

## 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

**[Note to Board Members]** – This appendix is for extra information purposes only. All of the key issues and recommendations have been addressed in key specific issues considered (paragraphs X-X), other specific issues considered (paragraphs X-X) and general issues considered (paragraphs X-X).

### 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.
- 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 with AAS?
- 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 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 not-for-profit private and public sectors will be addressed via separate AASB projects. Hence SMC 19 which related to not-for-profit entities was not analysed.
- R3 - ACNC did not express a view on proposed changes to the for-profit sector financial reporting framework.
- R27 – HoTARAC and R28 – QAO responded in the context of the public sector and strengthening the efficiency and effectiveness of public sector reporting. The Board's decided in September 2018 at its Board to deal with the public sector as a separate project. The Board also decided at its November 2018 the intention of Phase 1 of ITC 39 is to allow entities to maintain compliance with IFRS Standards, not to extend requirements for entities to prepare GPFS. For example, Phase 1 will permit for-profit public sector entities to continue to state compliance with IFRS Standards where they elect to do so, but will not otherwise require public sector entities to adopt the RCF at this stage. Therefore, HoTARAC's and QAO's comments have not been analysed as part of this paper – instead would be considered as part of the AASB's broader Australian Financial Reporting Framework, which includes enhancing and simplifying financial reporting for the public sector and the NFP private-sector.

### Specific Issue 1 – Is there an SPFS problem that needs to be solved?

- 33 respondents provided a response to this question.
- R3 – ACNC did not answer this question
- R27 – HoTARAC and R28 – QAO responded in the context of the public sector and strengthening the efficiency and effectiveness of public sector reporting. As such have not been analysed as part of this paper.

#### ***Yes – comparability, consistency and transparency is sought by 22 out of 33 (67%) respondents***

- R1 – RSM, R4 – QIC, R8 – Grant Thornton, R9 – BDO, R10 – CAANZ, R11 – Malcom Bunney, R12 – Hanrick Curran, R13 – CPA, R15 – KPMG, R16 – Crowe Horwath, R17 – BCCM, R18 – Tax Justice Network, R20 – IFRS System, R23 – PwC, R24 – FRS, R25 – Pitcher Partner, R26 – EY, R29 – Equifax, R31 – Richard Fakhry, R32 – Myron Ithayaraj, R33 – Richard Dalidowicz and R34 – IPA said they want comparable, consistent and transparent financial reporting, noting that some of these respondents didn't necessarily agree with the AASB's proposed framework but they see merit in a comparable, consistent and transparent framework nonetheless.
- The following extracts have been taken from the submissions of the above respondents to summarise their key points:
  - A1. "...In our view, once legislation requires an entity to prepare financial statements which are available on public record, those financial statements can no longer be considered special purpose, since the directors of the preparing entity will be unaware of who is using the financial statements. Indeed, the current framework effectively places directors in an impossible position. To determine their reporting requirements, directors must assess who the users of their financial statements are. However, once financial statements of an entity are made publicly available, the entity's directors could have no knowledge of who might be reading their financial statements, or for what purpose..." (R1 – RSM)
  - A2. "...Overall, we are supportive of the AASB's decision to align the definition of a 'reporting entity' under Australian Accounting Standards (AAS) to that under the IASB's Revised Conceptual Framework (RCF). We are also supportive of the AASB's decision to simplify and standardise the Australian Financial Reporting Framework by removing the option to prepare special purpose financial statements and continuing with only two reporting tiers....Yes, we agree with the proposal to mandate compliance with RCF for all entities complying with AAS. It provides a more consistent basis for preparing financial statements for the financial statement preparers of all reporting entities and will facilitate greater comparability and transparency of financial reports for its users..." (R4 – QIC)
  - A3. "Grant Thornton Australia welcomes all measures and consultations by the Board that provide clarity, consistency and simplicity to preparers and users of financial statements. We acknowledge that the Board has invested a significant amount of resources to this consultation process. Having reached this phase of the consultation, we agree in principle with the AASB's Phase 2 approach" (R8 – Grant Thornton)
  - A4. "...While we acknowledge that the AASB's Phase 2 approach will create additional work, and some increased costs for some entities currently preparing special purpose financial statements, we agree with the approach on the basis that it will:
    - remove the subjectivity currently present in the process for self-assessing whether an entity is a 'non-reporting entity',
    - improve the consistency, comparability, usefulness, and credibility of financial statements prepared for regulatory purposes (i.e. for users other than shareholders),
    - improve the comparability for entities of similar economic circumstances, and

- improve the trust and transparency within financial reporting to meet user needs..." (R9 - BDO)
- A5. "...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. However that structure needs sufficient flexibility to appropriately address the varying needs of the users of those reports. We therefore surveyed our members to identify what reporting framework would more appropriately reflect user needs...The outcomes of this research highlight a need for substantial statutory threshold reform and for the refinement, and better enforcement of, a reporting framework which is as firmly focused on identified users as SAC 1 currently is..." (R10 – CAANZ)
- A6. "...The proposal, Tier 2 GPFS, R & M, with 9 disclosures is excellent.... The proposals provide significant to users because:-
- The proposals would provide a standard for the accounts to be prepared. If accounts were prepared to the proposed standards then there would be no material differences and residents could make informed decisions, and likely different decisions.
  - Residents would be advised of related party transactions
  - The audit report is for the owner and limits the auditor's responsibility to the owner
  - The proposals would provide residents with a higher level of assurance..." (R11- Malcolm Bunney)
- A7. "...We consider that, subject to materiality, the recognition and measurement requirements of all Australian Accounting Standards should be mandated for GPFS, RDR and SDR...We consider that the Australian economy would benefit from a: (a) Reduced Disclosure Regime ("RDR")("Tier 2"), and (b) Specified Disclosure Requirements ("SDR")("Tier 3"), and (c) further 'tier 4' option for genuine special purpose reporting (e.g., for financial statements to accompany a small entity tax return)..." (R12 – Hanrick Curran)
- A8. "...We see merit in the underlying desire to discontinue the current model of financial reporting based on the reporting entity concept facilitated through Statement of Accounting Concept 1 The Reporting Entity Concept (SAC 1)...We are however of the view that there is merit in giving further consideration to the development of a simplified financial reporting framework for non-publicly accountable entities based on the IFRS for SMEs standard..." (R13 – CPA)
- A9. "...We support introducing new reporting requirements with those entities that have traditionally meet the special purpose financial reporting requirements...The Australian reporting entity concept was implemented approximately three decades ago. Over this time, expectations of investors and users of financial statements having evolved and progressed. Given the current era of deficiency of trust in corporate Australia and the ongoing call for transparency, we find no compelling evidence to persist with self-assessment of a reporting entity status (SAC 1 reporting entity concept) for those entities required by legislation or otherwise to comply with Australian Accounting Standards..." (R15 - KPMG)
- A10. "...We support the AASB's proposal to simplify the current reporting framework and enhance the consistency, comparability, transparency and usefulness of financial statements..."(R16 – Crowe Horwath)
- A11. "...Meeting the recognition and measurement requirements of the accounting standards should be part of the basic establishment of any For-Profit or Not-for-Profit enterprise large enough to be required to produce financial statements..." (R17 - BCCM)
- A12. "...As noted by Professor Peter Wells, SPFSs mean "consolidated reports are not presented and related party transactions are not disclosed, but this may only be the tip of the iceberg. Accordingly, special purpose financial statements may be of limited value in capturing the activities of the company, and lack comparability." He further stated "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 use of financial statement information impossible.”... The TJN-Aus welcomes the move to eliminate SPFSs, as they make it hard to compare companies and to fully understand their financial activities. They also mean there is not a level playing field between the financial reporting of businesses. The TJN-Aus would have preferred Option 3, as this option (as noted in the consultation paper) would “facilitate consistency, transaction neutrality between sectors and tiers, enable greater comparability between entities, and ensure global transferability...” (R18 – Tax Justice Network)

- A13. “...Yes. Special purpose is inconsistent with other countries and reduced disclosure requirements (RDR) general purpose is not that much extra work in return for the benefit of the robust framework it provides...by converting from special purpose to RDR general purpose it is possible to produce more meaningful accounts without the burden of full general purpose reporting...” (R20 - IFRS System)
- A14. “...The AASB is proposing to remove the ability of entities to lodge Special Purpose Financial Statements (SPFS) with ASIC, which we support. It will align us with global practice and community expectations...”(R23 – PwC)
- A15. “...we have no issue in removing SPFS as a reporting option and replacing it with the streamlined version of the current reduced disclosure requirements (‘RDR’) on the basis that Australia is the only country in the world that has a self-assessing (reporting entity or not) and self-selecting disclosures (pick and choose disclosures to suit) and bringing Australia in line with the reporting requirements of other IFRS adopting countries is seen as conceptually favourable...” (R24 – FRS)
- A16. “...after considering the discussion and analysis contained in ITC 39, subject to the comments made in response to the other questions (see below), we support the application of the RCF to all “other for-profit entities” (that are required by legislation or otherwise to prepare financial statements in accordance with Australian Accounting Standards) in the medium term (under the proposed Phase 2: Medium-term approach)... In our opinion, a single Tier 2 general purpose reporting framework would promote consistency, transparency and comparability in financial reporting (for those for-profit entities preparing Tier 2 general purpose financial statements). A single framework would also provide certainty to governing bodies, preparers, auditors and regulators...” (R25 - Pitcher Partners)
- A17. “...Determining whether an entity is a reporting entity has resulted in varying interpretations and sometimes inconsistent application of the concept. Additionally, giving preparers the judgement for determining the applicable accounting standards is unique compared to international jurisdictions...” (R26 - EY)
- A18. “...As a result we fully endorse any move to ensure financial statements provided to ASIC comply with accounting standards which would enhance the consistency of this data & therefore improve the reliability of decisions being made by businesses in Australia...”(R29 – Equifax)
- A19. R31 – Richard Fakhry said ‘yes’ when asked ‘If not all entities preparing special purpose financial statements are consistently applying the recognition and measurement requirements of Australian Accounting Standards, does this affect the usefulness of the information contained in those special purpose financial statements and / or your ability to make decisions based on this information?’ (R31 – Richard Fakhry)
- A20. R32 - Myron Ithayaraj said ‘yes’ when asked ‘If not all entities preparing special purpose financial statements are consistently applying the recognition and measurement requirements of Australian Accounting Standards, does this affect the usefulness of the information contained in those special purpose financial statements and / or your ability to make decisions based on this information?’ (R32 - Myron Ithayaraj)
- A21. R33 – Richard Dalidowicz said ‘yes’ when asked ‘If not all entities preparing special purpose financial statements are consistently applying the recognition and measurement requirements of Australian Accounting Standards, does this affect the usefulness of the information contained

in those special purpose financial statements and / or your ability to make decisions based on this information? (R33 – Richard Dalidowicz)

- A22. “The Institute of Public Accountants (IPA) believes the centre-piece of the current differential reporting framework, the reporting entity concept, has been a failure in its application. The reporting entity concept as applied by many preparers and auditors does not support transparency and comparability of financial reporting. The application of reporting entity concept represents a long-standing audit and regulatory failure for which there appears to have been inadequate redress and which may have prolonged the issues and concerns...” (R34- IPA)

***Yes – there are enforcement issues with SPFS said 3 out of 33 (9%) respondents***

- R2 – Nexia, R19 – Westworth Kemp and R35 Graeme MacMillan raised enforcement issues with SPFS.
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- B1. “...Part of the AASB’s justification for change is that some companies and entities registered with the ACNC and ASIC are not properly self-assessing their status as a non-reporting entity. We agree with the comments of the AASB Chair, who was quoted saying, ‘from our perspective, the vast majority of companies are already complying with RG85 and doing the right thing and it seems very unfair to us that a small minority of people are not complying with the same requirement and really having a competitive advantage because they’ve chosen not to comply with ASIC’s regulatory guidance.” (Accountants Daily, 31 May 2018 <https://www.accountantsdaily.com.au/tax-compliance/11726-aasb-speaks-up-on-proposed-financial-reporting-changes>). We suggest that if a small percentage of entities are not ‘following the rules’, then it is the responsibility of the regulators (ASIC and the ACNC) to address those instances rather than changing the existing framework...Our preliminary view is that there should only be one Tier 2 GPFS alternative and that SPFR should be available for those entities below reporting thresholds...” (R2 – Nexia)
- B2. “...While the idea of tailoring reporting to the needs of users as described in SAC 1 is appealing, it has not worked in practice because the concept is not sufficiently robust for regulators to be able to support it by means of regulatory action. In our view, the way in which the reporting entity concept has been applied hitherto has led to poor practices both in the compilation and the audit of financial reports...”(R19 – Westworth Kemp)
- B3. “... The problem of Special Purpose Financial Reports (SPFSs) – is essentially a regulatory matter, not a conceptual accounting one...” (R35 – Graeme MacMillan)

***Yes – there are other issues with SPFS/SAC 1/the AASB’s Phased approach said 3 out of 33 (9%) respondents***

- R21 - Swinburne, R22 – Scott Tobutt and R36 – Ed Psaltis raised other issues with SPFS, SAC 1 or the AASB’s Phased approach
- The following extracts have been taken from the submissions of the above respondents to summarise their key points:
  - C1. “...And the IASB acknowledges it does not have the authority to determine who must, should, or could prepare GPFS. This is the environment in which the International Financial Reporting Standards are developed. The way that SAC 1 currently operates distorts this divide as SAC 1 and AASB 1057 *Application of Australian Accounting Standards* answer the who question. I support the withdrawal of SAC 1, but not in isolation of an explicit statement from the lawmaker as to who of its regulated entities should prepare GPFS...” (R21 – Swinburne)
  - C2. “...I do not support the Australian Accounting Standards Board’s (AASB) proposals in ITC 39 as IFRS for SMEs is not allowed as an option for non-publicly accountable reporting entities. This is contrary to the policy of the International Accounting Standards Board (IASB) that produces International Financial Reporting Standards (IFRS) that Australia re-badges as Australian Accounting Standards (AASBs). For non-publicly accountable reporting entities the IASB allows IFRS for SMEs as an option and this followed by many overseas countries including the United Kingdom...” (R22 - Scott Tobutt)
  - C3. “I attended the webinar, thank you. One concern I had was why AASB isn’t doing what the rest of the world has done and introduce general purpose for SMEs. Reason given is that it would mean a big change from what many are doing now. It probably would...But so will the changes you are proposing for those preparing SPFR at present in going to GPFR RDR or similar. (e.g. need to consolidate etc) So if either way there is a big compliance cost in changing from the present, why not make that change more worthwhile by bringing Aust into line with rest of the world, not just for full GPFR (IFRS), but for smaller company accounts too? International borders are greatly reduced and there is a need to compare fin stats from here to other country fin stats. I would have thought that is just as relevant to SMEs as it is for listed cos...” (R36 – Ed Psaltis)

***No - there is no SPFS problem to be solved said 4 out of 33 (12%) respondents***

- R5 – QBE, R6 – IAG, R14 – Keith Reilly and R30 – ABA suggested that there wasn’t a SPFS problem that needs to be solved
- The following extracts have been taken from the submissions of the above respondents to summarise their key points:
  - A23. “...QBE’s preferred approach for wholly-owned subsidiaries of listed Groups is to require application of full recognition and measurement requirements of IFRS and minimal disclosure requirements consistent with the current approach...We support the AASB approach of having consistent, IFRS-based, recognition and measurement across all Australian GPFS to the extent feasible because it provides a base-line level of comparability and a common ‘language’ across Australian financial reporting...” (R5 - QBE)
  - D1. “...IAG’s preference is Option 2: Operate with two Conceptual Frameworks – apply IASB’s RCF to some entities to maintain IFRS compliance and retain the existing Framework for others (i.e. retain the Australian reporting entity concept and SPFS for others). We believe the costs associated with moving to Option 1 would exceed the benefits. For an entity to be eligible to apply the SPFS framework, it generally does not have public accountability or is classified as a non-reporting entity. Hence, in their nature, the financial statements of these entities are relied upon by a limited audience. The consultation paper raises the issue of self-assessment on the type of financial reporting required (paragraph 44) which may be addressed through

consultation with ASIC and the introduction of more prescriptive rules around the self-assessment process...” (R6 – IAG)

- D2. “...Paragraphs 4-6 of the Executive Summary refers to the lack of comparability, trust and transparency resulting from self-assessing. However, that ignores the principle that by definition SPFR entities do not have users who are relying on their financial reports (i.e. Accounts) for making economic rational decisions. Instead, any users are able to obtain the specific information they need (i.e. owners, lenders and potential investors in particular), as otherwise the entity would not be a SPFR. In reality, the preparation of SPFRs and any audit or audit review requirements are due to the Corporations Act that requires some SPFRs, and other legislation (Charities) to prepare financial reports that require compliance with applicable accounting standards. Paragraph 7 refers to AASB Research Report 1 which it is stated suggests a strong need to find a solution. However as previously advised to the AASB, this Report only looks at indicators of users, and not actual users of financial information. The Report is very scant on any evidence that users of financial reports exist for those entities producing SPFRs. Hence a solution looking for a non-existent problem. This issue is covered in my Technical Paper available at: [http://keithreilly.com.au/wp-content/uploads/2017/05/17\\_4-Reporting-Entities-Paper.pdf](http://keithreilly.com.au/wp-content/uploads/2017/05/17_4-Reporting-Entities-Paper.pdf)...” (R14 – Keith Reilly)
- D3. “...The ABA does not agree with the AASB’s preferred two-phase implementation option. An analysis of the conceptual reasons why the ABA is not convinced of the need to immediately remove SAC 1 is provided in Section 5 to this appendix. Nonetheless, the ABA agrees that the interaction between the revised Framework and SAC 1 could be confusing to some...” “...The ABA appreciates the AASB’s intention to remove the ability for entities to self-assess whether to prepare general purpose financial statements to improve fairness, transparency and comparability in the financial reporting framework. However, the current proposals introduce a high risk of imposing an unreasonable reporting burden on entities that clearly have no users of their financial information. Thus, more time and consideration needs to be spent to make sure that the AASB’s efforts target an appropriate group of preparers...” (R30 – ABA)

***There is insufficient evidence to demonstrate the nature of the problem with SPFS said 1 out of 33 (3%) respondents***

- E1. “... sufficient evidence has not been provided to demonstrate the nature of the problem with SPFS ...”. They also “... acknowledge that special purpose financial statements (SPFS) are not comparable because of its self-assessment approach to compliance obligations.” (R7 – AICD)

**Specific Issue 2 – Should all GPFS require full R&M in AAS?**

- 32 respondents provided a response to this question.
- R3 – ACNC and R35 – Graeme MacMillan did not answer this question
- R27 – HoTARAC and R28 – QAO responded in the context of the public sector and strengthening the efficiency and effectiveness of public sector reporting. As such have not been analysed as part of this paper.

***Full R&M in AAS supported by 24 out of 32 (75%), but some respondents want more***

- R1 – RSM, R2 – Nexia (inferred), R4 – QIC, R5 – QBE, R6 – IAG, R8 – Grant Thornton, R9 – BDO, R11 – Malcom Bunney, R12 – Hanrick Curran, R15 – KPMG, R16 – Crowe Horwath, R17 – BCCM, R18 – Tax Justice Network, R19 – Westworth Kemp, R20 – IFRS System, R23 – PwC, R24 – FRS, R25 – Pitcher Partner, R26 – EY, R29 – Equifax, R31 – Richard Fakhry, R32 – Myron Ithayaraj, R33 – Richard Dalidowicz and R34- IPA supported full R&M.
- The following extracts have been taken from the submissions of the above respondents to summarise their key points:

- A24. "...We support the AASB's proposal that all entities required to prepare financial statements which are publicly available, in accordance with Australian Accounting Standards, should prepare general purpose financial statements. In our view, once legislation requires an entity to prepare financial statements which are available on public record, those financial statements can no longer be considered special purpose, since the directors of the preparing entity will be unaware of who is using the financial statements. Indeed, the current framework effectively places directors in an impossible position. To determine their reporting requirements, directors must assess who the users of their financial statements are. However, once financial statements of an entity are made publicly available, the entity's directors could have no knowledge of who might be reading their financial statements, or for what purpose. We also note with interest the results of the AASB's research into financial statements filed with ASIC and other regulators, in particular, that there are ratings agencies and others who download all publicly available data, and use it for the purpose of data analytics, credit ratings, or similar. We believe this supports the AASB's position that it can no longer be stated with confidence that there are no users who are placing reliance on a particular set of financial statements. If entities are required by law to report their results publicly, then it should be done in a meaningful, consistent, and transparent way. The current reporting entity framework does not achieve this. We believe that the preparation of GPFS by all entities who are required to publicly report under Australian Accounting Standards would provide greater clarity and consistency" (R1 - RSM)
- A25. "...Part of the AASB's justification for change is that some companies and entities registered with the ACNC and ASIC are not properly self-assessing their status as a non-reporting entity. We agree with the comments of the AASB Chair, who was quoted saying, 'from our perspective, the vast majority of companies are already complying with RG85 and doing the right thing and it seems very unfair to us that a small minority of people are not complying with the same requirement and really having a competitive advantage because they've chosen not to comply with ASIC's regulatory guidance.'" (Accountants Daily, 31 May 2018 <https://www.accountantsdaily.com.au/tax-compliance/11726-aasb-speaks-up-on-proposed-financial-reporting-changes>). We suggest that if a small percentage of entities are not 'following the rules', then it is the responsibility of the regulators (ASIC and the ACNC) to address those instances rather than changing the existing framework...Our preliminary view is that there should only be one Tier 2 GPFS alternative and that SPFR should be available for those entities below reporting thresholds. Our preliminary view may change depending on the outcome of the Board's proposals in respect of NFP entities..." (R2 – Nexia) (inferred agreement with R&M). (Staff also refer to [SMC 14](#) where R2 - Nexia confirms that they do not agree with IFRS for SMEs, which is further indication that they do not support differential R&M.)
- A26. "...Overall, we are supportive of the AASB's decision to align the definition of a 'reporting entity' under Australian Accounting Standards (AAS) to that under the IASB's Revised Conceptual Framework (RCF). We are also supportive of the AASB's decision to simplify and standardise the Australian Financial Reporting Framework by removing the option to prepare special purpose financial statements and continuing with only two reporting tiers....Yes, we agree with the proposal to mandate compliance with RCF for all entities complying with AAS. It provides a more consistent basis for preparing financial statements for the financial statement preparers of all reporting entities and will facilitate greater comparability and transparency of financial reports for its users..." (R4 - QIC)
- A27. "...QBE's preferred approach for wholly-owned subsidiaries of listed Groups is to require application of full recognition and measurement requirements of IFRS and minimal disclosure requirements consistent with the current approach...We support the AASB approach of having consistent, IFRS-based, recognition and measurement across all Australian GPFS to the extent feasible because it provides a base-line level of comparability and a common 'language' across Australian financial reporting..." (R5 - QBE)



- A28. “The IFRS for SMEs includes differential recognition and measurement requirements when compared with other IFRS standards and limits accounting policy options. For those entities preparing SPFS that have adopted the full measurement and recognition standards, moving to IFRS for SMEs would reduce comparability and create inconsistencies when these entities are consolidated for Group reporting purposes. Hence, we agree with AASB’s decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative...” (R6 – IAG)(inferred agreement with R&M)
- A29. “Grant Thornton Australia welcomes all measures and consultations by the Board that provide clarity, consistency and simplicity to preparers and users of financial statements. We acknowledge that the Board has invested a significant amount of resources to this consultation process. Having reached this phase of the consultation, we agree in principle with the AASB’s Phase 2 approach” ‘ (R8 – Grant Thornton)
- A30. “...While we acknowledge that the AASB’s Phase 2 approach will create additional work, and some increased costs for some entities currently preparing special purpose financial statements, we agree with the approach on the basis that it will:
- remove the subjectivity currently present in the process for self-assessing whether an entity is a ‘non-reporting entity’,
  - improve the consistency, comparability, usefulness, and credibility of financial statements prepared for regulatory purposes (i.e. for users other than shareholders),
  - improve the comparability for entities of similar economic circumstances, and
  - improve the trust and transparency within financial reporting to meet user needs...” (R9 - BDO)
- A31. “...The proposal, Tier 2 GPFS, R & M, with 9 disclosures is excellent.... The proposals provide significant to users because:-
- The proposals would provide a standard for the accounts to be prepared. If accounts were prepared to the proposed standards then there would be no material differences and residents could make informed decisions, and likely different decisions.
  - Residents would be advised of related party transactions
  - The audit report is for the owner and limits the auditor's responsibility to the owner
  - The proposals would provide residents with a higher level of assurance...” (R11- Malcolm Bunney)
- A32. “...We consider that, subject to materiality, the recognition and measurement requirements of all Australian Accounting Standards should be mandated for GPFS, RDR and SDR...” (R12 – Hanrick Curran)
- A33. “We agree with the medium-term approach outlined in paragraph 166 of ITC 39. We support the revised Conceptual Framework for Financial Reporting being applicable to all for-profit entities required by legislation or otherwise to comply with Australian Accounting Standards. We support introducing new reporting requirements with those entities that have traditionally meet the special purpose financial reporting requirements. We consider that continuing with two conceptual frameworks would require a strong case, which we do not believe exists. Our view is consistent with that of the AASB in that a single framework for all entities is the preferred option.
- We see the application of two frameworks being problematic, primarily for the following reasons:
- It would be inefficient and impractical to maintain two conceptual frameworks –and by doing so has the potential to cause further confusion for stakeholders as to which framework to consider for their circumstances and what the differences between the two frameworks are.

- The potential for confusion around the reference to reporting entity concept in SAC 1 Definition of a Reporting Entity.
- Complexities for standard setters in maintaining two frameworks and the flow-on effects when amendments to Australian Accounting Standards occur.

The Australian reporting entity concept was implemented approximately three decades ago. Over this time, expectations of investors and users of financial statements having evolved and progressed. Given the current era of deficiency of trust in corporate Australia and the ongoing call for transparency, we find no compelling evidence to persist with self-assessment of a reporting entity status (SAC 1 reporting entity concept) for those entities required by legislation or otherwise to comply with Australian Accounting Standards.

We believe that the two Tier framework in AASB 1053 *Application of Tiers of Australian Accounting Standards* is appropriate.” (R15 - KPMG)

- A34. “...We support the AASB’s proposal to simplify the current reporting framework and enhance the consistency, comparability, transparency and usefulness of financial statements... We agree with the approach as it maintains the two Tiers of reporting requirements for general purpose financial statements (GPFS) as a way of balancing the benefits of financial information to users and costs to preparers of providing that information. Furthermore, the approach also means that there is only one set of accounting standards in Australia...”(R16 – Crowe Horwath)
- A35. “...Meeting the recognition and measurement requirements of the accounting standards should be part of the basic establishment of any For-Profit or Not-for-Profit enterprise large enough to be required to produce financial statements” ...”Yes, for the most part. The reason is best illustrated by Diagrams 2 and 3 in paragraph 190 of the Consultation Paper, which show a considerable measure of simplification in the reporting framework from one to the next. We are concerned that the first box in the decision tree in Diagram 3 still poses the question whether there is legislation or ‘other requirement’ which requires a financial report complying with Australian Accounting Standards. Further clarity on what the ‘other requirement’ might be is necessary before the framework is implemented.” (R17 - BCCM)
- A36. “...As noted by Professor Peter Wells, SPFSs mean “consolidated reports are not presented and related party transactions are not disclosed, but this may only be the tip of the iceberg. Accordingly, special purpose financial statements may be of limited value in capturing the activities of the company, and lack comparability.” He further stated “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 use of financial statement information impossible.”... The TJN-Aus welcomes the move to eliminate SPFSs, as they make it hard to compare companies and to fully understand their financial activities. They also mean there is not a level playing field between the financial reporting of businesses. The TJN-Aus would have preferred Option 3, as this option (as noted in the consultation paper) would “facilitate consistency, transaction neutrality between sectors and tiers, enable greater comparability between entities, and ensure global transferability...” (R18 – Tax Justice Network)
- A37. “...In our view, all entities that lodge financial statements prepared under a fair presentation framework with a regulator should comply with all the recognition and measurement tenets of accounting standards.... While the idea of tailoring reporting to the needs of users as described in SAC 1 is appealing, it has not worked in practice because the concept is not sufficiently robust for regulators to be able to support it by means of regulatory action. In our view, the way in which the reporting entity concept has been applied hitherto has led to poor practices both in the compilation and the audit of financial reports... We agree with the AASB’s Phase 2 approach...”(R19 – Westworth Kemp)
- A38. “...Yes. Special purpose is inconsistent with other countries and reduced disclosure requirements (RDR) general purpose is not that much extra work in return for the benefit of the robust framework it provides. The step to converting from special purpose to RDR general

purpose financial statements is not as bad as many people fear. Our research shows that a typical set of special purpose financial statements converted to RDR general purpose only increases the content in the notes by 15%. Put into context, this means that a 30-page set of special purpose financial statements becomes a 33-page set of RDR general purpose financial statements. Also, most people agree that the additional disclosures add significantly to the financial statements and therefore it is a positive step up. So, by converting from special purpose to RDR general purpose it is possible to produce more meaningful accounts without the burden of full general purpose reporting. We publicly supported the conversion from special purpose to RDR general purpose in the following LinkedIn article 'The end is nigh for special purpose, but is step up to RDR so bad? <https://www.linkedin.com/pulse/end-nigh-special-purpose-step-up-rdr-so-bad-michael-berrington/> ...' (R20 - IFRS System)

- A39. "...The AASB is proposing to remove the ability of entities to lodge Special Purpose Financial Statements (SPFS) with ASIC, which we support. It will align us with global practice and community expectations..."(R23 – PwC)
- A40. "...we have no issue in removing SPFS as a reporting option and replacing it with the streamlined version of the current reduced disclosure requirements ('RDR') on the basis that Australia is the only country in the world that has a self-assessing (reporting entity or not) and self-selecting disclosures (pick and choose disclosures to suit) and bringing Australia in line with the reporting requirements of other IFRS adopting countries is seen as conceptually favourable..." (R24 – FRS)
- A41. "...after considering the discussion and analysis contained in ITC 39, subject to the comments made in response to the other questions (see below), we support the application of the RCF to all "other for-profit entities" (that are required by legislation or otherwise to prepare financial statements in accordance with Australian Accounting Standards) in the medium term (under the proposed Phase 2: Medium-term approach)..." (R25 - Pitcher Partners)
- A42. '...We believe that the benefits to the Australian economy of a single set of accounting recognition and measurement rules across the for-profit sector and for all entities outweighs potential benefits that may flow from adopting differing recognition and measurement rules for different entities...' (R26 - EY)
- A43. "...we are an active buyer of the financial statements lodged by various companies with ASIC, as a direct user for inclusion of financial highlights into our commercial bureau credit reports, for analytical purposes as detailed below and also as a reseller as an authorised ASIC broker. As Australia's largest commercial credit bureau we receive several million credit enquiries each year on commercial entities within Australia. Where ASIC financial information is available we include summary data in our credit report & as these reports are system generated we are reliant on the integrity of the data provided. As a result we fully endorse any move to ensure financial statements provided to ASIC comply with accounting standards which would enhance the consistency of this data & therefore improve the reliability of decisions being made by businesses in Australia. Using our linking methodology, for the financial statements that ASIC receives from approximately 20,000 Australian companies, we are able extend to this to approximately 70,000 related entities, giving quite a significant level of coverage of commercially active entities within Australia. Also, for our licenced ratings business which trades under the name of Corporate Scorecard, the requirement for an additional layer of investigation by our analysts to adjust financial statements to comply with accounting standards adds to both the cost & timeframe of delivering our analyst prepared credit reports. We also undertake quite extensive market analytics using this financial statement data, an example of which is the Mid-Market Risk Index a copy of which is attached. Again the provision of data which complies with accounting standards would significantly improve the veracity of this analysis & further improve the decision making capacity of Australian businesses..." (R29 – Equifax)

- A44. R31 – Richard Fakhry said ‘Consistent recognition and measurement requirements for assets, liabilities, revenues and expenses from year to year for a particular entity’ was very important and ‘Comparability of recognition and measurement requirements for assets, liabilities, revenues and expenses with other entities’ was important for decision-making. The respondent also said ‘yes’ when asked ‘If not all entities preparing special purpose financial statements are consistently applying the recognition and measurement requirements of Australian Accounting Standards, does this affect the usefulness of the information contained in those special purpose financial statements and / or your ability to make decisions based on this information?’ (R31 – Richard Fakhry)
- A45. R32 - Myron Ithayaraj said ‘Consistent recognition and measurement requirements for assets, liabilities, revenues and expenses from year to year for a particular entity’ and ‘Comparability of recognition and measurement requirements for assets, liabilities, revenues and expenses with other entities’ were very important for decision-making. The respondent also said ‘yes’ when asked ‘If not all entities preparing special purpose financial statements are consistently applying the recognition and measurement requirements of Australian Accounting Standards, does this affect the usefulness of the information contained in those special purpose financial statements and / or your ability to make decisions based on this information?’ (R32 - Myron Ithayaraj)
- A46. R33 – Richard Dalidowicz said ‘Consistent recognition and measurement requirements for assets, liabilities, revenues and expenses from year to year for a particular entity’ and ‘Comparability of recognition and measurement requirements for assets, liabilities, revenues and expenses with other entities’ were very important for decision-making. The respondent also said ‘yes’ when asked ‘If not all entities preparing special purpose financial statements are consistently applying the recognition and measurement requirements of Australian Accounting Standards, does this affect the usefulness of the information contained in those special purpose financial statements and / or your ability to make decisions based on this information?’ (R33 – Richard Dalidowicz)
- A47. “The Institute of Public Accountants (IPA) believes the centre-piece of the current differential reporting framework, the reporting entity concept, has been a failure in its application. The reporting entity concept as applied by many preparers and auditors does not support transparency and comparability of financial reporting. The application of reporting entity concept represents a long-standing audit and regulatory failure for which there appears to have been inadequate redress and which may have prolonged the issues and concerns. ...The IPA is of the view the proposals would enhance financial statements prepared by users as the IPA believes the current differential reporting regime has resulted in financial statements that are neither comparable or transparent. However, the IPA believes the proposals would be enhanced by adopting a broader definition of public accountability....” (Inferred agreement with R&M) (R34- IPA)

***4 out of 32 (XX%) want changes to reporting thresholds first and/or if not IFRS for SMEs (or another differential R&M framework) as an alternative GPFS framework considered***

- R7 – AICD, R10 – CAANZ, R13 – CPA and R21 – Swinburne want the thresholds changed first and/or if not IFRS for SMEs (or another differential R&M framework considered).
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- C4. “...The AICD supports the need for review of the Australian financial reporting framework, given its complexities and its impact on a wide range of entities. We also acknowledge that special purpose financial statements (SPFS) are not comparable because of its self-assessment approach to compliance obligations....The AICD does not support the AASB’s preferred Phase 2: Medium-term Approach which involves removing the ability for non-publicly accountable entities to prepare and lodge SPFS and to instead require general purpose financial statements

(GPFS). We do not consider that the rationale presented in the CP on the problems with SPFS is clear and based on unequivocal evidence. More empirical evidence is needed, based on up-to-date information on the current state of reporting, the identification of the relevant users and the deficiencies with SPFS from those users before this project should proceed...The AICD considers that a broader review of the Australian financial reporting regime should be undertaken by exploring both elements – review of ‘who’ needs to lodge financial reports and a review of ‘what’ these entities should be reporting. The AASB proposals attempt to explore the ‘what’ without policy makers addressing the ‘who’....”(R7 – AICD)

- C5. “...our preference would be for the AASB to prioritise progressing this work ahead of any further advance of the for-profit standard setting reforms. We believe NFP reporting is the area of greatest need and that the outcomes from the board’s NFP reform work could positively inform the approach we see as needed for the for profit (FP) sector reform...We agree that the Australian financial reporting framework would benefit from simplification and clarification and that this consultation is an important step on the path to achieving this reform...We support the need for such a separate NFP consultation, which we see as a critical part of the overall reform package...

We do not agree with the AASB’s Phase 2 approach that will impose a single reporting regime on all lodging entities that do not have public accountability. The proposed approach is a short cut solution to the more complex issue of which for-profit entities should report and what information the users of such reports actually need, but cannot directly access for themselves. Both these issues need to be resolved first, otherwise the result will be an onerous reporting burden on many preparers which provides no demonstrable benefit to users of that information, and which potentially could decrease their perception of the usefulness of those financial statements. It could also lead to entities choosing to restructure as trusts, rather than companies, in order to avoid onerous reporting requirements, which may not be in the public interest.

A broader approach to reform is needed and, as noted earlier, in conjunction with CPA Australia, we have already written to Treasury to ask them to prioritise and conduct a review of the reporting thresholds in the Corporations Act 2001. That letter is attached to this submission...

We therefore encourage the AASB to work collaboratively with Treasury, and use the research that it has been conducting since we lodged our Phase 1 submission to develop a more suitable proposal that better addresses the broader issue of what financial reporting is actually required, before addressing a narrower standard setting solution.

To assist, we have also performed our own research, consulting our membership for their views on suitable reporting alternatives. Feedback from that research is discussed further in our response to question 18 and emphasises the importance of evidence-based user needs as the foundation for any reform. The feedback also suggests that such a reform path should include a more thorough consideration of a role for IFRS for SMEs (or a domestic SME package with a similar objective) as a means of reducing onerous recognition and measurement requirements at the smaller end of the reporting spectrum while still meeting user needs...” (R10 - CAANZ)

- C6. “...since issuing the Consultation, the AASB has stated that the proposals are being considered only in the context of for-profit entities and any financial reporting framework considerations applicable to not-for-profit (NFP) entities will be considered at a later stage. We appreciate the practical considerations that have led to the AASB’s postponement decision. However, we recommend the AASB continues development of its proposals for the for-profit and NFP sectors concurrently as originally planned...CPA Australia supports the phase 2 approach to maintain, in the long term, IFRS compliance for all publicly accountable entities and entities voluntarily claiming IFRS compliance... CPA Australia does not support either of two alternatives proposed under a Tier 2 framework applicable to non-publicly accountable entities. This project initiated by the AASB will result in major changes to the Australian financial reporting framework that will

have a significant economic impact and is expected to remain in place for many years to come. Given the importance of this initiative, it is our recommendation that a much more comprehensive analysis of the issues is required, more options for reporting need to be considered and the involvement of all lawmakers, regulators and standard-setters involved in the financial reporting supply-chain is essential... A cooperative effort between the AASB and Treasury is required...To assist with this, in conjunction with Chartered Accountants ANZ, we have written to Treasury seeking their review of the reporting thresholds in the Corporations Act 2001 as a matter of priority. Our letter to Treasury is attached to this submission...As stated in the cover letter, we do not support either of the proposed alternatives. Further options that include a reduced recognition and measurement framework must also be considered and offered to stakeholders for their feedback... We are of the view that stakeholders should be given further options that may include more than one Tier 2 GPFS alternative. For example, we envisage a scenario where non-publicly accountable entities are able to choose from either the existing RDR framework, or a new reduced recognition and measurement framework based on the IFRS for SMEs..." (R13 - CPA)

- C7. "...No, I do not agree with the AASB's Phase 2 approach (or the modified Phase 2 approach). Anstis and Steenkamp assert "Reform of the Australian financial reporting framework depends on the involvement of the government policymakers and regulators who have the power to identify entities that must report publicly and their reporting requirements." The reference to 'reporting requirements' is significant. The AASB does not have the authority to determine who must, should or could prepare GPFS. The Parliamentary Joint Statutory Committee on Corporations and Securities has issued reports that include its consideration of the reporting entity concept. Notwithstanding statements made about the reporting entity concept, the Parliament of the Commonwealth of Australia has not been moved to make changes to the Corporations Act 2001 or its antecedent legislation. In the absence of action by lawmakers to articulate who of their regulated entities should prepare GPFS, for the AASB to proceed with the original or modified Phase 2 plans would be premature... Further, a Tier 2 GPFS financial reporting framework that uses a recognition and measurement model different from that used in IFRS, for example, IFRS for SMEs or FRS 102 should also be considered with feedback sought from stakeholders..." (R21 – Swinburne)

**4 out of 32 (6%) did not want full R&M in AAS (3 of these respondents want IFRS for SMEs as a Tier 2 GPFS alternative**

- R14 – Keith Reilly, R22 – Scott Tobutt and R36 – Ed Psaltis suggest having IFRS for SMEs as an alternative Tier 2 GPFS framework. R30 – ABA want to retain SAC 1 (with additional guidance) and SPFS and wants the ability not to comply with R&M
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- D1. "...No. As detailed in my earlier comments, the International Accounting Standards Board's (IASB) Conceptual Framework for Financial Reporting (RCP) is not intended to be mandatory for entities to follow, so there is no reason for the AASB to mandate it. The RCP provides guidance, but it is not an accounting standard. Additionally, as I stated in my Phase 1 submission the RCF only has relevance to reporting entities that follow full IFRS which includes full IFRS disclosures i.e. not entities following RDR... No. I do not support listed company accounting for non-publicly accountable entities (i.e. non-listeds) as the IASB has stated quite clearly that non-publicly accountable entities should have the option of adopting more simplified IFRS i.e. IFRS for SMEs that has simplified disclosure and measurement, as well as simplified disclosures. This view was stated in my submission on Phase 1 of the CP..." (R14 - Keith Reilly).
- D2. "...I do not support the Australian Accounting Standards Board's (AASB) proposals in ITC 39 as IFRS for SMEs is not allowed as an option for non-publicly accountable reporting entities. This is contrary to the policy of the International Accounting Standards Board (IASB) that produces

International Financial Reporting Standards (IFRS) that Australia re-badges as Australian Accounting Standards (AASBs). For non-publicly accountable reporting entities the IASB allows IFRS for SMEs as an option and this followed by many overseas countries including the United Kingdom...” (R22 - Scott Tobutt)

- D3. “...The ABA **does not** agree with the AASB’s preferred two-phase implementation option. An analysis of the conceptual reasons why the ABA is not convinced of the need to immediately remove SAC 1 is provided in Section 5 to this appendix. Nonetheless, the ABA agrees that the interaction between the revised Framework and SAC 1 could be confusing to some. Accordingly, we recommend the AASB create guidance material that assists in their interpretation. Notwithstanding the above, the ABA does agree that the revised Framework should be issued in Australia to maintain consistency with IFRS. However, the ABA instead suggests that the reporting entity concept in SAC 1 be renamed (similar to Option 5) in the interim. This would permit continued alignment with IFRS while allowing the AASB and other regulators to seek a more holistic approach to the ultimate removal of the SPFS self-assessment...” ‘The ABA **does not** agree with the Phase 2 approach. As indicated in our response to Questions 1 and 2 relating to Phase 1, the ABA prefers Option 5, with some amendment. In addition, the ABA notes that APRA-regulated entities are prohibited from entering into deeds of cross guarantee and therefore all subsidiaries of those regulated entities are unable to obtain ASIC relief from preparing financial statements...” (R30 – ABA)
- D4. “I attended the webinar, thank you. One concern I had was why AASB isn’t doing what the rest of the world has done and introduce general purpose for SMEs. Reason given is that it would mean a big change from what many are doing now. It probably would...But so will the changes you are proposing for those preparing SPFR at present in going to GPFR RDR or similar. (e.g. need to consolidate etc) So if either way there is a big compliance cost in changing from the present, why not make that change more worthwhile by bringing Aust into line with rest of the world, not just for full GPFR (IFRS), but for smaller company accounts too? International borders are greatly reduced and there is a need to compare fin stats from here to other country fin stats. I would have thought that is just as relevant to SMEs as it is for listed cos...” (R36 – Ed Psaltis)

### SMC 12 Which of the AASB’s two GPFS Tier 2 alternatives (described in paragraphs 167-170) do you prefer?

- 27 respondents provided a response to this question.  
R3 – ACNC, R29 – Equifax, R31 – Richard Fakhry, R32 - Myron Ithayaraj, R33 – Richard Dalidowicz, R34 – IPA and R35 – Graeme MacMillan and did not answer this question
- R27 – HoTARAC and R28 – QAO responded in the context of the public sector and strengthening the efficiency and effectiveness of public sector reporting. As such have not been analysed as part of this paper.

### 5 out of 27 (18.5%) respondents preferred Tier 2 GPFS-RDR

- R1 – RSM, R9 – BDO, R16 – Crowe Horwath, R18 – Tax Justice Network and R19 - Westworth Kemp preferred Tier 2 GPFS-RDR.
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- A1. “...We would be strongly in favour of the retention of the Reduced Disclosure Regime (“RDR”). We believe there are several reasons that support this position:
- The Reduced Disclosure Regime was introduced by the AASB in 2010. It was designed to match disclosures to user needs and cost-benefit principles, and was largely consistent with the disclosure requirements of IFRS for SMEs.

- Among those entities who have adopted it, we have found that it has been broadly accepted, and that where entities were already preparing SPFS based on full adoption of the recognition and measurement requirements of Australian Accounting Standards, the additional disclosures have generally not been onerous to prepare.
- We believe it would be burdensome and unjust for those entities who already prepare RDR financial statements to have to transition to a new reporting framework. We note that the number of such entities is likely to have increased over the past year, as a result of the new requirements for Significant Global Entities (“SGEs”) to prepare GPFS. In our experience, users of RDR financial statements have been satisfied with the reports presented to them.
- The Reduced Disclosure Regime has also been adopted by New Zealand as part of its differential financial reporting framework. Retention of the RDR would be consistent with the AASB’s objective of Trans-Tasman harmonisation wherever possible.
- We believe the SDR’s “all or nothing” approach to disclosure would not result in the best outcome for users, and, in some circumstances, could be onerous for preparers. For example, it contains no disclosure of the liquidity or profile of borrowings, which is likely to be a key disclosure for some users. On the other hand, it requires full-IFRS disclosure of other areas, such as related party transactions and impairment. These may be onerous to prepare, and would be of questionable relevance in some instances. For example, it is doubtful whether detailed disclosures on the impairment testing of goodwill, including the key assumptions and related sensitivity analysis, would be useful or relevant for the readers of the financial statements of many proprietary companies

From the initial discussions that the AASB has held, we are aware that our view may be in the minority on this matter. However, if there are concerns that the RDR, as currently applied, is too onerous for some current preparers of SPFS, we would see that as an opportunity to revisit and, where necessary, reduce the disclosures required by the RDR. We believe it would be a disappointing backward step for the AASB to abandon the RDR altogether.” (R1 - RSM).

*Staff note that R1- RSM made the following additional comments “Our preference would be for RDR to be the only alternative available, in order that the Australian financial reporting framework remain as simple as possible. However, if the AASB does believe that the introduction of SDR is necessary, we would prefer that it is introduced as an alternative to RDR, not as a replacement for it.”*

- A2. “...we prefer the GPFS – RDR alternative because preparers and users are already familiar with these requirements, having been available as a general purpose alternative to Tier 2 since 2010. We also note that this alternative is being used successfully by ‘significant global entities’ having to provide general purpose financial statements to the ATO. While at first glance the GPFS – RDR alternative appears to require overall fewer disclosures than GPFS – RDR (and therefore would appear to be a satisfactory compromise to entities having to step up their level of disclosure to general purpose financial statements), we do not believe that providing in-depth disclosures about a limited number of transactions and balances provide information that is useful to users of financial statements...Many entities have significant transactions and balances that fall outside these above-mentioned standards, and in those cases, SDR would not require disclosure at all. For example, entities with significant financial instruments, business combinations, or subsidiaries and associates, under the SDR approach would not be required to provide any disclosure under AASB 7 *Financial Instruments: Disclosures*, AASB 3 *Business Combinations*, or AASB 12 *Disclosures of Interests in Other Entities*, whereas under RDR, minimum disclosures across all standards is required. We believe this spread of information is desirable to give users a complete picture of the financial affairs of the entity. However, we do note that many entities are sensitive about certain competitive information being made available in the public domain, including, in particular, information related to gross margins. Applying the RDR approach would result in this information being disclosed, being easily be derived by deducting the amount of



‘inventories recognised as an expense during the period’, as required by AASB 102 *Inventories*, paragraph 36(c) from sales revenue. We note that ASB 102.36(c) is not removed under RDR...” (R9 - BDO)

- A3. “...We support Alternative 1: GPFS – RDR. One of the problems with the current regime, as identified by the AASB, is the lack of comparability for entities of similar economic circumstances due to their ability to self-assess what type of financial reporting is required. In our view, this problem would not be solved if Alternative 2: GPFS – SDR was adopted because entities would be allowed to choose which disclosures from non-mandatory Accounting Standards to include in their financial reports. For example, AASB 16 *Leases* requires a lessee to disclose specific information which is useful in understanding the effect of leases on the financial position, performance and cash flows of the lessee. While entities would be required to measure and recognise lease liabilities and corresponding right-of-use assets, under Alternative 2: GPFS – SDR, one entity could choose to disclose some or all information required under AASB 16 while another entity could choose not to disclose any information altogether. This would, in our view, reduce comparability and transparency of the financial reports. Under Alternative 1: GPFS – RDR, those disclosures would be consistent and comparable and would enhance the transparency of financial reporting...” (R16 - Crowe Horwath)
- A4. “...Consistent with TJN-Aus’s desire for greater transparency and better comparability between financial statements of entities, we prefer Alternative 1 as it better delivers these outcomes...” (R18 – Tax Justice Network)
- A5. “...Our preference is for Alternative 1 – GPFS RDR. It already exists and is familiar to users and has the flexibility to respond to the specific features of each business...” (R19 - Westworth Kemp)

#### **4 out of 27 (15%) respondents preferred Tier 2 GPFS-SDR**

- R6 – IAG, R8 – Grant Thornton, R11 – Malcom Bunney and R17 – BCCM preferred Tier 2 GPFS-SDR.
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- B1. “...IAG would prefer Alternative 2: GPFS - Specified Disclosure Requirements. The reasons this is our preferred position are:
- This alternative adopts a more prescriptive approach to disclosure requirements, with specific requirements set out for all entities;
  - The resultant consistency in disclosures will allow for greater comparability across entities; and
  - Adoption would be less onerous given the alignment with the recognition and measurement requirements under the SPFS regime...” (R6 - IAG).
- B2. “...Having examined the alternatives in the discussion paper, we conclude that our preferred revised framework is GPFS – Specified Disclosure Requirements (Alternative 2), which we believe will result in a lower transitional cost, and will result in simpler financial reporting requirements in the longer term...” (R8 – Grant Thornton).
- B3. “...The proposal, Tier 2 GPFS, R & M, with 9 disclosures is excellent...” (R11 – Malcolm Bunney)
- B4. “...Alternative 2 GPFS – SDR is preferred because it appears to provide greater simplicity and clarity...” (R17 - BCCM)

#### **8 out of 27 (29.6%) respondents preferred something in between Tier 2 GPFS-RDR and Tier 2 GPFS-SDR**

- R2 – Nexia, R4 – QIC, R15 – KPMG, R20 – IFRS System, R24 – FRS, R35 – Pitcher Partners, R26 – EY and R30 – ABA preferred something in between Tier 2 GPFS-RDR and Tier 2 GPFS-SDR.

- The following extracts have been taken from the submissions of the above respondents to summarise their key points:

C1. "...We prefer neither GPFS Tier 2 alternatives. In our opinion:

- the existing Tier 2 RDR contains excessive disclosures for non-publicly accountable entities; and
- the proposed Tier 2 SDR is excessive insofar that it requires all the disclosures contained in the four specified accounting standards, but not require disclosures contained in other Accounting Standards that may be relevant to users.

Some preparers view the financial statement preparation process as a compliance exercise. We do not agree with the proposition that preparers will voluntarily present more information than mandatorily specified in Tier 2 in order for the financial report to present a true and fair view without the Board providing additional guidance..." (R2 – Nexia)

C2. "...Our view is that neither of the two Tier 2 alternatives specified in the proposal fully meet the requirements of all stakeholders of the financial reporting framework...In our view, the SDR regime unduly focuses on some accounting standards while inappropriately placing less importance on the requirements of others... The existing RDR regime (Alternative 1) while allowing for more flexibility for the financial statements to be prepared with relevant and useful information, still requires more disclosures than what we consider to be useful to the users. This may result in relevant information being obscured by less relevant disclosures which are there purely for compliance requirements. We propose that a Tier 2 regime that is similar to the current RDR regime, but with less cumbersome disclosure requirements would be the best fit for all stakeholders of the Tier 2 financial reporting framework..." (R4 –QIC)

C3. "Of the two GPFS Tier 2 alternatives presented, we believe a modified Alternative 1 GPFS –RDR (RDR) is the most appropriate. During our consultation on this question there were a number of different views on the purpose and use of financial statements for non-publicly accountable for-profit entities. Some view the financial statement exercise as a compliance process with minimal additional value created by the financial statements. Others see the financial statements as a useful document that is used for a number of ongoing business purposes – for example, providing financial information in tender documents. Striking a balance will require further consultation with the wider Australian community...We acknowledge that RDR will not provide a definitive solution in addressing all the financial reporting challenges. Judgement will still be needed in identifying what is significant and material. Furthermore, in some instances the current format of RDR may result in companies disclosing far more than the users of financial statements would require and expect...In addition to the above, the following were consistently comments received in regards to the SDR approach:

- The requirement to make all disclosures for the nominated standards (revenue, impairment, related parties and income tax).
- A general view that there would be material balances and operations in most companies that would be outside of the 'nominated standards' and users may form different views on requirements to disclose information around those balances and operations. For example, a commercial property entity which records investment properties.

In our experience, a number of entities have already transitioned to preparing GPFS to comply with their ATO reporting obligation. It is questionable what additional benefit these entities – and those already applying Tier 2 – would obtain in changing to SDR..." (R15 - KPMG).

C4. "...RDR Existing Tier 2, as identified in 166(b)(i), so two existing frameworks are maintained: RDR general purpose and full general purpose... The reduced disclosures in RDR general purpose are sufficient (and if you open up discussion on what else could be reduced, we would ask to consider eliminating the disclosures for fair value measurement, aggregate compensation for

key management personnel and share-based payments). There is no need to introduce another framework.” (R20 – IFRS System)

- C5. “...We support RDR as outlined in paragraph 166(b)(i) but with some amendments that remove some of the excessive disclosures that add little or no additional value and/or take too long to obtain. We also consider that the current disclosures for AASB 15 are excessive and should be streamlined under RDR.

We do not support SDR for two reasons:

1. Complying with all the disclosures contained in the four specified accounting standards is excessive; and
2. Disclosures in other standards may be equally appropriate, for example:
  - a. AASB 140 Investment Property - for entities with substantial investment properties;
  - b. AASB 6 Exploration for and Evaluation of Mineral Resources - for entities within the mining and exploration sector; and
  - c. AASB 137 Provisions, Contingent Liabilities and Contingent Assets - applies to all entities that have significant contingent liabilities.

In our experience there is enough confusion between GPRS and RDR without introducing a new SDR...” (R24 - FRS)

- C6. “...Overall, we support the proposal to apply the IASB’s Revised Conceptual Framework (RCF) to all “other for-profit entities” (that are required by legislation or otherwise to prepare financial statements in accordance with Australian Accounting Standards) in the medium term and to replace the ‘Reduced Disclosure Requirements’ framework (that would otherwise apply to such for-profit entities) with an alternative ‘Specified Disclosure Requirements’ framework. However, in our opinion, the disclosure requirements of each specified accounting standard, under an alternative ‘Specified Disclosure Requirements’ framework, should not exceed the level of disclosure currently required under the existing ‘Reduced Disclosure Requirements’ framework. Imposing disclosure requirements of any specified accounting standard that exceed the level of disclosure currently required under the existing ‘Reduced Disclosure Requirements’ framework goes beyond what is necessary to satisfy the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting. We believe that preparing Tier 2 general purpose financial statements in accordance with the full recognition and measurement requirements of Australian Accounting Standards and the ‘RDR equivalent’ disclosure requirements of specified accounting standards will achieve an appropriate balance between the cost of preparation and benefits to users, and satisfy the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting...” (R25 - Pitcher Partners)
- C7. “...As we indicated in our response to ED 277 Reduced Disclosure Requirements for Tier 2 Entities (ED 277), overall we support the AASB's efforts to enhance Tier 2 reporting requirements. We think in general the Policy Framework outlined in ED 277 provides a robust approach for determining reduced disclosure requirements (RDR) for Tier 2 entities, and therefore this work should continue...We believe the proposed Specified Disclosure Requirements (SDR) will mean some disclosures of ED 277 in relation to the liquidity and solvency of the entity will be missed...In addition, we disagree with requiring full disclosure of the four significant matter areas identified, unless these areas were all considered material to the entity. In other words, the extent of an entity's activities / circumstances would be a better indicator of the extent of disclosure for any particular matter...” (R26 - EY)
- C8. “Given the option, the ABA would prefer specified disclosures (SDR) over the current reduced disclosure regime. However, we note that current reduced disclosure requirements were determined based on user need and cost-benefit considerations. Therefore if the AASB were to proceed with SDR the ABA would question why certain disclosures, previously determined to be of little user need where costs would exceed benefits, would be required once more despite this

previous analysis. The ABA's preferred outcome in this regard would be specified Standards that are considered on a user need and cost-benefit basis" (R30 – ABA)

**3 out of 27 (11%) want full R&M with AAS for all GPFS with additional tiers of disclosure**

- R5 – QBE, R12 – Hanrick Curan and R23 – PwC want R&M for GPFS, however want additional tiers of disclosure.
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- D1. "...we do not regard either of the proposed Tier 2 alternatives to be suitable for entities currently required to prepare financial statements and which regard themselves as not being reporting entities and currently prepare SPFS. This includes wholly-owned subsidiaries of listed Groups where the Group applies IFRS and the Group's GPFS include all the relevant information for users. These wholly-owned subsidiaries (which do not issue debt or equity securities to the public) have no users for their financial statements....Furthermore, it is not clear what will be specifically required by Alternative 2 currently proposed by the AASB. Until the AASB clarifies what would be required in Alternative 2 based on the consultation noted in footnote 50 of ITC 39 among users, which should be rigorous and transparent, it is difficult for us to express a preference for either Alternative 1 or Alternative 2...if wholly-owned subsidiaries of listed Groups are to be required to prepare GPFS then a further alternative is needed that involves all recognition and measurement requirements but no or minimal disclosures ..."' (R5 – QBE)
- D2. "...We do not consider that a selection between these two options is appropriate. We consider that both options are required, in addition to a third option, being a further 'tier 4' option for genuine special purpose reporting (e.g., for financial statements to accompany a small entity tax return). We note research from Chartered Accountants which highlights that members in practice do not support the reduction in options as proposed in ITC 39..." (R12 - Hanrick Curran)
- D3. "...PwC's view is a three-tiered reporting framework is needed for corporates as follows:
- IFRS Tier 1: Publicly accountable entities (e.g. listed entities) PwC supports the AASB's view that publicly accountable entities should continue to prepare accounts that are fully IFRS compliant
  - RDR Tier 2: Large private companies >\$100m revenue With reference to the threshold identified for increased accountability in recent Tax Transparency and Modern Slavery legislation, our view is entities with greater than \$100m in revenue would prepare accounts that comply with the existing RDR regime.
  - SDR Tier 3: Medium private companies \$25m-\$100m revenue. To reflect the differing needs of users of medium private company financial statements, PwC propose a third reporting tier is introduced for those entities with revenue of between \$25m and \$100m. This reporting tier could follow the proposed SDR...
- PwC's view is a three-tiered rather than a two-tiered system may better align to other government legislation where more reporting is being required for large private companies of \$100m or more, reducing the risk of two reports being required for different regulators. SDR is a great idea for medium-sized corporations where the focus is on liquidity, solvency and creditors reporting..." (R23 – PwC)

**7 out of 27 (26%) want a Tier 2 GPFS framework with differential R&M to be considered (e.g. IFRS for SMEs)**

- R7 – AICD, R10 – CAANZ, R13 – CPA, R14 – Keith Reilly, R21 – Swinburne, R22 – Scott Tobutt and R36 – Ed Psaltis want a Tier 2 GPFS framework with differential R&M to be considered. This may be IFRS for SMEs or a similar alternative.

- The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- E1. "...We do not consider that either of these Tier 2 alternatives are appropriate to meet the wide range of user needs that exist for non-publicly accountable entities. We consider the reduced disclosure regime (RDR) has been an acceptable alternative to full IFRS for the last five years, although note that the extent of disclosure reductions from full IFRS could be increased. However, in our view neither RDR nor Specified Disclosure Requirements (SDR) are an acceptable alternative to SPFS... While entities have been able to prepare special purpose financial reports when complying with Australian Accounting Standards there has not been a demand for a simplified recognition and measurement framework, such as IFRS for SMEs. SMEs are currently required to report based on the existing proprietary company financial reporting thresholds in Australia. Many SMEs currently report using SPFS. We consider these thresholds should be increased so SMEs will no longer have to publicly report their financial information. If this is undertaken, exploring a financial reporting alternative for SMEs may not be necessary..." (R7 – AICD)
- E2. "...We do not believe that either option is appropriate to meet the needs of users of the wide range of entities that are not publicly accountable. We do not consider that the AASB has adequately demonstrated how either option meets user needs in this regard. We therefore encourage the AASB to work collaboratively with Treasury, and use the research that it has been conducting since we lodged our Phase 1 submission to develop a more suitable proposal that better addresses the broader issue of what financial reporting is actually required, before addressing a narrower standard setting solution. To assist, we have also performed our own research, consulting our membership for their views on suitable reporting alternatives. Feedback from that research is discussed further in our response to question 18 and emphasises the importance of evidence-based user needs as the foundation for any reform. The feedback also suggests that such a reform path should include a more thorough consideration of a role for IFRS for SMEs (or a domestic SME package with a similar objective) as a means of reducing onerous recognition and measurement requirements at the smaller end of the reporting spectrum while still meeting user needs..." (R10 – CAANZ)
- E3. "...As stated in the cover letter, we do not support either of the proposed alternatives. Further options that include a reduced recognition and measurement framework must also be considered and offered to stakeholders for their feedback. In the event the AASB decides to pursue its current proposed two-alternative approach, feedback we have received indicates more support for the existing RDR framework...We are of the view that stakeholders should be given further options that may include more than one Tier 2 GPFS alternative. For example, we envisage a scenario where non-publicly accountable entities are able to choose from either the existing RDR framework, or a new reduced recognition and measurement framework based on the IFRS for SMEs..." (R13 – CPA)
- E4. "...I do not support either of the alternatives as detailed in my comments in Q11 (c). My reasons are that the IASB has a cheaper alternative as an option being IFRS for SMEs, and it is not in the interests of the Government, the AASB or the accounting profession to ban a cheaper alternative that some believe is in the interests of clients rather than in the interests of accountants and auditors who have and will charge additional fees for listed company accounting rules. The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has demonstrated that apart from being illegal in not acting in the best interests of your client, it is also unacceptable to society..." (R14 – Keith Reilly)
- E5. "...I do not support either of the two GPFS Tier 2 alternatives. I think in the absence of comprehensive data and information about for-profit entities the AASB and its for-profit constituents are not well placed to make the necessary assessment...Further, a Tier 2 GPFS financial reporting framework that uses a recognition and measurement model different from

that used in IFRS, for example, IFRS for SMEs or FRS 102 should also be considered with feedback sought from stakeholders...” (R21 – Swinburne)

- E6. “...I do not support the Australian Accounting Standards Board’s (AASB) proposals in ITC 39 as IFRS for SMEs is not allowed as an option for non-publicly accountable reporting entities. This is contrary to the policy of the International Accounting Standards Board (IASB) that produces International Financial Reporting Standards (IFRS) that Australia re-badges as Australian Accounting Standards (AASBs). For non-publicly accountable reporting entities the IASB allows IFRS for SMEs as an option and this followed by many overseas countries including the United Kingdom...” (R22 – Scott Tobutt)
- E7. “...One concern I had was why AASB isn’t doing what the rest of the world has done and introduce general purpose for SMEs. Reason given is that it would mean a big change from what many are doing now. It probably would...But so will the changes you are proposing for those preparing SPFR at present in going to GPFR RDR or similar (e.g. need to consolidate etc). So if either way there is a big compliance cost in changing from the present, why not make that change more worthwhile by bringing Aust into line with rest of the world, not just for full GPFR (IFRS), but for smaller company accounts too? International borders are greatly reduced and there is a need to compare fin stats from here to other country fin stats. I would have thought that is just as relevant to SMEs as it is for listed cos...”(R36 – Ed Psaltis)

### **SMC 13 Do you agree that we only need one Tier 2 GPFS alternative in Australia?**

- 22 respondents provided a response to this question.
- R3 – ACNC, R11 – Malcolm Bunney, R18 – Tax Justice Network, R22 – Scott Tobutt, R29 – Equifax, R30 – ABA, R31 – Richard Fakhry, R32 – Myron Ithayaraj, R33 – Richard Dalidowicz, R34 – IPA, R35 – Graeme MacMillan and R36 – Ed Psaltis did not answer this question.
- R27 – HoTARAC and R28 – QAO responded in the context of the public sector and strengthening the efficiency and effectiveness of public sector reporting. As such have not been analysed as part of this paper.

#### ***14 out of 22 (64%) respondents agree only one Tier 2 GPFS is needed***

- R1 – RSM, R2 – Nexia, R4 – QIC, R6 – IAG, R8 – Grant Thornton, R9 – BDO, R15 – KPMG, R16 – Crowe Horwath, R17 – BCCM, R19 – Westworth Kemp, 20 – IFRS System, R24 – FRS, R25 – Pitcher Partners and R26 – EY agree that only one Tier 2 GPFS framework is needed.
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- A1. “Our preference would be for RDR to be the only alternative available, in order that the Australian financial reporting framework remain as simple as possible. However, if the AASB does believe that the introduction of SDR is necessary, we would prefer that it is introduced as an alternative to RDR, not as a replacement for it. Our reasons for this are set out above, but we would again highlight that we believe that those entities that have already adopted RDR should not be effectively penalised for this choice, and should have the option to continue preparing their financial statements on this basis in future”(R1- RSM).
- A2. “Our preliminary view is that there should only be one Tier 2 GPFS alternative and that SPFR should be available for those entities below reporting thresholds. Our preliminary view may change depending upon the outcome of the Board’s proposals in respect of NFP entities.”(R2 - Nexia)
- A3. “Yes. As mentioned above, it provides a more consistent basis for preparing financial statements for the financial statement preparers of all reporting entities and will facilitate greater comparability and transparency of financial reports for its users.” (R4- QIC)

- A4. “Yes, we agree there should only be one Tier 2 GPFS alternative in Australia. We believe providing optionality has the potential to constrain the comparability of reporting across entities.”(R6 – IAG)
- A5. “We agree there is a need for only one new tier in the context of for-profit entities in the interests of consistency and clarity. Creating more than one Tier 2 GPFS alternative for for-profit entities risks lending itself to confusion for both preparers and users of financial statements” (R8 – Grant Thornton)
- A6. “Yes we agree that all Tier 2 entities required to prepare general purpose financial statements in accordance with Australian Accounting Standards should only have one disclosure alternative, i.e. GPFS – RDR, or GPFS – SDR. As these entities are all considered non-publicly accountable (i.e. are unlisted entities whose debt and equity instruments are not traded in a public market, and which do not hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses), we believe it could cause confusion amongst users by having two different disclosure alternatives for GPFS for what is essentially a homogenous group of entities. We are also concerned that having a choice could result in entities moving between methods from year to year to avoid having to disclose material information.” (R9 – BDO)
- A7. “We agree there is the need for only one Tier 2 GPFS alternative in Australia. Before making our final conclusion we have considered a number of alternatives to a RDR or SDR approach. During conversations it has emerged that a third tier may well be desirable, however, it has been challenging to identify a logical and clear objective delineator. We are of the view that a better outcome is for Treasury to tackle the regulatory decision of which entities – using an objectively measured threshold – need to prepare and lodge financial statements. This would provide a clear and consistent outcome.”(R15 – KPMG)
- A8. “Yes, we are of the view that only one Tier 2 GPFS alternative should be adopted in respect of for-profit entities to avoid situations where two similar entities can prepare financial reports under different frameworks. The reasons why we believe that only one alternative should be available are the same as in our response to Question 12, namely comparability and transparency of financial reporting. However, we would not rule out the possibility of Tier 3 or a different framework altogether for not-for-profit entities. Although introducing a separate framework would go against the principle of having only one set of accounting standards.” (R16 – Crowe Horwath)
- A9. “Yes, for the same reasons as our answer to Question 12.”(i.e. ‘Alternative 2 GPFS – SDR is preferred because it appears to provide greater simplicity and clarity.’) (R17 – BCCM)
- A10. “We agree that we only need one set of Tier 2 requirements, but recommend that the AASB lobby for a raising of the small proprietary company threshold. We also suggest that Australia needs an optional Tier 3 best practice small company accounts that practitioners could use for smaller entities requiring more than just a tax return or a cash based statement of income and expenditure.”(R19 - Westworth Kemp)
- A11. “As per Q12, we are proposing RDR Existing Tier 2, as identified in 166(b)(i), so two existing frameworks are maintained: RDR general purpose and full general purpose. The more frameworks that exist, the more complexity and confusion there is (and opportunity to choose the incorrect framework). If you look at Ireland and the United Kingdom they follow FRS 101 (which is RDR general purpose) and FRS 102 (which is full general purpose). You are either one or the other and it prevents entities falling through the gaps or try to fly under the radar. With the current third option of special purpose, there were plenty of entities adopting special purpose and this has somewhat been corrected with the ATO enforcement for significant global entities of general purpose. As per the ATO’s guidance, we remind those companies that RDR general purpose is sufficient. Refer to our LinkedIn article on this matter: <https://www.linkedin.com/pulse/significant-global-entities-sges-can-lodge-australian-berrington/> Here is the link to the ATO guidance: <https://www.ato.gov.au/Business/Public->

- A12. “Yes. We agree that there only needs to be one Tier 2 GPRS alternative. However, we believe that SPFS should be available for those entities that are below a certain threshold.” (R24 – FRS)
- A13. “We support the retention of a single Tier 2 general purpose reporting framework that requires compliance with the full recognition and measurement requirements, and some ‘reduced’ or ‘specified’ disclosure requirements, of Australian Accounting Standards. In our opinion, a single Tier 2 general purpose reporting framework would promote consistency, transparency and comparability in financial reporting (for those for-profit entities preparing Tier 2 general purpose financial statements). A single framework would also provide certainty to governing bodies, preparers, auditors and regulators.” (R25 – Pitcher Partners)
- A14. “We agree that one Tier 2 GPFS alternative is ideal in Australia. We do not see the merits of further differential reporting unless clear principles could be articulated that differentiate the disclosures. We note the Board’s current challenges in establishing a robust approach for determining one set of disclosures for Tier 2 entities.” (R26 – EY)

**8 out of 22 (36%) respondents disagree that only one Tier 2 GPFS alternative is needed**

- R5 – QBE, R7 – AICD, R10 – CAANZ, R12 – Hanrick Curran, R13 – CPA, R14 – Keith Reilly, R21 – Swinburne and R23 – PwC disagree that only one Tier 2 GPFS alternative is needed.
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- B1. “No - if wholly-owned subsidiaries of listed Groups are to be required to prepare GPFS then a further alternative is needed that involves all recognition and measurement requirements but no or minimal disclosures. These wholly-owned subsidiaries (which do not issue debt or equity securities to the public) have no users for these subsidiary financial statements and their preparation would be a compliance exercise only. Accordingly, it is important to minimise the cost of their preparation. [Please refer to our response to Q18.] If wholly-owned subsidiaries of listed Groups (which do not issue debt or equity securities to the public) were exempted from preparing GPFS, then a single Tier 2 alternative may be appropriate. However, there seem to be many different types of entities (in terms of nature and size) that would need to prepare (at least) Tier 2 GPFS under ITC 39 proposals and we believe there is insufficient data for us to determine whether one Tier 2 GPFS alternative would be adequate” (R5 - QBE)
- B2. “Until the broader framework is reviewed – reviewing both ‘who’ needs to lodge financial reports along with a review of ‘what’ the entities should be reporting, we do not support requiring all entities to prepare GPFS. Without any review of the financial reporting thresholds, we do not consider that only one alternative to full IFRS is sufficient.” (R7 - AICD)
- B3. “Until the issues of who should lodge financial statements on the public record, and what the users of those financial statements actually need are considered and identified, it is inappropriate to impose GPFS on all lodging entities. These entities range in size and complexity, and their users are primarily concerned with the measurement of performance in a format that is readily understood by the primary users i.e. management and owners, employees and creditors, rather than the making of investment allocation decisions.
- Therefore the financial statements of these entities need to ensure that this performance is clearly and effectively disclosed, through fit for purpose financial reporting requirements, and not obscured by unnecessary and unhelpful reporting. What these disclosures are requires careful consideration of entities at the smaller end of the scale from a cost benefit perspective, given the limited resources available to these entities and their significance to the economy. Bearing this in mind we are of the view that that the application of the current RDR to all the current ‘non- reporting entities’ would result in financial statements disclosures that are



substantially in excess of this need since it is designed for entities at the larger end of the public accountability to lodging entity continuum. However, our members have expressed support for RDR as a conceptual reporting alternative, if it was to be better targeted to the smaller end of the lodgement spectrum.

They also view RDR more favourably than SDR as an alternative for these entities. While disclosure would be less than under RDR, it would also result in the inclusion of a range of disclosures which are unsuitable to these types of entities, demonstrated by the fact that these disclosures are already eliminated in the RDR package for these standards. SDR also excludes standards for which we believe there would be user needs for relevant disclosures and these are detailed in our response to question 17.

In light of the above, we believe that a more suitable approach is to adopt a 'bottom up' approach to reporting requirements for entities that are not publicly accountable. Legislators should be responsible for defining suitable criteria for lodgement, placing numerical thresholds on the key aspects of public accountability at both the upper and lower ends of the lodgement scale, in the interests of comparability. Having identified expected users, the accounting standards should then set minimum financial reporting requirements for acceptable financial statements to meet those needs, providing clear lodgement expectations which regulators can then require and enforce."(R10 – CAANZ)

- B4. "No, we do not agree with the proposals. We consider that the proposals are too limited to be useful for practitioners. We consider that the current proposals in ITC 39 would be too limited for the use of entities in the Australian." (R12 - Hanrick Curran)

*Note: Hanrick Curran want three GPFS tiers – all full R&M plus SPFS for actual "special purpose preparers" to help them prepare their tax returns.*

- B5. "We are of the view that stakeholders should be given further options that may include more than one Tier 2 GPFS alternative. For example, we envisage a scenario where non-publicly accountable entities are able to choose from either the existing RDR framework, or a new reduced recognition and measurement framework based on the IFRS for SMEs.

We appreciate the AASB's concerns set out in the Consultation as to why it has decided not to pursue an option based on the IFRS for SMEs. We also note that the AASB has limited resources and may be unable to maintain more than one Tier 2 framework. One of the concerns raised in the Consultation is that stakeholders who are already preparing financial statements based on the RDR framework, or Special Purpose Financial Statements (SPFS) applying full recognition and measurement requirements, may not wish to adopt a new reduced recognition and measurement framework. To address this, we suggest an approach that provides three options for preparing financial statements by non-publicly accountable entities:

1. Entities that choose to apply the Tier 1, full IFRS framework can do so
2. "Freezing" the current RDR framework so that stakeholders who are already applying this framework and others who may choose to apply the RDR framework can do so
3. Others can choose to apply a newly developed, optional simplified financial reporting framework that includes reductions in recognition and measurement requirements.

We consider this approach a viable proposition for the following reasons:

- With completion of some of the major standard-setting projects by the IASB, there are unlikely to be further significant new standards in the near future for which an RDR version will need to be considered. Hence "freezing" the existing RDR framework could be a viable proposition.
- The IASB is currently considering a research project for an RDR framework called "SMEs that are subsidiaries" that may lend itself to a future permanent solution in Australia to replace the existing RDR framework.

One of the AASB's concerns with the above approach would be a potential loss of comparability between two Tier 2 frameworks. Empirical evidence that supports user needs that require such comparability will be required to support any such concerns.” (R13 – CPA)

- B6. “No. As detailed in my submission on Phase 1, I believe that for the AASB to be in compliance with its own mandate from the Government, it needs to both allow IFRS for SMEs as an option for non-publicly accountable entities, and I see no reason why non-reporting entities (e.g. family owned large pity companies) need to adopt full IFRS listed company recognition and measurement rules. The AASB has already acknowledged that it will consider simpler rules for charities in the not-for-profit sector, so why not for the for-profit sector? The AASB should also be mindful of significant entities such as the major professional accounting firms that have revenues in excess of \$1 billion who do not have to comply with IFRS. It does seem unfair to hit smaller businesses with increased compliance costs in comparison, does it not?” (R14 - Keith Reilly)
- B7. “No, I do not agree. I think in the absence of comprehensive data and information about for-profit entities to rule in or out Tier 2 GPFS frameworks – be they Alternative 1 or Alternative 2 or a different alternative - is premature. I note the IASB research pipeline includes a research project “SMEs that are subsidiaries”, a project whose objective is to assess whether it would be feasible to permit SMEs to use a reduced disclosure requirements framework. If the research establishes this approach would be feasible, there may well be two alternative frameworks available to be used by reporting entities that do not have public accountability...” (R21 – Swinburne)
- B8. “...PwC’s view is a three-tiered reporting framework is needed for corporates as follows:
- IFRS Tier 1: Publicly accountable entities (e.g. listed entities) PwC supports the AASB’s view that publicly accountable entities should continue to prepare accounts that are fully IFRS compliant
  - RDR Tier 2: Large private companies >\$100m revenue With reference to the threshold identified for increased accountability in recent Tax Transparency and Modern Slavery legislation, our view is entities with greater than \$100m in revenue would prepare accounts that comply with the existing RDR regime.
  - SDR Tier 3: Medium private companies \$25m-\$100m revenue. To reflect the differing needs of users of medium private company financial statements, PwC propose a third reporting tier is introduced for those entities with revenue of between \$25m and \$100m. This reporting tier could follow the proposed SDR...

PwC’s view is a three-tiered rather than a two-tiered system may better align to other government legislation where more reporting is being required for large private companies of \$100m or more, reducing the risk of two reports being required for different regulators. SDR is a great idea for medium-sized corporations where the focus is on liquidity, solvency and creditors reporting...” (R23 – PwC)

#### **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?**

- R3 – ACNC, R11 – Malcolm Bunney, R18 – Tax Justice Network, R23 – PwC, R29 – Equifax, R30 – ABA, R31 – Richard Fakhry, R32 - Myron Ithayaraj, R33 – Richard Dalidowicz, R34 – IPA, and R35 – Graeme MacMillan did not answer this question
- R27 – HoTARAC and R28 – QAO responded in the context of the public sector and strengthening the efficiency and effectiveness of public sector reporting. As such have not been analysed as part of this paper.

**15 out of 23 (65%) respondents agree IFRS for SMEs should not be made available as a Tier 2 GPFS alternative. Another 5 constituents did not explicitly answer SMC 14 but due to other answers, staff consider they may not support IFRS for SMEs**

- R1 – RSM, R2 – Nexia, R4 – QIC, R5 – QBE, R6 – IAG, R8 – Grant Thornton, R9 – BDO, R12 – Hanrick Curran, R15 – KPMG, R16 – Crowe Horwath, R17 – BCCM, R20 – IFRS System, R24 – FRS, R25 – Pitcher Partners and R26 – EY agreed that IFRS for SMEs should not be made available as a Tier 2 GPFS alternative
- The following extracts have been taken from the submissions of the above respondents to summarise their key points:
  - A1. “We concur with the AASB’s decision not to introduce IFRS for SMEs as an option within Australia at this time. The purpose of the proposed changes is to increase consistency and comparability, and the inclusion of an alternative basis of recognition and measurement would appear inconsistent with that aim. A key argument in favour of allowing IFRS for SMEs in Australia would be for the benefit of foreign-owned subsidiaries where the parent reports consolidated results under IFRS for SMEs in its home jurisdiction. We note that this issue may occur, as IFRS for SMEs is available as an option in nearly 100 other jurisdictions. However, in many of these, it exists as an alternative to local GAAP rather than a replacement for it, and take-up remains relatively low. In our experience, this issue is therefore rare in practice. Should IFRS for SMEs gain wider recognition globally in future, we would support the AASB revisiting this decision” (R1 – RSM).
  - A2. “For the reasons set out by the Board in ITC 39, we agree that GPFS – IFRS for SMEs should not be available in Australia as a Tier 2 alternative”(R2 – Nexia)
  - A3. “Yes. As noted in the Consultation Paper, IFRS for SMEs have different recognition and measurement requirements than existing IFRS and AAS which then reduces comparability among entities” (R4-QIC)
  - A4. “Given that there are some variations from IFRS recognition and measurement requirements in the *IFRS for SMEs* (and potential for more variations in the future as IFRS evolve), we would not support using the *IFRS for SMEs* in Australia” (R5 – QBE)
  - A5. “The IFRS for SMEs includes differential recognition and measurement requirements when compared with other IFRS standards and limits accounting policy options. For those entities preparing SPFS that have adopted the full measurement and recognition standards, moving to IFRS for SMEs would reduce comparability and create inconsistencies when these entities are consolidated for Group reporting purposes. Hence, we agree with AASB’s decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative.”(R6 – IAG)
  - A6. “We agree with the AASB’s determination not to implement GRFR – IFRS for SMEs. Australia already has recognition and measurement requirements for all financial statements prepared under Corporations Act, a move to IFRS for SMEs would not be favourable to the Australian market. We acknowledge that IFRS for SMEs is a viable alternative for jurisdictions where SMEs would otherwise make a significant leap from their local GAAP to full IFRS compliance if not for the availability of IFRS for SMEs.” (R8 – Grant Thornton)
  - A7. “Given that IFRS for SMEs is only updated every three years, we agree with the AASB’s decision not to make IFRS for SMEs available in Australia as a Tier 2 alternative because it could result in measurement bases and disclosures being significantly out of step with Tier 1 recognition and measurement principles, and it could also seriously lag behind in terms of disclosures for new standards. We also believe that it would result in:
    - Significant additional costs for practitioners (including staff training) in having to become educated with an additional set of recognition, measurement and disclosure standards, and

- Lack of comparability with entities applying GPFS – RDR or GPFS – SDR alternatives (both in recognition and measurement, and disclosure differences), particularly for for-profit entities.” (R9 – BDO)
- A8. “Yes. We consider that differential approaches to recognition and measurement in the Australian economy would be detrimental to the profession and to the comparability of financial information. We consider that the universal application of recognition and measurement principles are beneficial to the economy and are easily and appropriately applied using the concepts of materiality that are fundamental to the application of accounting standards.” (R12 - Hanrick Curran)
- A9. “We agree that IFRS for SMEs should not be made available in Australia as a Tier 2 alternative for entities to apply. As set out in Appendix C paragraphs 18 to 36, IFRS for SMEs includes different recognition and measurement principles compared with IFRS. To allow certain entities the option to prepare under different recognition and measurement principles would, in our view, be a backward step in relation to consistent financial reporting for preparers and users in Australia. In Australia a number of subsidiary entities are consolidated up into Tier 1 financial statements. Different recognition and measurement principals will double the effort for preparers of these financial statements. In summary, our current view is consistent with the views expressed when this issue was debated back in 2010.”(R15 – KPMG)
- A10. “We agree with the AASB’s decision on the basis that the disadvantages of IFRS for SMEs outweigh their advantages as outlined in paragraphs 21 to 35 of Appendix C to ITC 39. The adoption of IFRS for SMEs has been slow and sporadic compared to the adoption of IFRS. In addition, preparers and users of financial reports in Australia are used to having one set of accounting standards. To introduce a different set of recognition and measurement rules would unsettle the industry and would require a significant investment by the industry to upskill preparers, users and auditors on a new framework.” (R16 – Crowe Horwath)
- A11. “Yes. We will be better served by having one set of standards and determining which ones are not required for Tier2 reporting rather than two sets of standards and having to determine which set apply to which entities.”(R17 – BCCM)
- A12. “Yes. The reduced disclosures in RDR general purpose are sufficient (and if you open up discussion on what else could be reduced, we would ask to consider eliminating the disclosures for fair value measurement, aggregate compensation for key management personnel and share-based payments). There is no need to introduce another framework.” (R20 – IFRS System)
- A13. “Yes. We are not in favour of using IFRS for SMEs as a basis of preparation for Tier 2 entities, for the same reasons that we provided in our submission in AASB Consultation Paper, Exposure Draft 192 (ED 192) being:
- Having more than one recognition and measurement basis for all Australian entities would remove the fundamental reason for adopting IFRS in the first place, being comparability between entities;
  - Maintaining two sets of recognition and measurement standards would involve additional ongoing costs;
  - Training and education costs of accounting professionals would increase - there is already enough confusion between disclosures of full general purpose and RDR; and Mobility of accounting professions would decrease.”(R24 – FRS)
- A14. “We support the AASB’s decision that IFRS for SMEs should not be made available in Australia as an alternative Tier 2 general purpose reporting framework. As a country that has adopted full IFRS recognition and measurement, in our opinion, the adoption of IFRS for SMEs would be a significant step backwards for Australian financial reporting. In addition, in our opinion, the simplified recognition and measurement requirements of IFRS for SMEs would provide little real benefit to Australian entities that do not have public accountability and would potentially

increase the complexity and cost of moving from one tier of general purpose reporting to another.” (R25 – Pitcher Partners)

- A15. “We agree. The reasons for this are outlined in our response to ITC 12 and ED 192 and are consistent with the reasons set out by the AASB in the Consultation Paper. The IASB has added a feasibility study to its research pipeline regarding SMEs that are subsidiaries. The project’s objective will be to assess whether to permit subsidiaries that meet the definition of a SME to use the recognition and measurement requirements in IFRS and the disclosure requirements in the IFRS for SMEs. The AASB should monitor this project as it may provide a path for Australia.” (R26 – EY)

**8 out of 23 (35%) want IFRS for SMEs explored**

- R7 – AICD, R10 – CAANZ, R13 – CPA, R14 – Keith Reilly, R19 – Westworth Kemp, R21 – Swinburne, R22 – Scott Tobutt and R36 – Ed Psaltis disagreed and felt that IFRS for SMEs should be explored as a Tier 2 alternative.
- The following extracts have been taken from the submissions of the above respondents to summarise their key points:

- B1. “While entities have been able to prepare special purpose financial reports when complying with Australian Accounting Standards there has not been a demand for a simplified recognition and measurement framework, such as IFRS for SMEs.

SMEs are currently required to report based on the existing proprietary company financial reporting thresholds in Australia. Many SMEs currently report using SPFS. We consider these thresholds should be increased so SMEs will no longer have to publicly report their financial information. If this is undertaken, exploring a financial reporting alternative for SMEs may not be necessary.

In our view, IFRS for SMEs as developed by the IASB, has the following advantages:

- The requirements are contained in one separate standard/book making it easier for preparers to identify the reporting requirements that exist
- It leads to comparable financial statements for those applying the framework
- It provides simplified recognition and measurement requirements, mostly designed to meet the needs of users within an SME market
- The standard is subject to some stability, as it is only updated periodically
- It is based on IFRS fundamentals that are already taught in education institutions, therefore further education needs will be limited
- The standard has not been designed to be used for entities operating in capital markets
- The standard is maintained and consulted on internationally, with education modules to assist with application, so Australian costs to maintain would be minimal
- The standard is already being used (either as is or in a modified form) in some other international jurisdictions for SME reporting.

We do not consider that IFRS for SMEs can be used for the NFP sector, as it was not designed with NFP users in mind. However, we note the UK has used this standard as a base for the NFP sector and then made further modifications to the standard to meet the needs of NFP users. This could be explored further in Australia.” (R7 – AICD)

- B2. “While we acknowledge that IFRS recognition and measurement is widely used by non-publicly accountable entities, we believe that this is partly because a modified recognition and measurement option (such as IFRS for SMEs) has never been seriously offered as an alternative. It has also been unnecessary whenever SAC 1 allows smaller non publicly accountable entities measurement choice in order to effectively meet their user needs. However it does become a valuable alternative in the development of a consistent and transparent ‘bottom up’ solution to

lodging entity reporting requirements. Its recognition and measurement principles are far more suited to the needs of smaller entities than IFRS, while remaining IFRS like, and its disclosure principles already underpin our reduced disclosure regime.” (R10 – CAANZ)

- B3. “No, for the reasons stated in the cover letter and in responses to the previous questions, we do not agree with the AASB’s decision that a financial reporting framework based on IFRS for SMEs should not be made available in Australia as a Tier 2 alternative. At the very least, the AASB should develop and propose a suitable option that is based on the IFRS for SMEs for consideration by stakeholders. To address some of the concerns raised by the AASB, 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. It is possible that such an approach may also lend itself to developing a simplified reporting solution for the NFP sector. The United Kingdom has taken a similar approach with its SME standard FRS 102, which is based on the IFRS for SMEs and is applicable to both the for-profit and NFP sectors.” (R13 – CPA)
- B4. “No. As detailed in my 9 August 2018 submission on Phase 1, I believe that IFRS for SMEs is a less costly solution for non-publicly accountable entities, it is designed by the IASB for that purpose, and it is widely adopted globally. On that basis it should be available as an option and let the market decide” (R14 - Keith Reilly)
- B5. “We would not object to IFRS for SMEs being made available as an option. It is a cohesive set of requirements which while falling short of full recognition and measurement is nevertheless a recognised GAAP. If an entity chose to adopt IFRS for SMEs instead of RDR that fact would have to be prominently disclosed under the Basis of Preparation in Note 1.”(R19 - Westworth Kemp)
- B6. “No, I do not agree with the AASB’s decision that IFRS for SMEs not be made available as a Tier 2 alternative. I think to rule out IFRS for SMEs is premature. Instead feedback should be sought from stakeholders on their views about a Tier 2 GPFS financial reporting framework that uses a recognition and measurement model different from that used in IFRS.”(R21 – Swinburne)
- B7. “I do not support the Australian Accounting Standards Board’s (AASB) proposals in ITC 39 as IFRS for SMEs is not allowed as an option for non-publicly accountable reporting entities. This is contrary to the policy of the International Accounting Standards Board (IASB) that produces International Financial Reporting Standards (IFRS) that Australia re-badges as Australian Accounting Standards (AASBs). For non-publicly accountable reporting entities the IASB allows IFRS for SMEs as an option and this followed by many overseas countries including the United Kingdom. IFRS for SMEs is designed by the IASB to be a more cost effective standard compared to IFRS for non-publicly accountable reporting entities (ie generally not listed entities). I believe that it is in my clients’ best interests to reduce unnecessary compliance costs and therefore its clients should have the option to adopt IFRS for SMEs and hence reduce the cost burden. Whilst some of my non-publicly accountable entities may wish to stay with IFRS, others may not, and to deny those clients the opportunity to reduce their compliance costs, does not seem to be in the best interests of those clients, and contrary to the public interest principles that the accounting profession states is its mission.” (R22 – Scott Tobutt)
- B8. “...One concern I had was why AASB isn’t doing what the rest of the world has done and introduce general purpose for SMEs. Reason given is that it would mean a big change from what many are doing now. It probably would...But so will the changes you are proposing for those preparing SPFR at present in going to GPFR RDR or similar (e.g. need to consolidate etc). So if either way there is a big compliance cost in changing from the present, why not make that change more worthwhile by bringing Australia into line with rest of the world, not just for full GPFR (IFRS), but for smaller company accounts too? International borders are greatly reduced and there is a need to compare fin stats from here to other country fin stats. I would have thought that is just as relevant to SMEs as it is for listed cos...” (R36 – Ed Psaltis)

**SMC 15 If the AASB implements one of the two proposed alternatives, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)?**

- R3 – ACNC, R11 – Malcolm Bunney, R12 – Hanrick Curran, R18 – Tax Justice Network, R22 – Scott Tobutt, R23 – PwC, R29 – Equifax, R30 – ABA, R31 – Richard Fakhry, R32 – Myron Ithayaraj, R33 – Richard Dalidowicz, R34 – IPA, R35 – Graeme MacMillan and R36 – Ed Psaltis did not answer this question
- R27 – HoTARAC and R28 – QAO responded in the context of the public sector and strengthening the efficiency and effectiveness of public sector reporting. As such have not been analysed as part of this paper.

**7 out of 20 (35%) said AASB 1 is sufficient**

- R5 – QBE, R16 – Crowe Horwath, R17 – BCCM, R19 – Westworth Kemp, R20 – IFRS System, R25 – Pitcher Partners and R26 – EY believe that AASB 1 provides sufficient transitional relief.
- The following extracts have been taken from the submissions of the above respondents to summarise their key points:
  - A1. “Provided the exception in paragraph 4 of AASB 10 *Consolidated Financial Statements* still applies we do not see the need for transitional relief” (R5 – QBE)
  - A2. “We believe that AASB 1 *First-time Adoption of Australian Accounting Standards* adequately deals with transitioning from special purpose financial statements to financial statements prepared under the reduced disclosure requirements. It is paramount that entities are given sufficient time to transition and exemptions from the presentation and disclosure requirements relating to comparative information be expanded to, for example related party transactions, financial instruments and fair value disclosures. We contemplated whether some relief should be available in the application of consolidation and equity accounting, as this appears to be an area of concern for entities that currently prepare special purpose financial statements. However, providing any relief from consolidation or equity accounting beyond the exceptions set out in AASB 1 would, in our opinion, undermine the project’s goal of consistent, comparable, transparent and useful financial statements.” (R16 – Crowe Horwath)
  - A3. “The transitional relief currently available in AASB 1 is adequate for a fully resourced entity which has planned well for a transition to full first-time adoption of Australian Accounting Standards. The recommendation in Section 3C above addresses the position of less well-resourced entities which nevertheless wish/are required to prepare CFS Tier 2 by providing a comprehensive timetable for attainment of that level of disclosure.’ (Section 3C states...

**‘Continuation of the application of different tiers of Australian Accounting Standards**

There are clearly some disclosures which are relevant to very large enterprises, certain industries or those with public accountability and those entities should meet all accounting standards in order to produce Complying Financial Statements (Tier 1). But it should be equally possible for entities without such involvements to be regarded as producing Complying Financial Statements (Tier 2) if they meet certain minimum specified reporting standards.

The BCCM therefore supports the adoption of Alternative 2 Complying Financial Statements (GPFS) – Specified Disclosure Requirements (SDR) as a new Tier 2 in AASB 1053 because it will provide simplicity of application and more clarity than the existing Tier 2.

It is further recommended that an additional Tier 3 is introduced, which would in effect be a transitional arrangement. Tier 3 would provide CFS (Tier 3) status with less disclosures than Tier 2. Tier 3 would only be available to an entity for so long as it adhered to a timetable for the gradual adoption of additional disclosure requirements so as to bring it up to Tier 2 level. If a Tier 3 entity failed to meet the requirements then it would be required to identify its financial statements as NCFS unless and until it rectified the shortfall.’”(R17 – BCCM)

- A4. “In our view AASB 1 is adequate.” (R19 – Westworth Kemp)

- A5. "No specific relief, but a window to adopt the new framework should be given. For instance, if the new rules are finalised during 2019, then they should apply to reporting periods commencing on or after 1 January 2021 or 1 January 2022" (R20 – IFRS System)
- A6. "We note that AASB 1053 *Application of Tiers of Australian Accounting Standards* is accompanied by Appendix D – Transition Scenarios, which summarises the application of AASB 1 First-time Adoption of Australian Accounting Standards and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors in common scenarios. This includes scenarios involving an entity moving from the preparation of special purpose financial statements in a previous reporting period to the preparation of 'Tier 1' or 'Tier 2' general purpose financial statements in the current reporting period. In our opinion, the guidance contained in Appendix D of AASB 1053, and the existing requirements of AASB 1 and AASB 108, are sufficient to enable the 'first-time' preparation of general purpose financial statements following the removal of the Australian 'reporting entity concept' from Australian Accounting Standards." (It should be noted that Pitcher Partner's response to Question 22 suggest additional transitional ideas for for-profit entities required by constitutional document rather than legislation who would be impacted by the proposals)." (R25 – Pitcher Partners)
- A7. "We believe the principles in AASB 1053 *Application of Tiers of Australian Accounting Standards* should be maintained. That is, no additional transitional relief is needed because we consider the application of AASB 1 First-time Adoption of Australian Accounting Standards is sufficient. We are not aware of any significant issues that have arisen in the application of AASB 1." (R26 – EY)

**9 out of 20 (45%) said AASB 1 is insufficient and more is required**

- R1 – RSM, R2 – Nexia, R4 – QIC, R8 – Grant Thornton, R9 – BDO, R10 – CAANZ, R13 – CPA, R15 – KPMG and R24 – FRS felt that more transitional relief than just AASB 1 was required.
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- B1. "AASB 1 provides an appropriate framework for the recognition and measurement of the transition to Australian Accounting Standards for the first time. For many entities, where recognition and measurement have been followed previously in their SPFS, the impact of transition to GPFS will be minimal. This has been our experience with entities which have already transitioned from SPFS to RDR. We believe that it would not be appropriate to apply the disclosure requirements of AASB 1 in full on transition from SPFS to GPFS, and that some level of relief should be provided. In particular the presentation of a third balance sheet is unlikely to be useful for many users. We note that the impact will be greatest for those entities that will need to apply consolidation and equity accounting for the first time on transition. There may be an argument in favour of allowing transitional relief in respect of the presentation of comparative information for such entities. Instead, a "modified retrospective" approach conceptually similar to that in the new revenue and leases standards could be developed" (R1 - RSM)
- B2. "It is unclear, but unlikely, that entities currently preparing SPFS that do not apply AASB 10 would therefore be able to apply the exemptions for previous business combinations contained in Appendix C of AASB 1 unless the Board clarified the application of those requirements. We maintain that full retrospective application of AASB 3 and AASB 10 would be impracticable. Furthermore, applying AASB 3 and AASB 10 prospectively to new business combinations would fail the AASB's own objective of IFRS compliance, comparability and arguably would not present a true and fair view of the entity's financial position or performance. It is possible that other unintended consequences and practical difficulties may exist in applying AASB 1 on transition that we have not identified to date. We recommend that the Board undertake detailed field testing before deciding on transition requirements" (R2 - Nexia)



- B3. "Please refer to our response in Q16 below" (R4-QIC)
- B4. "Consistent with feedback at roundtables, we agree there would be a benefit in providing relief for the inclusion of comparative information in the first effective period of the new standard. In our view, the modified retrospective approach, in line with the transitional arrangements for new major standards such as AASB 15 *Revenue from Contracts with Customers*, would be the most appropriate option. As it would not provide consistency, clarity nor simplicity for preparers and users of financial statements, we do not support the notion of grandfathering the existing Special Purpose Financial Statements regime for entities already applying it." (R8 – Grant Thornton)
- B5. "Our comments below relate to the preparation of separate financial statements only – transitioning from SPFS to GPFS

*Disclosures*

Regardless of whether the Board chooses RDR or SDR as the Tier 2 alternative, entities moving from special purpose financial statements (SPFS) will need to include some additional disclosures. To ease the burden and reduce costs on first time adoption, we suggest that transitional relief be given so that such entities do not need to go back and include the additional disclosure as comparatives in the first year.

*Recognition and measurement*

AASB 1053 *Application of Tiers of Accounting Standards*, Appendix C – Chart 1 already includes guidance for transitioning from SPFS to Tier 2 as follows:

- If recognition and measurement requirements had been applied in the most recent SPFS – AASB 1 is not applied. The entity would simply continue applying recognition and measurement requirements, or
- If recognition and measurement requirements had not been applied in the most recent SPFS – AASB 1 would generally be applied.

Therefore, in principle, we do not consider any additional transitional relief necessary for recognition and measurement in first-time GPFS for separate financial statements. However, please refer to our further comments in Question 16 regarding transitional relief for consolidation and equity accounting." (R9 – BDO)

- B6. "Neither RDR or SDR are supported, however appropriate transitional relief needs to include consolidation. While we do not support the introduction of either option, appropriate transitional relief needs to include consolidation relief that does not require retrospective application (see below)." (R10 – CAANZ)
- B7. "Transitional relief could include relief from consolidation, and other challenging standards such as AASB 16 Leases. We suggest the AASB undertake specific outreach activities to identify what transitional reliefs are beneficial to stakeholders." (R13 – CPA)
- B8. "We support the AASB in its desire to make the adoption of new reporting requirements as easy as possible. We canvassed areas of potential relief and the majority of the feedback was in relation to 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. Refer to further comments in the next question. In general we believe that applying the first time adoption guidance set out in AASB 1 *First time Adoption of Australian Accounting Standards* would be appropriate. Companies that have complied with RG 85 Reporting requirements for non-reporting entities should already be applying all the recognition and measurement requirements of Australian Accounting Standards. A number of preparers that we consulted with would prefer a practical expedient similar to that in other new accounting standards – for example AASB 16 *Leases*. This practical expedient would apply only for the first year after the change. It 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.” (R15 – KPMG)

- B9. “Additional relief would be welcome, particularly when considering the application of AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures*. For example, Appendix C of AASB 1 states that “This Appendix should only be applied to business combinations within the scope of AASB 3 *Business Combinations*” – where an entity previously accounted for a transaction as a business combination which would otherwise not have been in the scope of AASB 3, such as common control transactions, the transitional relief of Appendix C is not available and full business combination accounting is required for such transactions. Additional research should be undertaken by the AASB to establish which additional transitional reliefs would be beneficial.” (R24 – FRS)

**4 out of 20 (20%) were unclear whether AASB 1 would be sufficient or not**

- R6 – IAG, R7 – AICD, R14 – Keith Reilly and R21 – Swinburne did not express a clear view whether or not AASB would be sufficient.
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- C1. “Entities preparing SPFS are generally less complex in nature and have a limited cohort of financial statement users’. We believe application of AASB 1 is not needed as the SPFR already comply with the recognition and measurement principles and hence the application of AASB 1 will not provide any meaningful information. We note that the RCF will apply to publicly accountable entities from 1 January 2020 onwards and for all other entities from 1 January 2021 onwards and there will be outreach activities with the preparers in the interim duration. We are supportive of this approach and would appreciate the opportunity to participate in the targeted outreach activities and provide further feedbacks on the implementation guidance as they are framed.” (R6 – IAG)
- C2. “The AICD does not support one of the two proposed alternatives, as noted above. If the AASB proceeds with its project, transitional relief would be appropriate to the maximum extent possible.” (R7 – AICD)
- C3. “No. I do not agree with either of the 2 proposed alternatives, however if they are mandated, a period of at least 5 years would seem reasonable given the changes in accounting systems that will be required.” (R14 – Keith Reilly)
- C4. “I have no comment on what transitional relief should be applied.” (R21 – Swinburne)

**SMC 16 What concerns do you have on consolidating subsidiaries and equity accounting associates and joint ventures as proposed in AASB’s medium-term approach? What transitional relief do you think the AASB should apply?**

- R3 – ACNC, R11 – Malcolm Bunney, R21 – Swinburne, R22 – Scott Tobutt, R23 – PwC, R29 – Equifax, R30 – ABA, R31 – Richard Fakhry, R32 – Myron Ithayaraj, R33 – Richard Dalidowicz, R35 – Graeme MacMillan and R36 – Ed Psaltis did not answer this question
- R27 – HoTARAC and R28 – QAO responded in the context of the public sector and strengthening the efficiency and effectiveness of public sector reporting. As such have not been analysed as part of this paper.

**Concerns and transitional relief suggestions**

- R1 – RSM, R2 – Nexia, R4 – QIC, R6 – IAG, R7 – AICD, R8 – Grant Thornton, R9 – BDO, R10 – CAANZ, R12 – Hanrick Curran, R13 – CPA, R14 – Keith Reilly, R15 – KPMG, R16 – Crowe Horwath, R19 – Westworth Kemp, R24 – FRS, R25 – Pitcher Partners and R34 – IPA provided comments on their concerns relating to consolidation and / or equity accounting and/or suggestions for transitional relief.

- The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- A1. “We support the AASB’s approach of requiring consolidation and equity accounting for all financial statements prepared under Australian Accounting Standards. The approach taken by some preparers of SPFS in not applying the consolidation standard, on the basis that it was a disclosure standard, was technically questionable, given that consolidation affects the recognition and measurement of some assets and liabilities. The non-consolidation approach could be used to obscure information about the true financial position and performance of a group of companies. On this basis, we would not be supportive of any transitional relief which resulted in the consolidation requirements of AASB 10 not being applied in full. However, as noted above, we do believe that there should be relief from the full presentation of comparative information in the initial year of adoption” (R1 – RSM)
  - A2. “We have significant concerns regarding the mandatory application of AASB 10 and AASB 128...Specifically, we have concerns from both the preparation and audit perspectives. These relate to the ability of preparers to determine the business combination account to past transactions in accordance with AASB 3 (including which version would apply) and the ability of auditors to opine such information. We are unable to support the proposal without first undertaking significant additional outreach and analysis to explore and identify actual and unintended consequences as well as practical implementation issues arising from the Board’s proposal. We recommend that the Board examine specific case studies to determine the practicality of the proposals” (R2 - Nexia)
  - A3. “Should consolidation and equity accounting be mandated for all entities, not only would the preparation of the financial statements be unduly cumbersome, but they would also not provide relevant or useful information to the users. We acknowledge that one way of avoiding this unintended impact of the reform is by amending and updating current fund documentation to meet the requirements of an ‘investment entity’. This itself would be an expensive and lengthy process. To provide transitional relief, we request that the Board considers the option of 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. Where new funds are created, the new reporting framework will be taken into consideration to ensure that appropriate documentation is in place” (R4-QIC)
  - A4. “Where the reporting entity cannot get the exemption under AASB 10, *Consolidated financial statements*, the costs of applying these new requirements may be onerous on smaller entities which produce financial statements for a limited pool of users and have been classified as non-reporting entities. The users of these financial statements may not have the required financial literacy to understand the consolidated financial statements or the impact of equity accounting associates and joint ventures. In our opinion, the costs associated with this change exceed the benefits, in particular for smaller entities.” (R6 – IAG)
  - A5. “Our concerns with consolidation arise because preparing consolidated accounts is costly and for no obvious user need. If users required consolidated accounts, they would have been specifically requested and prepared under the current framework. Transitional relief could include not applying the requirements retrospectively, not requiring comparatives and allowing the deeming of cost as fair value for opening balances. However, even with this transitional relief, preparing consolidated accounts comes with a compliance cost to business with no obvious user need.” (R7 - AICD)
  - A6. “Our discussions with our clients reflect that consolidation will be the most significant issue in the application of the new framework, as ASIC’s RG 85 Reporting requirements for non-reporting entities does not make consolidation compulsory for entities preparing Special Purpose Financial Statements. We agree there would be a benefit in providing relief for the inclusion of comparative information for consolidation in the first effective period of the new

standard, as this is in line with the modified retrospective approach applied in new major standards such as AASB 15 *Revenue from Contracts with Customers*.” (R8 – Grant Thornton)

A7. “Our comments below relate to the first-time preparation of consolidated financial statements only – transitioning from SPFS to GPFS. 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, much of the information required to prepare consolidation/equity accounting will no longer be available, e.g. fair values of assets, pre-acquisition share capital and retained earnings, etc., and
- Having the resources, skills and time to complete the process.

As such, to save on time and resources, we recommend the option of a modified retrospective approach on first-time consolidation or equity accounting, with opening adjustments made to retained earnings on ‘date of initial application’, and no prior year consolidation/equity accounted provided.

To deal with the problem of the unavailability of historical information, we recommend the following transitional relief on first-time adoption:

Method 1 – AASB 1, paragraph C4(j) – Pre-acquisition information available...

Method 2 – Historical information not available...

Implications for AASB 1053 Application of Tiers of Australian Accounting Standards...” (R9 – BDO)

A8. “Our concern is that requiring consolidation will result in the production of information that is expensive to produce for no demonstrable user need. If the AASB pursues this path, it needs to make the initial consolidation process as simple as possible, including not applying requirements retrospectively, not requiring comparatives and allowing deeming of cost as fair value for opening balances.” (R10 – CAANZ)

A9. “We are concerned with the conceptualisation of consolidation as a recognition and measurement issue rather than a disclosure matter. This is similar to the common mistake we see clients make where they consider matters ‘on-consolidation’ rather than ensuring that the underlying accounting in each entity has been correctly completed.” (R12 - Hanrick Curran)

A10. “See our response to Q15 above. User needs and the costs/benefits of adopting consolidation and equity accounting remain in our view, the primary considerations in adopting these requirements.” (R13 – CPA)

A11. “As detailed earlier I do not agree that non-publicly accountable entities should be required to comply with IFRS recognition & measurement rules. Instead they should have the option to adopt IFRS for SMEs recognition and measurement, or if a non-reporting entity, there should be no specific requirements. As detailed in Q15, a transitional period of at least 5 years should be allowed if the AASB does not change its mind on IFRS for SMEs or non-reporting entities.” (R14 - Keith Reilly)

A12. “We have received consistent comments around the complexities and challenges in applying consolidation and equity accounting for the first time. Overall the biggest concern is the lack of detailed historical information and records around interests in associates and subsidiaries. This is particularly so where there have been changes in ownership percentage over time. AASB 1.IG27 currently provides guidance when a consolidation has not been previously prepared. Our initial view would be that this could be applied for the medium-term approach. A similar type practical expedient would be needed for equity accounted investments. We anticipate that details of the transitional relief will be the subject of a resulting Exposure Draft on Phase 2.” (R15 – KPMG)

- A13. "In our opinion, the option available to non-reporting entities that opt to prepare special purpose financial statements without applying consolidation or equity accounting is the key problem of the existing regime. Addressing this issue will, without doubt, impact entities that are not currently consolidating or equity accounting. The 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 the lack of consolidation skills." (R16 – Crowe Horwath)
- A14. "While establishing fair value will be difficult, that in itself is not a reason for not requiring consolidation and equity accounting." (R19 - Westworth Kemp)
- A15. "Refer to our Q15 response' (i.e. Additional relief would be welcome, particularly when considering the application of AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures*. For example, Appendix C of AASB 1 states that "This Appendix should only be applied to business combinations within the scope of AASB 3 *Business Combinations*" – where an entity previously accounted for a transaction as a business combination which would otherwise not have been in the scope of AASB 3, such as common control transactions, the transitional relief of Appendix C is not available and full business combination accounting is required for such transactions. Additional research should be undertaken by the AASB to establish which additional transitional reliefs would be beneficial." (R24 – FRS)
- A16. "As outlined in ITC 39, the preparation of Tier 2 general purpose financial statements will include consolidating subsidiaries and equity accounting associates and joint ventures where applicable. In our opinion, this may have a significant impact on many for-profit entities, as it is currently common practice for non-reporting entities with subsidiaries, associates and/or joint ventures to prepare special purpose 'parent entity' (i.e., 'separate') financial statements, rather than consolidated financial statements or equity accounted financial statements. Although this aspect of the proposed Phase 2: Medium-term approach will give rise to increased costs to preparers, we accept that consolidating subsidiaries and equity accounting associates and joint ventures are necessary to satisfy the objectives of general purpose financial statements. In relation to transitional relief for consolidating subsidiaries and equity accounting associates and joint ventures, further to our response to Question 15, we note that AASB 1 *First-time Adoption of Australian Accounting Standards* permits an entity to elect not to apply the requirements of Australian Accounting Standards retrospectively to past business combinations, and past acquisitions of investments in associates, interests in joint ventures and interests in joint operations in which the activity of the joint operation constitutes a business, as defined in AASB 3 *Business Combinations* and, instead, to apply a simplified approach to the measurement of assets and liabilities arising from such transactions. This includes, for example, the situation in which a parent entity did not previously prepare consolidated financial statements. In our opinion, the exemptions currently available in AASB 1 are sufficient to enable the consolidation of subsidiaries and equity accounting of associates and joint ventures in the 'first-time' preparation of general purpose financial statements following the removal of the Australian 'reporting entity concept' from Australian Accounting Standards." (R25 – Pitcher Partners)
- A17. "...The IPA notes many entities may have to produce consolidated accounts for the first time and depending on transitional provisions this may include comparatives. As a result, there may be resultant modified audit opinions as a result of group and opening balance issues..." (R34-IPA)

#### **Other comments**

- R5 – QBE, R17 – BCCM, R20 - IFRS System and R26 – EY provided the following 'other' comments:

- B1. “QBE notes its strong support for retaining the exception from presenting consolidated financial statements in in paragraph 4 of AASB 10 *Consolidated Financial Statements*. As referred to in the covering letter, we have confirmed with AASB staff that there is no intention to remove this exception. However, we note that sections of ITC 39 could imply that this exception is subject to review” (R5 - QBE)
- B2. “We are very 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 as discussed in section 3E above. The only transitional relief should be that which is currently available in the accounting standards.’ (Section 3E states...

#### **‘Requirement for Consolidated Financial Statements**

Many enterprises operate through a range of subsidiaries. This can be from a desire to differentiate between different types of business or regulatory requirements. In such cases, especially if the parent entity is merely a non-operating holding company, the parent entity’s accounts will be of no use in determining the financial performance or status of group because they will not encompass the bulk of either the activities or the assets and liabilities of the business. The book values of the subsidiaries in the parent entity’s financial statements could be misleading.

It is therefore important that a requirement to prepare consolidated financial statements (if applicable) be part of the minimum requirements for Tier 2 and Tier 3.’” (R17 – BCCM)

- B3. “This is perhaps more of an urban myth than anything. We checked 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. So, based on our data, this scenario is extremely rare and not worthy of special exemptions, these reports should simply fall into line with the RDR framework.” (R20 – IFRS System)
- B4. “No amendments have been proposed to AASB 10.Aus4.2. Since this paragraph was initially created with reference to a ‘reporting entity’ in the context of Australia’s current SAC1 (ie the existence of users), we think this paragraph needs consideration:

*Notwithstanding paragraphs 4(a) and Aus4.1, the ultimate Australian parent shall present consolidated financial statements that consolidate its investments in subsidiaries in accordance with this Standard when either the parent or the group is a reporting entity or both the parent and the group are reporting entities, except if the ultimate Australian parent is required, in accordance with paragraph 31 of this Standard, to measure all of its subsidiaries at fair value through profit or loss.*

Where consolidated financial statements are prepared for the first-time (regardless of the tier of reporting), we believe the current transitional requirements of AASB 1 are appropriate”. (R26 – EY)

#### **SMC 17 If the new Alternative 2 GPFS – SDR described in paragraph 167-170 is applied, do you agree that the specified disclosures would best meet users’ needs?**

- R3 – ACNC, R11 – Malcolm Bunney, R18 – Tax Justice Network, R21 – Swinburne, R22 – Scott Tobutt, R23 – PwC, R29 – Equifax, R31 – Richard Fakhry, R32 - Myron Ithayaraj, R33 – Richard Dalidowicz, R34- IPA, R35 – Graeme MacMillan and R36 - Ed Psaltis did not answer this question
- R27 – HoTARAC and R28 – QAO responded in the context of the public sector and strengthening the efficiency and effectiveness of public sector reporting. As such have not been analysed as part of this paper.

#### **1 out of 24 (4%) said SDR would best meet users’ needs**

- R6 – IAG agreed that SDR would best meet users’ needs. The following extracts have been taken from their submissions to summarise their key points:

- A1. “We agree that the specified disclosures will meet the needs of most users of the financial statements as they incorporate the basic requirements as well as areas where significant judgement has been applied, e.g. impairment of assets and income taxes. However, the extent of disclosures will also be a key consideration when determining their appropriateness and viability.” (R6 – IAG)

**18 out of 24 (75%) didn’t like Tier 2 GPFS-SDR – saying it requires too much in certain disclosures and/or not enough in others**

- R1 – RSM, R2 – Nexia, R4 – QIC, R5 – QBE, R7 – AICD, R9 – BDO, R10 – CAANZ, R14 – Keith Reilly, R15 – KPMG, R16 – Crowe Horwath, R17 – BCCM, R24 – FRS, R25 – Pitcher Partners, R26 – EY, and R30 – ABA did not agree that SDR would best meet users’ needs.
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- B1. “As noted in our response to Q12, we have concerns about the proposed scope of the SDR disclosures. We believe they would be too onerous in some areas and lacking in others. We believe that users’ needs would be met best by retention and reform of the existing RDR framework” (R1 - RSM)
- B2. “We do not agree with the proposed GPFS – SDR. We are unable to determine whether “the specified disclosures would best meet users’ needs” because neither we nor the AASB have ascertained what the disclosure needs of hypothetical users are. Nevertheless, in our opinion inclusion of full disclosure requirements of AASB 15 and AASB 136 for entities that do not have ‘publicly accountability’ is excessive” (R2 - Nexia)
- B3. “No. Please refer to our response in Q12 above”(R4-QIC)
- B4. “If Alternative 2 GPFS – SDR were the only Tier 2 form of reporting available, we consider that the disclosures would be excessive for wholly-owned subsidiaries of listed Groups (which do not issue debt or equity securities to the public). In respect of wholly-owned subsidiaries of listed Groups (which do not issue debt or equity securities to the public), we suggest requiring only the following:
- the presentation requirements from AASB 101 *Presentation of Financial Statements* and AASB 107 Statement of Cash Flows;
  - the disclosure requirements from AASB 101, 15-26 on compliance with Standards and going concern and from AASB 101, 137-138 on legal structure and ultimate parent etc.; and
  - the disclosure requirements from AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.
- The AASB 101, AASB 107 and AASB 108 requirements provide the necessary structure for financial statements and essential information about the entity’s accounting policies are all that is required. We do not consider that the disclosures from AASB 124 Related Party Disclosures, AASB 136 Impairment of Assets, AASB 15 Revenue from Contracts with Customers and AASB 112 Income Taxes would be helpful for wholly-owned subsidiaries and they could pose a significant burden. In particular:
- (a) related party disclosures could be burdensome due to the number of links the subsidiary have with other members of its Group, which in isolation could be meaningless; and
  - (b) income tax disclosures at the subsidiary level may not be comprehensible in isolation because a subsidiary’s tax affairs could be intertwined with those other members of the Group within a jurisdiction”(R5 - QBE)
- B5. “We do not agree that GPFS – SDR would best meet user needs. Developing a set of disclosures that meet user needs would require analysing each standard individually using similar principles to those set out in IFRS for SMEs. We question why the government should embark on such a costly exercise when suitable frameworks already exist in jurisdictions around the world.”(R7 - AICD)

- B6. “As noted to our response in Question 12 above, we do not believe that providing in-depth disclosures about a limited number of transactions provides information that is useful to users of financial statements. The SDR approach requires disclosure only for the following specific transactions and/or balances:
- Revenue from contracts with customers (AASB 15 *Revenue from Contracts with Customers*)
  - Income taxes (AASB 112 *Income Taxes*)
  - Impairment of non-financial assets (AASB 136 *Impairment of Assets*), and
  - Related party transactions (AASB 124 *Related Party Disclosures*).
- Many entities have significant transactions and balances that fall outside these above-mentioned standards, and in those cases, SDR would not require disclosure. We believe that GPFS – RDR would better suit user needs as it would ensure a base level of disclosure across all transactions and balances”. (R9 – BDO)
- B7. “We do not agree that SDR provides a suitable reporting option. SDR leaves out standards that have some recognition, measurement and disclosure requirements that we feel users of the financial statements of entities without public accountability would find useful. These requirements include appropriate portions of:
- AASB 2 *Inventories*
  - AASB 3 *Business Combinations* (particularly regarding goodwill)
  - AASB 8 *Segment Reporting*
  - AASB 9 *Financial Instruments* (part 1) and AASB 132 *Financial Instruments: Presentation* (particularly
  - AASB 116 *Property, Plant and Equipment* (particularly depreciation)
  - AASB 1023 *Borrowing Costs*
  - AASB 138 *Intangibles*
  - AASB 119 *Employee Benefits*
  - AASB 137 *Provisions, Contingent Assets and Contingent Liabilities*
- SDR also includes disclosures from its selected standards that are in excess of what users need for these types of entities, as evidenced by the reductions offered by the current RDR for these standards.
- Developing a more suitable reporting alternative would involve the analysis of each standard individually to identify and include only appropriate minimum disclosures, using the principles inherent in IFRS for SMEs (and the existing RDR).” (R10 – CAANZ)
- B8. “No. I do not agree as the disclosures appear to be significantly in excess of IFRS for SMEs and the existing AASB disclosure standards (AASBs 101, 107, 110, and 1054).” (R14 - Keith Reilly)
- B9. “Should Alternative 2 GPFS – SDR be applied we agree with the additional areas selected – revenue, impairment, related parties and income taxes. We would question if all the required disclosures in the respective Australian Accounting Standards should be required. The Tier 1 disclosures in these standards are extensive and based on our consultation we would question if all the information is required for non-publicly accountable for-profit entities. Refer also back to question 12 in relation to the reservations we have over Alternative 2 GPFS – SDR proposal.”(R15 – KPMG)
- B10. “Financial reports are an important means of communicating relevant information to users. Information that may be relevant to users in one sector or industry may not be relevant to the needs of users in other sectors or industries. For this reason, we believe that Alternative 2: GPFS – SDR does not meet the objective of general purpose financial reporting. Furthermore, the specified disclosures would be regarded by many entities as all that is required with no need to make disclosures beyond those prescribed (but which may be necessary for the financial report to be useful to users). In our opinion, there could be other disclosures relevant to users of financial statements prepared under Alternative 2: GPFS – SDR, such as (but not limited to):
- Property, plant and equipment
  - Fair value measurements



- Financial instruments
- Leases.

On the other hand, there are disclosures in the mandatory standards under Alternative 2 GPFS - SDR that are not required under the current Tier 2. These disclosures include for example, the need for a third statement of financial position in AASB 101.40A. Those disclosures are not mandatory under Tier 2, presumably on the basis of the 'user need' and 'cost-benefit' principles. If Alternative 2 GPFS – SDR is adopted, we believe that those principles should continue to be applied in reducing disclosure requirements of the mandatory standards.”(R16 – Crowe Horwath)

B11. “The specified disclosures will be enough for some entities to meet a satisfactory level of disclosure but an additional list may required of those standards relating to particular activities which should also be mandatory if the relevant entity is engaged in those areas.” (R17 – BCCM)

B12. “No. Refer to our Q12 response.” (i.e...’We do not support SDR for two reasons:

1. Complying with all the disclosures contained in the four specified accounting standards is excessive; and
2. Disclosures in other standards may be equally appropriate, for example:
  - a. AASB 140 Investment Property – for entities with substantial investment properties;
  - b. AASB 6 Exploration for and Evaluation of Mineral Resources – for entities within the mining and exploration sector; and
  - c. AASB 137 Provisions, Contingent Liabilities and Contingent Assets – applies to all entities that have significant contingent liabilities.

In our experience there is enough confusion between GPRS and RDR without introducing a new SDR.)” (R24 – FRS)

B13. “As outlined in our response to Question 12, having previously determined the level of disclosure, on a standard-by-standard basis, that satisfies the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting (at the time of developing Australian Accounting Standards – Reduced Disclosure Requirements), in our opinion, it is now difficult to justify raising the level of disclosure for any specified accounting standard above the level currently required under the existing ‘Reduced Disclosure Requirements’ framework. In our opinion, imposing disclosure requirements of any specified accounting standard that exceed the level of disclosure currently required under the existing ‘Reduced Disclosure Requirements’ framework goes beyond what is necessary to satisfy the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting. We believe that preparing Tier 2 general purpose financial statements in accordance with the full recognition and measurement requirements of Australian Accounting Standards, and the ‘RDR equivalent’ disclosure requirements of specified accounting standards will achieve an appropriate balance between the cost of preparation and benefits to users, and satisfy the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting.” (R25 – Pitcher Partners)

B14. “Please see our response to Q12, where we identify certain disclosures with respect to current liquidity and solvency that will be missed. In addition, we disagree with requiring the disclosures of all four significant matter areas identified, unless these areas were individually considered material to the entity.” (R26 – EY)

B15. “As mentioned in our response to Question 12, we do not believe that all disclosures mandated under the SDR regime would best meet user needs. This is particularly evident where the AASB had previously determined that these disclosures did not satisfy any particular user need under the current RDR. Therefore, requiring all disclosures that don’t meet any user need would have the opposite effectively filling financial reports with information of little use, ultimately defeating the purpose of targeted and useful financial reporting.” (R30 – ABA)

- R31 – Richard Fakhry, R32 - Myron Ithayaraj and 33 – Richard Dalidowicz did not specifically answer this question but did provide feedback on which disclosures are useful.

- The following extracts have been taken from the submissions of the above respondents to summarise:

B16. R31 – Richard Fakhry did not explicitly comment on this question. However indicated that when making decisions, the following disclosures are useful: “Related party transaction details, including total key management personnel remuneration disclosures; Disclosures which explain whether and how the entity can continue paying its debts (liquidity and / or the solvency of the entity; Commitments and contingencies; Revenue; Tax; Impairment; and Details of material transactions and risks” When asked “Should there be comparable note disclosure requirements for these types of entities?” This respondent answered “Yes” When asked “If an entity is a parent, and has subsidiaries that it controls what information do you need for your decisions...Consolidated financial statements including note disclosures (which include all assets, liabilities, revenues and expenses of the parent and all subsidiaries)?...” The respondent said “Yes”. (R31 – Richard Fakhry)

B17. R32 - Myron Ithayaraj did not explicitly comment on this question. However indicated that when making decisions, the following disclosures are useful: “Disclosures which explain whether and how the entity can continue paying its debts (liquidity and / or the solvency of the entity; Commitments and contingencies; Revenue; Tax; Impairment; and Details of material transactions and risks” When asked “Should there be comparable note disclosure requirements for these types of entities?” This respondent answered “Yes” When asked “If an entity is a parent, and has subsidiaries that it controls what information do you need for your decisions...Consolidated financial statements including note disclosures (which include all assets, liabilities, revenues and expenses of the parent and all subsidiaries)?...” The respondent said “Yes”. (R32 - Myron Ithayaraj)

B18. R33 – Richard Dalidowicz did not explicitly comment on this question. However indicated that when making decisions, the following disclosures are useful: “Disclosures which explain whether and how the entity can continue paying its debts (liquidity and / or the solvency of the entity; Commitments and contingencies; Revenue; Tax; Impairment; and Details of material transactions and risks” When asked “Should there be comparable note disclosure requirements for these types of entities?” This respondent answered “Yes” When asked “If an entity is a parent, and has subsidiaries that it controls what information do you need for your decisions...Consolidated financial statements including note disclosures (which include all assets, liabilities, revenues and expenses of the parent and all subsidiaries)?...” The respondent said “Yes”. (R33 – Richard Dalidowicz)

***5 of 24 (21%) respondents weren’t sure about Tier 2 GPFS-SDR or didn’t specify exactly what they didn’t like about it***

- R8 – Grant Thornton, R12 – Hanrick Curran, R13 – CPA, R19 – Westworth Kemp, and R20 - IFRS System weren’t sure about SDR or didn’t specify why they didn’t like it

- The following extracts have been taken from the submissions of the above respondents to summarise their key points:

C1. “Whether the specified disclosures would meet users’ needs would need further consultation with stakeholders. We do note, however, that the proposed GPFS – SDR framework does not currently include the subsequent event disclosures in AASB 110 *Events after the Reporting Period*. We would recommend that the AASB considers adding subsequent event disclosures in line with AASB 110 to the proposed framework.” (R8 – Grant Thornton)

C2. “We consider that the reporting of entities who are not publicly accountable should be left to the discretion of ‘Those Charged With Governance’. Accordingly, we are concerned with regulatory overreach in this area.” (R12 - Hanrick Curran)

*Note: Hanrick Curran want three GPFS tiers – all full R&M plus SPFS for actual “special purpose preparers” to help them prepare their tax returns.*

C3. “Feedback we have received indicates less support for the SDR approach.” (R13 - CPA)

- C4. "Our preference is for Alternative 1." (R19 - Westworth Kemp)
- C5. "We do not believe a new framework should be introduced, retain the existing RDR general purpose and full general purpose as they currently exist; and remove special purpose. This is consistent with our answers above, which explain the position in more detail." (R20 – IFRS System)

**SMC 18 Do you have any other suggested alternative for the AASB to consider as a GPFS Tier 2 and whether this would be applicable for for-profit and not-for-profit sectors?**

Note: only comments relevant to the for-profit private sector have been included below as the not-for-profit private and public sectors will be addressed by a separate AASB project.

- R3 – ACNC, R8 – Grant Thornton, R11 – Malcolm Bunney, R18 – Tax Justice Network, R20 – IFRS System, R29 – Equifax, R31 – Richard Fakhry, R32 – Myron Ithayaraj, R33 – Richard Dalidowicz, R34 – IPA and R35 – Graeme MacMillan did not answer this question
- R27 – HoTARAC and R28 – QAO responded in the context of the public sector and strengthening the efficiency and effectiveness of public sector reporting. As such have not been analysed as part of this paper.

**11 out of 23 (48%) said they did not have another suggestion for Tier 2 GPFS for for-profit entities**

- R1 – RSM, R2 – Nexia, R4 – QIC, R6 – IAG, R9 – BDO, R16 – Crowe Horwath, R17 – BCCM, R24 – FRS, R25 – Pitcher Partners, R26 – EY and R30 – ABA did not express suggestions for the for-profit sector.
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- A1. "We do not believe that the AASB should consider any other alternatives in the for-profit sector..." (R1 – RSM)
- A2. "No" (R2 – RSM)
- A3. "Yes. Please refer to our response in Q12 above" (i.e. modified RDR/SDR) (R4 – QIC)
- A4. "We do not suggest any alternatives but suggest AASB consider Option 2: Operate with two Conceptual Frameworks. As noted in our response to Q11, we believe the costs associated with this change would exceed the related benefits." (R6 – IAG)
- A5. "We do not have any other suggested alternatives for GPFS Tier 2 for-profit entities reporting in accordance Australian Accounting Standards." (R9 – BDO)
- A6. "Given the low take-up of Tier 2 among for-profit-entities, we believe that this may be an appropriate time to revisit Tier 2 disclosures which are still viewed as burdensome and not sufficiently different to Tier 1. We also believe that a possible alternative would be an introduction of a separate Tier applicable to not-for-profit entities." (i.e. Crowe Horwath prefer RDR but suggest it could be revisited) (R16 – Crowe Horwath)
- A7. "No." (R17 – BCCM)
- A8. "No" (R24 – FRS)
- A9. "As outlined in our response to Question 12, having previously determined the level of disclosure, on a standard-by-standard basis, that satisfies the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting (at the time of developing Australian Accounting Standards – Reduced Disclosure Requirements), in our opinion, it is now difficult to justify raising the level of disclosure for any specified accounting standard above the level currently required under the existing 'Reduced Disclosure Requirements' framework. In our opinion, imposing disclosure requirements of any specified accounting standard that exceed the level of disclosure currently required under the existing 'Reduced Disclosure Requirements' framework goes beyond what is necessary to satisfy the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting. We believe that preparing Tier 2 general purpose financial statements in accordance

with the full recognition and measurement requirements of specified accounting standards will achieve an appropriate balance between the cost of preparation and benefits to users, and satisfy the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting.” (R25 – Pitcher Partners)

- A10. “As per our response to question 12 above, we favour the GPFS – RDR approach as further developed by the AASB to enhance Tier 2 reporting requirements in its finalisation of ED 277.” (R26 – EY)
- A11. “As indicated in our response to Question 12 above, the ABA prefers SDR but while retaining the current RDR requirements in those specified Standards. Therefore the outcome would be reduced disclosure requirements contained in specified accounting standards. This approach allows the AASB to simplify Tier 2 while leveraging the AASB’s previous work to identify disclosures that satisfied user needs and where the benefits of making the disclosures exceeded the associated costs for making them.” (R30 – ABA)

### **7 out of 23 (30%) respondents want IFRS for SMEs to be explored**

- R7 – AICD, R10 – CAANZ, R13 – CPA, R14 – Keith Reilly, 21 - Swinburne, R22 – Scott Tobutt and R36 - Ed Psaltis want IFRS for SMEs to be explored.
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- B1. “No other suggestions than already discussed above.” (R7 - AICD) (i.e. nothing other than IFRS for SMEs)
- B2. “Our preferred solution initially involves a review of the lodging entity thresholds before any further changes are made. This is because a clear understanding of the reporting population is essential to setting cost effective requirements. Only then can informed decisions be taken on what that population should report and how it should report. Once this clear rationale for “who needs to lodge what”, the AASB could then develop a suitable ‘minimum financial reporting package’ for lodging entities. The package could be based on IFRS for SMEs, mandating a minimum set of recognition, measurement and disclosure requirements that best meet user needs of lodging entities that are not publicly accountable. Where the user needs of entities at the larger end of that spectrum require more, directors could ‘add on’ from full IFRS in the interests of ensuring these needs are still met.” (R10 – CAANZ)
- B3. “As stated in our response to Q14, the AASB should develop and propose a suitable option that is based on the IFRS for SMEs for consideration by stakeholders. To address some of the concerns raised by the AASB, 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. It is possible that such an approach may also lend itself to developing a simplified reporting solution for the NFP sector. The United Kingdom has taken a similar approach with its SME standard FRS 102, which is based on the IFRS for SMEs and is applicable to both the for-profit and NFP sectors.” (R13 - CPA)
- B4. “As detailed earlier, allow IFRS for SMEs as an option, allow non-reporting entities to maintain compliance only with the disclosure AASBs, and consider more simplified reporting requirements to those non-reporting entities after further research and consultation with constituents, which is what the AASB has announced it will do for NFPs.” (R14 - Keith Reilly)
- B5. “See my response to the earlier questions and the recommendations of my cover letter.” (i.e. “...I do not agree with the AASB’s decision that IFRS for SMEs not be made available as a Tier 2 alternative. I think to rule out IFRS for SMEs is premature. Instead feedback should be sought from stakeholders on their views about a Tier 2 GPFS financial reporting framework that uses a recognition and measurement model different from that used in IFRS.”) (R21 – Swinburne)
- B6. “I do not support the Australian Accounting Standards Board’s (AASB) proposals in ITC 39 as IFRS for SMEs is not allowed as an option for non-publicly accountable reporting entities. This is contrary to the policy of the International Accounting Standards Board (IASB) that produces

International Financial Reporting Standards (IFRS) that Australia re-badges as Australian Accounting Standards (AASBs). For non-publicly accountable reporting entities the IASB allows IFRS for SMEs as an option and this followed by many overseas countries including the United Kingdom. IFRS for SMEs is designed by the IASB to be a more cost effective standard compared to IFRS for non-publicly accountable reporting entities (ie generally not listed entities). I believe that it is in my clients' best interests to reduce unnecessary compliance costs and therefore its clients should have the option to adopt IFRS for SMEs and hence reduce the cost burden. Whilst some of my non-publicly accountable entities may wish to stay with IFRS, others may not, and to deny those clients the opportunity to reduce their compliance costs, does not seem to be in the best interests of those clients, and contrary to the public interest principles that the accounting profession states is its mission." (R22 – Scott Tobutt)

- B7. "...One concern I had was why AASB isn't doing what the rest of the world has done and introduce general purpose for SMEs. Reason given is that it would mean a big change from what many are doing now. It probably would...But so will the changes you are proposing for those preparing SPFR at present in going to GPFR RDR or similar (e.g. need to consolidate etc). So if either way there is a big compliance cost in changing from the present, why not make that change more worthwhile by bringing Aust into line with rest of the world, not just for full GPFR (IFRS), but for smaller company accounts too? International borders are greatly reduced and there is a need to compare fin stats from here to other country fin stats. I would have thought that is just as relevant to SMEs as it is for listed cos..." (R36 – Ed Psaltis)

***5 out of 23 (22%) respondents want more tiers of GPFS (all full R&M but with varying levels of disclosure)***

- R5 – QBE, R12 – Hanrick Curran, R15 – KPMG, R19 – Westworth Kemp and R23 – PwC want more tiers of GPFS (all full R&M but with varying levels of disclosure).
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- C1. "If the current framework were changed to require all lodging entities to prepare GPFS, we consider there needs to be another version of Tier 2, comprising all the IFRS recognition and measurement requirements and minimal presentation and disclosure requirements as set out in Q17. Those minimal presentation and disclosure requirements should not include consolidation. This version of Tier 2 would be available for those entities that are required to prepare GPFS but otherwise have no users. Ordinarily, this would include wholly-owned subsidiaries (which do not issue debt or equity securities to the public) within IFRS-compliant Groups." (R5 – QBE)
- C2. "We consider that the option in paragraph 14 and 166 are too limited to be applied in practice. We consider that Reduced Disclosure Requirements, Specified Disclosure Requirements and a further 'tier 4' option for genuine special purpose reporting (e.g., for financial statements to accompany a small entity tax return) are required for the Australian economy." (R12 - Hanrick Curran)
- C3. "Refer to discussion above in question 12." (Also refer to KPMG's response to question 13 where they suggest more than one tier of GPFS "...During conversations it has emerged that a third tier may well be desirable, however, it has been challenging to identify a logical and clear objective delineator...") (R15 – KPMG)
- C4. "See our answer to Question 13 above." (i.e. "We agree that we only need one set of Tier 2 requirements, but recommend that the AASB lobby for a raising of the small proprietary company threshold. We also suggest that Australia needs an optional Tier 3 best practice small company accounts that practitioners could use for smaller entities requiring more than just a tax return or a cash based statement of income and expenditure.") (R19 - Westworth Kemp)
- C5. "...PwC's view is a three-tiered reporting framework is needed for corporates as follows:

- IFRS Tier 1: Publicly accountable entities (e.g. listed entities) PwC supports the AASB's view that publicly accountable entities should continue to prepare accounts that are fully IFRS compliant
- RDR Tier 2: Large private companies >\$100m revenue With reference to the threshold identified for increased accountability in recent Tax Transparency and Modern Slavery legislation, our view is entities with greater than \$100m in revenue would prepare accounts that comply with the existing RDR regime.
- SDR Tier 3: Medium private companies \$25m-\$100m revenue. To reflect the differing needs of users of medium private company financial statements, PwC propose a third reporting tier is introduced for those entities with revenue of between \$25m and \$100m. This reporting tier could follow the proposed SDR...

PwC's view is a three-tiered rather than a two-tiered system may better align to other government legislation where more reporting is being required for large private companies of \$100m or more, reducing the risk of two reports being required for different regulators. SDR is a great idea for medium-sized corporations where the focus is on liquidity, solvency and creditors reporting..." (R23 - PwC)

### **SMC 19 Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative?**

- It should be noted that only comments relevant to the for-profit private sector have been analysed as part of this paper. Comments relating to the not-for-profit private and public sectors will be addressed via separate AASB projects. As such, responses to this question have not been analysed.

### **SMC 20 Are you aware of any legislation that refers to SPFS that might be impacted by these proposals?**

Note: only comments relevant to the for-profit private sector have been included below as the not-for-profit private and public sectors will be addressed by a separate AASB project.

- R3 – ACNC, R9 – BDO, R11 – Malcolm Bunney, R18 – Tax Justice Network, R20 - IFRS System, R22 – Scott Tobutt, R23 – PwC, R24 – FRS, R29 – Equifax, R30 – ABA, R31 – Richard Fakhry, R32 - Myron Ithayaraj, R33 – Richard Dalidowicz, R34 – IPA, and R35 – Graeme MacMillan did not answer this question or their view did not relate to the for-profit sector.
- R27 – HoTARAC and R28 – QAO responded in the context of the public sector and strengthening the efficiency and effectiveness of public sector reporting. As such have not been analysed as part of this paper.

### **15 of out 18 (83%) respondents said that they are not aware of legislation referring to SPFS**

- R1 – RSM, R2 – Nexia, R4 – QIC, R5 – QBE, R6 – IAG, R7 – AICD, R8 – Grant Thornton, R10 – CAANZ, R13 – CPA, R14 – Keith Reilly, R15 – KPMG, R16 – Crowe Horwath, R17 – BCCM, R19 – Westworth Kemp, R21 – Swinburne, R25 – Pitcher Partners and R26 – EY are not aware of any legislation referring to SPFS that may be affected by these proposals.
- The following extracts have been taken from the submissions of the above respondents to summarise their key points:
  - A1. "We are not aware of any legislative impediment to the implementation of these proposals" (R1 – RSM)
  - A2. "No" (R2 – Nexia)
  - A3. "We are not aware of any legislation that refers to SPFS that may be impacted by these proposals" (R4-QIC)
  - A4. "We are not aware of any such legislation" (R5 - QBE)

- A5. "We are not aware of any legislation that refers to SPFS that might be impacted by these proposals." (R6 – IAG)
- A6. "There are none of which we are aware." (R8 – Grant Thornton)
- A7. "While we are not aware of any legislation that specifically refers to SPFS that might be impacted by these proposals, we suggest the AASB be mindful of any unintended consequences that may arise. The current requirements, established a few decades ago, have been based on a framework that allows SPFS. While SPFS may not have been specifically mentioned in legislative requirements, there is likely to have been an understanding, or acceptance that entities, in particular small and medium sized enterprises, may prepare SPFS in certain circumstances." (R13 – CPA)
- A8. "No but I am surprised that the AASB has not researched this." (R14 - Keith Reilly)
- A9. "We are not generally aware of any legislation that refers to SPFS that might be impacted by these proposals." (R15 – KPMG)
- A10. "We are not aware of any such legislation. However, there may be instances where enabling legislation of some public sector entities requires the preparation and specifies the content of financial reports that may be inconsistent with the proposed requirements. Under the proposed changes, by definition, those entities would be regarded as publicly accountable entities and as such would be required to prepare Tier 1 GPFS." (R16 Crowe Horwath)  
*Note: Staff have spoken to Crowe Horwath and confirmed that the legislation noted relates to public sector entities only. Analysis of this legislation will be covered as part of the AASB's public sector entity financial reporting framework project.*
- A11. "No." (R17 – BCCM)
- A12. "No" (R19 - Westworth Kemp)
- A13. "No, I am not aware of any legislation that refers to SPFS that might be impacted by these proposals." (R21 – Swinburne)
- A14. "We are not aware of legislation that refers to special purpose financial statements that might be impacted by the proposed Phase 2: Medium-term approach." (R25 – Pitcher Partners)
- A15. "We are not aware of any such legislation." (R26 – EY)

**3 out of 18 (17%) respondents provided the following comments**

- B1. "Yes. These proposals would be far reaching and affect items such as the Australian Charities and Not-for-profits Commission Act 2012 and ASIC Form FS70/71." (R12 - Hanrick Curran)
- B2. "We are not aware of any legislation that refers to SPFS. However, guidance exists in the form of ASIC's RG 85 Reporting requirements for non-reporting entities and the ACNC web page (<https://www.acnc.gov.au/annual-financial-report-general-and-special-purpose-statements>) on SPFS. Such guidance may also exist on state/territory regulator information websites." (R7 - AICD)
- B3. "We are not aware of any legislation that refers to SPFS that might be impacted by these proposals. However, guidance documents regarding their acceptance of SPFS exist in ASIC and the ACNC and may also exist on relevant state/territory regulator websites." (R10 – CAANZ)

**GMC 21 Whether the AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit entities have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem. ([Back to GMC 21](#))**

- R1 – RSM, R3 – ACNC, R4 – QIC, R15 – KPMG, R18 – Tax Justice Network, R19 – Westworth Kemp, R20 – IFRS System, R23 – PwC, R29 – Equifax, R30 – ABA, R31 – Richard Fakhry, R32 – Myron Ithayaraj, R33 – Richard Dalidowicz, R35 – Graeme MacMillan and R36 – Ed Psaltis did not answer this question and / or did not respond in respect of the for-profit Standard-Setting Framework.

- R27 – HoTARAC and R28 – QAO responded in the context of the public sector and strengthening the efficiency and effectiveness of public sector reporting. As such have not been analysed as part of this paper.

***7 out of 19 (37%) explicitly said they thought the AASB's Standard-setting Frameworks had been applied appropriately or didn't raise any specific issues regarding the for-profit sector***

- R6 – IAG, R8 – Grant Thornton, R9 – BDO, R11 – Malcolm Bunney, R16 – Crowe Horwath, R25 – Pitcher Partners and R26 – EY thought the AASB's Standard-Setting Frameworks have been applied appropriately.
- The following extracts have been taken from the submissions of the above respondents to summarise their key points:
  - A1. "We believe the AASB has followed due process in the standard setting process." (R6 – IAG)
  - A2. "It appears that the AASB has been making an effort to be applying the frameworks appropriately. We have seen nothing to suggest otherwise." (R8 – Grant Thornton)
  - A3. "The AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem in relation to for-profit entities." (R9 – BDO)
  - A4. "The proposal, Tier 2 GPFS, R & M, with 9 disclosures is excellent. The concern is that Village Owners and Auditors will find a way around this being applied to retirement villages by classifying not for profit, no public accountability, low \$'s, services provided under a contract, no profit is made, increases limited to CPI. The reality is that residents must use the owner to provide services, if income is short then supplied services will be reduced, there are indirect benefits to the owner. Can retirement villages be specifically included, so the revised standards will be applied to Retirement Villages?" (R11 – Malcolm Bunney)
  - A5. "We have no concerns with the way in which the AASB developed the proposals." (R16 – Crowe Horwath)
  - A6. "In our opinion, the AASB's Standard-Setting Framework for For-Profit Entities has been appropriately applied in developing the Phase 2 proposal to apply the RCF to all "other for-profit entities" in the medium term." (R25 – Pitcher Partners)
  - A7. "We believe the AASB's standard-setting frameworks have been appropriately applied in developing the proposals in Phase 2, subject to clarifying the AASB 10 matter discussed in Q16." (R26 – EY)

***3 out of 19 (16%) explicitly said they thought the AASB's Standard-setting Frameworks had not been applied appropriately***

- R7 – AICD, R14 – Keith Reilly and R24 – FRS explicitly said that they did not think the AASB's Standard-Setting Frameworks had been applied appropriately.
- The following extracts have been taken from the submissions of the above respondents to summarise their key points:
  - B1. "Paragraph 29 of the Framework indicates that the AASB must take into consideration user need, public interest issues and undue cost or effort considerations. We do not consider the AASB has provided sufficient evidence that it has applied these criteria in developing its CP." (R7 – AICD)
  - B2. "Answer – No. Not allowing IFRS for SMEs, as an option for non-publicly accountable entities and foreshadowing that SPFR entities will be required to adopt IFRS R&M is contrary to the Government's expectation of reducing un-necessary compliance costs." R14 also noted "It is highly unusual for the AASB to go direct from a Consultation Paper or Invitation to Comment to changing an accounting standard without giving constituents the opportunity to consider the AASB's views following submissions made and then seeking comment on a draft accounting standard (Exposure Draft). Given the significance of the issues, which have been subject to



debate since 1995, the rush to amend the Reporting Entity Concept seems unwise and perhaps suggests that the AASB has already made its mind up and is not prepared to re-consider its approach...

I have considered the ED, as well as the accompanying draft Basis for Conclusions. I have also reviewed the submissions made on Phase 1, and the AASB's staff analysis of those submissions. It is disappointing that these submissions have only been recently made available (late October 2018) with the 13 November 2018 Board Papers which appears to be a change from previous AASB policy that submission are available once the deadline for submissions has past (9 August 2018).

Also of concern given the need for transparent and timely due process, is the AASB's determination to proceed with amendments based on the Phase 1 proposals, without giving those who made submissions, the time to consider the reasoning in the 40-page 13 November 2018 Board Paper which supports these amendments. Statements such as 'Noted, however the AASB etc) suggest that the AASB is not prepared to have its reasons subject to public scrutiny for any considered length of time. I would appreciate having some time to respond on what are fundamental changes that the AASB intends to make, and with the benefit of considering views expressed in other submissions...

CP 14 (a) Applying the International Accounting Standards Board's (IASB) Conceptual Framework for Financial Reporting (RCF) to Publicly Accountable Entities

The RCF is not an accounting standard and therefore should not be elevated beyond what the IASB requires which is set out in IAS 8/AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, as guidance only. AASB 108 makes it clear that the RCF is not mandatory. Instead management judgement is required (paragraph 10), and as part of that judgement, management shall refer to and consider the RCF (paragraph 11)..." (R14 - Keith Reilly)

- B3. "We do not believe the proposals satisfies the AASB's Standard-Setting Framework. On 4 September 2018, the AASB decided to exclude not-for-profit entities from the proposals in ITC 39 and has effectively departed from its sector-neutral approach to applying accounting standards. We suggest the AASB should wait for the ACNC legislative review to be completed prior to any amendments being made from the ITC 39 project." (R24 – FRS)

***9 out of 19 (47%) expressed concerns but did not explicitly say whether or not the 'Framework' been applied appropriately***

- R2 – Nexia, R5 – QBE, R10 – CAANZ, R12 – Hanrick Curran, R13 – CPA, R17 – BCCM, R21 – Swinburne, R22 – Scott Tobutt and R34 – IPA did not comment whether or not the AASB's Standard-Setting Frameworks have been applied appropriately but raised the following comments.
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- C1. "We do not believe that the proposals satisfy the Board's objective of 'improving comparability, trust and transparency within financial reporting to meet user needs, whilst mitigating, where appropriate, the increased reporting burden for some entities who are required to prepare financial statements in accordance with AAS' and " R2 – Nexia also stated "the AASB needs to issue a comprehensive exposure draft incorporating its final proposals relating to both for-profit and not-for-profit entities to enable stakeholders to consider the Board's proposals in their entirety". (R2 - Nexia)
- C2. "Our comments are confined to *The AASB's For-Profit Entity Standard-Setting Framework*. We note the focus of these Frameworks is on developing accounting policies that are, to the extent feasible, the same as IFRS and consistent across all types of entity. We think the due process for a project on fundamentally changing the way Australian entities report must include thorough and transparent research and presentation of findings in order to provide users with optimal reporting without unduly burdening preparers" (R5 - QBE)

- C3. “We believe the AASB’s approach is using its standard setting mandate to resolve a problem that is better resolved by a joint legislative, regulatory and standard setting approach. As paragraph 6 of the Framework notes, it is legislators that set requirements for compliance with accounting standards. Therefore it is inappropriate for the AASB to extend the application of its standards without clear and demonstrable evidence that these changes are required by legislators and users of financial information. The Corporations Act thresholds have not been amended in over 10 years and there has been limited regulatory action to prosecute companies for non-compliance with ASIC’s Regulatory Guide RG 85 *Reporting requirements for non reporting entities*. These facts suggest that there is no pressing need for the AASB to take the action it is proposing and ITC 39 does not mount a clear and convincing case for reform achieved via standard setting in isolation.

As noted in our Phase 1 submission, we are also concerned that, under the current proposals, the definition of ‘publicly accountable’ is gaining increased significance as a determinant of reporting requirements without adequate consultation on whether this definition is fit for that purpose within the Australian context. In particular, its application in the ITC 39 proposals making “non-publicly accountable” lodging entities apply full IFRS recognition and measurement is not consistent with the IASB’s reporting expectations for entities that meet that definition. Those entities are permitted to apply reduced recognition, measurement and disclosure by way of IFRS for SMEs.

Australia has not had a debate about what the legislative term “compliance with accounting standards” should mean since IFRS was adopted. We believe it is inappropriate for the AASB to assume that this should mean only GPFS without clear evidence to support that assertion, especially when this is not the approach taken by the IASB (and other national standard setters) and was not the expectation when Australia adopted IFRS.

According to paragraph 29 of the Framework, user needs, public interest issues and cost benefit should be key factors in developing requirements for non-publicly accountable entities. We do not consider that the AASB has provided sufficient evidence of the user need that underpins its assumption that lodging entities need to prepare GPFS in accordance with either of the Phase 2 options. These options will likely increase regulatory burden without providing the affected entities appropriate accounting standards for their needs and the needs of their users as required by the AASB’s mandate (section 229 of the ASIC Act).

We therefore encourage the AASB to continue its research into user needs in order to find a more fit for purpose solution.

We also note that the Framework allows the AASB to deem entities as publicly accountable within the Australian context under paragraph 32. Better use of that power may eradicate the perceived misuse of the ‘non-publicly accountable’ definition in specific circumstances such as has occurred legislatively for Significant Global Entities, without imposing an unreasonable regulatory burden on entities that are clearly non-publicly accountable.” (R10 – CAANZ)

- C4. “We consider that these proposals have not been appropriately prepared and that they represent a degree of regulatory overreach. We consider that these proposals illustrate the degree to which the AASB is isolated from practitioners in the small and medium size markets and ‘captured’ by ‘Big 4’ accounting firms. We consider that further research and consultation is required to enable a more appropriate proposal to be made.” (R12 - Hanrick Curran)
- C5. “As highlighted throughout our submission, CPA Australia does not believe a project of this magnitude that seeks to fundamentally change the Australian financial reporting framework can be adequately addressed through the AASB’s standard-setting activities alone. We also do not believe considerations relating to user needs and the cost of complying with AAS that are stated as important criteria in the standard-setting frameworks have been adequately addressed. Consideration of a simplified reporting framework that includes a reduction in recognition and measurement requirements may lead to lower costs for businesses. We note and agree with the requirement for entities with public accountability to state compliance with IFRS in their financial statements. This is also the intention of the IASB in the

development of the IFRS framework. However, the AASB has decided to diverge 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. The IASB has used public accountability as the dividing line between those entities that should adopt full IFRS and others that can adopt the IFRS for SMEs. Whilst the AASB is using the same public accountability criteria as a dividing line, we do not agree with its decision to depart from IASB's standard-setting ideology based on public accountability." (R13 – CPA)

- C6. "Please refer to BCCM's previous submission in respect of the Frameworks in which we strongly advocated for use of the expression Not-for-Profit to be confined to those entities eligible for registration as a charity." (R17 – BCCM,
- C7. "Largely, ITC 39 refers to the data and findings of Research Report No. 1. More specifically, ITC 39 relies on those parts of Research Report No. 1 that deal with the analysis of a random sample of 394 large proprietary limited company lodgements to ASIC for the annual report years ending in 2009 and 2010. I acknowledge the usefulness of Research Report No. 1. However as acknowledged by the AASB, the report has its limitations. I think in the absence of comprehensive data and information about for-profit entities and user needs the AASB is not well placed to develop further the proposals in modified Phase 2. Consequently, its' for-profit constituents are not well placed to make the necessary assessment." (R21 – Swinburne)
- C8. "I also question whether the AASB is in compliance with its legislative requirement to follow International Accounting Standards, and whether it complies with the Australian Government's commitment to reduce unnecessary red tape compliance costs. Whilst the AASB appears to believe that IFRS for SMEs may not be cost effective, it has provided no evidence to support this claim, it is contrary to the views of the IASB and many overseas countries that allow IFRS for SMEs as an option, and is not the AASB's decision, as it should be up to the entities and the users of their financial statements." (R22 – Scott Tobutt)
- C9. R34 – IPA did not explicitly comment on Phase 2 but made this comment in respect to Phase 1: "The IPA is of a view that the proposal to have two conceptual frameworks (one of which is in conflict with IFRS) is inconsistent with the Standard-Setting Framework." (R34 - IPA)

## **GMC 22 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals. ([Back to GMC 22](#))**

- R1 – RSM, R3 – ACNC, R4 – QIC, R15 – KPMG, R18 – Tax Justice Network, R20 - IFRS System, R22 – Scott Tobutt, R23 – PwC, R29 – Equifax, R30 – ABA, R31 – Richard Fakhry, R32 - Myron Ithayaraj, R33 – Richard Dalidowicz, R35 – Graeme MacMillan and R36 - Ed Psaltis did not answer this question
- R27 – HoTARAC and R28 – QAO responded in the context of the public sector and strengthening the efficiency and effectiveness of public sector reporting. As such have not been analysed as part of this paper.

### **8 of 18 (44%) said they are not aware of other regulatory issues**

- R5 – QBE, R6 – IAG, R9 – BDO, R11 – Malcolm Bunney, R16 – Crowe Horwath, R17 – BCCM, R25 – Pitcher Partners and R26 – EY said they are not aware of any regulatory issues or other issues arising in the Australian environment that may affect the proposals.
- The following extracts have been taken from the submissions of the above respondents to summarise their key points:
 

A1. "We are not currently aware of any further issues but believe It is too early to comment on this question because the specific proposed changes are unclear" (R5 - QBE)

A2. "None that we are aware of, other than the cost/benefit considerations noted earlier." (R6 – IAG)

A3. "We are not aware of any." (R9 – BDO)

A4. "None is known" (R11 – Malcolm Bunney)

- A5. "We are not aware of any such issues." (R16 – Crowe Horwath)
- A6. "Not that we are aware of." (R17 – BCCM)
- A7. "We are not aware of any regulatory issues or other issues, as such, arising in the Australian environment that may affect the implementation of the Phase 2 proposal to apply the RCF to all "other for-profit entities" in the medium term. However, as outlined in our response to Question 12, those entities affected by the proposals will include a significant number of for-profit entities that have solely a 'non-legislative' requirement to prepare financial statements in accordance with Australian Accounting Standards... In our opinion, there is sufficient justification to defer the mandatory application date of the RCF to "other for-profit entities" (under the proposed Phase 2: Medium-term approach), especially for those for-profit entities that have solely a 'non-legislative' requirement to prepare financial statements in accordance with Australian Accounting Standards. This could be effectively achieved by, for example: (a) deferring the mandatory application date beyond 1 January 2020 for all "other for-profit entities" that are required by legislation or otherwise to prepare financial statements in accordance with Australian Accounting Standards; (b) adopting a mandatory application date of 1 January 2020 for those "other for-profit entities" that have a legislative requirement to prepare financial statements in accordance with Australian Accounting Standards and deferring the mandatory application date beyond 1 January 2020 for those "other for-profit entities" that have solely a 'non-legislative' requirement to prepare financial statements in accordance with Australian Accounting Standards; or (c) adopting a mandatory application date of 1 January 2020 for those "other for-profit entities" that have a legislative requirement to prepare financial statements in accordance with Australian Accounting Standards and exempting/grandfathering those "other for-profit entities" that have solely a 'non-legislative' requirement to prepare financial statements in accordance with Australian Accounting Standards from applying the RCF (so long as the 'non-legislative' requirement continues to apply and is not otherwise amended).... We do not support approach (c)..." (R25 – Pitcher Partners)
- A8. "We are not aware of any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals. We strongly encourage those who set the requirements to prepare financial reports for different sectors and types of entities in Australia to consider the needs of users of financial information in their determination as to 'who' should prepare financial statements in accordance with AAS." (R26 – EY)

**8 of 18 (44%) said they are aware of other regulatory issues**

- R2 – Nexia, R7 – AICD, R10 – CAANZ, R12 – Hanrick Curran, R13 – CPA, R14 – Keith Reilly, R21 – Swinburne and R24 – FRS noted that they are aware of other regulatory issues.
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- B1. "ICT 39 states that "These proposals will not impact the 'public lodgement relief' granted to 'grandfathered proprietary companies' (provided they meet certain conditions) under s1408 of the Corporations Act." However, we note that these grandfathered large proprietary companies are still required to prepare financial statements and comply with the audit provisions of Chapter 2M.3 of the Corporations Act. Because those entities are privately held and not required to publicly file their audited financial statements, those reports are predominately prepared as SPFS. Consequently, the effect of the AASB's proposals is that those entities will be required to prepare GPFS, notwithstanding those financials are not publicly available. Those entities will face additional financial statement preparation time and cost as well as increased audit costs for no discernable benefit. We are not satisfied that the AASB has undertaken a full cost/benefit analysis of, or identified all classes of entities that may be effected by, the proposals and they are concerned that the proposals will add to the regulatory burden of affected entities for little or no public benefit" (R2 - Nexia)

- B2. "To date 'comply with accounting standards', the term contained in legislation as well as many non-legislative agreements (such as trust deeds and the like), has been interpreted as applying the reporting entity concept. This concept has allowed for SPFS in circumstances where users can demand information from the entity and do not have to rely on GPFS to make decisions about scarce resources. We consider that if 'comply with accounting standards' were to have a different meaning, and only mean that GPFS would be acceptable, this would require a substantial amount of clear evidence indicating that SPFS were not meeting the public benefit need for public reporting. We do not consider the CP has provided a substantial amount of clear evidence in this regard. Such a change would be substantial and have a huge increase in reporting burden on many companies, many of which are SMEs. We understand the AASB may consider that many entities already adopt the recognition and measurement of IFRS and therefore the proposals in the CP may not impose a huge increase in reporting burden in this regard. The AICD challenges this finding, as this statement has never been tested through regulator findings and there is a lack of understanding of full IFRS accounting standards in the non-publicly accountable sector." (R7 - AICD)
- B3. "We believe insufficient work has been done to understand the legislative impact of these changes and to mitigate an unrealistic red tape burden. We believe a more appropriate approach to the "problem" of special purpose reports is to develop a consistent legislative approach to the types of entities that need to report publicly and what is the appropriate format and content for that report and then respond with the development of a minimum reporting framework that would support those entities." (R10 – CAANZ)
- B4. "There are a number of issues that are relevant to these proposals and we consider that the AASB should have been able to identify these prior to the issue of the ITC. Further, we do not see special purpose financial reporting is the 'problem' that both the Australian Securities and Investments Commission and the Australian Accounting Standards Board see it as." (R12 - Hanrick Curran)
- B5. "We do not believe the consequences, including any potential increases in regulatory burden arising from adopting the current proposals set out in the Consultation have been fully analysed and reflected in a way that can be fully appreciated by those that are likely to be affected. Any analysis should also consider the future impact of new IFRS such as AASB 16 Leases on affected stakeholders. For example, users of financial statements of small-to medium sized enterprises may not be interested in information about lease assets and liabilities relating to rented office and/or retail space included on balance sheets. The costs of measuring and recognising such information by non-publicly accountable entities should also be taken into consideration." (R13 – CPA)
- B6. "Answer – Yes there are regulatory issues. Not allowing IFRS for SMEs, as an option for non-publicly accountable entities and foreshadowing that non-reporting entities will be required to adopt IFRS recognition and measurement rules is contrary to the Government's expectation of reducing un-necessary compliance costs." (R14 - Keith Reilly)
- B7. "I believe the cost to preparers of Tier 2 Alternatives 1 and 2 would be greater than the costs those entities would incur when applying a financial reporting framework that uses a recognition and measurement model different from that used in IFRS" (R21 – Swinburne)
- B8. "We are concerned that the proposals will add significant costs and regulatory burden to entities far greater than outlined by the AASB. Additional research should be undertaken to identify all classes of entities that would be impacted by the proposed change. For example, propriety companies that are 'grandfathered' under s1408 of the Corporations Act would be affected by the proposals. As these entities are privately held and accounts not publicly available, the accounts are usually SPFS. These entities would have additional burden of preparing GPFS and having them audited for no benefit." (R24 – FRS)

**2 of 18 (11%) were not clear whether there are regulatory issues or not**

- R8 – Grant Thornton and R34 – IPA did not specifically say that there are regulatory issues. However provided the following comments:
- C1. “As mentioned in our answer to Q14, resourcing at the entity level may be a challenge when implementing the new regime.” (R8 – Grant Thornton)
  - C2. “The IPA notes many entities may have to produce consolidated accounts for the first time and depending on transitional provisions this may include comparatives. As a result, there may be resultant modified audit opinions as a result of group and opening balance issues. The IPA is unaware of any other regulatory or other issues that may impact these proposals.” (R34- IPA)

### **GMC 23 Whether, overall, the proposals would result in financial statements that would be useful to users. ([Back to GMC 23](#))**

- R1 – RSM, R3 – ACNC, R4 – QIC, R15 – KPMG, R20 - IFRS System, R22 – Scott Tobutt, R23 – PwC, R35 – Graeme MacMillan and R36 - Ed Psaltis did not answer this question
- R27 – HoTARAC and R28 – QAO responded in the context of the public sector and strengthening the efficiency and effectiveness of public sector reporting. As such have not been analysed as part of this paper.

### ***12 of 25 (48%) respondents said the proposals would result in financial statements that would be useful.***

- R8 – Grant Thornton, R9 – BDO, R11 – Malcolm Bunney, R16 – Crowe Horwath, R17 – BCCM, R18 – Tax Justice Network, R19 – Westworth Kemp, R21 - Swinburne, R24 – FRS, R25 – Pitcher Partners, R29 – Equifax and R34 – IPA agreed that the overall proposals would result in financial statements that would be useful to users.
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- A1. “The degree of usefulness will be on a case-by-case basis, but in general, we agree with proposals that will provide clarity, consistency and simplicity for users.” (R8 – Grant Thornton)
  - A2. “In our view the proposals would result in financial statements that would be useful to users.” (R9 – BDO)
  - A3. “We believe that the proposed changes will lead to more consistent, comparable and transparent financial reporting that may be more useful to users. The proposed changes would assist the preparers and auditors by removing the option to self-assess whether an entity is a reporting entity and subsequently the type of financial reporting.” (R16 – Crowe Horwath)
  - A4. “The proposals do not appear to detract from the current level of usefulness of financial statements.” (R17 – BCCM)
  - A5. “The proposals are an improvement on the current situation and create much better access to corporate financial information. The TJN-Aus has been deeply frustrated by the Australian subsidiaries of large multinational corporations being able to hide behind SPFSs to conceal the details of their business, creating an unfair advantage over their Australian competitors that filed GPFs. For example, the TJN-Aus was frustrated in attempts to understand the financial activities for Glencore and Google Australia by their use of SPFSs.” (R18 – Tax Justice Network)
  - A6. “In our view the proposals are in the interests of the Australian economy as they will result in an improvement in the quality of financial information that is held on the public record and make that financial information more useful to users. However we also suggest that the AASB should lobby for:
    - a review of the disclosure thresholds in the Corporations Act and
    - the removal of the absurd grandfathering concession for the old exempt proprietary companies that do not qualify as small.” (R19 - Westworth Kemp)
  - A7. “I believe that in some circumstances the financial statements prepared using Alternatives 1 and 2 would be useful to users. However, other alternatives may have greater utility or a greater utility for some users. I encourage the AASB to consider the approach used in the UK which

includes both a reduced disclosure framework standard and a standard that uses a recognition and measurement model different from that used in IFRS..." (R21 – Swinburne)

- A8. "Yes. However, the regulatory cost burden may outweigh the benefits especially where consolidated financial statements are prepared when previously standalone financial statements were prepared." (R24 – FRS)
- A9. "As outlined in our response to Question 12, having previously determined the level of disclosure, on a standard-by-standard basis, that satisfies the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting (at the time of developing Australian Accounting Standards – Reduced Disclosure Requirements), in our opinion, it is now difficult to justify raising the level of disclosure for any specified accounting standard above the level currently required under the existing 'Reduced Disclosure Requirements' framework. In our opinion, imposing disclosure requirements of any specified accounting standard that exceed the level of disclosure currently required under the existing 'Reduced Disclosure Requirements' framework goes beyond what is necessary to satisfy the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting. We believe that preparing Tier 2 general purpose financial statements in accordance with the full recognition and measurement requirements of Australian Accounting Standards, and the 'RDR equivalent' disclosure requirements of specified accounting standards will achieve an appropriate balance between the cost of preparation and benefits to users, and satisfy the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting." (R25 – Pitcher Partners)
- A10. "As discussed, we are an active buyer of the financial statements lodged by various companies with ASIC, as a direct user for inclusion of financial highlights into our commercial bureau credit reports, for analytical purposes as detailed below and also as a reseller as an authorised ASIC broker. As Australia's largest commercial credit bureau we receive several million credit enquiries each year on commercial entities within Australia. Where ASIC financial information is available we include summary data in our credit report & as these reports are system generated we are reliant on the integrity of the data provided. As a result we fully endorse any move to ensure financial statements provided to ASIC comply with accounting standards which would enhance the consistency of this data & therefore improve the reliability of decisions being made by businesses in Australia. Using our linking methodology, for the financial statements that ASIC receives from approximately 20,000 Australian companies, we are able extend to this to approximately 70,000 related entities, giving quite a significant level of coverage of commercially active entities within Australia. Also, for our licenced ratings business which trades under the name of Corporate Scorecard, the requirement for an additional layer of investigation by our analysts to adjust financial statements to comply with accounting standards adds to both the cost & timeframe of delivering our analyst prepared credit reports. We also undertake quite extensive market analytics using this financial statement data, an example of which is the Mid-Market Risk Index a copy of which is attached. Again the provision of data which complies with accounting standards would significantly improve the veracity of this analysis & further improve the decision making capacity of Australian businesses." (R29 – Equifax)
- A11. "The IPA is of the view the proposals would enhance financial statements prepared by users as the IPA believes the current differential reporting regime has resulted in financial statements that are neither comparable or transparent. However, the IPA believes the proposals would be enhanced by adopting a broader definition of public accountability." R34 – IPA

**9 of 25 (36%) respondents said the proposals would not result in financial statements that would be useful**

- R2 – Nexia, R5 – QBE, R6 – IAG, R7 – AICD, R10 – CAANZ, R12 – Hanrick Curran, R13 – CPA, R14 – Keith Reilly, and R30 – ABA disagreed that the overall proposals would result in financial statements that would be useful to users.
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- B1. “In our opinion, the proposals in their current form, would increase the regulatory cost burden on many entities that outweighs the perceived benefits to an unidentified cohort of potential users” (R2 - Nexia).
  - B2. “Please refer to our comments above on what listed Groups and their subsidiary entities, which are based on a sound understanding of the needs of our users. We are unable to respond to this question more generally because we have limited insight on what is useful to users of the various other types of entities addressed in ITC 39.” (R5 - QBE)
  - B3. “As noted earlier, IAG’s preference is Option 2. We strongly believe the SPFS regime adequately meets user needs in a practical and cost-effective manner.” (R6 – IAG)
  - B4. “We believe the proposals in the CP provide insufficient evidence of the identity of users and their needs for the financial statements of non-publicly accountable entities. Therefore, we do not consider the proposals would result in financial statements that would be useful to users.” (R7 - AICD)
  - B5. “We 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. Accordingly these proposals would produce financial statements that would not be useful to a wide range of users, and would require a significant increase in preparer burden for no demonstrable benefit.” (R10 – CAANZ)
  - B6. “We agree with other comments we have contributed to, including “We 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. Accordingly these proposals would produce financial statements that would not be useful to a wide range of users, and would require a significant increase in preparer burden for no demonstrable benefit.” (R12 - Hanrick Curran)
  - B7. “Feedback we have received indicates that whilst preparers and auditors may have the necessary knowledge and expertise to adopt the proposed new requirements, we have seen limited evidence to indicate that users of financial statements exist who specifically require such financial statements to be prepared in accordance with the full recognition and measurement requirements of IFRS. It would also be useful if the AASB could establish what appetite exists in the user community for financial statements based on a simplified financial reporting framework based on IFRS for SMEs.” (R13 – CPA)
  - B8. “Answer – No. Not allowing IFRS for SMEs, as an option for non-publicly accountable entities and foreshadowing that non-reporting entities will be required to adopt IFRS recognition & measurement is contrary to the Government’s expectation of reducing un-necessary compliance costs. On that basis: (a) I believe that the AASB should allow IFRS for SMEs as an option to full IFRS/AASBs, or RDR for non- publicly accountable reporting entities as is allowed by most overseas countries; and (b) Non-Reporting Entities should be allowed to adopt the simplified disclosures in AASB 101, 107, 108 and 1054.” (R14 - Keith Reilly)
  - B9. “Ultimately the finance sector is attempting to be more concise and transparent in its financial reporting to users of financial statements. The general purpose consolidated financial statements of financial institutions reflect the highly regulated and complex nature of the entities they relate to. Nonetheless, efforts to simplify these financial reports and effectively communicate to users of the financial statements are ongoing. The AASB’s proposals under Phase 2 will create additional confusion for users who will observe an increase from a handful of general purpose financial reports to hundreds covering each subsidiary of an APRA-regulated entity. This outcome would appear at odds with efforts to consider user needs from a preparer



perspective in determining how to best present financial information in a transparent and understandable way.

In some respects, having all entities who apply Australian Accounting Standards comply with some form of GPFS reporting regime shares many similarities to issues explored in AASB Research Report No. 6 *Improving Financial Reporting for the Australian Public Sector*. In that report the AASB notes that “there are significant costs of having every entity in the public sector prepare GPFS when there is uncertainty over the value of the reporting to users”. Considering the AASB’s sector neutral policy, it appears contradictory that on one hand the AASB is arguing for a reduction in the need for mandated GPFS in the public sector but argues on the other that all private sector entities must prepare GPFS if they apply Australian Accounting Standards. The ABA appreciates the AASB’s intention to remove the ability for entities to self-assess whether to prepare general purpose financial statements to improve fairness, transparency and comparability in the financial reporting framework. However, the current proposals introduce a high risk of imposing an unreasonable reporting burden on entities that clearly have no users of their financial information. Thus, more time and consideration needs to be spent to make sure that the AASB’s efforts target an appropriate group of preparers.” (R30 – ABA)

***It was not clear from the responses of one whether they think the proposals would be useful or not***

- R26 – EY did not express a clear view of whether or not would be useful.
- C1. “We believe the issuance of the RCF creates a need for the AASB to consider Australia-specific amendments in its adoption in Australia, specifically the maintenance or removing of the existing Australian concept of ‘reporting entity’. To the extent Tier 2 GPFS are prepared we believe the ED277 project should be finalised.” (R26 – EY)

***3 constituents did not specifically answer this question, however provided other comments***

- R31 – Richard Fakhry, R32 - Myron Ithayaraj and R33 – Richard Dalidowicz did not specifically answer this question. However as users of financial statements, did indicate the importance of compliance with AAS and comparability of disclosures, both of which are key features of the proposals.
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- D1. R31 – Richard Fakhry said “Consistent recognition and measurement requirements for assets, liabilities, revenues and expenses from year to year for a particular entity” was very important and “Comparability of recognition and measurement requirements for assets, liabilities, revenues and expenses with other entities’ was important for decision-making”. The respondent also said “yes” when asked “If not all entities preparing special purpose financial statements are consistently applying the recognition and measurement requirements of Australian Accounting Standards, does this affect the usefulness of the information contained in those special purpose financial statements and / or your ability to make decisions based on this information?” When asked “Should there be comparable note disclosure requirements for these types of entities?” This respondent answered “Yes”. When asked “If an entity is a parent, and has subsidiaries that it controls what information do you need for your decisions...Consolidated financial statements including note disclosures (which include all assets, liabilities, revenues and expenses of the parent and all subsidiaries)?...” The respondent said “Yes”. (R31 – Richard Fakhry)
- D2. R32 - Myron Ithayaraj said “Consistent recognition and measurement requirements for assets, liabilities, revenues and expenses from year to year for a particular entity” and “Comparability of recognition and measurement requirements for assets, liabilities, revenues and expenses with other entities” were very important for decision-making. The respondent also said “yes” when asked “If not all entities preparing special purpose financial statements are consistently applying the recognition and measurement requirements of Australian Accounting Standards, does this affect the usefulness of the information contained in those special purpose financial statements

and / or your ability to make decisions based on this information?” When asked “Should there be comparable note disclosure requirements for these types of entities?” This respondent answered “Yes”. When asked “If an entity is a parent, and has subsidiaries that it controls what information do you need for your decisions...Consolidated financial statements including note disclosures (which include all assets, liabilities, revenues and expenses of the parent and all subsidiaries)?...” The respondent said “Yes”. (R32 - Myron Ithayaraj)

- D3. R33 – Richard Dalidowicz said “Consistent recognition and measurement requirements for assets, liabilities, revenues and expenses from year to year for a particular entity” and “Comparability of recognition and measurement requirements for assets, liabilities, revenues and expenses with other entities’ were very important for decision-making”. The respondent also said “yes” when asked “If not all entities preparing special purpose financial statements are consistently applying the recognition and measurement requirements of Australian Accounting Standards, does this affect the usefulness of the information contained in those special purpose financial statements and / or your ability to make decisions based on this information?” When asked “Should there be comparable note disclosure requirements for these types of entities?” This respondent answered “Yes”. When asked “If an entity is a parent, and has subsidiaries that it controls what information do you need for your decisions...Consolidated financial statements including note disclosures (which include all assets, liabilities, revenues and expenses of the parent and all subsidiaries)?...” The respondent said “Yes”. (R33 – Richard Dalidowicz)

#### **GMC 24 Whether the proposals are in the best interests of the Australian economy? ([Back to GMC 24](#))**

- R1 – RSM, R3 – ACNC, R4 – QIC, R15 – KPMG, R20 – IFRS System, R23 – PwC, R29 – Equifax, R31 – Richard Fakhry, R32 - Myron Ithayaraj, R33 – Richard Dalidowicz, R35 – Graeme MacMillan and R36 - Ed Psaltis did not answer this question.
- R27 – HoTARAC and R28 – QAO responded in the context of the public sector and strengthening the efficiency and effectiveness of public sector reporting. As such have not been analysed as part of this paper.
- Could mention here general comments made by CPA and PwC regarding inconsistency in reporting requirements between entities covered under the Corporations Act and other structures such as trusts and partnerships. I think at least one other submission mentioned partnerships (in particular Big 4 accounting firms).

#### **10 out of 22 (45%) said yes the proposals are in the best interest of the Australian economy**

- R8 – Grant Thornton, R9 – BDO, R11 – Malcolm Bunney, R16 – Crowe Horwath, R17 – BCCM, R18 – Tax Justice Network, R19 – Westworth Kemp, R24 – FRS, R25 – Pitcher Partners and R34 – IPA agree that the proposals are in the best interests of the Australian economy.
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- A1. “All proposals that bring a level of consistency and clarity to end users of financial statements, as well as improved consistency with overseas usage, is welcomed and will surely be in the long-term interests of the Australian economy. Going forward, there will be a need continually to critique the size criteria for the applicable tiers. The AASB will need to consider consistency for different types of entities e.g. different legal structures, as that will continue to deliver inconsistent reporting (trusts, partnerships, grandfathered entities). More broadly, the idea of the consultations and the Standards is to look after stakeholders – we must ask ourselves why it continues to be in the interests of the Australian economy that a class of corporate citizens be exempt from reporting.)” (R8 – Grant Thornton)
- A2. “Yes we believe the proposals are in the best interests of the Australian economy as it removes differential reporting for similar entities and brings Australian into line with overseas countries.” (R9 – BDO)

- A3. Retirement Villages could improve their reputation by adopting the proposals. This could result in more people moving into retirement villages, enjoying a better life, and improving the Australian economy.” (R11 – Malcolm Bunney)
- A4. “Harmonising the Australian reporting framework will assist entities in meeting their reporting obligations in other jurisdictions and promote Australia's international influence in relation to the development of accounting standards.” (R16 – Crowe Horwath)
- A5. “The proposals are aimed at improving the comprehensibility of the system for determining financial reporting requirements. As such they are likely to improve Australian entities’ competitiveness and access to capital. Unfortunately the economic benefits are not separately identifiable (from those resulting from other factors) so as to be sufficiently quantifiable to qualify for recognition under the IFRS framework.” (R17 – BCCM)
- A6. “The TJN-Aus believes the outlined approach is in the best interest of the Australian economy as it will result in a more level playing field for businesses operating in Australia, as noted in the consultation paper. The removal of SPFSs will create greater financial transparency for the general community, which in turn will hopefully increase confidence that businesses are paying the taxes they should pay in Australia. It will also make it easier for investors to assess and compare companies, leading to better investment decisions which in turn will benefit the Australian economy. It is also fair for employees to be able to assess the financial situation of the businesses they work for, given their livelihoods are dependent on those financial situations.” (R18 – Tax Justice Network)
- A7. “In our view the proposals are in the interests of the Australian economy as they will result in an improvement in the quality of financial information that is held on the public record and make that financial information more useful to users. However we also suggest that the AASB should lobby for
- a review of the disclosure thresholds in the Corporations Act and
  - the removal of the absurd grandfathering concession for the old exempt proprietary companies that do not qualify as small.” (R19 - Westworth Kemp)
- A8. ‘Yes - to an extent. Various entities are required to prepare financial statements in accordance with accounting standards due to contract terms or trust deeds, e.g. those with banking covenants and SPFS are currently acceptable. The AASB at the round table suggested that such entities could renegotiate/change the terms of the contract/covenants/constitution which in practise is difficult/expensive to do. We would prefer the framework to allow for the continuation of SPFS at least for entities less than a certain size such as small proprietary companies, charities, associations and trusts. This would reduce the regulatory cost burden on these entities and fully acknowledge in doing so comparability may be lost between similar entities. (R24 – FRS)
- A9. “In our opinion, the proposals are in the best interests of the Australian economy.” (R25 – Pitcher Partners)
- A10. “The IPA believes the proposal would be in the best interests of the Australian economy as the proposals would enhance the comparability and transparency of financial reports and therefore their usefulness to users. The IPA believes the proposals would be further enhanced by adopting a broader definition of public accountability.” (R34 – IPA)

**10 out of 22 (45%) suggested the proposals are not in the best interest of the Australian economy**

- R2 – Nexia, R5 – QBE, R6 – IAG, R7 – AICD, R10 – CAANZ, R12 – Hanrick Curran, R13 – CPA, R14 – Keith Reilly, R21 – Swinburne and R22 – Scott Tobutt disagree that the proposals are in the best interest of the Australian economy.
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- B1. “While the proposals may be viewed by some as in the best interest of the accounting profession, we believe that the cost to those affected entities outweighs the perceived benefits

of the changes. We would prefer that if deficiencies exist in the existing reporting framework that the regulators use their existing enforcement powers to address those issues.

Many bank covenants, business purchase agreements, contracts and other non-legislative provisions require entities to prepare financial statements in accordance with AAS. At present, those users accept SPFS. By virtue of their relationship, those users can command additional information if required. We are concerned that the Board's scoping requirement to include entities that are required, or choose, to prepare financial statements to prepare GPFR will default those entities into GPFS, thereby increasing the cost of business for those entities. The Board's suggestion that those entities could renegotiate contracts and covenants or change constitutions is simplistic and ignores the cost to business of doing so" (R2 - Nexia).

- B2. "Any proposals which increase the cost burden without substantiated benefits would not be considered to be in the best interest of the Australian economy" (R5 - QBE)
- B3. "Many small and medium-sized businesses that do not have public accountability and are currently classified as non-reporting entities prepare SPFS. The change may result in a material additional compliance burden for these companies without, in our view, commensurately increasing the value the resultant financial statements to users' of the financial statements." (R6 – IAG)
- B4. "AICD does not consider the proposals are in the best interests of the Australian economy, because:
- Sufficient evidence has not been provided to demonstrate the nature of the problem with SPFS; and
  - The proposals will create an extensive compliance burden on business, particularly for SMEs. This would be contrary to the government's current efforts to provide initiatives to help small business grow through tax cuts, less red-tape, simpler GST reporting and providing tools for easier compliance." (R7 - AICD)
- B5. "We do not agree that the AASB has provided sufficient evidence to demonstrate that its current proposals are beneficial. We believe the Australian economy will gain a far greater long term benefit from a reform approach that is done holistically for the FP sector in the same way that the AASB is proposing to develop its proposals for the NFP sector. This holistic approach requires legislative and regulatory involvement to develop a consistent legislative approach to the types of entities that need to report publicly and what is the appropriate format and content of that report." (R10 – CAANZ)
- B6. "We do not consider that these proposals are in the best interest of the Australian economy." (R12 - Hanrick Curran)
- B7. "For the reasons stated previously in this submission, we do not believe sufficient evidence has been gathered and presented to demonstrate that the proposals are in the best interests of the Australian economy. We reiterate our previous comments that the proposals could potentially increase costs for the Australian economy by imposing a recognition and measurement framework intended for listed companies or publicly accountable entities, on all other entities that are required to, or choose to prepare financial statements in accordance with AAS." (R13 – CPA)
- B8. "No. Not allowing IFRS for SMEs, as an option for non-publicly accountable entities and foreshadowing that non-reporting entities will be required to adopt IFRS R&M is contrary to the Government's expectation of reducing un-necessary compliance costs." (R14 - Keith Reilly)
- B9. "I do not think the AASB has established the proposals are in the best interests of the Australian economy..." (R21 – Swinburne)
- B10. "...Whilst some of my non-publicly accountable entities may wish to stay with IFRS, others may not, and to deny those clients the opportunity to reduce their compliance costs, does not seem to be in the best interests of those clients, and contrary to the public interest principles that the accounting profession states is its mission..." (R22 – Scott Tobutt)

**2 out of 22 (9%) respondents did not provide a clear view either way**

- R26 – EY and R30 – ABA did not express a clear view.
  - The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- C1. “We believe the issuance of the RCF creates a need for the AASB to consider Australia-specific amendments in its adoption in Australia, including the question of maintenance or removing the existing Australian concept of ‘reporting entity’. We consider it the standard setter’s responsibility to provide a framework for the preparation of financial statements in accordance with Australian Accounting Standards (AAS). We encourage others determining the need for preparing financial reports - across all sectors and types of entities in Australia - to consider the needs of users for entities to prepare financial reports in accordance with AAS.” (R26 – EY)
- C2. “Ultimately the finance sector is attempting to be more concise and transparent in its financial reporting to users of financial statements. The general purpose consolidated financial statements of financial institutions reflect the highly regulated and complex nature of the entities they relate to. Nonetheless, efforts to simplify these financial reports and effectively communicate to users of the financial statements are ongoing. The AASB’s proposals under Phase 2 will create additional confusion for users who will observe an increase from a handful of general purpose financial reports to hundreds covering each subsidiary of an APRA-regulated entity. This outcome would appear at odds with efforts to consider user needs from a preparer perspective in determining how to best present financial information in a transparent and understandable way.
- In some respects, having all entities who apply Australian Accounting Standards comply with some form of GPFS reporting regime shares many similarities to issues explored in AASB Research Report No. 6 *Improving Financial Reporting for the Australian Public Sector*. In that report the AASB notes that “there are significant costs of having every entity in the public sector prepare GPFS when there is uncertainty over the value of the reporting to users”. Considering the AASB’s sector neutral policy, it appears contradictory that on one hand the AASB is arguing for a reduction in the need for mandated GPFS in the public sector but argues on the other that all private sector entities must prepare GPFS if they apply Australian Accounting Standards. The ABA appreciates the AASB’s intention to remove the ability for entities to self-assess whether to prepare general purpose financial statements to improve fairness, transparency and comparability in the financial reporting framework. However, the current proposals introduce a high risk of imposing an unreasonable reporting burden on entities that clearly have no users of their financial information. Thus, more time and consideration needs to be spent to make sure that the AASB’s efforts target an appropriate group of preparers.” (R30 – ABA)

**GMC 25 Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements**

- R1 – RSM, R3 – ACNC, R8 – Grant Thornton, R13 – CPA, R15 – KPMG, R18 – Tax Justice Network, R19 – Westworth Kemp, R20 – IFRS System, R21 – Swinburne, R22 – Scott Tobutt, R23 – PwC, R24 – FRS, R25 – Pitcher Partners, R26 – EY, R29 – Equifax, R31 – Richard Fakhry, R32 – Myron Ithayaraj, R33 – Richard Dalidowicz, R35 – Graeme MacMillan and R36 – Ed Psaltis did not express specific comments on this question / or noted that they had no comments in addition to those previously raised.
- R27 – HoTARAC and R28 – QAO responded in the context of the public sector and strengthening the efficiency and effectiveness of public sector reporting. As such have not been analysed as part of this paper.

- R2 – Nexia, R5 – QBE, R6 – IAG, R7 – AICD, R9 – BDO, R10 – CAANZ, R11 – Malcolm Bunney, R12 – Hanrick Curran, R14 – Keith Reilly, R16 – Crowe Horwath, R17 – BCCM, R30 – ABA and R34 – IPA provided the following responses:
- A1. “In our opinion, the proposals in their current form, would increase the regulatory cost burden on many entities that outweighs the perceived benefits to an unidentified cohort of potential users” (R2 – Nexia)
  - A2. “From a Group reporting perspective, any increase in disclosures relevant to our wholly owned subsidiaries who are currently preparing SPFS would be considered an increase cost with no benefit. We are unable to quantify the likely costs of the proposals until the selected approach is determined” (R5 - QBE)
  - A3. “As noted in the earlier responses, we do not expect the benefits of transitioning to Option 1 would exceed the related costs as, in our experience, the current reporting framework is meeting the needs of the users of financial statements. IAG has yet to perform a detailed cost estimation and impact assessment of the potential alternative approaches.” (R6 – IAG)
  - A4. “... we are concerned that such an expansion of GPFS will be in excess of user needs without adequate analysis of the costs and benefits of the change. The alternatives proposed by the AASB will increase the compliance burden on business by requiring:
    - Consolidations and equity accounting;
    - Increased complexity in adopting the recognition and measurement of International Financial Reporting Standards (IFRS); and
    - Additional disclosures.” (R7 – AICD)
  - A5. “While we acknowledge that the AASB’s Phase 2 approach will create additional work, and some increased costs for some entities currently preparing special purpose financial statements, we agree with the approach on the basis that it will:
    - remove the subjectivity currently present in the process for self-assessing whether an entity is a ‘non-reporting entity’,
    - improve the consistency, comparability, usefulness, and credibility of financial statements prepared for regulatory purposes (i.e. for users other than shareholders),
    - improve the comparability for entities of similar economic circumstances, and
    - improve the trust and transparency within financial reporting to meet user needs.” (R9 – BDO)
  - A6. “We reiterate our view that the AASB has insufficiently demonstrated why only GPFS meets the requirement of “financial statements prepared in accordance with accounting standards” and how the benefits to those users of implementing a Tier 1 or 2 only approach will exceed the substantial compliance burden it will present.” (R10 – CAANZ)
  - A7. “Costs and benefits of the proposals.
    - The incremental cost to the owner to record and prepare Village accounts to the proposed standard would not be significant. With disclosures there is an initial cost to clarify and disclose related party transactions. Any costs would be spread over 80 villages.
    - Audit costs of \$3300 p.a is based on a non-reporting entity and giving limited assurance. The owner is a reputable company and could comply with the proposed standards for 80 villages. The audit costs should still be low. A review instead of an audit could be an option if audit costs were a problem.
    - The benefits are financial reports prepared accounting standards is that the reports are not for the village owner to give the results they would prefer. (break-even) Related party transactions are declared, the audit report would be for Residents, and comply with the requirements of the Retirement Village Act.” R11 – Malcolm Bunney)
  - A8. “We consider that these proposals are going to be costly to small and medium sized businesses in the Australian economy. We consider that these proposals are going to be costly to practices in these markets (i.e., non 'Big-4' firms).” (R12 - Hanrick Curran)

- A9. "In 2013 Moore Stephens were quoting a cost of around \$10,000 for Charities to convert from simplified non-reporting accounting to full IFRS which included additional audit costs. A then Grant Thornton internal estimate was that moving to IFRS for SMEs would cost around \$4,000 including audit costs. Savings if the RDR disclosures were adopted were estimated to be about 20% say \$2000 as the main cost was the full IFRS recognition and measurement requirements." (R14 - Keith Reilly)
- A10. "We anticipate that preparers will incur additional cost in preparing financial reports, largely due to the application of consolidation and equity accounting. The increased cost will result from the preparation of consolidated financial reports and their audits, including for example obtaining fair value measurements for the testing of goodwill that has not been previously recognised because the entity did not apply consolidation accounting. There will also be one-off cost resulting from redesigning financial reports, upgrading existing financial reporting systems and upskilling accounting staff in consolidation and consolidated reporting. The benefits will come in removing the inconsistencies in self-assessing what type of reporting to apply and thus improving the comparability, transparency and usefulness of financial reporting. Entities eligible to report under Tier 2, but which opted to continue reporting under Tier 1 because they did not view the reduced disclosure requirement to be sufficiently different may reconsider their decision if the new Tier 2 frameworks provides a better alternative." (R16 – Crowe Horwath)
- A11. "The BCCM does not have access to any specific data on potential costs and benefits. We can only re-iterate that simple and clear requirements are easier and cheaper to meet and that smaller entities should not be burdened with any requirements beyond those appropriate to their size and activities." (R17 – BCCM)
- A12. "The table below sets out an estimate of resources that would be required to transition to Tier 2 GPFS from current SPFS reporting. Given the CP is proposing two high-level options for the future of Tier 2 we are unable to provide accurate cost estimates for the lack of specific proposals. The expected costs below are per entity.

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

..." (R30 – ABA)

- A13. "While the IPA is not in the position to comment on the quantitative cost of the proposal, the IPA notes that there will likely be an increase in audit costs on an ongoing basis as many entities that did not prepare group accounts will be required to have group audits for the first time." (R34 - IPA)

## Other matters raised

### Note

The following matters have been noted from the submissions, some within the covering letters and others as points within the SMCs and GMCs. These matters do not explicitly relate to the three key issues described in Specific Matter 1 – 3 (refer paragraphs **Error! Reference source not found.** – **Error! Reference source not found.**). AASB staff have grouped these other matters and included extracts from the submissions to explain what the constituents have raised. [Other Matter 1](#) to [Other Matter 10](#) work through these other matters including analysis from other related sources and provides Staff recommendations to the Board.

### ***Other Matter 1 – 7 out of 36 (19%) respondents suggested the large proprietary company thresholds should be reviewed and/or legislators should determine ‘who’ should prepare GPFS (back to Other Matter 1)***

- R7 – AICD, R10 – CAANZ, R13 – CPA, R15 – KPMG, R19 – Westworth Kemp, R21 – Swinburne and R26 – EY suggested thresholds 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 its proposals.
- A1. "...The AICD considers that a broader review of the Australian financial reporting regime should be undertaken by exploring both elements – review of ‘who’ needs to lodge financial reports and a review of ‘what’ these entities should be reporting. The AASB proposals attempt to explore the ‘what’ without policy makers addressing the ‘who’. Only a review of these parts together will enable the development of an effective financial reporting regime that will support the economy without imposing unnecessary compliance burden on small business. In the meantime, we encourage the AASB to work with regulators in providing additional support to business and professional advisers to better understand who can prepare SPFS and regulators to ‘enforce’ its application in the most effective manner..." (R7 – AICD)
- A2. The decision not to support the AASB’s Phase 2 proposals is based on our members’ concerns that they are likely to result in an expansion of the application of general purpose financial reporting in Australia to a level that is far in excess of what users need, and without adequate examination of the relative costs and benefits of that change... Attempting to ‘fix’ the reporting framework using standard setting alone defers two important questions:-
- which entities should have to publicly report – a matter for the relevant policy makers, legislators and regulators and
  - what they should report – a matter for these policy makers, legislators and regulators as well as the standard setters

Clear answers to both these interdependent questions are essential to the development, and subsequent enforcement, of an effective financial reporting regime that will support our economy without imposing unnecessary regulatory burden. Obtaining such answers requires the involvement of all the above bodies and the sectors themselves and the final solution must remain focused on an evidence based assessment of user needs and be capable of ongoing effective enforcement.

### Our preferred way forward

We therefore encourage the AASB to work with Treasury in the for-profit sector, to achieve suitable legislative framework reform before it undertakes further reform via its standard setting mandate. This approach would mirror the approach the AASB has indicated it is already taking for the NFP sector, by working with regulators, and the sector itself, to formulate the appropriate financial reporting framework for that sector..." (R10 – CAANZ) (Refer to [Appendix D](#) for analysis of R10 – CAANZ’s and R13 – CPA’s joint submission to Treasury)

### A3. "...Better articulation of the problem

In our previous submission, we highlighted a number of key factors that the AASB should give further consideration to, before proceeding further with its phase 2 proposals. These



were...Major changes to corporate financial reporting are incomplete, and possibly inadequate, without proper consideration of financial reporting thresholds within Corporations Act 2001...A cooperative effort between the AASB and Treasury is required...To assist with this, in conjunction with Chartered Accountants ANZ, we have written to Treasury seeking their review of the reporting thresholds in the Corporations Act 2001 as a matter of priority.” (R13 – CPA) (Refer to [Appendix D](#) for analysis of R10 – CAANZ’s and R13 – CPA’s joint submission to Treasury)

- A4. “...We further support that the current financial reporting thresholds set by Treasury should be revisited as part of this reporting framework project...We are of the view that a better outcome is for Treasury to tackle the regulatory decision of which entities – using an objectively measured threshold – need to prepare and lodge financial statements. This would provide a clear and consistent outcome...” (R15 – KPMG)
- A5. “...There is scope for lobbying for a change to the Corporations Act raising the financial thresholds at which a proprietary company is considered large... We agree that we only need one set of Tier 2 requirements, but recommend that the AASB lobby for a raising of the small proprietary company threshold...” (R19 – Westworth Kemp)
- A6. “...It is for the lawmaker to determine who of its regulated entities should prepare GPFS...I support the withdrawal of SAC 1, but not in isolation of an explicit statement from the lawmaker as to who of its regulated entities should prepare GPFS...” (R21 – Swinburne)
- A7. “...We strongly encourage those who set the requirements to prepare financial reports for different sectors and types of entities in Australia to consider the needs of users of financial information in their determination as to ‘who’ should prepare financial statements in accordance with AAS...” (R26 – EY)

***Other Matter 2 – 5 out of 36 (14%) respondents suggested the NFP financial reporting framework should be addressed first or concurrently with the for-profit financial reporting framework ([back to Other Matter 2](#))***

- 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:
- A1. “...As stated in our response to Phase 1 of ITC 39, we remain concerned that the adoption of the Revised Conceptual Framework (“RCF”) and decisions taken by the Board regarding the form and structure of Tier 2 GPFR in a piecemeal fashion (that is, initially only to for-profit entities), will lock the AASB and other stakeholders into adopting that single framework for not-for-profit entities. Consequently, we strongly recommend that:
  - i) The Board not proceed with its current proposals until any amendments have been made to the financial reporting requirements and thresholds in the ACNC Act following the ACNC legislative review; and
  - ii) Subsequent to those changes, the AASB issue a comprehensive exposure draft incorporating its final proposals relating to both for-profit and not-for-profit entities to enable stakeholders to consider the Board’s proposals in their entirety...” (R2 – Nexia)
- A2. “...We note that since the AASB issued ITC 39, it has decided to defer consideration of the reform proposals it contains relating to the not-for-profit (NFP) sector to a subsequent consultation. We support the need for such a separate NFP consultation, which we see as a critical part of the overall reform package. We therefore encourage the AASB to continue working with the significant NFP regulators, and with the sector itself, to develop consistent national reform proposals for them. However, as discussed in more detail below, our preference would be for the AASB to prioritise progressing this work ahead of any further advance of the for-profit standard setting reforms. We believe NFP reporting is the area of greatest need and that the outcomes from the board’s NFP reform work could positively inform the approach we see as needed for the for profit (FP)

sector reform. This will then allow the final development of a suitable, but consistent, framework for both sectors..." (R10 – CAANZ)

- A3. "...We consider that Australian Accounting Standards should remain sector neutral. Accordingly, we do not support deferral of application of these amendments for the not-for-profit sector..." (R11 – Hanrick Curran)
- A4. "... since issuing the Consultation, the AASB has stated that the proposals are being considered only in the context of for-profit entities and any financial reporting framework considerations applicable to not-for-profit (NFP) entities will be considered at a later stage. We appreciate the practical considerations that have led to the AASB's postponement decision. However, we recommend the AASB continues development of its proposals for the for-profit and NFP sectors concurrently as originally planned, for the reasons stated below:
- It is our view that the financial reporting needs of the NFP sector and their contributions to the Australian economy and society are of similar if not of more importance than the for-profit sector under current consideration.
  - We are led to understand that the AASB may seek to develop different reporting requirements for the NFP sector compared to the for-profit sector, to accommodate the lower thresholds for financial reporting in the NFP sector. This approach may not align with the transaction-neutral approach at the heart of the AASB's standard-setting activities and may lead to a loss in comparability and consistency of financial reports. For example, under the Aged Care Act 1997 Accountability Principles 2014 s35A, all approved providers of residential care services are required to prepare general purpose financial statements. As both for-profit and NFP entities are registered under this Act, the AASB's proposed approach could potentially give rise to different financial reports being prepared dependent on whether entities are classified as for-profit or NFP entities..." (R13 – CPA)
- A5. "...On matters of developing financial reporting framework(s), the AASB take a synchronised approach when considering proposals for frameworks and their application to for-profit and not-for-profit private and public sector entities.
- There is a potential threat to the rigour applied by the AASB in its decision making if the start date of the modified Phase 2 plan is not delayed so as to coincide with the unknown-start date of the not-for-profit entity Phase 2 plan..." (R21 – Swinburne)

***Other Matter 3 – 6 out of 36 (17%) respondents are concerned about entities impacted that have only non-legislative requirements to prepare financial statements in accordance with AAS ([back to Other Matter 3](#))***

- 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.
- A1. "...Many bank covenants, business purchase agreements, contracts and other non-legislative provisions require entities to prepare financial statements in accordance with AAS. At present, those users accept SPFS. By virtue of their relationship, those users can command additional information if required. We are concerned that the Board's scoping requirement to include entities that are required, or choose, to prepare financial statements to prepare GPFR will default those entities into GPFS, thereby increasing the cost of business for those entities. The Board's suggestion that those entities could renegotiate contracts and covenants or change constitutions is simplistic and ignores the cost to business of doing so..." (R2 - Nexia)
- A2. "...The proposed approach is a short cut solution to the more complex issue of which for-profit entities should report and what information the users of such reports actually need, but cannot directly access for themselves. Both these issues need to be resolved first, otherwise the result will be an onerous reporting burden on many preparers which provides no demonstrable benefit to users of that information, and which potentially could decrease their perception of the usefulness of those financial statements. It could also lead

to entities choosing to restructure as trusts, rather than companies, in order to avoid onerous reporting requirements, which may not be in the public interest...” (R10 – CAANZ)

- A3. “...Australian businesses operate through a number of structures including trust structures, and there is some concern that focusing the financial reporting reforms only on corporate entities and others with statutory financial reporting requirements does not adequately address the attributes of comparability, consistency and transparency that underpin the public interest objective. For statutory financial reporting requirements to serve the needs of the Australian economy as intended, it is necessary for a substance over form approach, where entities that operate through a particular business structure and enjoy similar benefits to a company (e.g. limited liability) are required to comply with uniform financial reporting requirements. Further, the impact of the proposals on entities that prepare financial reports for non-statutory purposes, but in compliance with Australian Accounting Standards (AAS) should also be considered before progressing the project further...” (R13 – CPA)
- A4. “...The AASB should also be mindful of significant entities such as the major professional accounting firms that have revenues in excess of \$1 billion who do not have to comply with IFRS. It does seem unfair to hit smaller businesses with increased compliance costs in comparison, does it not?” (R14 - Keith Reilly)
- A5. “...Various entities are required to prepare financial statements in accordance with accounting standards due to contract terms or trust deeds, e.g. those with banking covenants and SPFS are currently acceptable. The AASB at the round table suggested that such entities could renegotiate/change the terms of the contract/covenants/constitution which in practise is difficult/expensive to do.  
We would prefer the framework to allow for the continuation of SPFS at least for entities less than a certain size such as small proprietary companies, charities, associations and trusts. This would reduce the regulatory cost burden on these entities and fully acknowledge in doing so comparability may be lost between similar entities...” (R24 – FRS)
- A6. “...It is important to consider that those entities affected by the proposals will include a significant number of for-profit entities that have solely a ‘non-legislative’ requirement to prepare financial statements in accordance with Australian Accounting Standards. Such a requirement commonly arises under trust deeds, constitutional documents, financing facility agreements, other funding agreements or grant acquittal requirements, business sale and purchase agreements, and other similar contractual arrangements.  
Such entities must be given sufficient time to review and assess, and seek to amend where necessary, existing ‘non-legislative’ financial reporting requirements following the finalisation of amendments to Australian Accounting Standards...” (R25 Pitcher Partners)

***Other Matter 4 – 6 out of 36 (17%) respondents suggested there are no users and / or the AASB haven’t conducted sufficient research regarding on what users need ([back to GMC 22](#), [back to GMC 24](#) or [Other Matter 4](#))***

- R2 – Nexia, R7 – AICD, R12 – Hanrick Curran, R13 – CPA, R14 – Keith Reilly, 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.
- A1. “...We are unable to determine whether “the specified disclosures would be meet users’ needs” because neither we nor the AASB have ascertained what the disclosure needs of hypothetical users are.” (R2 – Nexia)
- A2. “...We believe the proposals in the CP provide insufficient evidence of the identity of users and their needs for the financial statements of non-publicly accountable entities. Therefore, we do not consider the proposals would result in financial statements that would be useful to users...More empirical evidence is needed, based on up-to-date information on the current state of reporting, the identification of the relevant users and the deficiencies with SPFS from those users before this project should proceed...” (R7 – AICD)

- A3. "...We 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. Accordingly these proposals would produce financial statements that would not be useful to a wide range of users, and would require a significant increase in preparer burden for no demonstrable benefit..." (R12 – Hanrick Curran)
- A4. "...In our previous submission, we highlighted a number of key factors that the AASB should give further consideration to, before proceeding further with its phase 2 proposals. These were:
- The need for clear, unequivocal evidence of the existence of users and their information needs that align with the proposed requirements.
  - Empirical evidence based on more up to date research to make a more informed assessment of the current reporting framework ...
- We highlight some additional points in respect of the above factors for your consideration: ... we note that the AASB has conducted further research and provided additional information to stakeholders with some evidence relating to user needs and its research on application of the reporting entity concept. However, we believe much further work and evidence is required in these areas before progressing the project further." and "One of the AASB's concerns with the above approach would be a potential loss of comparability between two Tier 2 frameworks. Empirical evidence that supports user needs that require such comparability will be required to support any such concerns..." (R13 – CPA)
- A5. "... the principle that by definition SPFR entities do not have users who are relying on their financial reports (i.e. Accounts) for making economic rational decisions. Instead, any users are able to obtain the specific information they need (i.e. owners, lenders and potential investors in particular), as otherwise the entity would not be a SPFR. In reality, the preparation of SPFRs and any audit or audit review requirements are due to the Corporations Act that requires some SPFRs, and other legislation (Charities) to prepare financial reports that require compliance with applicable accounting standards.
- Paragraph 7 refers to AASB Research Report 1 which it is stated suggests a strong need to find a solution. However as previously advised to the AASB, this Report only looks at indicators of users, and not actual users of financial information. The Report is very scant on any evidence that users of financial reports exist for those entities producing SPFRs..." (R14 – Keith Reilly)
- A6. "...Work on the modified Phase 2 plan should be delayed until the AASB has performed significantly more research into the different features of for-profit entities, including those for-profit entities whose features involve serving a particular purpose such as wholly-owned subsidiaries or intermediate holding companies.
- That research will also need to obtain information about the needs of users with respect to the GPFS of the different entities.
- With that information in hand, the AASB and its for-profit constituents will be much better placed than they are now to consider how categorising for-profit entities by their features, along with the comprehensive information about user needs might then be used to inform the development of one or more proposed financial reporting framework(s) for application by a for-profit entity in the preparation of its GPFS..." (R21 – Swinburne)

***Other Matter 5 – 4 out of 36 (11%) respondents said the preparation and presentation of consolidated financial statements is costly without user need ([back to Other Matter 5](#))***

***Table4 OM5***

- R4 – QIC, R7 – AICD, R10 – CAANZ, R13 – CPA suggested there may not be users of consolidated financial statements to warrant the cost of preparing them
- A1. R4 - QIC submitted in the context of being a manager of investment funds (that prepares SPFS in with R&M, whereby investments in subsidiaries are carried at fair value). "...The primary users of the financial statements of QIC's funds are interested in the performance of the funds and their underlying assets. As investors, they are interested in the capital appreciation of the assets and their market value, as opposed to historical cost. To this end, preparing stand-alone

financial statements for the fund which carries all its investments designated at fair value (due to being managed on a fair value basis) provides the relevant information to the users. If the fund was to prepare consolidated financial statements, this would not provide relevant or useful information to the users of the financial statements...The fund would be managed on the instructions of the investor, with the view of capitalising on any capital appreciation of the investments when the opportunity arises. Such a fund would not meet the current definition of an 'investment entity'. However, this does not negate the fact that the investor is still interested viewing the performance of the fund and its investment on a fair value basis. Should consolidation and equity accounting be mandated for all entities, not only would the preparation of the financial statements be unduly cumbersome, but they would also not provide relevant or useful information to the users..." (R4 – QIC)

- A2. "...Our concerns with consolidation arise because preparing consolidated accounts is costly and for no obvious user need. If users required consolidated accounts, they would have been specifically requested and prepared under the current framework..." (R7 – AICD)
- A3. "...Our concern is that requiring consolidation will result in the production of information that is expensive to produce for no demonstrable user need..." (R10 – CAANZ)
- A4. "...User needs and the costs/benefits of adopting consolidation and equity accounting remain in our view, the primary considerations in adopting these requirements..." (R13 – CPA)

**Other Matter 6 – 5 of 36 (XX%)** want to retain SPFS in certain circumstances but appear to agree with having full R&M with AAS ([back to Other Matter 6](#))

- R2 – Nexia, R5 – QBE, R6 – IAG, R12 – Hanrick Curran and R24 – FRS want to retain SPFS in certain circumstances.
- The following extracts have been taken from the submissions of the above respondents to summarise their key points:
- B4. "...Our preliminary view is that there should be only one Tier 2 GPFS alternative and that SPFS should be available for those entities below reporting thresholds. Our preliminary view may change depending on the outcome of the Board's proposals in respect of NFP entities..." (R2 – Nexia)
- B5. "...QBE is comfortable with the current framework for financial reporting which allows for special purpose financial statements (SPFS). The advantage of the concept of SPFS is the ability to achieve either consistent or differential levels of reporting as needed by stakeholders without necessarily having to achieve consistency across each legal entity category. QBE's preferred approach for wholly-owned subsidiaries of listed Groups is to require application of full recognition and measurement requirements of IFRS and minimal disclosure requirements consistent with the current approach. Any requirements for these entities in excess of minimal disclosure, where there are no external users will add a significant cost burden to preparers and, by definition, does not provide benefits for users. We consider that the more extensive disclosures proposed in the Tier 2 alternatives identified in ITC 39 at the subsidiary level would have no relevance to the Group's users..." (R5 – QBE)
- B6. "...IAG's preference is Option 2: Operate with two Conceptual Frameworks – apply IASB's RCF to some entities to maintain IFRS compliance and retain the existing Framework for others (i.e. retain the Australian reporting entity concept and SPFS for others). We believe the costs associated with moving to Option 1 would exceed the benefits. For an entity to be eligible to apply the SPFS framework, it generally does not have public accountability or is classified as a non-reporting entity. Hence, in their nature, the financial statements of these entities are relied upon by a limited audience. The consultation paper raises the issue of self-assessment on the type of financial reporting required (paragraph 44) which may be addressed through consultation with ASIC and the introduction of more prescriptive rules around the self-assessment process..." (R6 – IAG). R6 – IAG also said this with respect to [SMC 15](#) to suggest that



they may want SPFS for smaller less complex entities “Entities preparing SPFS are generally less complex in nature and have a limited cohort of financial statement users’. We believe application of AASB 1 is not needed as the SPFR already comply with the recognition and measurement principles and hence the application of AASB 1 will not provide any meaningful information...” (R6 – IAG)

B7. “...ITC 39 proposed certain changes to the tiers of reporting below general purpose financial statements (see paragraph 14 of ITC 39). We consider that the Australian economy would benefit from a:

- a. Reduced Disclosure Regime ("RDR")("Tier 2"), and
- b. Specified Disclosure Requirements ("SDR")("Tier 3"), and
- c. a further 'tier 4' option for genuine special purpose reporting (e.g., for financial statements to accompany a small entity tax return).

We consider that, subject to materiality, the recognition and measurement requirements of all Australian Accounting Standards should be mandated for GPFS, RDR and SDR.

The recognition and measurement requirements should be strongly encouraged for SPFS unless their application is not-practicable or economically efficient and where this is applied, additional explicit disclosure should be required indicating that the recognition and measurement requirements have not been applied...” (R12 - Hanrick Curran)

B8. “...we believe that SPFS should be available for those entities that are below a certain threshold” (R24 – FRS).

***Other Matter 7 – One respondent suggested the definition of public accountability should be extended ([back to Other Matter 7](#))***

- R34 – IPA suggested the public accountability definition should extend to those entities that have received government funding, 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.
- A1. “... the current scope of the definition of “public accountability” is too narrow. The IPA is of the view that public accountability extends to those entities that have received government funding, been granted significant government contracts, licences or service concessions as they have either benefited from taxpayer funding or have been contracted or licenced to undertake activities which have public interest implications.” (R34 – IPA)

***Other Matter 8 – 3 out of 36 (8%) respondents sought clarification on various elements in ITC 39***

A. What does “other requirement” mean? ([back to Other Matter 8A](#))

- 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 Australian Accounting Standards)
- A1. “We are concerned that the first box in the decision tree in Diagram 3 still poses the question whether there is legislation or ‘other requirement’ which requires a financial report complying with Australian Accounting Standards. Further clarity on what the ‘other requirement’ might be is necessary before the framework is implemented.” (R17 – BCCM)

B. Do the exemptions from consolidating in AASB 10 still apply? ([back to Other Matter 8B](#))

- 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.
- A2. “We would appreciate the AASB confirming our understanding that any changes expected to emerge from the ITC 39 process would not affect the existing intermediate holding company

exemption in AASB 10.4 from the requirement to present consolidated financial statements”  
(R5 – QBE)

- A3. “Where the reporting entity cannot get the exemption under AASB 10, Consolidated financial statements, the costs of applying these new requirements may be onerous on smaller entities which produce financial statements for a limited pool of users and have been classified as non-reporting entities.” (R6 – IAG)

***Other Matter 9 – One respondent provided ITC 39 ‘Appendix B’ comments ([back to Other Matter 9](#))***

- A1. “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)

***Other Matter 10 – The costs to preparers associated with the proposals exceed the benefits to users: ([back to Other Matter 10](#))***

This has been assessed in conjunction with [GMC 25](#) and therefore has not been assessed here.