



Project:	Conceptual Framework for Financial Reporting	Meeting:	M168
Topic:	Phase 1 Submissions	Agenda Item:	4.1
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		Decision-Making:	High
		Project Status:	Deliberating Phase 1 submissions received – Part II

Objective of this paper

1. The objective of this paper is for the Board to assess if there are any issues with progressing Phase 1 of Invitation to Comment [ITC 39 Consultation Paper Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems \(ITC 39\)](#) after considering the key issues raised by constituents in relation to Phase 1.

Reasons for the board to consider this paper at this meeting

2. The Board needs to decide whether there are any impediments to proceeding with Phase 1 of ITC 39 before voting, at this meeting, on adopting the IASB's revised *Conceptual Framework for Financial Reporting* (RCF) in Australia together with the consequential amendments to Australian Accounting Standards arising from this and other amendments relating to Phase 1. The aim is to finalise the Phase 1 amendments before the RCF becomes operative on 1 January 2020, to maintain IFRS compliance for for-profit publicly accountable entities.

Staff recommendation

3. On balance, the majority of the submissions were supportive of the proposals in Phase 1. While Staff identified four key issues in the submissions, staff's view is that none of these issues should prevent the Board from proceeding with Phase 1 of ITC 39. Therefore, staff recommend that the Board proceeds with Phase 1 of ITC 39.

Question for Board members

Q1 Based on the matters noted in the summary of key issues (paragraphs 9 to 21), does the Board agree with staff's view in paragraph 3 that there is no impediment to proceeding with Phase 1 of ITC 39 and does the Board therefore agree to proceed?

Structure of Paper

4. This staff paper is set out as follows:

- (a) Background (paragraphs 5 to 8)
- (b) Summary of key issues raised, staff recommendations and questions for the Board
 - (i) [Key issue 1](#): should the short-term approach be limited to entities that are required by legislation to prepare financial statements? (paragraphs 9-11)
 - (ii) [Key issue 2](#): should the short-term approach apply to both for-profit private and public sector entities? (paragraphs 12-14)
 - (iii) [Key issue 3](#): other entities that may be impacted by Phase 1 (paragraphs 15-17)
 - (iv) [Key issue 4](#): operating with two conceptual frameworks (paragraphs 18-21)
 - (v) [Other matters including editorial changes](#) (paragraphs 22-24)
- (c) [Appendix A](#) – Detailed analysis of key issues raised and staff responses (paragraphs 25 to 97)
- (d) [Appendix B](#) – Other matters (paragraphs 98 to 100)
- (e) [Appendix C](#) – Full log of comments and cross reference to staff recommendations
- (f) [Appendix D](#) – Summary of responses for each question

Attachments: All Phase 1 submissions, [ITC 39](#) (for noting only).

Background

- 5. ITC 39 proposes to implement the IASB's RCF in Australia via a phased approach. Phase 1 of the project will implement the RCF for publicly accountable for-profit entities in order for them to maintain IFRS compliance. Phase 2 of the project will implement the RCF for all other for-profit entities.
- 6. The Board discussed initial feedback and how to facilitate the two-phased approach at the September 2018 meeting. A key issue identified in relation to Phase 1 at that meeting related to listed unquoted securitisation trusts. However, the Board decided that the issue was not significant enough to delay the implementation of Phase 1.
- 7. With respect to Phase 1, the Board decided to operate with two conceptual frameworks until the conceptual framework project is completed, and have one set of Australian Accounting Standards, including Interpretations (AAS).
- 8. The Board further decided that the Phase 2 proposals in ITC 39 will apply only to for-profit entities, as the Board will consult separately on how the RCF should be implemented for not-for-profit entities.

Summary of key issues raised, staff recommendations and questions for the Board

Key Issue 1: should the short-term approach be limited to entities that are required by legislation to prepare financial statements?

- 9. At the roundtable discussions, constituents recommended considering whether existing trusts could be grandfathered from the Phase 1 requirements. This would resolve the concerns raised in relation to the securitisation funds discussed by the Board at the September meeting. It would also help other entities that are in a similar position, including certain public sector trusts that were identified in the ACAG submission (see KI3.3 in [Appendix A](#)).
- 10. The matter is considered in more detail in [Appendix A](#).
- 11. To avoid unintended consequences of the Phase 1 amendments, staff recommend limiting the application of Phase 1 to those entities that are required by legislation to prepare financial statements that comply with AAS. This could be achieved by inserting the words "by legislation" into the application paragraphs, as indicated in the following mark-up:

for-profit [private sector] entities that have public accountability that are required by legislation to comply with Australian Accounting Standards and other for-profit entities that elect to apply this Framework."

Question for Board members

Q2 Does the Board agree with Staff recommendation to revise the application paragraphs as set out in paragraph 11?

Key Issue 2: should the short-term approach apply to both for-profit private and public sector entities?

12. The key issue relates to whether the RCF should be mandatory:
- a) for all for-profit private and public sector entities with public accountability from 1 January 2020, or
 - b) only for for-profit private sector entities with public accountability (consistent with AASB 1053 *Application of Tiers of Australian Accounting Standards*), and be made available on a voluntary basis to other entities, including for-profit public sector entities.
13. This matter is considered in more detail in [Appendix A](#).
14. Staff recommend that the short-term approach is only applied on a mandatory basis to for-profit private sector entities, and that the application paragraphs that were proposed in ITC 39 are revised as follows to reflect this:

for-profit private sector entities that have public accountability that are required [by legislation] to comply with Australian Accounting Standards and other for-profit entities that elect to apply this Framework.”

Question for Board members

Q3 Does the Board agree with Staff recommendation to revise the application paragraphs as set out in paragraph 14?

Key Issue 3: other entities that may be impacted by Phase 1

15. A number of entities were noted as potentially being impacted by Phase 1 in submissions received by the AASB, in addition to the securitisation funds discussed at the September meeting. Based on Staff analysis and targeted outreach, Staff have eliminated a number of the entities noted in submissions but believe the following entities may be impacted by Phase 1:
- (a) Internal registered managed investment schemes (MIS) that are currently preparing special purpose financial statements (SPFS); and
 - (b) Unlisted trusts maintained by State Governments which may be publicly accountable but which have no legislative requirement to prepare financial statements.
16. Details of the other entities noted in Phase 1 submissions which Staff do not believe will be impacted, and the reasons why, are also outlined in [Appendix A](#).
17. Staff recommend that:
- a) The question of whether all registered MIS should be deemed to have public accountability is revisited as part of the public accountability sub-project. Refer paragraphs 51 to 55 for Staff analysis (KI3.1 and KI3.2).
 - b) Unlisted trusts maintained by State Governments (KI3.3) are addressed via the proposals in [Key Issue 1](#).
 - c) Other entities discussed in sections KI3.5, KI3.6, 0, KI3.8 and KI3.9, require no action.
 - d) The entities and types of financial statements discussed in sections KI3.4 and KI3.10 should be considered in [Appendix B](#) as part of the public accountability sub-project.

Question for Board members

Q4 Does the Board agree with Staff’s analysis and recommendations that some of the identified entities should be reconsidered as part of the public accountability sub-project, but that others do not require any further action?

Key Issue 4 – Operating with two conceptual frameworks

18. It was noted that having two conceptual frameworks in operation could lead to an inconsistency in accounting policies among similar entities which would affect transaction neutrality. This inconsistency may also have an impact on groups where there are different types of entities within a group applying different conceptual frameworks and AAS requirements. This matter was raised by the Australasian Council of Auditor Generals (ACAG), Heads of Treasury Accounting and Reporting Advisory Committee (HoTARAC) and Ernst & Young (EY).
19. The issue of potential inconsistencies in recognition and measurement which may result from having two conceptual frameworks was raised with the Board at the September 2018 AASB meeting (agenda paper 9.1) as an argument against Option 1.
20. The Board decided that Option 1 was still the best option for the following reasons:
 - a) The application of the two conceptual frameworks is clearly defined and is less likely to cause confusion for constituents.
 - b) It will be straight forward to unwind when implementing Phase 2.
 - c) Other entities will not need to apply the new recognition and measurement requirements in the RCF in circumstances where an AAS does not address an issue until Phase 2 is resolved (i.e. the CF is frozen for other entities).
 - d) There is no need to consider whether other aspects of the RCF will need to be amended to accommodate retaining SAC 1 and the Australian definition of the term reporting entity.
21. Staff recommend no action is required because the issue was discussed at the September meeting when the Board decided to operate with two conceptual frameworks for an interim period.

Question for Board members

Q5 Does the Board agree with Staff's analysis and recommendation that no further action is required on the basis that this issue was considered at the September meeting?

Other matters including editorial changes

O11. Matters relating to public accountability – [refer Appendix B](#)

22. A number of other matters were raised by respondents in relation to the definition of public accountability and associated guidance. Staff are currently undertaking a sub-project on public accountability. This will consider, whether there is a need to revisit which types of entities should be deemed to have public accountability and whether additional guidance should be included to assist users in interpreting the public accountability definition. This sub-project on public accountability is expected to be completed before the Phase 1 amendments become applicable on 1 January 2020.
23. Staff recommend that the matters outlined in [Appendix B](#) relating to public accountability be considered as part of the public accountability sub-project.

Question for Board members

Q6 Does the Board agree with Staff recommendation that the matters raised which relate to public accountability should be considered as part of the public accountability sub-project?

O12. Matters relating to drafting of proposed Phase 1 amendments

24. A number of matters were raised by respondents in response to the drafting of the proposed Phase 1 amendments. These matters are considered and addressed as part of Agenda Paper 5.1

Appendix A – Detailed analysis of key issues raised and Staff responses

Key issue 1 – should the short-term approach be limited to entities that are required by legislation to prepare financial statements

Background

25. At the roundtable discussions, constituents raised further concerns about unintended consequences of the proposed phase 1 amendments in relation to entities that are required by their constitution or trust deed to prepare AAS compliant financial statements, but do not have any legislative requirements to prepare such financial statements. This includes the securitisation funds discussed by the Board at the September meeting, but also other entities that are in a similar position, including certain public sector trusts that were identified in the ACAG submission (see KI3.3 in [Appendix A](#)). It was noted that while changing constitutional documents is possible, it can be onerous and if not done correctly can have tax consequences. Many trust deeds may have template wording referring to compliance with AAS without the trustees or beneficiaries having considered whether this would need to involve the preparation of GPFS. Based on feedback, these trusts currently provide quite a lot of information to their beneficiaries about their financial performance and position on a regular basis.
26. Participants at the roundtables were subsequently asked via a separate polling question whether trusts should be grandfathered. Most participants (41%) said yes, one-third (33%) answered no and 26% were unsure but suggesting that the AASB could explore this option. The main arguments against grandfathering trusts were difficulties determining who would be excluded, entities possibly setting up trusts to avoid reporting responsibilities and no level playing field with large proprietary companies.

Staff analysis

27. The AASB's For-profit Standard Setting framework requires publicly accountable for-profit entities to prepare Tier 1 GPFS on the basis that these entities would need to state compliance with IFRS.¹ However, entities that do not have any legislative requirements to prepare financial statements and are only required by their constitution or trust deed to comply with AAS will not usually need to confirm IFRS compliance.
28. Phase 1 was intended to allow entities to maintain compliance with IFRS, but did not intend to require any entities to prepare GPFS if they are not currently required by legislation to prepare financial statements.
29. The For-profit Standard Setting framework further notes that publicly accountable entities should prepare Tier 1 GPFS as these types of entities would have significant impact on the Australian economy and therefore should be subject to the highest level of accountability.² However, where entities are only required to comply with AAS as a result of their constitution or trust deed, and members have in the past been comfortable with the amount of information provided in the form of SPFS, staff consider the AASB should not mandate preparation of Tier 1 GPFS for such entities as part of Phase 1.
30. Staff consider that further consultation with constituents and research on this matter should be done as part of Phase 2 of this project, including whether such trusts should be grandfathered from complying with AAS.

Staff recommendation

31. While staff acknowledge the Board's decision at the September meeting that the issue of securitisation funds was not significant enough to delay the implementation of Phase 1, staff consider that there would be merit in excluding all entities that are not required by legislation to prepare financial statements from the Phase 1 amendments. This would, alleviate constituents concerns about the Phase 1 impact including the impact on trusts required only by their constitutional documents to comply with AAS, and allow staff to undertake further work and outreach as part of Phase 2, to determine whether these entities should ultimately be captured and required to prepare GPFS.

¹ [The AASB's For-Profit Entity Standard-Setting Framework](#), para 20

² [The AASB's For-Profit Entity Standard-Setting Framework](#), para 22

Key issue 2 – should the short-term approach apply to both for-profit private and public sector entities

32. SMC 2 asked whether respondents agreed that the short-term approach should be made applicable to both publicly accountable for-profit private sector and public sector entities. Of the 22 submissions received, 9 respondents confirmed they agreed, 5 respondents disagreed and 8 respondents did not provide a specific comment. One respondent noted in their response to SMC 4 that they agree using 'public accountability' as basis for determining the reporting requirements, but that this should only be applied to private sector entities (EY).

Background

33. The aim of the proposed Phase 1 amendments is to ensure all entities will be able to continue to state compliance with IFRS if they wish to do so. This includes:

- a) private sector entities with public accountability which are required to report under Tier 1;
- b) private sector entities that voluntarily report under Tier 1; and
- c) certain for-profit public sector entities that voluntarily report under Tier 1 (for example [Australia Post](#) and [New South Wales Treasury Corporation \(TCorp\)](#)).

34. To state compliance with IFRS, these entities will need to apply the RCF from 1 January 2020. To achieve this, ITC 39 proposes amendments to the application paragraphs in various standards and the RCF which refer to "*for-profit entities that have public accountability that are required to comply with Australian Accounting Standards and other for-profit entities that elect to apply this Framework.*"³

35. At the same time, ITC 39 proposes to amend the definition of public accountability by removing the specific reference to for-profit private sector entities such that the definition would now apply to all private and public sector entities. This amendment was proposed to keep the definition the same with the definition in IFRS for SMEs. However, staff note that IFRS for SMEs is intended only for for-profit private sector entities.

36. Staff also note that, no changes were proposed to paragraph 11(a) of AASB 1053 which requires only for-profit private sector entities with public accountability to prepare Tier 1 GPFS. As far as public sector entities are concerned, only the Australian Government and State, Territory and Local Governments must report under Tier 1. All other public sector entities, whether for-profit or not-for-profit and regardless of whether they have public accountability, can report under Tier 2 unless a regulator determines otherwise.

Issue

37. If the proposed Phase 1 amendments are made as drafted, it could force certain for-profit public sector entities to adopt the RCF even though the entities have no desire to state compliance with IFRS. While staff have not quantified the number of for-profit public sector entities currently preparing Tier 1 or Tier 2 GPFS that may have public accountability, and no such entities were identified in the submissions, any for profit public sector entity with public accountability would have to adopt the RCF under the amendments proposed in ITC 39.

Staff analysis

38. Staff note that the definition of public accountability in the IFRS for SMES was developed for for-profit private sector entities. When discussing AASB 1053, the Board considered whether it should also be applied to public sector entities. However, it decided against this for the following reasons:

"The Board concluded that, consistent with the role of other regulators under the revised differential reporting framework (see paragraphs BC40-BC41), the determination of the Tiers of reporting requirements under which for-profit public sector entities should report would best be left to relevant public sector regulators in each jurisdiction." (BC38).

39. Staff do not consider that there is any reason to revisit this decision.

40. Staff further note that Phase 1 of ITC 39 did not intend to force any for-profit public sector entity to adopt the RCF from 1 January 2020. The Phase 1 amendments were purely intended to allow for-

³ Appendix A of [ITC 39](#)

profit public sector entities to continue stating compliance with IFRS where they elect to do so. The same result could be achieved if the application paragraphs were revised as follows:

“for-profit private sector entities that have public accountability that are required [by legislation] to comply with Australian Accounting Standards and other for-profit entities that elect to apply this Framework.”

Staff recommendation

41. While there may not be many public sector entities that would be affected by the proposed amendments, Staff recommend revising the wording as suggested in paragraph 40 for the following reasons:
- a) the issue appears to be an unintended consequence of the drafting (refer to paragraph 33 to 36 above); and
 - b) the amendments could force a number of public sector entities to adopt the RCF where there is no need to do so, as the entities do not have any desire to state compliance with IFRS.

Key Issue 3 – other entities that may be impacted by Phase 1

Other entities which Staff believe may be impacted:

KI3.1. Internal registered managed investment schemes

42. The Australian Banking Association (ABA) submission noted that they were aware of internal registered managed investment schemes that currently prepare special purpose financial statements:

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

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

Background

43. The key features of an MIS are that investors contribute money to acquire an interest in the MIS, contributions from investors are pooled or used for a common purpose and investors do not have day-to-day control over the operation of the scheme. Day-to-day operations are managed by either the trustee or a responsible entity⁴.
44. MISs cover a wide variety of investments which include cash management trusts, property trusts, Australian equity (share) trusts, agricultural schemes (e.g. horticulture, aquaculture, commercial horse breeding), international equity trusts, some film schemes, timeshare schemes, some mortgage schemes and actively managed strata title schemes⁵.
45. An MIS is required to be registered with the Australian Securities and Investments Commission (ASIC) if it has more than 20 members; is promoted by a person who is in the business of promoting MIS; or ASIC has otherwise determined that the MIS must be registered⁶. While the entities identified by ABA only accept investments from other entities within the group, they would be registered if more than 20 externally facing members of the group are members of the MIS, or they are required to be registered by ASIC as they are deemed to be closely related schemes.

⁴ <https://asic.gov.au/regulatory-resources/funds-management/>

⁵ <https://asic.gov.au/regulatory-resources/funds-management/>

⁶ The registration requirements are outlined in [s601ED](#) of the *Corporations Act 2001*.

Issue

46. Registered MIS are required by the *Corporations Act 2001* to prepare financial statements in accordance with AAS and therefore must also comply with AASB 1053 as per paragraph 2(a). They are deemed to have public accountability based on paragraph B2(c) in AASB 1053.
47. The registered MIS identified by ABA are currently preparing SPFS to satisfy the reporting requirements of the *Corporations Act 2001* as they have self-assessed as non-reporting entities under Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* on the basis there are no external users of their financial statements. Even though they are required to comply with AASB 1053, they have not applied the tiering paragraphs of AASB 1053 (paragraphs 11-13) on the basis that those paragraphs apply only to 'general purpose financial statements' (GPFS).
48. If publicly accountable for-profit entities must apply the RCF from 1 January 2020, internal registered MIS will no longer be able to apply SAC 1's reporting entity concept. As a consequence, these entities could no longer identify themselves as non-reporting entities and prepare special purpose financial statements. They would have to prepare general purpose financial statements and, as they are currently deemed to have public accountability under AASB 1053, they would need to apply paragraphs 11-12 of AASB 1053 and prepare Tier 1 GPFS. Preparers argue that this is not warranted as these internal registered MIS do not have external users who would rely on GPFS.

What is the extent of the issue?

49. Staff contacted the ABA to understand the extent of the issue, and it was noted that one financial institution has approximately 40 entities which will be effected. Staff made contact with other financial institutions via ABA. One financial institution confirmed that they did **not** have any entities which will be effected, however no other financial institutions responded.
50. The internal cost associated with preparing Tier 1 GPFS for these internal registered MIS is not expected to be significant as the information is already available to the financial institution. The SPFS prepared by the internal registered MIS already comply with all recognition and measurement requirements but would need to include additional Tier 1 disclosures such financial risk management and related party disclosures. However, it was flagged that external audit costs could increase as a consequence by up to 40%.

Staff analysis and recommendations

51. In accordance with paragraph 31 of the [AASB's For-Profit Entity Standard-Setting Framework](#) (Standard Setting Framework), the AASB would deem categories of entities as publicly accountable after considering a number of factors including:
 - a) similarity with entities captured by the IFRS for SMEs definition;
 - b) similarity with entities already deemed publicly accountable by the AASB;
 - c) widespread ownership with widespread changes in ownership of the entity's equity or debt instruments, regardless of whether listed (ie a user's most realistic recourse if not satisfied with management is to sell the investment rather than influence management to change); and
 - d) fiduciary nature of the business.
52. The Standard Setting Framework also states that any proposals for additional deeming of entities as publicly accountable are discussed with the New Zealand Accounting Standards Board (NZASB) and require a justifiable Australian-specific legislative or other rationale for differences⁷.
53. Registered MIS were deemed to be publicly accountable in the Australian context as a means of clarifying the IASB definition, rather than widening the principle as to which entities fall within the scope of the IASB definition. Registered MIS are seen as being the Australian equivalents of mutual funds in other jurisdictions⁸ as they hold assets in a fiduciary capacity for a broad group of outsiders, thus falling under a) in paragraph 51 above.
54. When applying the IFRS for SMEs definition of public accountability, it is possible that the internal registered MIS described above may not be considered to have public accountability, as they arguably do not hold assets in a fiduciary capacity for a broad group of outsiders. While the group

⁷ Paragraph 32 of the Standard Setting Framework.

⁸ [AAS Consultation Paper Differential Financial Reporting – Reducing Disclosure Requirements A Proposed Reduced Disclosure Regime for Non-publicly Accountable For-profit Private Sector Entities and Certain Entities in the Not-for-profit Private Sector and Public Sector](#)

entities that invest in these internal registered MIS typically have external investors, they do generally prepare Tier 1 GPFS for distribution to their investors.

55. While there do not appear to be many of these schemes in operation, the issue raises the question whether all registered MIS should be deemed to have public accountability. Staff recommend that the issue is revisited by the Board as part of the public accountability sub-project discussed in [Appendix B](#).

K13.2. Other registered managed investment schemes

56. ABA representatives further noted in discussions with Staff that their own outreach identified other smaller registered MIS with only a limited number of members (but more than 20) that are currently preparing SPFS. An example given was horse syndicates. However ABA representatives were unable to provide any information regarding the possible extent of the issue.
57. Staff note that this matter was not raised by other respondents to Phase 1 of ITC 39, nor was it raised at any of the roundtables or other outreach events undertaken. Staff have been unable to confirm the extent of any possible issue with ASIC. However on the basis that this matter was not raised by other constituents, Staff recommend that this issue be covered when the question of whether all registered MIS should be deemed to have public accountability is revisited by the Board, as part of the public accountability sub-project, subject to Board decision on staff recommendation for K13.1.

K13.3. Unlisted trusts maintained by State Governments

58. The ACAG submission noted that they were aware of some entities that are currently preparing SPFS:

“Yes, some state governments maintain unlisted trust entities that may be considered ‘publicly accountable’ given the nature of their operations (i.e. lending and fiduciary investment services), but these are not required to report under the Corporations Act 2001 or have a legislative requirement to lodge financial statements that comply with accounting standards. Some of these entities are currently preparing SPFS and their operations are being consolidated into parent entities preparing GPFS.”

Background

59. Some State Governments have established unlisted investment trusts under State legislation to hold investments in various types of assets, including infrastructure. Some investments are held in partnership or joint venture with external parties such as a superannuation fund. The trusts are for-profit public sector entities. They do not have a legislative requirement to prepare financial statements, their financial reporting obligations are driven by their Trust Deed. Staff understand that the respective Trust Deeds require compliance with AAS. These entities are therefore in a similar position to the securitisation trusts that were discussed by the Board at the September meeting.

Issue

60. The trusts are currently preparing SPFS on the basis that they are not reporting entities. However, as they are holding assets in a fiduciary capacity, ACAG considers that they would have public accountability under the definition in the IFRS for SMEs.
61. The proposed Phase 1 amendments as currently drafted would withdraw SAC 1 for all private and public sector for-profit entities with public accountability meaning all such entities would be required to prepare GPFS in order to comply with AAS. As no changes were proposed to the drafting of paragraph 11(a) of AASB 1053 in ITC 39, only for-profit private sector entities with public accountability would be required to prepare Tier 1 GPFS. For-profit public sector entities with public accountability could report under Tier 2 unless a regulator determined otherwise.

What is the extent of the issue?

62. Staff contacted ACAG to understand the extent of the issue, and it was noted that there are approximately 70 entities that they are aware of which will be effected.
63. These investment trusts are ultimately consolidated into Tier 1 GPFS. The SPFS prepared by the investment trusts comply with all recognition and measurement requirements of all AAS, however they contain substantially fewer disclosures than those required under Tier 1 GPFS.
64. ACAG representatives felt that the cost of preparing and auditing Tier 1 GPFS would be significant.

Staff analysis

65. The impact of the AASB's proposals on these investment trusts could be avoided in the short term by making the Phase 1 amendments as discussed in [Key issue 1](#) above.
66. Staff therefore recommends accepting the Staff recommendation in paragraph 41 which would limit the application of Phase 1 to entities that are required by legislation to comply with the Australian Accounting Standards. .

Other entities highlighted by constituents

67. The Institute of Public Accountants (IPA) submission noted that they were aware of some entities that are currently preparing SPFS:

KI3.4. Unlisted entities operating in over-the-counter markets

68. The IPA submission noted the following:

"The IPA is of the view that entities operating over-the-counter markets are of the view that they are not listed and therefore not publicly accountable."

69. Staff discussed the comment with an IPA representative who provided the following practical examples:

- a) An unlisted investment corporation, where the entity's website provides investors with an ability to offer their shares for sale to other investors.
- b) An unregistered MIS that provides a buy-back scheme for unitholders to sell their units.
- c) The ASIC licenced deListed service which buys back shares of entities that are no longer listed on the ASX, primarily to allow investors to realise tax losses.

The issue in all of these examples is whether this constitutes an 'over the counter market' and hence fall under the definition of public accountability.

Staff analysis and recommendations

70. As these matters relate to determining what constitutes an over-the-counter market, Staff recommend that this matter be considered as part of the public accountability project discussed in [Appendix B](#).

KI3.5. Entities with compliance listings

71. The IPA submission also noted the following:

"The IPA is also aware of a similar view taken in regards to entities (often structured entities) with "compliance" listing in overseas markets, are not considered reporting entities and as such prepare SPFS."

Staff analysis and recommendations

72. Staff discussed with an IPA representative and noted that this comment relates to securitisation trusts which were considered and addressed by the Board at its September 2018 meeting.
73. Staff recommend no action is required.

KI3.6. Financial Service Licensees

74. The IPA submission also noted the following:

"Further, the IPA is also aware of the view that non-corporate financial service licensees not having to prepare consolidated financial statements as they are not considered reporting entities."

75. Staff discussed with an IPA representative and noted that this relates to trust entities which hold an AFSL but operate through separate authorised representatives. As these entities do not have reporting obligations under Chapter 2M.3 of the *Corporations Act 2001*, they only need to satisfy their AFSL reporting obligations per section 989B. ASIC is accepting unconsolidated SPFS for that purpose, but may request some other financial information on a consolidated basis.
76. Staff recommend no action is required as these entities are not required by any legislation or the regulator to prepare financial statements that comply with AAS.

K13.7. Intermediate holding companies

77. The QBE submission noted the following:

“In relation to Q3, we are not aware of publicly accountable for-profit entities currently self-assessing as non-reporting entities and preparing SPFS subject to the following:

(a) the proposed amendments to the definition of 'public accountability' being made (refer Q4); and

(b) depending on what is meant by 'holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses'.

If the definition of 'public accountability' per Q4 were not amended, the answer to Q3 would be changed to 'yes'. For example, there are intermediate holding companies and other wholly-owned subsidiaries of listed insurance Groups where the Group applies IFRS and its GPFS include all the relevant information for users but the intermediate holding companies and other subsidiaries do not issue debt or equity securities to the public and have no users for their financial statements and therefore currently prepare SPFS. Based on our knowledge of users of these financial statements we do not see any value in requiring GPFS for these entities.”

Staff analysis and recommendations

78. Staff discussed with QBE representatives and noted that QBE's comments relate to a number of intermediate holding companies that are currently preparing SPFS within the QBE Group. These entities do not trade and only hold investments in other group entities which have public accountability (as they are life insurance entities for example). QBE was concerned that under Phase 1, these intermediate holding companies may be impacted if they were required to prepare consolidated financial statements.

79. Staff note that these entities will not be impacted under Phase 1, as they themselves do not have publicly accountability and they do not, nor are they required to, prepare consolidated financial statements as these entities would be able to apply the exemption provided in paragraph 4(a) of AASB 10 *Consolidated Financial Statements*. Even under Phase 2, the intermediate holding companies will not be required to prepare consolidated financial statements, as the exemption in AASB 10 will continue to be available to them. They will be required to prepare single entity GPFS and they could opt to prepare Tier 2 GPFS.

80. Staff recommend no action is required.

Financial reporting requirements which may be impacted by Phase 1

81. The Swinburne submission encouraged the AASB to explore further the interplay of its proposals with the reporting requirements in a number of scenarios. Each has been considered below.

K13.8. Unlisted managed funds - mFund Settlement Service

82. The Swinburne submission noted the following:

“Unlisted managed fund, including those unlisted managed funds admitted for settlement under the ASX Operating Rules and available to investors through the mFund Settlement Service.”

Staff analysis and recommendations

83. mFund is a settlement service for unlisted managed funds. mFund products are admitted for settlement under specific ASX Operating Rules and are available to investors through the mFund Settlement Service. Currently, the mFund service is restricted to retail MIS whose securities are issued via a Product Disclosure Statement (PDS)⁹.

84. It is a requirement of ASIC that entities using the mFund settlement service, must provide investors and potential investors with a copy of the PDS before products can be issued. It is also a requirement that the PDS is lodged with ASIC and the ASX whenever it is updated.

85. As mFund products are issued pursuant to a PDS, the MIS themselves would be required to be registered under the *Corporations Act 2001*. Accordingly, all such entities are deemed to have public accountability and should be preparing Tier 1 GPFS.

⁹ This may change in the future to allow wholesale funds to be captured

86. Staff have confirmed with the representative from Swinburne that they are not aware of any entities using the mFund service that are lodging SPFS with ASIC. Staff therefore recommend that no action is required.

K13.9. Entities that include SPFS in a prospectus, a demerger document or who prepare carve-out financial statements

87. The Swinburne submission also noted the following:

“Entities that include Special Purpose Financial Statements in a prospectus document (see ASIC RG 228 Prospectuses: Effective disclosure for retail investors paragraph 95).” and “Entities that include Special Purpose Financial Statements in a demerger scheme document (e.g., the demerger scheme document for the OneMarket demerger from Westfield).”

88. The EY submission also noted similar issues:

“Entities preparing financial statements as part of their admission process to the ASX need to give the ASX several years of audited historical financial statements. The requirements in ASX listing rules, for financial statements to be prepared in accordance with AAS, have resulted in SPFS and GPFS-RDR financial statements being accepted. This would appear to contradict the definition of public accountability in respect of ‘in the process of issuing such instruments for trading...’. To the extent the ASX accepts financial statements that are not Tier 1 GPFS, this may still be an issue for directors and auditors having to comply with accounting standards, including AASB 1053. We recommend guidance to further explain ‘in the process of listing’.

Entities in the process of listing may also be required to prepare carve-out financial statements. The term ‘carve-out financial statements’ is used in practice to describe the financial statements of a business, such as a division or components of a business (or groups of businesses), that are derived from the financial statements of an entity. The composition of carve-out financial statements depends on the facts and circumstances of the transaction. Such financial statements are often described as SPFS due to non-compliance with AASB 10 Consolidated Financial Statements, not because they deem themselves to be non-reporting entities. Of note, Chapter 3 Financial Statements and the Reporting Entity of the IASBs RCF acknowledges ‘combined financial statements’ may be prepared by reporting entities comprising multiple entities that are not linked by a parent-subsidiary relationship. We ask the AASB to clarify whether carve-out financial statements are considered GPFS and how this interacts with the requirements of AASB 10. We note that para 82 of the Paper assumes that transition from SPFS to Tier 1 GPFS for any publicly accountable entities currently self-assessing as non-reporting entities would be a disclosure only issue, but this does not address the fact that consolidation may be required if Tier 1 GPFS are to be issued.”

Staff analysis and recommendations

89. Staff note that financial statements reflect the circumstances of the entity when the financial statements are prepared. If the entity did not contemplate a listing when they prepared the financial statements, it will have validly concluded that it did not have public accountability, and possibly that it was not a reporting entity at that time.

90. If ASIC subsequently permits entities to include historical SPFS in a prospectus, that is a decision made by the regulator and is not something that should or could be addressed in AAS. Likewise if the regulator permits an entity to include SPFS in a demerger document, that is a decision for the regulator and not the AASB.

91. In respect of carve-out financial statements, EY’s submission notes that clarification is required regarding whether carve-out financial statements are considered GPFS and the interaction of carve-out financial statements with AASB 10.

92. Staff are of the view that carve-out financial statements would be considered GPFS under the RCF and have reproduced relevant extracts from the RCF, with emphasis added, to support this view:

Paragraph 3.10 “A **reporting entity** is an entity **that is required, or chooses**, to prepare financial statements. **A reporting entity can be a single entity or a portion of an entity or can comprise more than one entity. A reporting entity is not necessarily a legal entity.**”

Paragraph 3.12 “If a reporting entity comprises two or more entities that are not all linked by a parent-subsidiary relationship, **the reporting entity’s financial statements are referred to as ‘combined financial statements’.**”

Footnote 1 “Throughout the Conceptual Framework, the terms ‘**financial reports**’ and ‘**financial reporting**’ refer to **general purpose financial reports and general purpose financial reporting** unless specifically indicated otherwise.”

93. Staff note that carve-out financial statements may at times be prepared for inclusion in a prospectus or for another specific purpose. While these financial statements would be considered GPFS for the purposes of the RCF, whether they are required to comply with AAS is also a decision for the regulator and not the AASB.

94. Staff recommend that no action is required.

K13.10. Entities undertaking crowd-sourced funding

95. The Swinburne submission also noted the following:

“Unlisted public companies accessing crowd-source funding, given the absence of a secondary market.” and “Small proprietary companies who access crowd-source funding if the proposals to enable this to occur are passed (see Explanatory Memorandum Corporations Amendment (Crowd-sourced funding for Proprietary Companies) Bill 2017.”

96. Staff discussed these entities with a Swinburne representative who recommended that the AASB consider how the equity instruments of crowd-source funding entities are subsequently bought and sold, and whether the process is akin to an over-the-counter market such that they may be considered publicly accountable.

97. Staff recommend considering the question of whether entities that are undertaking crowd-sourced funding may have public accountability as part of the public accountability sub-project discussed in [Appendix B](#).

Appendix B – Other matters including editorial changes

Matters to consider as part of the public accountability sub-project

98. In relation to public accountability, the following matters were raised by respondents:
- a) Crowd sourced funding entities discussed in KI3.10 (Swinburne).
 - b) The proposed Phase 1 amendments to the definition of public accountability do not provide significant additional guidance regarding assessing whether or not an entity public accountability (ABA).
 - c) The proposed Phase 1 amendments do not address the issue of whether a securitisation trust has or does not have public accountability (ABA).
 - d) Drafting edits to the proposed guidance on public accountability in paragraph B3 of AASB 1053, to clarify that holding assets in a fiduciary capacity for a broad group of outsiders for reasons incidental to an entity's primary business is not, in itself, sufficient for them to qualify as publicly accountable (Pitcher Partners).
 - e) The definition of public accountability is too narrow. The definition should be extended 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 (IPA).
 - f) The proposed amendments to fiduciary duty do not address financial services licensees (primarily non-corporate) (IPA).
 - g) Guidance is required to explain what is meant by “in the process of issuing such instruments for trading” (EY and IPA).
 - h) The AASB should consider including or providing a cross reference IFRS for SMEs guidance (ACAG).
99. In addition to the above, Swinburne's representative also raised the following points for consideration in discussion with Staff:
- a) In their view the AASB should not deem any particular entities to have public accountability as the determination of “who” reports should be the domain of the lawmaker.
 - b) Does the definition of public accountability apply to an investment vehicle that issues a PDS to raise funds only in a specific market segment? Would they still be considered to have public accountability if they do not issue equity securities to the broad public.
 - c) Paragraph B2(a) of AASB 1053 deems disclosing entities to have public accountability even if their instruments are not traded in public market nor is the entity in the process of being traded. This appears contrary to definition of public accountability.
100. Staff recommend that these matters be considered as part of the Public Accountability sub-project discussed in Appendix B.

Appendix C – Full log of comments and cross reference to Staff recommendations

[Note to Board Members] – This appendix is for extra information purposes only. All of the key issues and recommendations have been addressed in Appendices A – B.

SMC 1 Do you agree with the short-term approach to maintain IFRS compliance by introducing the RCF in Australia?

Summary [here](#).

SMC 1 Respondents comments	Staff response and recommendation
<p>A. Respondents 3, 4, 5, 7, 9, 11, 12, 15, 16, 18 and 22 expressed agreement with the short term approach. Some also provided additional comments or matters for consideration which included:</p> <p>A1. The short-term approach should be limited to for-profit private sector entities with public accountability, which is consistent with how AASB 1053 is currently drafted. Limiting application of the RCF to only for-profit private sector entities would not preclude for-profit public sector entities from adopting the RCF if they wished to do so voluntarily (Pitcher Partners).</p> <p>A2. The application of both the CF and RCF needs to be sufficiently clear (i.e. which entity applies which Framework). The AASB needs to clearly communicate that having two Frameworks could lead to inconsistent accounting policies (ACAG).</p> <p>A3. Maintaining IFRS compliance is fundamental, however another option to implement the RCF could be to introduce the RCF for all entities and accept RE clash for now. It is also possible that having two Frameworks could lead to inconsistent accounting policies (which affects transaction neutrality) (EY).</p> <p>A4. There has been insufficient time to examine the revised public accountability definition well enough in the Australian context to be confident that there will not be any unintended consequences (particularly with Phase 2). Therefore recommends issuing ED. (CAANZ).</p>	<p>A1. Addressed in Key Issue 2.</p> <p>A2. Addressed in Agenda Paper 5.1 (amendments) and Key Issue 4.</p> <p>A3. Noted, however the AASB decided to proceed with two Frameworks at its September meeting. Comment regarding two Frameworks is addressed in Key Issue 4.</p> <p>A4. Staff note that the amendments to the definition are only aligning it with the revised definition in the IFRS for SMEs. To maintain IFRS compliance for Australian entities, it is essential that the same types of for-profit entities are required to report under Tier 1 of the AAS, as would be required to comply with full IFRS in other countries. The changes have been exposed as part of ITC 39 and no other concerns have been raised in relation to using the IFRS for SME definition. Staff therefore do not consider further consultation is necessary.</p>

SMC 1 Respondents comments	Staff response and recommendation
<p>A5. The proposed short-term approach is a pragmatic solution for the short term but should not proceed without ED. It was also noted that some footnotes were omitted from the RCF extracts provided in ITC 39 (CPA).</p> <p>A6. While they agree with the short-term approach, they do not agree with the accompanying reasoning set out in ITC 39. Further, agreeing with logic used to justify phase 1 doesn't mean they agree with phase 2. (QBE).</p> <p>A7. It would be ideal to have the RCF in place for all entities from 1 January 2020, however it was noted that the NFP modifications will take time. Having two Frameworks could lead to inconsistent accounting policies if phase 2 takes too long (will especially be an issue where there are mixed groups) (HoTARAC).</p> <p>B. Respondents 2, 10, 13, 20 and 21 did not agree with the short term approach. Reasons for their disagreement included:</p> <p>B1. There should only be one Framework from 1 January 2020. The revised differential reporting requirements should be operative from 1 January 2020 (IPA).</p> <p>B2. Non-publicly accountable entities should have the option of adopting IFRS for SMEs, therefore the RCF is not required for these entities (Keith Reilly).</p> <p>B3. Instead of trying to fit the inadequate IASB RCF recommendations into AAS, the AASB should instead remove references to the RCF 'reporting entity' from existing AAS (for example AASB 3 and AASB 12). The concepts in SAC 1 would then remain guidance for accountants regardless of what legislators and regulators choose to do. The SPFS issue is a regulatory matter (Graeme McMillan).</p> <p>B4. While it is necessary to issue the RCF in Australia to maintain IFRS compliance, an approach similar to Option 5 would be more appropriate. It isn't necessary to immediately remove SAC 1. While the interaction between the RCF and SAC 1 could be confusing for some, guidance materials could be created which assist with this (ABA).</p> <p>B5. A pragmatic stop-gap solution is not required as SAC 1 and the RCF can successfully coexist until the lawmaker articulates who of its regulated entities must prepare GPFS. But can accept phase 1 as long as the AASB is certain there are no unintended consequences (Swinburne).</p>	<p>A5. Staff have ensured that all elements of the IASB's RCF have been included in the pre-ballot draft of the Australian RCF.</p> <p>A6. Noted and will be addressed as part of Phase 2.</p> <p>A7. Noted, however the AASB decided to proceed with two Frameworks at its September meeting. Comment regarding two Frameworks is addressed in Key Issue 4.</p> <p>B1. Noted, however the AASB decided to proceed with two Frameworks at its September meeting.</p> <p>B2. Noted, however as Phase 1 is only mandatorily applicable to entities with public accountability, this will be addressed by Staff as part of Phase 2.</p> <p>B3. Noted and will be addressed as part of Phase 2.</p> <p>B4. Noted, however the AASB decided to proceed with two Frameworks at its September meeting.</p> <p>B5. Noted and will be addressed as part of Phase 2.</p>

SMC 1 Respondents comments	Staff response and recommendation
C. Respondents 1, 6, 8, 14, 17 and 19 did not express a view.	<p>Conclusion Staff do not consider any further action is necessary.</p>

SMC 2 Do you agree that the short-term approach should be made applicable to both publicly accountable for-profit private sector and public sector entities?

Summary [here](#).

SMC 2 Respondents comments	Staff response and recommendation
<p>A. Respondents 3, 5, 7, 11, 12, 13, 15, 18 and 22 expressed agreement that the short term approach should be applicable to both private and public sector for-profit entities. Some also provided additional comments or matters for consideration which included:</p> <p>A1. The AASB needs to clarify what “required” to comply with AAS means. Also, consider including, or cross referencing to, IFRS for SMEs guidance (ACAG).</p> <p>A2. It is possible that having two Frameworks could lead to inconsistent accounting policies (EY).</p> <p>A3. The revised public accountability definition needs to be considered through an Exposure Draft (CAANZ).</p> <p>A4. Noted that the definition of public accountability does not apply to public sector entities. However if the proposals were to also apply to for-profit public sector entities no issues are expected (KPMG).</p> <p>A5. AASs should apply to all entities regardless of their objectives, purpose, industry classification or intent. If AAS do not apply to all entities, they are not standards, but different rules to be applied according to an entity’s classification (Graeme McMillan).</p> <p>A6. If the RCF was not required to be applied by all entities with public accountability, there would be some ‘Tier 1’ entities (e.g. public sector) not being able to claim compliance with IFRS. Further, excluding one type of publicly accountable entity from mandatory compliance with the RCF would result in two tiers of publicly accountable entities (BDO).</p>	<p>A1. Addressed in Key Issue 1 and Agenda Paper 5.1 (amendments) .</p> <p>A2. Noted, however the AASB decided to proceed with two Frameworks at its September meeting.</p> <p>A3. See response A4. to SMC 1 above. Staff do not consider further consultation is required..</p> <p>A4. Addressed in Key Issue 2.</p> <p>A5. Noted, however the question of who should be applying AAS is not one for the AASB, it is instead a question for Legislators and regulators. Once they have determined who should report the AASB is then responsible for determining what should be reported (e.g. SPFS, GPFS etc).</p> <p>A6. Addressed in Key Issue 2.</p>

SMC 2 Respondents comments	Staff response and recommendation
<p>B. Respondents 2, 4, 10, 20 and 21 did not agree that the short term approach should be applicable to both private and public sector for-profit entities. Reasons for their disagreement included:</p> <p>B1. There should only be one Framework from 1 January 2020 (IPA).</p> <p>B2. The application of the RCF should be limited to for-profit private sector entities with public accountability, for consistency with the existing requirements in AASB 1053. It is not appropriate to extend the mandatory application of the RCF to entities subject to AASB 1049. As these entities do not currently claim IFRS compliance, it is not essential for the RCF to be applied (Pitcher Partners).</p> <p>B3. Entities that do not have public accountability should have the option of adopting IFRS for SMEs, and therefore the RCF is not required for these entities (Keith Reilly).</p> <p>B4. A pragmatic stop-gap solution is not required as SAC 1 and the RCF can successfully coexist until the lawmaker articulates who of its regulated entities must prepare GPFS. But can accept phase 1 as long as the AASB is certain there are no unintended consequences (Swinburne).</p> <p>C. Respondents 1, 6, 8, 9, 14, 16, 17 and 19 did not express a view.</p>	<p>B1. Noted, however the AASB decided to proceed with two Frameworks at its September meeting.</p> <p>B2. Addressed in Key Issue 2.</p> <p>B3. Noted, however as Phase 1 is only mandatorily applicable to entities with public accountability, this will be addressed by Staff as part of Phase 2.</p> <p>B4. Noted and will be addressed as part of Phase 2.</p> <p>Conclusion Staff do not consider any further action is necessary.</p>

SMC 3 Are you aware of publicly accountable for-profit entities currently self-assessing as non-reporting entities and preparing SPFS that would have implications under the AASB’s short-term approach?

Summary [here](#).

SMC 3 Respondents comments	Staff response and recommendation
<p>A. Respondents 2, 5, 7, 11, 12, 15, 16, 19, 20 and 21 responded that they were aware of publicly accountable entities currently preparing SPFS. The following entities were noted:</p> <p>A1. Unlisted entities operating in over-the-counter markets, entities with compliance listings in overseas markets that are preparing SPFS (securitisation vehicles) and non-corporate financial services licensees are not preparing consolidated accounts as they are not considered to be reporting entities (IPA)</p> <p>A2. Some State Governments maintain unlisted trust entities which may be considered publicly accountable given the nature of their operations, but these entities aren't required to report under the Corporations Act or other legislation (ACAG).</p> <p>A3.</p> <p>(i) Entities preparing financial statements as part of their admission to the ASX are required to give the ASX several years of audited historical financial statements. As the requirements in ASX listing rules require financial statements to be prepared in accordance with AAS, the ASX has historically accepted SPFS and GPFS-RDR. This appears to contradict the definition of public accountability in respect of ‘in the process of issuing such instruments for trading...’ – guidance is required in this regard.</p> <p>(ii) The AASB needs to clarify whether carve-out financial statements are considered GPFS and how they interact with the requirements of AASB 10 (EY).</p> <p>A4.</p> <p>(i) COBA members are publicly accountable as they are ADIs and are therefore subject to Tier 1 GPFS.</p> <p>(ii) Larger COBA members have securitisation trusts that generally only prepare SPFS, and they should have the option to continue to do so.</p> <p>(iii) Concerned that some securitisation trusts may be captured within the scope of Tier 1 GPFS reporting even if they aren't publicly accountable.</p> <p>A5. Securitisation vehicles (CAANZ, CPA, KPMG, ABA)</p>	<p>A1. Addressed in Key Issue 3, KI3.4, KI3.5 and KI3.6.</p> <p>A2. Addressed in Key Issue 3 and KI3.3.</p> <p>A3. Addressed in Key Issue 3, KI3.9 and Appendix B.</p> <p>A4. These entities were considered and addressed by the Board at its September 2018 meeting. These entities would benefit from the changes proposed by staff in Key Issue 1.</p> <p>A5. These entities were considered and addressed by the Board at its September 2018 meeting. These entities would benefit from the changes proposed by staff in Key Issue 1.</p>

SMC 3 Respondents comments	Staff response and recommendation
<p>A6. Intermediate holding companies and other wholly-owned subsidiaries of listed insurance groups, where the group applies IFRS and its GPFS include all the relevant information for users but the intermediate holding companies and other subsidiaries do not issue debt or equity securities to the public and have no users for their financial statements, and therefore currently prepare SPFS. These entities may have public accountability depending on the proposed changes to the definition (QBE).</p> <p>A7. Wholly owned entities that meet the definition of public accountable and currently prepare SPFS on the basis that no external users exist for the financial statements) (AICD).</p> <p>A8. Internal registered managed investment schemes (ABA).</p> <p>A9. Unlisted managed funds including those admitted for settlement under the ASX Operating Rules through the mFund Settlement Service, SPFS included in prospectuses, SPFS in demerger documents and unlisted public companies and small proprietary companies accessing crowd-funding (Swinburne).</p> <p>B. Respondents 4, 9, 10, 13, 18 and 22 responded that they were not aware of publicly accountable entities currently preparing SPFS. (Note respondent 13 noted that they are aware of a large NFP entity that is currently self-assessing as a non-reporting entity – Graeme McMillan)</p> <p>C. Respondents 1, 3, 6, 8, 14 and 17 provided no comments.</p>	<p>A6. Addressed in Key Issue 3 and KI3.7.</p> <p>A7. Staff contacted the AICD and noted that this comments was raised in relation to securitisation trusts. These entities were considered and addressed by the Board at its September 2018 meeting.</p> <p>A8. Addressed in Key Issue 3 and KI3.3.</p> <p>A9. Addressed in Key Issue 3, KI3.8 and Appendix B.</p> <p>Noted and will be addressed as part of Phase 2 and NFP phase.</p> <p>Conclusion Staff do not consider any further action is necessary.</p>

SMC 4 Do you agree with the AASB’s amendments to the definition of ‘public accountability’ in AASB 1053 per IFRS for SMEs Standard?

Summary [here](#).

SMC 4 Respondents comments	Staff response and recommendation
<p>A. Respondents 3, 4, 5, 9, 15, 16 and 22 agreed with the proposed amendments to the definition of ‘public accountability’. One also made the following comment:</p> <p>A1. Minor editorial amendments are suggested to clarify that holding assets in a fiduciary capacity for a broad group of outsiders for reasons incidental to an entity’s primary business is not, in itself, sufficient for them to qualify as publicly accountable (Pitcher Partners).</p> <p>B. Respondents 2, 7, 10, 11, 12 and 13 do not agree with the proposed amendments to the definition of ‘public accountability’ and provided the following comments:</p> <p>B1. The definition is too narrow. 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.</p> <p>Further, some financial services licensees (primarily non-corporate) are assessing as non-reporting entities. The proposed amendments to the public accountability definition in relation to fiduciary duty do not address this (IPA).</p> <p>B2. Using ‘public accountability’ as the basis for determining reporting requirements is appropriate, however this basis should be applied only by for-profit private sector entities (EY).</p> <p>B3. It is not clear why the amendments are being proposed and exactly what they are (Keith Reilly).</p> <p>B4. More consultation is required to determine whether the IFRS for SMEs definition of public accountability is fit for purpose in Australia. This should be done via an Exposure Draft of the Phase 1 proposals (CAANZ).</p> <p>B5. The short-term approach to maintain IFRS compliance is appropriate, however any unintended consequences of maintaining IFRS compliance through the new public accountability definition need further examination (CPA).</p>	<p>A1. Addressed in Appendix B.</p> <p>B1. Staff note that the definition of public accountability needs to remain consistent with the IFRS for SME definition, to ensure the same types of for-profit entities are required to report under Tier 1 of the AAS, as would be required to comply with full IFRS in other countries. For that reason, staff do not consider changes to that definition are warranted. However, the question of which Australian entities should be deemed to have public accountability will be addressed in a separate project, see Appendix B.</p> <p>B2. Addressed in Key Issue 2.</p> <p>B3. The amendments were outlined in Appendix A of ITC 39 and are being proposed to maintain consistency with the IFRS for SMEs definition of public accountability.</p> <p>B4. The proposed amendments are minor changes to align the definition with the revised IFRS for SME definition. The amendments were exposed as part of ITC 39. Staff do not consider further consultation is required.</p> <p>B5. Unintended consequences identified by other respondents are addressed in Key Issue 1 and Key Issue 2.</p>

SMC 4 Respondents comments	Staff response and recommendation
<p>C. Respondents 1, 6, 8, 14, 17, 18 and 19 did not provide a response.</p> <p>D. Respondents 20 and 21 neither agreed nor disagreed and in doing so made the following comments.</p> <p>D1. The amendments do not provide significant additional guidance nor do they address the securitisation trusts / MIS issue (ABA).</p> <p>D2. The AASB has chosen the revised 'public accountability' definition in the IFRS for SMEs standard as the mechanism to distinguish entities that state compliance with IFRS from entities that do not, however the AASB does not consider IFRS for SMEs as an appropriate solution for further consideration as part of these proposals. The AASB is encouraged to reconsider its position on the IFRS for SMEs standard (Swinburne).</p>	<p>D1. Addressed in Appendix B.</p> <p>D2. Noted and will be addressed as part of Phase 2 and NFP phase.</p> <p>Conclusion Staff do not consider any further action is necessary.</p>

SMC 5 Do you agree with the proposed amendments to SAC 1 *Definition of the Reporting Entity* and the following Australian Accounting Standards?

Summary [here](#).

SMC 5 Respondents comments	Staff response and recommendation
<p>B1. Respondents 5, 7, 9, 11, 15, 16, 18 and 22 agreed with the proposed amendments. Some also made the following comments:</p> <p>A1. The proposed amendments are appropriate, however the proposals in relation to NFP entities, need to be clarified and articulated by the AASB in final Standard (ACAG).</p> <p>A2. It is unclear why the amendments to AASB 133 refer to the Corporations Act (rather than AAS as with amendments to other AAS). Also it is not clear whether the existing exemption in AASB 10 paragraph Aus4.2 will be retained due to the use of the term 'reporting entity' (EY).</p> <p>A3. The general approach is a pragmatic one, but the exact details need the more focused and careful consideration that an exposure draft would provide (CAANZ).</p>	<p>A1. Addressed in in Agenda Paper 5.1 (amendments).</p> <p>A2. Addressed in Agenda Paper 5.1 (amendments).</p> <p>A3. The proposed amendments are only intended to retain IFRS compliance for those entities that are either required or would like to comply with IFRS. Staff consider the exposure through ITC 39 sufficient.</p>

SMC 5 Respondents comments	Staff response and recommendation
<p>A4. These proposals have not been reviewed in detail, however if they result in no change to the reporting requirements of NFP public sector entities as part of Phase 1, the proposed amendments would be supported (HoTARAC).</p> <p>B2. Respondents 2, 4, 10, 12, 13, 20 and 21 did not agree with the proposed amendments, and made the following comments:</p> <p>B1. As there should only be a single framework from 1 January 2020, they do not see the relevance of SAC 1 (IPA).</p> <p>B2. The AASB is encouraged to reconsider the wording used in the amendments to ensure there are no unintended consequences.</p> <p>(i) For example, the wording in the proposed amendments does not align with the existing requirements of AASB 1053 as the proposed amendments will apply to all for-profit entities with public accountability, whereas para 11(a) of AASB 1053 applies only to for-profit private sector entities.</p> <p>(ii) Further, the proposed amendments do not incorporate other for-profit entities that are voluntarily claiming compliance with IFRS.</p> <p>(iii) Other minor drafting suggestions also noted (Pitcher Partners).</p>	<p>A4. Phase 1 proposals related only to for-profit entities.</p> <p>B1. Noted, however the AASB decided to proceed with two Frameworks at its September meeting.</p> <p>B2. Addressed in Key Issue 2 and Agenda Paper 5.1 (amendments).</p>
<p>B3. It is not clear why the amendments are being proposed (Keith Reilly).</p> <p>B4. Refers to response to the earlier questions and the need for the AASB to examine unintended consequences from the new public accountability definition (CPA).</p> <p>B5. Issues are arising because IASB pronouncements are based on private sector notions (e.g. the definition of public accountability), however SAC 1 is based on the reporting entity - this is a major asset of Australian accounting (Graeme McMillan).</p>	<p>B3. The amendments are proposed to enable the application of the RCF by publicly accountable for-profit entities and by other for-profit entities that elect to apply the revised Conceptual Framework.</p> <p>B4. Unintended consequences identified by other respondents are addressed in Key Issue 1 and Key Issue 2.</p> <p>B5. The amendments are proposed to enable the application of the RCF in Australia in line with FRC directive and AASB Strategic Objective 1 (use IFRS Standards as a base and maintain transaction neutrality).</p>

SMC 5 Respondents comments	Staff response and recommendation
<p>B6. Identifies two fatal flaws: Using AASB 1048 to update all references to the CF to be read as reference to the RCF to entities to whom the RCF applies could replace references which were retained by the IASB (eg the CF reference in paragraph 11 of AASB 3). Further, SAC 1 is the only legal pronouncement that affects whether entities prepare GPFS - entities that use SAC 1 to deem themselves as non-reporting entities can validly argue out of any other AAS GPFS requirement (ABA).</p> <p>B7. A pragmatic stop-gap solution is not required as SAC 1 and the RCF can successfully coexist until the lawmaker articulates who of its regulated entities must prepare GPFS. But can accept phase 1 as long as the AASB is certain there are no unintended consequences (Swinburne). (Swinburne).</p> <p>B3. Respondents 1, 3, 6, 8, 14, 17 and 19 did not provide a response.</p>	<p>B6. Addressed in Agenda Paper 5.1 (amendments).</p> <p>B7. Noted and will be addressed as part of Phase 2.</p> <p>Conclusion Staff do not consider any further action is necessary.</p>

GMC 6 Whether The AASB’s Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities has been applied appropriately in developing the proposals in Phase 1.

Summary [here](#).

GMC 6 Respondents comments	Staff response and recommendation
<p>A. Respondents 4, 5, 7, 11, 15, 18 and 22 agreed that the Standard Setting Framework has being appropriately applied. Some also made the following comments:</p> <p>A1. There is concern about the foreshadowed effects on entities that do not have public accountability as the AASB has not sufficiently developed its case for user needs (CAANZ).</p> <p>A2. The Standard Setting Framework has been appropriately applied, however, they only considered the NFP standard setting framework (HoTARAC).</p> <p>B. Respondents 2, 10 and 16 did not agree that the Standard Setting Framework has being appropriately applied. Some also made the following comments:</p> <p>B1. Having two conceptual frameworks is inconsistent with the Standard Setting Framework (IPA).</p>	<p>A1. Noted and will be addressed as part of Phase 2 and NFP phase.</p> <p>A2. Noted.</p> <p>B1. Noted, however the AASB decided to proceed with two Frameworks at its September meeting.</p>

GMC 6 Respondents comments	Staff response and recommendation
<p>B2. Not allowing IFRS for SMEs as an option for non-publicly accountable entities is contrary to the Government's expectation of reducing unnecessary compliance costs (Keith Reilly).</p> <p>B3. The RCF isn't mandatory and its release isn't a trigger for change. Multiple definitions for the same term is not a new issue – for example contract means two things in AAS, therefore having two 'definitions' of reporting entity would be acceptable too. The fact that SPFS reporting is unique does not automatically mean that there is a problem that needs fixing (QBE).</p> <p>C. Respondents 1, 3, 6, 8, 9, 12, 13, 14, 17, 19, 20 and 21 did not express a view.</p>	<p>B2. Phase 1 relates only to those entities with public accountability. This comment is noted and will be addressed by Staff as part of Phase 2 and NFP Phase.</p> <p>B3. Noted and will be addressed as part of Phase 2 and NFP phase.</p> <p>Conclusion Staff do not consider any further action is necessary.</p>

GMC 7 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.

Summary [here](#).

GMC 7 Respondents comments	Staff response and recommendation
<p>A. Respondents 2, 10 and 11 noted that they were aware of other regulatory issues and provided the following comments:</p> <p>A1. Many entities may have to produce consolidated financial statements for the first time, and depending on any transitional provisions, these financial statements may include comparatives. This may result in modified audit opinions as a result of group and opening balance issues (IPA).</p> <p>A2. Not allowing IFRS for SMEs as an option for non-publicly accountable entities is contrary to the Government's expectation of reducing unnecessary compliance costs (Keith Reilly).</p> <p>A3. SGE requirements should lead to more entities preparing GPFS which may have an impact on the SPFS 'problem'. Also, it may be more appropriate to achieve collaborative solutions with standard setters and regulators / legislators working together (CAANZ).</p>	<p>A1. Noted and will be addressed as part of Phase 2.</p> <p>A2. Phase 1 relates only to those entities with public accountability. This comment is noted and will be addressed by Staff as part of Phase 2.</p> <p>A3. Noted and will be addressed as part of Phase 2.</p>

GMC 7 Respondents comments	Staff response and recommendation
<p>B. Respondents 4, 5, 7, 15, 16, 18 and 22 noted that they were not aware of other regulatory issues. Some also provided the following comments:</p> <p>B1. Not aware of any regulatory or other issues to apply the RCF to Australian publicly accountable for-profit private sector entities that are required to prepare Tier 1 general purpose financial statements and other for-profit entities voluntarily reporting compliance with IFRS (Pitcher Partners). (emphasis added by AASB Staff).</p> <p>B2. Encourages those determining the need for preparing financial reports to consider the needs of users (EY).</p> <p>B3. This is a good opportunity for the AASB to work with regulators to rationalise the 'who' reporting requirements (QBE)</p> <p>C. Respondents 1, 3, 6, 8, 9, 12, 13, 14, 17, 19, 20 and 21 did not provide a response.</p>	<p>B1. Addressed in Key Issue 2.</p> <p>B2. Noted. The AASB is working with Legislators and Regulators.</p> <p>B3. Noted. The AASB is working with Legislators and Regulators.</p> <p>Conclusion Staff do not consider any further action is necessary.</p>

GMC 8 Whether, overall, the proposals would result in financial statements that would be useful to users.

Summary [here](#).

GMC 8 Respondents comments	Staff response and recommendation
<p>A. Respondents 2, 4, 7, 15 and 22 noted that they believed the proposals would result in financial statements that would be useful to users. Some provided the following comments:</p> <p>A1. While the proposals would enhance financial statements, the proposals would be further enhanced by adopting a broader definition of public accountability (IPA).</p> <p>A2. The proposals to apply the RCF to Australian publicly accountable for-profit private sector entities that are required to prepare Tier 1 general purpose financial statements and other for-profit entities voluntarily reporting compliance with IFRS should result in financial statements that would be useful to users in the Australian environment (Pitcher Partners). (Emphasis added by AASB Staff).</p> <p>A3. Yes, subject to other comments raised (EY).</p>	<p>A1. Addressed in Appendix B.</p> <p>A2. Addressed in Key Issue 2.</p> <p>A3. Addressed as part of response to each specific question.</p>

GMC 8 Respondents comments	Staff response and recommendation
<p>B. Respondents 10 and 20 noted that they believed the proposals would not result in financial statements that would be useful to users. They provided the following comments:</p> <p>B1. Not allowing IFRS for SMEs as an option for non-publicly accountable entities is contrary to the Government's expectation of reducing unnecessary compliance costs (Keith Reilly).</p> <p>B2. Securitisation vehicles and internal pooled funds do not have current or potential users reliant GPFS. Therefore, by extension there will be no use for the financial statements under the AASB's proposals. Therefore imposing costs that do not provide a clear user benefit is not overall in the best interests of the Australian economy (ABA).</p> <p>C. Respondents 1, 3, 5, 6, 8, 9, 12, 13, 14, 17, 19, and 21 did not provide a response.</p> <p>D. Respondents 11, 16 and 18 neither agreed nor disagreed and in doing so made the following comments.</p> <p>D1. More research is required to understand and articulate what users need (CAANZ).</p> <p>D2. They are concerned that there has not been adequate research to support the current AASB proposal and made reference to a number of comments made by the AASB in ITC39 (QBE).</p> <p>D3. The Phase 1 proposals will not significantly change the usefulness of NFP public sector financial statements to users. Greater potential for providing useful information is within the scope of the reporting frameworks project, as currently documented in the Discussion Paper: <i>Improving Financial Reporting for Australian Public Sector</i> (HoTARAC).</p>	<p>B1. Phase 1 relates only to those entities with public accountability. This comment is noted and will be addressed by Staff as part of Phase 2 and NFP Phase.</p> <p>B2. Noted however the AASB agreed to proceed at its September meeting.</p> <p>D1. Noted and will be addressed as part of Phase 2 and NFP phase.</p> <p>D2. Noted and will be addressed as part of Phase 2.</p> <p>D3. Phase 1 addresses only for-profit entities. Comment is noted and will be addressed as part of the NFP phase of this project.</p> <p>Conclusion Staff do not consider any further action is necessary.</p>

GMC 9 Whether the proposals are in the best interests of the Australian economy.

Summary [here](#).

GMC 9 Respondents comments	Staff response and recommendation
<p>A. Respondents 2, 4, 7, 11, 15, 16 and 22 agreed that the proposals are in the best interests of the Australian economy. Some provided the following comments:</p> <p>A1. While the proposals are in the best interests of the Australian economy, the proposals would be enhanced by adopting a broader definition of public accountability (IPA).</p> <p>A2. Further research is required to demonstrate that the proposals are beneficial to Phase 2 entities (CAANZ).</p> <p>A3. Phase 1 proposals are in the best interests of the Australian economy, however there is concern that insufficient research has been conducted in relation to Phase 2 (QBE).</p> <p>B. Respondents 10 and 20 did not agree that the proposals are in the best interests of the Australian economy, and respondent 10 provided the following comments:</p> <p>B1. Not allowing IFRS for SMEs as an option for non-publicly accountable entities is contrary to the Government's expectation of reducing unnecessary compliance costs (Keith Reilly).</p> <p>C. Respondents 1, 3, 5, 6, 8, 9, 12, 13, 14, 17, 18, 19, 21 did not express a view.</p>	<p>A1. Addressed in Appendix B.</p> <p>A2. Noted and will be addressed as part of Phase 2.</p> <p>A3. Noted and will be addressed as part of Phase 2.</p> <p>B1. Phase 1 relates only to those entities with public accountability. This comment is noted and will be addressed by Staff as part of Phase 2 and NFP Phase.</p> <p>Conclusion Staff do not consider any further action is necessary.</p>

GMC 10 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.

Summary [here](#).

GMC 10 Respondents comments	Staff response and recommendation
<p>A. Respondents 2, 7, 11, 16, 18 and 22 provided the following comments:</p> <p>A1. Cannot comment on the quantitative costs of the proposals. However there will likely be an increase in audit costs on an ongoing basis due to many entities now being required to prepare and have audited group accounts (IPA).</p>	<p>A1. Noted and will be considered as part of the RIS like process for Phase 2 as appropriate.</p>

GMC 10 Respondents comments	Staff response and recommendation
<p>A2. Do not believe the impact of Phase 1 proposals will be significant (EY).</p> <p>A3. Further research is required in order that informed assessments based on empirical evidence can be made, on the relative costs and benefits of the proposals. This research should particularly be directed to user needs and up to date and more comprehensive regulatory lodgement information (CAANZ).</p> <p>A4. The Phase 1 approach will not add costs as it maintains the current approach. The Phase 2 approach will add a significant cost burden due to the widening scope of general purpose reporting, particularly around the need to produce consolidated accounts for wholly owned subsidiaries — an approach not consistent with other major markets (QBE).</p> <p>A5. Significant changes in financial statements of for-profit and NFP public sector entities during Phase 1 are not expected, therefore also no significant changes to preparation and audit costs . There may be some additional costs incurred by for-profit public sector entities if an accounting policy selected using one conceptual framework is not acceptable under the other conceptual framework for application in consolidated financial statements (the “mixed group problem”). This effect is not expected to be significant (HoTARAC).</p> <p>A6. No additional cost should arise given that all for-profit publicly accountable entities should be preparing tier 1 GPFS anyway (BDO).</p> <p>B. Respondents 1, 3, 4, 5, 6, 8, 9, 10, 12, 13, 14, 15, 17, 19, 20 and 21 did not provide comments.</p>	<p>A2. Noted, no action required.</p> <p>A3. Noted and will be addressed as part of Phase 2 and NFP phase.</p> <p>A4. Noted and will be addressed as part of Phase 2 and NFP phase.</p> <p>A5. Noted, however the AASB decided to proceed with two Frameworks at its September meeting.</p> <p>A6. Noted, no action required.</p> <p>Conclusion Staff do not consider any further action is necessary.</p>

Other general comments.

Respondent	Staff response and recommendation
<p>Respondent 6 – Nexia</p> <p>6.1 The AASB has not made a case for why the RCF needs to be introduced immediately for publicly accountable for-profit entities as part of Phase 1 and why or in what circumstances there is a clash between the RCF and SAC 1.</p>	<p>6.1 In order for publicly accountable for-profit entities to maintain compliance with IFRS, the RCF must be issued and operative in Australia by 1 January 2020.</p> <p>Making the IASB’s RCF applicable in Australia is essential as in accordance with the AASB’s strategy¹⁰ and Financial Reporting Council directive:</p> <ul style="list-style-type: none"> a) publicly accountable for-profit entities and other entities voluntarily reporting compliance with IFRS must be able to maintain compliance with International Financial Reporting Standards (IFRS); and b) IFRS is used as a base for determining the reporting requirements for all other entities, modified as appropriate, in accordance with <i>The AASB’s Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities</i>¹¹. <p>In order to apply the RCF in Australia, the AASB has to address a ‘reporting entity’ definition clash.</p> <p>The reporting entity concept in Statement of Accounting Concepts SAC 1 <i>Definition of the Reporting Entity</i> and some of the Australian Accounting Standards (AAS) is defined and used differently compared to the RCF.</p> <ul style="list-style-type: none"> a) In Australia, the application paragraphs of AAS and SAC 1 establish the term ‘reporting entity’ to denote entities that are required to prepare GPFS because they have users who depend on the GPFS to make decisions. b) The IASB’s RCF, in paragraph 3.10, creates a new definition of reporting entity as ‘...an entity that is required, or chooses, to prepare financial statements. A reporting entity can be a single entity or a portion of an entity or can comprise more than one entity. A

¹⁰ Refer to [AASB and AUASB Strategy 2017-2019](#). The strategy was subject to public consultation in July-August 2017.

¹¹ [ITC 39](#), paragraph 3

Respondent	Staff response and recommendation
	<p><i>reporting entity is not necessarily a legal entity.</i> In other words, according to the IASB's RCF, an entity that is required by legislation or otherwise to prepare financial statements is a reporting entity and the financial statements of reporting entities could differ based on the 'boundary' of economic activities included in their financial statements (ie a reporting entity's financial statements could be consolidated financial statements, single entity financial statements or part of an entity's financial statements). This is fundamentally different to the definition of reporting entity in Australia, where a reporting entity (as per SAC 1) is an entity that is required to prepare GPFS and an entity that is not a reporting entity (i.e. non-reporting entity) can choose to prepare SPFS.</p> <p>c) The RCF has revised definitions of assets and liabilities and also a new chapter on measurement. When an entity has to deal with accounting issues that are not covered by an accounting standard, it must refer to the RCF to develop appropriate policies. If the RCF is not issued, an entity may develop accounting policies that are not in line with the RCF and as such are not IFRS compliant.</p> <p>This inconsistency between the RCF and AAS and SAC 1 could result in misinterpretation, the wrong application of AAS, non-compliance with IFRS, and potential liability for preparers and directors and those charged with governance. The likelihood of inconsistencies will increase as and when the IFRS Standards are amended/revised and there are more references to the term reporting entity as defined in the RCF¹².</p>

¹² [ITC 39](#), paragraphs 34-35

Respondent	Staff response and recommendation
<p>6.2 The RCF should not be early adopted until:</p> <ol style="list-style-type: none"> The Board has received and considered constituent feedback on Phase 2; The ACNC legislative review has been completed and the Government's proposed responses have been made public; and The AASB has completed a Regulatory Impact Statement. <p>6.3 Australian NFP entities are unable to claim IFRS compliance therefore not having the RCF in place will not impact them.</p> <p>6.4 Once the RCF is in place for Phase 1 there is concern it will result in the AASB adopting the RCF for all entities.</p>	<p>6.2 In order for publicly accountable for-profit entities and other entities voluntarily reporting compliance with IFRS to be able to maintain compliance with IFRS the RCF must be issued and operative in Australia by 1 January 2020.</p> <p>In relation to NFP entities, the Board decided that the proposals in ITC 39 will apply only to for-profit entities, while the Board continues to work with the ACNC and other NFP regulators to develop a separate consultation document with targeted proposals for NFP entities in due course¹³.</p> <p>Staff have confirmed with the Office of Best Practice Regulation (OBPR) that an RIS is not required for Phase 1.</p> <p>6.3 Noted, however the Phase 1 proposals relate to for-profit publicly accountable entities.</p> <p>6.4 Noted, however Phase 2 and the NFP Phase will be considered separately.</p>
<p>Respondent 10 – Keith Reilly</p> <p>10.1 There is a simpler and less costly solution for tier 2 entities: IFRS for SMEs has significantly reduced recognition and measurement requirements and significantly fewer disclosures than RDR, therefore companies should be able to adopt it. The AASB has provided no evidence as to why adoption would result in additional cost. Many other countries such as UK have adopted it and additional cost has not been an issue. Entities would not have to adopt it if it does incur additional cost.</p> <p>10.2 IFRS for SMEs would be a less costly option for entities preparing SPFS: IFRS are designed for those entities that are preparing high quality financial statements and therefore they have less relevance to entities that do not have general-purpose users. Regulators and entities need to be given enough time to remove references to compliance with AAS where necessary, to reflect the fact that AAS will no longer incorporate the reporting entity concept. Complaints about SPFS seem to originate from the AASB.</p>	<p>10.1 The AASB considered IFRS for SMEs as an alternative for Tier 2 GPFS and decided not to pursue that alternative at the present time for the reasons outlined in Appendix C paragraphs 18 to 36 of ITC 39¹⁴.</p> <p>10.2 The AASB considered IFRS for SMEs as an alternative for Tier 2 and decided not to pursue that alternative at the present time for the reasons outlined in Appendix C paragraphs 18 to 36 of ITC 39¹⁵.</p>

¹³ [Action Alert Issue 194](#)

¹⁴ [ITC 39](#), Appendix C paragraphs 18-36.

¹⁵ [ITC 39](#) Appendix C paragraphs 18-36.

Respondent	Staff response and recommendation
<p>10.3 Significant impact on charities: Under the proposals, charities are required to adopt listed company recognition and measurement requirements which are simply not fit for NFP purposes and reduce entity funds which should be spent on charitable activities.</p> <p>10.4 Misunderstanding the restriction of IFRS GPFRs in the RCF: The RCF applies only to reporting entities applying full IFRS - it is not applicable to non-publicly accountable entities preparing RDR or those entities preparing SPFS. The AASB could simply re-badge non-reporting entities as 'Australian non-reporting entities'. The IASB have managed to make a single Framework work with full IFRS and IFRS for SMEs, there is no reason why the AASB can't do the same.</p> <p>10.5 Premise that SPFR entities are self-assessing is flawed: Lack of comparability etc is not an issue because these entities have no users. There is no evidence of any self-assessing problem (no ASIC actions, no audit qualifications and no legislative changes being considered). Also notes that the ACNC allows the preparation of SPFS without any recognition and measurement requirements. Not allowing IFRS for SMEs as an option does not meet ASIC Act objectives (suitability of accounting standards for different types of entities).</p> <p>10.6 The AASB has not followed due process by not doing an Exposure Draft.</p> <p>10.7 No cost vs benefits analysis: The AASB needs to give an indication of the additional cost for entities currently preparing SPFS. There is also no evidence of discussions with the IASB or UK FRC about the cost of IFRS for SMEs. Comments made in ITC 39 about transitional relief being required to reduce burden are not consistent with reducing unnecessary red tape.</p>	<p>10.3 Noted and will be addressed as part of the NFP phase.</p> <p>10.4 The RCF describes the objective of, and the concepts for, general purpose financial reporting, and defines a reporting entity as an entity that is required, or chooses to, prepare GPFS. In Australia once operative for all for-profit entities, this would encompass Tier 2 RDR GPFS (if this was the Tier 2 GPFS determined to be most appropriate by the Board). It is the AASB's intention to have a single conceptual framework in due course.</p> <p>10.5 As noted above, the AASB considered IFRS for SMEs as an alternative for Tier 2 and decided not to pursue that alternative at the present time for the reasons outlined in Appendix C paragraphs 18 to 36 of ITC 39¹⁶.</p> <p>10.6 Noted, and the question as to whether an exposure draft is required has been put to the Board in Agenda Paper 5.1.</p> <p>10.7 Staff have confirmed with the Office of Best Practice Regulation (OBPR) that an RIS is not required for Phase 1. The impacts of Phase 2 will be considered as part of a RIS like process as appropriate.</p>
<p>Respondent 11 – CAANZ</p> <p>11.1 The AASB's plans for Phase 2 are not sufficiently developed.</p> <p>11.2 Two Conceptual Frameworks is not desirable in the long term, however is acceptable in the short term.</p>	<p>11.1 Noted and will be considered as Part of Phase 2.</p> <p>11.2 Noted. It is the AASB's intention to have a single Conceptual Framework applicable to all entities in due course.</p>

¹⁶ [ITC 39](#) Appendix C paragraphs 18-36.

Respondent	Staff response and recommendation
<p>11.3 Specific comments relating to Phase 2 for consideration when deliberating Phase 1:</p> <ul style="list-style-type: none"> a. Proposed tiers of reporting aren't justified; b. The question of who reports needs to be addressed; c. The AASB don't appear to understand the cost of being required to comply with IFRS for entities outside ASIC / ACNC; d. There is concern that the proposals will expand the scope of GPFS far beyond what users need without examination of the cost; and e. More research is required. 	<p>11.3 Noted and will be considered as Part of Phase 2 and the NFP Phase.</p>
<p>Respondent 14 - PKF</p> <p>14.1 IFRS for SMES should be an option and to not allow it as an option is not reducing red tape and entities should be able to make a decision re compliance with SMEs.</p>	<p>14.1 The AASB considered IFRS for SMEs as an alternative for Tier 2 and decided not to pursue that alternative at the present time for the reasons outlined in Appendix C paragraphs 18 to 36 of ITC 39¹⁷.</p>
<p>Respondent 16 - QBE</p> <p>16.1 Changes should not be made until the impact of the changes on preparers is fully understood and this can be balanced against clearly identified benefits for users.</p> <p>16.2 Consideration is required as to whether it is necessary and / or appropriate for all entities to comply with IFRS.</p> <p>16.3 Just because some are inappropriately using the non-reporting and SPFS concepts doesn't mean the concepts are flawed.</p> <p>16.4 Research provided in ITC 39 does not clearly set out user needs.</p> <p>16.5 Disagree that removing SPFS will result in improved transparency and comparability - this view appears to be untested through research.</p> <p>16.6 Inadequate research has been conducted – for example, 'preliminary research' and 'anecdotal evidence' is not a sufficient basis for the proposals in ITC 39.</p>	<p>16.1 In order for publicly accountable for-profit entities and other entities voluntarily reporting compliance with IFRS to be able to maintain compliance with IFRS the RCF must be issued and operative in Australia by 1 January 2020.</p> <p>The impact of any changes proposed in Phase 2 and the NFP Phase will be separately addressed and considered in due course.</p> <p>16.2 Noted and will be considered as Part of Phase 2 and the NFP Phase.</p> <p>16.3 Noted and will be considered as Part of Phase 2 and the NFP Phase.</p> <p>16.4 Noted and will be considered as Part of Phase 2 and the NFP Phase.</p> <p>16.5 Noted and will be considered as Part of Phase 2 and the NFP Phase.</p> <p>16.6 Noted and will be considered as Part of Phase 2 and the NFP Phase.</p>

¹⁷ [ITC 39](#), Appendix C paragraphs 18-36.

Respondent	Staff response and recommendation
<p>16.7 It is unclear why North-American models of reporting which seem to limit reporting to cases where there are clearly identifiable users are not appropriate in Australia.</p> <p>16.8 Research reports are helpful, however they don't specifically identify user needs and aren't granular enough to enable useful conclusions.</p>	<p>16.7 Noted and will be considered as Part of Phase 2.</p> <p>16.8 Noted and will be considered as Part of Phase 2 and the NFP Phase.</p>
<p>Respondent 19 – AICD</p> <p>19.1 Unlikely to support the proposed changes in phase 2 without significant financial reporting threshold increase across FPs and NFPs.</p> <p>19.2 To present compelling evidence for change, recommends:</p> <ol style="list-style-type: none"> a. Current analysis of existence of SPFS across all sectors; b. Current analysis of adoption of RDR across all sectors; c. Thorough consideration of the financial reporting framework as a whole, including financial reporting thresholds; and d. Comprehensive study of user needs in both FP and NFP sectors, including assessment whether IFRS compliance and global comparability is necessary. 	<p>19.1 Noted – will consider any comments raised by AICD on Phase 2, however the determination of 'who' reports is not something the AASB is able to address.</p> <p>19.2 Noted and will be considered as Part of Phase 2 and the NFP Phase.</p>
<p>Respondent 21 – Swinburne</p> <p>21.1 Supports withdrawal of SAC 1 but not without an explicit statement from the lawmaker about who of its regulated entities should prepare GPFS. Self-assessment should not be removed without corresponding legal amendments.</p>	<p>21.1 Noted – will consider any comments raised by Swinburne on Phase 2, however the determination of 'who' reports is not something the AASB is able to address.</p>
<p>The following respondents also provided specific comments on Phase 2 which Staff will consider as part of Staffs' analysis of other Phase 2 submissions:</p> <ul style="list-style-type: none"> — PwC — CPA — QBE — AICD — ABA 	<p>Noted and will be considered as Part of Phase 2.</p>

Appendix D – Summary of written responses for each question

Legend (shading and abbreviations)

Green = Respondent agrees

Amber = Respondent neither completely agrees or disagrees or more clarification required

Pink = Respondent disagrees

Grey = Respondent providing example (neither agrees or disagrees)

PA = Public accountability

FP = For-profit

RE = Reporting entity

SGE = Significant Global Entity

ST = Short-term

	SMC1 – detail here	SMC2 – detail here	SMC3 – detail here	SMC4 – detail here	SMC5 – detail here	GMC6 – detail here	GMC7 – detail here	GMC8 – detail here	GMC9 – detail here	GMC10 – detail here	Overall view.
1. Grant Thornton	No comment	No comment	No comment	No comment	No comment	No comment	No comment	No comment	No comment	No comment	Supportive.
2. IPA	No – there should only be 1 Framework post 1/1/20.	No – there should only be 1 Framework post 1/1/20.	Yes – see Key Issue 3.	No – PA definition is too narrow.	No, SAC 1 has no relevance as there should only be one Framework post 1/1/20.	No – 2 Frameworks is inconsistent with Standard Setting Framework.	Applying consolidation for the first time, and modified audit opinions if no transitional relief.	Yes, however broader definition of PA is required.	Yes, however broader definition of PA is required.	Increase in audit costs on an ongoing basis	Supportive.
3. PWC	Yes	Yes	No comment	Yes	No comment	No comment	No comment	No comment	No comment	No comment	Supportive
4. Pitcher Partners	Yes, however RCF should be applied only by FP private sector in Phase 1	No, RCF should be applied only by FP private sector entities in Phase 1.	None noted	Yes, and have suggested some drafting amendments.	RCF should be applied only by FP private sector entities. Amendments do not include other FP private entities voluntarily claiming compliance with IFRS.	Yes.	None noted, in relation to FP private sector.	Yes, in relation to FP private sector entities and FP entities that voluntarily report compliance with IFRS.	Yes	No comment	Supportive
5. ACAG	Yes, however application of CF and RCF needs more clarity. Inconsistent accounting policies may arise from different Frameworks	Yes, however need to clarify what “required” to comply with AAS means.	Yes – see Key Issue 3.	Yes, and recommend link to IFRS for SME guidance.	Yes, however need to clarify application of RCF to NFPs.	Yes.	None noted	No comment	No comment	No comment	Supportive.
6. Nexia	No comment	No comment	No comment	No comment	No comment	No comment	No comment	No comment	No comment	No comment	Unsupportive. Also believe an ED is required.

Appendix D – Summary of written responses for each question

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	SMC1 – detail here	SMC2 – detail here	SMC3 – detail here	SMC4 – detail here	SMC5 – detail here	GMC6 – detail here	GMC7 – detail here	GMC8 – detail here	GMC9 – detail here	GMC10 – detail here	Overall view.
7. EY	Yes, however should apply RCF to all entities and accept RE clash for now. Inconsistent accounting policies may arise from different Frameworks, which affects transaction neutrality.	Yes, however inconsistent accounting policies may arise from different Frameworks.	Yes – see Key Issue 3 .	Yes, however the definition of public accountability should apply only to FP private sector entities.	Yes, however some drafting comments raised.	Yes, subject to clarity regarding the parent entity exemption in AASB 10 (SMC 5).	None noted.	Yes, subject to comments raised.	Yes	Don't believe the impact of Phase 1 will be significant.	Supportive.
8. COBA	No comment	No comment	No comment	No comment	No comment	No comment	No comment	No comment	No comment	No comment	Larger COBA members have securitisation trusts preparing SPFS – concerned some may be captured within the scope of GPFS reporting even if they aren't publicly accountable.
9. Seward Dawson	Yes	No comment	None noted	Yes	Yes	No comment	No comment	No comment	No comment	No comment	Supportive

Appendix D – Summary of written responses for each question

Legend (shading and abbreviations)

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RE = Reporting entity

Amber = Respondent neither completely agrees or disagrees or more clarification required

Grey = Respondent providing example (neither agrees or disagrees)

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ST = Short-term

	SMC1 – detail here	SMC2 – detail here	SMC3 – detail here	SMC4 – detail here	SMC5 – detail here	GMC6 – detail here	GMC7 – detail here	GMC8 – detail here	GMC9 – detail here	GMC10 – detail here	Overall view.
10. Keith Reilly	Non-PA entities should have the option of IFRS for SMEs, therefore the RCF is not required for these entities.	Non-PA entities should have the option of IFRS for SMEs, therefore the RCF is not required for these entities.	None noted	No, it is not clear why the amendments are being proposed and exactly what they are.	No, it is not clear why the amendments are being proposed.	No, not having IFRS for SMEs as an option for non-PA entities is contrary to the Government's expectation of reducing unnecessary compliance costs.	Yes, not having IFRS for SMEs as an option for non-PA entities is contrary to the Government's expectation of reducing unnecessary compliance costs.	No, not having IFRS for SMEs as an option for non-PA entities is contrary to the Government's expectation of reducing unnecessary compliance costs.	No, not having IFRS for SMEs as an option for non-PA entities is contrary to the Government's expectation of reducing unnecessary compliance costs.	No comment	Unsupportive. Also believe an ED is required.
11. CAANZ	Yes, however insufficient time to examine the revised PA definition to be sure there will be no unintended consequences.	Yes, however need to consider revised PA definition through an ED.	Yes, securitisation trusts.	No, more consultation is required to determine whether the PA definition is fit for purpose.	Yes, however need to do an ED for Phase 1.	Yes, however concerned about the effects on non-PA entities.	Yes, SGE requirements.	More research is required to understand and articulate what users need.	Yes, however need to consider Phase 2	More research is required	Supportive but believe an ED is required.
12. CPA	Yes, but need to consider potential unintended consequences before proceeding.	Yes, but need to consider potential unintended consequences before proceeding.	Yes, securitisation trusts.	PA definition requires further examination.	Concerns in other responses apply here. Suggest the Phase 1 proposals require further development.	No comment	No comment	No comment	No comment	No comment	Supportive but believe an ED is required.
13. Graeme McMillan	No, remove references to the RCF 'reporting entity' from existing AAS.	Yes, AASs should apply to all entities.	No, however NFP entity noted.	No.	No.	No comment	No comment	No comment	No comment	No comment	Unsupportive.

Appendix D – Summary of written responses for each question

Legend (shading and abbreviations)

Green = Respondent agrees

Pink = Respondent disagrees

PA = Public accountability

RE = Reporting entity

Amber = Respondent neither completely agrees or disagrees or more clarification required

Grey = Respondent providing example (neither agrees or disagrees)

FP = For-profit

SGE = Significant Global Entity

ST = Short-term

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14. PKF	No comment	No comment	No comment	No comment	No comment	No comment	No comment	No comment	No comment	No comment	Unsupportive, and believe IFRS for SMES should be an option and to not allow it is not reducing red tape.
15. KPMG	Yes	Yes. Note that PA definition does not apply to public sector entities but do not foresee any issues applying RCF to both FP public and private sectors.	Yes, securitisation trusts	Yes	Yes	Yes	No	Yes	Yes	None noted	Supportive and agree an ED is not required.
16. QBE	Yes. Agree with ST approach, however have serious concerns about Phase 2.	No comment	Yes – see Key Issue 3 .	Yes	Yes	RCF isn't mandatory and its release isn't a trigger for change. Could operate with two definitions of RE.	No, suggest AASB should work with regulators over 'who' reports.	No	Yes in relation to Phase 1.	No additional costs.	Supportive of phase 1 but unsupportive of phase 2.
17. ASF	Not included as only addressed Securitisation Funds issue which has been covered previously										
18. HoTARAC	Yes, would be ideal to have one from 1/1/20, however acknowledge NFP modifications will take time.	Yes	No	No comment	Yes, if there is no change to NFP public sector reporting.	Yes, in relation to the NFP Standard Setting Framework.	No	Yes, Phase 1 proposals won't significantly change the usefulness of NFP public sector financial statements.	No comment	Additional costs may be incurred in a mixed group scenario due to incompatible accounting policies resulting from two Frameworks.	Supportive.

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19. AICD	No comment	No comment	Yes, securitisation trusts	No comment	No comment	No comment	No comment	No comment	No comment	No comment	Supportive but believe an ED is required.
20. ABA	No, as it is not necessary to immediately remove SAC 1. Prefers something similar to option 5.	No	Yes, securitisation trusts and internal pooled registered managed investment schemes.	Amendments don't provide significant additional guidance nor do they address the securitisation trusts / MIS issue.	No. There are also fatal flaws in the drafting.	No comment	No comment	No, securitisation vehicles and internal pooled funds do not have GPFS users.	No.	No comment	Unsupportive.
21. Swinburne	SAC 1 and the RCF can coexist, however can accept Phase 1 approach provided no unintended consequences.	SAC 1 and the RCF can coexist, however can accept Phase 1 approach provided no unintended consequences.	Yes – see Key Issue 3 .	The AASB should reconsider its position on IFRS for SMEs.	SAC 1 and the RCF can coexist, however can accept Phase 1 approach.	No comment	No comment	No comment	No comment	No comment	Unsupportive and believe an ED is required.
22. BDO	Yes	Yes	No	Yes	Yes	Yes	None noted	Yes	Yes	No additional cost.	Supportive.