnt that: • 98,000 copies of financial statements are purchased from ASIC annually (>29,000 purchased directly). • They receive enquiries from number sources including financial institutions and perhaps more significantly non-bank clients. This indicates the existence of a significant number of parties who are interested in financial statements, which means that there are a significant number of users. Staff also learnt that data aggregators are typically engaged to assist their client (customer) with determining the viability, capacity and credit risk associated a company. This may be for a lending decision, however as the significant majority of enquiries often originate from non-bank clients it is often for other reasons. Staff learnt that the clients of data aggregators are also often interested in the financial statements of entities with revenues of just $5mil. *Large proprietary company thresholds* In respect of Treasury's proposals to increase the large proprietary company thresholds, if these proposals are adopted, this would decrease the number of entities required to report under the Corporations Act, however those required to report would be larger and would therefore be of greater economic significance. Due to this, these entities would undoubtedly have users. In a submission made to Treasury on their proposals, Staff note that illion[25] are not supportive of the proposed amendments. In their submission to Treasury, illion note that in their view, the costs savings said to be produced by the increase in the reporting thresholds are unlikely to be realised. This is because many of the entities that would no longer have a statutory reporting obligation would still be required to prepare audited financial statements to satisfy the information needs of financiers, insurers and suppliers (i.e. users). illion have noted a significant volume of commercial credit enquiries on the entities that would be effected by these proposals, and believe transparency over these entities is critical. illion note that these entities have significant debt, and that defining size through revenue, employees and gross assets only misses the fact that liabilities can be very significant. Illion state that "any initiative which reduces transparency and restricts the amount of available data on this scale is counter to the current trend in improved data sharing and enhanced transparency. For example, the introduction of Comprehensive Credit Reporting (CCR), Open Banking and more generally, the Consumer Data Right (CDR), demonstrate the understanding of the benefits of improved data transparency. At its essence, enhanced data availability creates an environment that encourages competition and innovation in the financial services sector and supports economy more generally. There is a clear, substantial public interest in increased data availability for these reasons. It is therefore necessary that changes to financial reporting requirements reflect the need to maintain robust disclosure standards; the Exposure Draft Regulations fail to do so." Illion also state that "not filing means it is harder for anyone without privileged access to internal financial data of the business to assess the risk of dealing with that business; a risk we have demonstrated is real given a 3% failure rate and at least $1bn in overdue payments to suppliers".

24 While this encompasses meetings held in respect of all aspects of the ITC 39 proposals (e.g. Phase 1, NFP aspects etc) all meetings have been set with the objective of hearing from Stakeholders regarding their views in respect of the proposals, their possible impact and their concerns.

25 illion is the leading independent provider of data and analytics products and services across Australasia. The organisation's consumer and commercial credit registries make up a central component of Australia and New Zealand's financial infrastructure and are used to deliver end-to-end customer management solutions to clients. Using extensive credit and commercial databases, we assist banks, other

Other information
Research activities • User and Preparer Survey Results • AASB Research Report (work-in-progress) - Consolidated and Separate/Individual Financial Statements Targeted User Research (submissions from R29 - Equifax, R31 – Richard Fakhry, R32 – Myron Ithayaraj and R33 – Richard Dalidowicz)
Staff analysis and recommendations
As outlined in the other information column, Staff have undertaken significant outreach and research into the existence and needs of users. Staff will also continue to undertake further outreach with users and prepares in an effort to balance user needs with the increased costs to preparers. This balance may be achieved through transitional relief to ensure that the transition from SPFS to Tier 2 GPFS is not unduly burdensome. This would also include ensuring that any ongoing compliance costs associated with these proposals do not exceed the benefits. Both R10 – CAANZ and R13 – CPA suggested that the AASB had not adequately demonstrated how the proposals would meet user needs, with R13 – CPA stating there is a "need for clear, unequivocal evidence of the existence of users …" Staff note that their joint submission to Treasury (refer Appendix D – Analysis of R10 – CAANZ's and R13 – CPA's submissions to Treasury on thresholds), CAANZ and CPA noted that "if thresholds are revised independent of the AASB project, the reform could fail to ensure that all entities for which there exists genuine **user need for publicly available audited financial reports, are adequately catered for. Our feedback suggests that such user need does exist**, and could not be otherwise met, for some of the entities that would become 'small' as a result of the proposed threshold change." (emphasis added). Staff recommend continuing to engage with users (through surveys and roundtables) and seek their feedback on the new Tier 2 option that would be proposed in the forthcoming ED relating to Phase 2. Staff also recommend consulting with users and preparing (through roundtables, surveys and/or field testing) about any proposed transitional reliefs and exemptions that would be proposed in the forthcoming ED.
Question 9 for Board members
Q9 Do Board members agree with staff recommendation above on continuing to engage with users and preparers through roundtables and surveys and also field testing some of the proposed requirements? Do Board members have any other suggestions?

financial services providers and other businesses to make informed credit and risk management decisions, and help consumers access their personal credit information

Other Matter 5 – Some respondents said the preparation and presentation of consolidated financial statements is costly without user need.

Feedback from submissions

Four respondents (R4 – QIC, R7 – AICD, R10 – CAANZ and R13 – CPA) suggested there may not be users of consolidated financial statements to warrant the cost of preparing them.

Other information

Feedback from lending institutions

Based on the results of outreach to banks[26] in their capacity as lenders, all the banks said that their lending decisions are circumstance specific and the level of information required is dependent on a case to case basis.

Having said that, majority of the banks said that apart from the financial statements of the borrowing entity, they need consolidated financial statements of the group to make their lending decisions.

Additionally, all the banks mentioned that consolidated financial statements are particularly important when:

- there is structural subordination within group structures;
- there is a deed of cross guarantee;
- banks have legal recourse to the assets of the consolidated group;
- lending to a subsidiary is in the form of a credit enhancement to the whole group; and
- lending is to a subsidiary which does not have substantial operations and it is a financing vehicle.

Feedback from users in submissions

R29 – Equifax, R31 – Richard Fakhry, R32 – Myron Ithayaraj and R33 – Richard Dalidowicz all of whom are users, stated that in order to make decisions, they require:

- consolidated financial statements including note disclosures (which include all assets, liabilities, revenues and expenses of the parent and all subsidiaries) and / or
- consolidated financial statements including note disclosures plus some parent entity information to understand their dividend paying capacity.

Staff analysis and recommendations

Feedback received by Staff from users of financial statements clearly indicates that in their view consolidated financial statements are necessary in order for them to understand:

- any risks associated with an entity and the group to which it belongs;
- the cash flows of the group to which the entity belongs; and
- the dividend capacity of the group too.

This is consistent with the objective of AASB 10 which is "to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities".

Further based on the feedback Staff have received from lending institutions, consolidated financial statements are essential to them for assessing the ability of the entity / group to service any debt it may have.

Staff also note that three of the respondents (R7 – AICD, R10 – CAANZ and R13 – CPA) that suggested consolidated financial statement may not be useful to users also want the AASB to consider IFRS for SMEs as a Tier 2 GPFS option. Staff note that having IFRS for SMEs as a Tier 2 GPFS option would require the preparation of consolidated financial statements

As such, based on feedback received by Staff from users and lending institutions as well as after considering the responses received on options for tier 2 GPFS, it is Staff's view that consolidated financial statements are necessary and provide useful information to financial statement users. Staff recommend that no action is required in this regard. However, staff consider that sufficient transitional relief should be provided to help entities required to prepare consolidated financial statements and/or do equity accounting move from SPFS to GPFS (refer to Specific Issue 4 for more details on this).

Staff note that three of the respondents (R7 – AICD, R10 – CAANZ and R13 – CPA) that have suggested that consolidated financial statement may not be useful to users also want the AASB to consider IFRS for SMEs as a Tier 2 GPFS option. Staff note that having IFRS for SMEs as a Tier 2 GPFS option would require the preparation of consolidated financial statements.

Question 10 for Board members

Q10 Do Board members agree with the Staff recommendation that no action is required in respect of assessing the usefulness of consolidated financial statements?

[26] We reached out to five banks. These five banks included three large Australian banks, one second tier Australian bank and one large overseas bank that operates in an Asian country. There were a total of 11 respondents from these five organisations and included representatives from wholesale credit, risk management, corporate and institutional banking, commercial credit and group accounting policy. The degree of variation helped to ensure that the information need of bankers working in different roles are obtained.

Other Matter 6 – Some respondents want SPFS in specific circumstances
Feedback from submissions
Five respondents (R2 – Nexia, R5 – QBE, R6 – IAG, R12 – Hanrick Curran and R24 – FRS want to retain SPFS in specific circumstances
Other information
Five respondents preferred to retain SPFS, however only in very specific or narrow-scope circumstances. For example: • R2 – Nexia, R12 – Hanrick Curran and R24 – FRS noted their preference to retain SPFS for entities 'below reporting thresholds' or 'to accompany a small entity tax return'. • R5 – QBE and R6 – IAG considered that SPFS should be retained for wholly-owned subsidiaries. Both respondents also note that these subsidiaries would already be applying full R&M requirements, and due to limited users, did not support additional disclosures.
Staff analysis and recommendations
In respect of the comments relating to allowing SPFS to be prepared for small entities below reporting thresholds, Staff note that, where an entity is not required by legislation or otherwise to comply with AAS, then an entity would be able to continue to tailor their financial statements to the needs of their specific users (ie prepare an SPFS). Hence, Staff have not analysed such comments further. Staff note that these SPFS could in fact be prepared using a differential R&M framework (including IFRS for SMEs) should such financial statements meet the information needs of the specific users. In relation to the comments in relation to retaining SPFS for wholly owned subsidiaries, Staff note an ongoing Staff Research Report which explores the need for full financial statements of a subsidiary where it is being consolidated. The preliminary findings have identified that banks, as lenders, require a full set of financial statements, except for subsidiaries that are wholly owned, covered by a deed of cross guarantee and not carrying on substantial operations[27]. The Board will continue to consider findings of this research as the report progresses. Staff have not provided a specific recommendation in respect of this other matter as Staff's analysis and recommendations in respect of Specific Issue 1 and Specific Issue 2 have addressed this matter. Staff would however welcome any comments or observations the Board may have.

Other Matter 7 – One respondent suggested the definition of public accountability should be extended
Feedback from submissions
R34 – IPA suggested the public accountability definition should extend to those entities that have received government funding or have been granted significant government contracts, licences or service concession arrangements as they have benefited from taxpayer funding or have been contracted or licenced to undertake activities which have public interest implications.
Other information
Senate Committee Report – Aged Care The Senate Committee report appears to be on preparation of GPFS which supports the removal of ability to self-assess as SPFS. Other aged care providers only have to provide "a financial report" per regulation 35. There were no requirements that Staff could see that would even require compliance with accounting standards. For that reasons, any action by the AASB would unlikely have any impact unless they also change their legislation or introduce additional regulations.
Internal registered managed investment schemes R30 - ABA raised the following matter in their Phase 1 submission:

[27] See Agenda Paper 7.0 from the June 2018 meeting

Other Matter 7 – One respondent suggested the definition of public accountability should be extended
Registered MIS are required by the Corporations Act 2001 to prepare financial statements in accordance with AAS and therefore must also comply with AASB 1053 as per paragraph 2(a). They are deemed to have public accountability based on paragraph B2(c) in AASB 1053. The registered MIS identified by ABA are currently preparing SPFS to satisfy the reporting requirements of the Corporations Act 2001 as they have self-assessed as non-reporting entities under Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* on the basis there are no external users of their financial statements. If publicly accountable for-profit entities must apply the RCF from 1 January 2020, internal registered MIS will no longer be able to apply SAC 1's reporting entity concept. The Board agreed at its November 2018 meeting to consider these matters as part of the sub-project on public accountability.
Staff analysis and recommendations
At the November 2018 meeting, the Board reconfirmed the importance of the IASB's definition of public accountability and decided to consider whether in accordance with the Standard-Setting Framework there should be any changes to the entities that are deemed to have public accountability in Australia as outlined in AASB 1053, and whether additional guidance should be included to assist in interpreting the public accountability definition in an Australian context. Staff have not provided a specific recommendation as these matters will be considered and addressed as part of the sub-project on Public Accountability be considered at a near future AASB meeting.

Other Matter 8A – What does "other requirement" mean?
Feedback from submissions
R17 – BCCM sought clarification on what the first box in the decision tree in Diagram 3 in paragraph 190 of ITC 39 was referring to (i.e. Legislation or 'other requirement' requires financial report complying with AAS Refer to Other Matter 8A in agenda item 4.3.1 page 70 for further information.
Other information
Refer Other Matter 3 for Staff's analysis and recommendation regarding the impact of the Phase 2 proposals on entities that have only a non-legislative requirements to prepare financial statements in accordance with AAS being impacted.
Staff analysis and recommendations
The reference to "Legislation or 'other requirement" was included in ITC 39 to cover situations where an entity is required by a trust deed, lending covenant or other agreement for example to prepare financial statements in accordance with AAS. Example of effected entities are trusts, partnerships and entities with bank borrowings that are not required to prepared financial statements under the Corporations Act. Refer Other Matter 3 for Staff analysis and recommendation.

Other Matter 8B – Do the exemptions from consolidation in AASB 10 still apply?
Feedback from submissions
R5 – QBE and R6 - IAG sought clarification that the exemptions in AASB 10 still apply allowing intermediate subsidiaries an exemption from preparing consolidated financial statements if their Australian parent provides such accounts. Refer to Other Matter 8B in agenda item 4.3.1 pages 70-71 for further information.
Other information
Refer paragraphs 4, Aus4.1 and Aus4.2 of AASB 10 *Consolidated Financial Statements*.
Staff analysis and recommendations

Other Matter 8B – Do the exemptions from consolidation in AASB 10 still apply?
It is noted that the exemptions in AASB 10 paragraph 4 would still be applicable irrespective of the changes that may come about from the ITC 39 process and can be applied to intermediate subsidiaries. Requiring compliance with AAS would mean also being able to apply all the exceptions and exemptions in the AAS. Staff recommend that no further action is required.
Question 11 for Board members **Q11** Do Board members agree with the Staff recommendation that no further action is required?

Other Matter 9 – One respondent provided ITC 39 'Appendix B' comments:
Feedback from submissions
R26 – EY noted the following in respect to Appendix B in ITC 39 "Throughout Appendix B we note that the application paragraphs continue to refer to entities required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act. Given the Corporations Act requires compliance with Australian Accounting Standards, we cannot see the need for distinction between paragraphs (a) and (b) in these application sections." (R26 – EY) Refer to Other Matter 9 in agenda item 4.3.1 page 71 for further information.
Other information
An example of the application paragraphs proposed in Appendix B is included below: The amendments proposed in Appendix B Unless specified otherwise in paragraphs 6-21, AAS apply to: (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act; and (b) financial statements that are required to comply with AAS.
Staff analysis and recommendations
Staff acknowledge that limbs (a) and (b) of the application paragraphs may not strictly be required as financial statements prepared in accordance with the Corporations Act 2001 are required to be prepared in compliance with AAS. At this stage however, Staff recommend retaining both limbs of the application paragraphs. Staff are of the view that as the Corporations Act refers to 'financial reports' and AAS refer to 'financial statements' the retention of both limbs is necessary. This responds to the legal form of financial reporting requirements rather than the substance (i.e. an entity required to prepare a financial report by the Corporations Act could not avoid their reporting obligations because the AAS referred to the preparation of financial statements). Staff recommend that the drafting of any amendments required to implement Phase 2 be considered as part of Board's review of the proposals in forthcoming ED in relation to Phase 2 before the ED is finalised.
Question 12 for Board members **Q12** Do Board members agree with the Staff recommendation that the drafting of any amendments required to implement Phase 2 should be considered as part of Board's review of the forthcoming Exposure Draft?

Other Matter 10 – The costs to preparers associated with the proposals exceed the benefits to users: (back to GMC 22 or back to GMC 24)
Feedback from submissions
12 respondents (R2 – Nexia, R5 – QBE, R6 – IAG, R7 - AICD, R10 – CAANZ, R12 Hanrick Curran, R13 – CPA, R14 - Keith Reilly, R21 – Swinburne, R22 - Scott Tobutt, R24 – FRS and R30 – ABA) either in response to GMC 25, or elsewhere in their submission, expressed concerns that in their view the costs associated with the proposals did not exceed the benefits. 5 respondents (R8 – Grant Thornton, R9 – BDO, R16 – Crowe Horwath, R25 – Pitcher Partners and R26 – EY) mentioned within their submission that any additional costs incurred as a result of the proposals can be offset by the potential benefits. Refer to Other Matter 10 in agenda item 4.3.1 page 71 for further information.
Other information
Recognition and Measurement 24 (75%) respondents supported R&M in AAS (refer to Specific Issue 1), therefore the concerns of cost/benefits appear to be related to disclosures. *Treasury Proposals* Treasury has proposed to double the large proprietary thresholds, refer to Other Matter 1. The AASB provided a submission to Treasury in favour of lifting the thresholds while also suggesting that objective criteria is provided to explain the rationale of their decision. This will have a significant impact on the cost/benefit matter as less entities would fall into the proposals. *Feedback from AASB user surveys* Users have said comparability, transparency, comprehensibility and consistency are what they need most in financial statements *Refer to GMC 23 'Other Information'* *Other information* As noted in Other Matter 4, in a submission made to Treasury on their proposals, Staff note that illion are not supportive of the proposed amendments. In their submission to Treasury, illion note that in their view, the costs savings said to be produced by the increase in the reporting thresholds are unlikely to be realised. This is because many of the entities that would no longer have a statutory reporting obligation would still be required to prepare audited financial statements to satisfy the information needs of financiers, insurers and suppliers (i.e. users). illion have noted a significant volume of commercial credit enquiries on the entities that would be effected by these proposals, and believe transparency over these entities is critical. illion note that these entities have significant debt, and that defining size through revenue, employees and gross assets only misses the fact that liabilities can be very significant. Illion state that "any initiative which reduces transparency and restricts the amount of available data on this scale is counter to the current trend in improved data sharing and enhanced transparency. For example, the introduction of Comprehensive Credit Reporting (CCR), Open Banking and more generally, the Consumer Data Right (CDR), demonstrate the understanding of the benefits of improved data transparency. At its essence, enhanced data availability creates an environment that encourages competition and innovation in the financial services sector and supports economy more generally. There is a clear, substantial public interest in increased data availability for these reasons. It is therefore necessary that changes to financial reporting requirements reflect the need to maintain robust disclosure standards; the Exposure Draft Regulations fail to do so." Illion also state that "not filing means it is harder for anyone without privileged access to internal financial data of the business to assess the risk of dealing with that business; a risk we have demonstrated is real given a 3% failure rate and at least $1bn in overdue payments to suppliers".
Staff analysis and recommendations
Staff acknowledge that the proposals could potentially result in an increase in costs, however users have made it clear that comparability, transparency, comprehensibility and consistency are fundamental to their use of financial statements.

Other Matter 10 – The costs to preparers associated with the proposals exceed the benefits to users: (back to GMC 22 or back to GMC 24)
Staff also acknowledge the concerns raised by respondents that in their view the costs of the proposals outweigh the benefits. However, staff note that the respondents that raised these concerns have not provided any evidence or shared any research or outreach findings to provide support for their concerns. Staff also note that considerable transitional relief is likely to be considered by the Board in finalising the proposals of a Tier 2 GPFS in the forthcoming ED related to Phase 2. In addition, significant outreach including field testing of the proposed requirements is likely to be done to consider if the requirements would cause undue compliance burden on preparers and if yes, more relief is likely to be provided. Outreach would also be conducted with users and preparers to further assess if the benefits of complying with the requirements are commensurate with the costs. Staff recommend that this matter be addressed when developing the Tier 2 GPFS framework to be included in the ED and also as part of the regulatory impact assessment process (RIS-like process) that the AASB would have to undertake in developing the Tier 2 GPFS framework to replace SPFS.
Question 13 for Board members **Q13** Do Board members agree with the Staff recommendation that the costs and benefits of the proposals should be further considered as part of the outreach (including field testing) program in developing the appropriate Tier 2 GPFS framework and also when undertaking the RIS like process?

Timeline to progress Phase 2 proposals

99 In analysing and summarising the feedback received in respect of Phase 2 of ITC 39, Staff note that some respondents are of the view that the Board are progressing the Phase 2 proposals in respect of for-profit entities too quickly, without a thorough analysis and prior to the finalisation of in progress research.

100 Staff note that the proposals in ITC 39 and the problems with self-assessment and SFPS are not new, and have been discussed by the Board for a number of years, through AASB Research Reports and previous considerations as part of the AASB's original differential reporting framework project. Staff also note that more recent regulatory developments have indicated the need for GPFS, for example the ATO requiring GPFS from Significant Global Entities, and Royal Commissions exploring the trust and transparency of industries including aged care and banking.

101 Staff propose the below timeline to progress Phase 2 of the proposals (for for-profit private sector entities), which include finalisation of ASIC research in respect of compliance with AAS and further public consultation in the form of an ED. The proposed timeline is also subject to any decisions made earlier at this meeting by the Board:

Task	Date
Staff to: (a) Undertake targeted outreach and perform additional research in relation to transitional relief; (b) Finalise ASIC research in respect of compliance with AAS; and (c) Prepare the draft ED (Phase 2) based on the Board decisions.	February – May
Staff to present the draft ED (Phase 2) to the Board (June Board meeting).	14 June
Staff to update the draft ED (Phase 2) based on the Board's feedback.	June – August
Staff to present the revised draft ED (Phase 2) to the Board (September Board meeting).	17 – 18 September
Staff to circulate ballot draft of the ED (Phase 2) to the Board out of session with a two-week voting period.	3 October
If necessary, Staff to update the ballot draft ED (Phase 2) for comments received from Board.	21 October
Issue the ED (Phase 2) for public comment with a 120 day comment period.	29 October
Staff to analyse and summarise the ED (Phase 2) submissions and present to the Board (early 2020 Board meeting).	Early 2020
Staff to draft the proposed amending standard (AASB 2020-X) based on the ED (Phase 2) updated for decisions made by the Board following feedback from respondents.	Early 2020
Staff to present the proposed amending standard (AASB 2020-X) to the Board (Board meeting).	Mid 2020
Staff to update the proposed amending standard (AASB 2020-X) based on the Board's feedback.	Mid 2020
Staff to circulate ballot draft of the amending standard (AASB 2020-X) to the Board out of session with a two-week voting period.	Mid 2020
If necessary, Staff to update the amending standard (AASB 2020-X) for comments received from Board.	Mid 2020
Issue the amending standard (AASB 2020-X) effective for annual reporting periods beginning on or after 1 January 2022.	Mid 2020

Question for Board members

Q14 Do Board members have any comments on the proposed timeline to implement Phase 2?

Appendix A: Summary of written responses for each question (back to the top)

Legend (shading) Green = Respondent agrees Amber = Respondent neither completely agree / disagree and/or more clarification required Pink = Respondent disagrees Grey = No response received on question/sub-question Purple = Respondent represents the public sector and therefore responses will be analysed as part of AASB's public sector project

Notes

- The Specific matters for comment (SMC) Questions 1-5 and General matters for comment (GMC) 6-10 relate to Phase 1 of ITC 39. These were discussed at the Board's September and November 2018 meetings. The following SMCs and GMCs relate only to Phase 2 of ITC 39.
- Some of the submissions did not answer the SMCs or GMCs in order or did not explicitly respond to the SMCs or GMCs. For those submissions, Staff have included extracts of the submission to answer the most relevant SMC or GMC.
- Submissions R30 – ABA, R34 – IPA, R35 - Graeme MacMillan and R36 - Ed Psaltis were received in relation to Phase 1 of ITC 39 but contained some information relating to Phase 2. If the respondent did not send a second submission relating to Phase 2, then comments from the Phase 1 submission have been included below. For respondents who submitted to Phase 1 and Phase 2, only the Phase 2 submission was analysed as part of this process.
- Only comments relevant to the for-profit private sector have been analysed as part of this paper. Comments relating to the NFP private and public sectors will be addressed via separate AASB projects. Hence SMC 19 which related to NFP entities was not analysed. Therefore responses from R27 – HoTARAC and R28 – QAO were not analysed as part of this paper.
- R3 - ACNC did not express a view on proposed changes to the for-profit sector financial reporting framework.
- Staff have excluded GMC 25 'General costs and benefits of the proposals relative to the current requirements' from this Appendix Summary, because these questions required detailed explanations which have been addressed in the 'Other matters raised by constituents' section (refer to paragraph 98).
- SMC 11 was "Do you agree with the AASB's Phase 2 approach (described in ITC 39 paragraph 166)? However, given the wide range of responses to SMC 11 and the objective of the Board paper to ascertain whether or not to proceed with Phase 2 (i.e. is there a SPFS problem), and if so, whether the Tier 2 GPFS framework should comply with R&M and what the disclosures should be, Staff have taken responses from respondents' submissions to SMC 11 and moved them under the specific parts of the paper which best align to the matters raised. For this same reason, instead of including the detailed responses to SMC 11 below, Staff have used the responses to answer the following:
  - Specific Issue 1 - Is there an SPFS problem that needs to be solved?
  - Specific issue 2 - Should all GPFS require full R&M in AAS?

102 Summary of responses relating to Specific issue 1 – Is there an SPFS problem that needs to be solved?

Respondent	Is there an SPFS problem that needs to be solved?
R1 - RSM	Yes - Comparability, consistency and transparency
R2 - Nexia	Yes - Enforcement issues - wants SPFS for entities below reporting thresholds
R3 - ACNC	
R4 - QIC	Yes - Comparability, consistency and transparency
R5 – QBE	No - Likes SPFS (with full R&M) as increased disclosures under Tier 2 GPFS are burdensome and wants SPFS for less complex entities
R6 – IAG	No - Likes SPFS (with full R&M) as increased disclosures under Tier 2 GPFS are burdensome and wants SPFS for less complex entities
R7 – AICD	There is insufficient evidence to demonstrate the nature of the SPFS problem, however acknowledge that SPFS are not comparable.
R8 – Grant Thornton	Yes - Comparability, consistency and transparency
R9 - BDO	Yes - Comparability, consistency and transparency
R10 – CAANZ	Yes - Comparability, consistency and transparency
R11 – Malcolm Bunney	Yes - Comparability, consistency and transparency
R12 – Hanrick Curran	Yes – wants full R&M for GPFS but wants SPFS for genuine special purpose reporters (e.g. small companies to help prepare tax returns)
R13 - CPA	Yes - Comparability, consistency and transparency
R14 – Keith Reilly	No - Does not agree there is a problem to be solved
R15 – KPMG	Yes - Comparability, consistency and transparency
R16 – Crowe Horwath	Yes - Comparability, consistency and transparency
R17 - BCCM	Yes - Comparability, consistency and transparency
R18 – Tax Justice Network	Yes - Comparability, consistency and transparency
R19 – Westworth Kemp	Yes - Enforcement issues
R20 - IFRS System	Yes - Comparability, consistency and transparency
R21 - Swinburne	Other - Supports the withdrawal of SAC 1 (but not without a statement from the law maker regarding who should report)
R22 – Scott Tobutt	Yes - Other – infers support as only disagrees with proposed Tier 2 in AASB's phased approach
R23 - PwC	Yes - Comparability, consistency and transparency
R24 - FRS	Yes - Comparability, consistency and transparency issues - wants SPFS for entities below reporting thresholds
R25 – Pitcher Partners	Yes - Comparability, consistency and transparency
R26 – EY	Yes - Comparability, consistency and transparency
R27 – HoTARAC	
R28 - QAO	
R29 - Equifax	Yes - Comparability, consistency and transparency
R30 – ABA	Does not agree
R31 – Richard Fakhry	Yes - Comparability, consistency and transparency
R32 – Myron Ithayaraj	Yes - Comparability, consistency and transparency
R33 – Richard Dalidowicz	Yes - Comparability, consistency and transparency
R34 - IPA	Yes - Comparability, consistency and transparency
R35 - Graeme MacMillan	Yes - Enforcement issues
R36 - Ed Psaltis	Yes - Other – infers support as only disagrees with proposed Tier 2 in AASB's phased approach

103 Summary of responses relating to Specific issue 2 - Should all GPFS require full R&M in AAS?

Respondent	Should all GPFS require full R&M in AAS?
R1 - RSM	Yes
R2 - Nexia	Yes - Inferred given response (might change mind - wants NFP sector considered first)
R3 - ACNC	
R4 - QIC	Yes
R5 - QBE	Yes
R6 – IAG	Yes - Inferred given response
R7 - AICD	Wants thresholds changed and if not IFRS for SMEs explored for smaller entities
R8 – Grant Thornton	Yes
R9 - BDO	Yes
R10 – CAANZ	Wants NFP sector considered first, thresholds changed, bottom up reporting (preparer discretion) and IFRS for SMEs explored
R11 – Malcolm Bunney	Yes – but wants more (i.e. the proposals to apply to retirement villages)
R12 – Hanrick Curran	Yes - Wants the NFP sector considered concurrently (transaction neutrality)
R13 - CPA	Wants NFP sector considered concurrently, option between existing RDR and IFRS for SMEs (or another differential reporting framework) explored, thresholds changed
R14 – Keith Reilly	No - wants IFRS for SMEs
R15 – KPMG	Yes
R16 – Crowe Horwath	Yes
R17 - BCCM	Yes
R18 – Tax Justice Network	Yes – but prefers Option 3 in ITC 39 (i.e. remove SPFS and apply existing framework from 1/1/2020)
R19 – Westworth Kemp	Yes
R20 - IFRS System	Yes
R21 - Swinburne	Wants NFP first, thresholds changed and IFRS for SMEs (or another differential R&M) to be considered
R22 – Scott Tobutt	No - wants IFRS for SMEs as Tier 2 alternative
R23 - PwC	Yes - Wants full R&M but three tiers of disclosure (i.e. Full, RDR and SDR)
R24 - FRS	Yes
R25 – Pitcher Partners	Yes
R26 – EY	Yes
R27 – HoTARAC	
R28 - QAO	
R29 - Equifax	Yes
R30 – ABA	Wants RCF to be applied but to retain SAC 1 (plus more guidance) and SPFS and ability not to comply with R&M
R31 – Richard Fakhry	Yes
R32 – Myron Ithayaraj	Yes
R33 – Richard Dalidowicz	Yes
R34 - IPA	Yes - Inferred given response
R35 - Graeme MacMillan	
R36 - Ed Psaltis	No - Wants IFRS for SMEs as Tier 2 alternative

104 Summary of responses relating to Specific issue 3 - What disclosures should Tier 2 GPFS require?

Respondent	Q12 Which Tier 2 alternative? Relevant also to inferring whether want full R&M & Q18 other Tier 2 alternative suggestions	Q13 Agree only one Tier 2 alternative?	Q14 Agree not to apply IFRS for SMEs?	Q17 Would GPFS – SDR meet users' needs?
R1 - RSM	GPFS-RDR	Agree only one Tier 2 (but if SDR comes in, wants both RDR and SDR)	Agrees not to apply IFRS for SMEs	GPFS-SDR not enough in some areas and/or too much in some areas
R2 - Nexia	Wants something in between GPFS-RDR and GPFS-SDR	Agree only one Tier 2 (could change mind after NFP completed)	Agrees not to apply IFRS for SMEs	GPFS-SDR not enough in some areas and/or too much in some areas
R3 - ACNC				
R4 - QIC	Wants something in between GPFS-RDR and GPFS-SDR	Agree only one Tier 2	Agrees not to apply IFRS for SMEs	GPFS-SDR not enough in some areas and/or too much in some areas
R5 - QBE	Wants additional tier with full R&M but minimal disclosures for wholly-owned subsidiaries of listed entities	Wants additional tier with full R&M but minimal disclosures for wholly-owned subsidiaries of listed entities	Agrees not to apply IFRS for SMEs	GPFS-SDR not enough in some areas and/or too much in some areas
R6 – IAG	GPFS-SDR	Agree only one Tier 2	Agrees not to apply IFRS for SMEs	GPFS-SDR would meet the need of most users
R7 - AICD	Neither appropriate – thresholds reviewed & IFRS for SMEs explored	Neither until a review of thresholds to identify who and what	Wants thresholds changed and if not IFRS for SMEs explored for smaller entities	Does not believe SDR meets user needs
R8 – Grant Thornton	GPFS-SDR	Agree only one Tier 2	Agrees not to apply IFRS for SMEs	GPFS-SDR may not be enough in some areas
R9 - BDO	GPFS-RDR	Agree only one Tier 2	Agrees not to apply IFRS for SMEs	GPFS-SDR not enough in some areas and/or too much in some areas
R10 – CAANZ	Need to better demonstrate user needs - Wants NFP sector considered first, thresholds changed, bottom up reporting (preparer discretion) and IFRS for SMEs explored	Need to identify who and what first - refer to Q12	Wants IFRS for SMEs explored as part of the reporting package	GPFS-SDR not enough in some areas and/or too much in some areas and wants IFRS for SMEs explored
R11 – Malcolm Bunney	GPFS-SDR			
R12 – Hanrick Curran	Wants both GPFS-RDR (longer-term) and GPFS-SDR (transition) and a "fourth tier" SPFS for genuine special purpose reporters (e.g. for tax returns)	Possible 4th Tier - refer to Q12	Agrees not to apply IFRS for SMEs	Suggest leaving reporting decisions to those charged with governance
R13 - CPA	Wants reduced R&M considered - NFP sector considered concurrently, existing RDR and IFRS for SMEs (or another differential reporting framework) explored, thresholds changed	Possible more than one Tier 2 alternative - choose from either existing RDR or IFRS for SMEs (or differential reporting framework)	Wants IFRS for SMEs explored (very least an option based on IFRS for SMESs)	Feedback received suggests less support for GPFS-SDR
R14 – Keith Reilly	Wants thresholds changed and IFRS for SMEs	Wants IFRS for SMEs	Wants IFRS for SMEs	Wants IFRS for SMEs
R15 – KPMG	Wants something in between GPFS-RDR and GPFS-SDR. A third tier may be desirable but what object delineator?	Agree only one Tier 2	Agrees not to apply IFRS for SMEs	GPFS-SDR not enough in some areas and/or too much in some areas
R16 – Crowe Horwath	GPFS-RDR	Agree only one Tier 2	Agrees not to apply IFRS for SMEs	GPFS-SDR not enough in some areas and/or too much in some areas
R17 - BCCM	GPFS-SDR	Agree only one Tier 2	Agrees not to apply IFRS for SMEs	GPFS-SDR not enough in some areas and/or too much in some areas
R18 – Tax Justice Network	GPFS-RDR			
R19 – Westworth Kemp	GPFS-RDR – additional tiers for small entities (best practice)	Wants a third tier for very small entities (and recommends thresholds change)	Suggests that IFRS for SMEs could be explored as an additional Tier 2	Wants to retain GPFS-RDR

Respondent	Q12 Which Tier 2 alternative? Relevant also to inferring whether want full R&M & Q18 other Tier 2 alternative suggestions	Q13 Agree only one Tier 2 alternative?	Q14 Agree not to apply IFRS for SMEs?	Q17 Would GPFS – SDR meet users' needs?
R20 - IFRS System	Wants something in between GPFS-RDR and GPFS-SDR	Agree only one Tier 2	Agrees not to apply IFRS for SMEs	Wants to retain GPFS-RDR
R21 - Swinburne	Wants thresholds changed and IFRS for SMEs (or another differential R&M) to be considered	Wants further research to explore whether more than one alternative is required - Refer to Q12	Wants IFRS for SMEs explored	
R22 – Scott Tobutt	Wants IFRS for SMEs (as an alternative)		Wants IFRS for SMEs (as an alternative)	
R23 - PwC	Wants full R&M but three tiers of disclosure (full, RDR plus SDR)	Wants full R&M but three tiers of disclosure (full, RDR plus SDR)		
R24 - FRS	Wants something in between GPFS-RDR and GPFS-SDR	Agree only one Tier 2	Agrees not to apply IFRS for SMEs	GPFS-SDR not enough in some areas and/or too much in some areas
R25 – Pitcher Partners	Wants something in between GPFS-RDR and GPFS-SDR	Agree only one Tier 2	Agrees not to apply IFRS for SMEs	GPFS-SDR not enough in some areas and/or too much in some areas
R26 – EY	Wants something in between GPFS-RDR and GPFS-SDR	Agree only one Tier 2	Agrees not to apply IFRS for SMEs	GPFS-SDR not enough in some areas and/or too much in some areas
R27 – HoTARAC				
R28 - QAO				
R29 - Equifax				
R30 – ABA	Wants something in between GPFS-RDR and GPFS-SDR			GPFS-SDR not enough in some areas and/or too much in some areas
R31 – Richard Fakhry				GPFS-SDR not enough in some areas and/or too much in some areas
R32 – Myron Ithayaraj				GPFS-SDR not enough in some areas and/or too much in some areas
R33 – Richard Dalidowicz				GPFS-SDR not enough in some areas and/or too much in some areas
R34 - IPA				
R35 - Graeme MacMillan				
R36 - Ed Psaltis	Wants IFRS for SMEs		Wants IFRS for SMEs	

105 Summary of responses relating to Specific issue 4 - What transitional support should be explored?

Respondent	Q15 What transitional relief should apply?	Q16 Concerns with consolidation / equity accounting & transitional relief	Q20 Legislation that refers to SPFS
R1 - RSM	More than AASB 1 is required	Wants consolidation/equity accounting - suggests relief from disclosures (transition)	None noted
R2 - Nexia	More than AASB 1 is required	Concerns about historical acquisitions	None noted
R3 - ACNC			
R4 - QIC	More than AASB 1 is required	Wants grandfathering trusts	None noted
R5 - QBE	AASB 1 is sufficient	Wants consolidation exemption confirmed	None noted
R6 – IAG	Not sure whether AASB 1 is enough	Costs exceed benefits	None noted
R7 - AICD	Not sure whether AASB 1 is enough	Costs exceed benefits but if have to then suggests prospective application only	Possibly on regulator websites
R8 – Grant Thornton	More than AASB 1 is required	Wants relief from comparatives (transition)	None noted
R9 - BDO	More than AASB 1 is required	Concerns about historical acquisitions - provided options to consider	
R10 – CAANZ	More than AASB 1 is required	Costs exceed benefits but if have to then suggests prospective application only	Possibly on regulator websites / guidance
R11 – Malcolm Bunney			
R12 – Hanrick Curran		Consolidation is a disclosure matter, it is not R&M.	ASIC forms FS 70 and FS 71
R13 - CPA	More than AASB 1 is required	Costs exceed benefits but if have to then exemptions from applying certain Standards (e.g. AASB 16)	None noted
R14 – Keith Reilly	Not sure whether AASB 1 is enough	Costs exceed benefits but if have to then at least 5 year transition	None noted
R15 – KPMG	More than AASB 1 is required	Concerns about historical acquisitions - suggest practical expedients	None noted
R16 – Crowe Horwath	AASB 1 is sufficient	Wants consolidation/equity accounting - concerns about historical acquisitions, technological capabilities and knowledge	None noted
R17 - BCCM	AASB 1 is sufficient	Wants consolidation/equity accounting - no additional transitional relief required	None noted
R18 – Tax Justice Network			
R19 – Westworth Kemp	AASB 1 is sufficient	Wants consolidation/equity accounting - concerns about fair values	None noted
R20 - IFRS System	AASB 1 is sufficient	Per their data <1% entities that should don't already consolidate	
R21 - Swinburne	Not sure whether AASB 1 is enough		None noted
R22 – Scott Tobutt			
R23 - PwC			
R24 - FRS	More than AASB 1 is required	Concerns about consolidation - wants additional relief	
R25 – Pitcher Partners	AASB 1 is sufficient	Concerns about consolidation - but AASB 1 should be enough	None noted
R26 – EY	AASB 1 is sufficient	Wants consolidation exemption confirmed - AASB 1 enough	None noted
R27 – HoTARAC			
R28 - QAO			
R29 - Equifax			
R30 – ABA			
R31 – Richard Fakhry			
R32 – Myron Ithayaraj			
R33 – Richard Dalidowicz			
R34 - IPA		Agrees with the proposals shared comment that there may be modified audit opinions due to opening balance issues	
R35 - Graeme MacMillan			
R36 - Ed Psaltis			

106 Summary of responses relating to General matters

Respondent	Q21 Has the AASB's Standard-Setting Frameworks for For-Profit been applied appropriately?	Q22 Any Australian regulatory or other issues	Q23 Overall, would proposals result in useful financial statements?	Q24 Are proposals in the best interest of the Australian economy?
R1 - RSM				
R2 - Nexia	Unclear - proposals don't satisfy cost benefit and comprehensive ED for both NFP and for-profit required	Affects reports of grandfathered companies	No costs exceed benefit	No costs exceed benefit
R3 - ACNC				
R4 - QIC				
R5 - QBE	Unclear - proposals don't satisfy cost benefit and evidence of enough research	None noted at this stage	No costs exceed benefit	No costs exceed benefit
R6 – IAG	Yes or didn't raise any issues	None noted at this stage	No costs exceed benefit	No costs exceed benefit
R7 - AICD	Not applied appropriately - haven't considered costs or public interest	Affects non-regulated entities (e.g. trusts)	No user need identified	No costs exceed benefit
R8 – Grant Thornton	Yes or didn't raise any issues	Resourcing may be challenging	Yes	Yes
R9 - BDO	Yes or didn't raise any issues	None noted at this stage	Yes	Yes
R10 – CAANZ	Unclear - proposals don't satisfy cost benefit and evidence of enough research	Proposals don't satisfy cost benefit and evidence of enough research	No costs exceed benefit	No costs exceed benefit
R11 – Malcolm Bunney	Yes but wishes proposals applied to retirement villages	None noted at this stage	Yes	Yes
R12 – Hanrick Curran	Unclear - proposals represent regulatory overreach - AASB 'captured' by 'Big 4' accounting firms	Can't see issue with SPFS (unlike AASB and ASIC)	No costs exceed benefit	No
R13 - CPA	Unclear - proposals don't satisfy cost benefit and evidence of enough research	Proposals don't satisfy cost benefit and evidence of enough research	No costs exceed benefit	No costs exceed benefit
R14 – Keith Reilly	Not applied appropriately - not considering IFRS for SMEs and going straight from ITC to Standard	Issues because not allowing IFRS for SMEs (which is less costly)	No costs exceed benefit	No costs exceed benefit
R15 – KPMG				
R16 – Crowe Horwath	Yes or didn't raise any issues	None noted at this stage	Yes	Yes
R17 - BCCM	Unclear - BCCM suggests NFP Framework should only apply to charities"	None noted at this stage	Yes - Do not detract from usefulness	Yes
R18 – Tax Justice Network			Yes	Yes
R19 – Westworth Kemp			Yes	Yes
R20 - IFRS System				
R21 - Swinburne	Unclear - proposals don't satisfy cost benefit and evidence of enough research	Issue because not allowing differential R&M (which is less costly)	Yes however other alternatives may have greater benefits	No
R22 – Scott Tobutt	Unclear - proposals don't satisfy cost benefit because not exploring IFRS for SMEs			No costs exceed benefit
R23 - PwC				
R24 - FRS	Not applied appropriately - not transaction neutral (doing NFP separately/differently)	Concerned about costs (incl, to grandfathered companies)	Yes	Yes but would like SPFS for entities below thresholds
R25 – Pitcher Partners	Yes or didn't raise any issues	None noted at this stage	Yes	Yes
R26 – EY	Yes or didn't raise any issues	None noted at this stage	Not clear whether respondent thinks proposals are useful or not	Not clear whether respondent thinks proposals are in best interest of economy
R27 – HoTARAC				
R28 - QAO				
R29 - Equifax			Yes	
R30 – ABA			No - additional confusion for users	Not clear whether respondent thinks proposals are in best interest of economy

Respondent	Q21 Has the AASB's Standard-Setting Frameworks for For-Profit been applied appropriately?	Q22 Any Australian regulatory or other issues	Q23 Overall, would proposals result in useful financial statements?	Q24 Are proposals in the best interest of the Australian economy?
R31 – Richard Fakhry			Yes	
R32 – Myron Ithayaraj			Yes	
R33 – Richard Dalidowicz			Yes	
R34 - IPA	Unclear - having two conceptual frameworks (one in conflict with IFRS) is inconsistent	Concerned about opening balances when consolidation applied	Yes	Yes
R35 - Graeme MacMillan				
R36 - Ed Psaltis				

Appendix B: Summary of respondents

107 The Board received 36 written submissions on ITC 39:

List of written submissions

Submission no.	Respondent	Type of Respondent
R1 - RSM	RSM Australia Pty Ltd	Professional services firm
R2 - Nexia	Nexia Australia	Professional services firm network
R3 - ACNC	Australian Charities and Not-for-profits Commission	Regulator
R4 - QIC	Queensland Investment Corporation	Preparer[28]
R5 - QBE	QBE Insurance Group	Preparer
R6 – IAG	IAG Insurance Group Limited	Preparer
R7 - AICD	Australian Institute of Company Directors	Professional Body
R8 – Grant Thornton	Grant Thornton Australia	Professional services firm
R9 - BDO	BDO	Professional services firm
R10 – CA ANZ	Chartered Accountants Australia and New Zealand	Professional Body
R11 – Malcolm Bunney	Malcolm Bunney	User (Aged care resident)
R12 – Hanrick Curran	Hanrick Curran	Professional services firm
R13 - CPA	CPA Australia	Professional Body
R14 – Keith Reilly	Keith Reilly	Other – Financial Reporting Advisor
R15 – KPMG	KPMG	Professional services firm
R16 – Crowe Horwath	Crowe Horwath (Aust) Pty Ltd	Professional services firm
R17 - BCCM	Business Council of Co-operatives and Mutuals	Professional Body
R18 – Tax Justice Network	Tax Justice Network Australia	User
R19 – Westworth Kemp	Westworth Kemp Consultants	Professional services firm (specialising in financial reporting and assurance and compliance issues, particularly litigation and dispute resolution).

[28] QIC Limited is a for-profit company limited by shares that is primarily involved in the provision of investment management services. Their financial statement are prepared in accordance with Australian Accounting Standards and Interpretations, the provisions of the Government Owned Corporations Act 1993 and the Corporations Act 2001. Their financial statements also state compliance with IFRS.

Submission no.	Respondent	Type of Respondent
R20 - IFRS System	IFRS System Pty Ltd	Preparer
R21 - Swinburne	Swinburne Business School	Other – Academic
R22 – Scott Tobutt	Scott Tobutt	Other – Audit Partner, Professional firm[29]
R23 - PwC	PwC Australia	Professional services firm
R24 - FRS	Financial Reporting Specialists	Preparer
R25 – Pitcher Partners	Pitcher Partners	Professional services firm
R26 – EY	Ernst & Young (EY)	Professional services firm
R27 – HoTARAC	The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Preparer (public sector) -> the respondent answered on behalf of public sector as such these responses will be used as part of the separate public sector project
R28 - QAO	Queensland Audit Office	Auditor (public sector) -> the respondent answered on behalf of public sector as such these responses will be used as part of the separate public sector project
R29 - Equifax	Equifax	User
R30 – ABA	Australian Banking Association (ABA) – refer to ITC 39 sub 20 in the November 2018 Board papers	Professional Body
R31 – Richard Fakhry	Richard Fakhry (Analyst)	User
R32 – Myron Ithayaraj	Myron Ithayaraj (Analyst)	User
R33 – Richard Dalidowicz	Richard Dalidowicz (Analyst)	User
R34 – IPA	Institute of Public Accountants (IPA) – refer to ITC 39 sub 2 in the November 2018 Board papers	Professional Body
R35 – Graeme MacMillan	Graeme MacMillan – refer to ITC 39 sub 13 in the November 2018 Board papers	Other – FCA (retired)
R36 - Ed Psaltis	Ed Psaltis	Other – Advisory firm

29 Scott Tobutt is an Audit Partner at PKF(NS) Audit & Assurance Limited. Staff have confirmed that the views expressed in the submission on ITC 39 are Scott's personal views and they are therefore not necessarily the views of the wider PKF network.