



Kris Peach
Chair and CEO
Australian Accounting Standards Board

Submission by online form

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7 August 2018

Grant Thornton Australia Submission – Phase 1 of Consultations on Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems

Dear Kris

We welcome this opportunity to provide our view on Phase 1 of the AASB's Consultations on Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems. Grant Thornton's global network maintains an open and constructive relationship with national governments, standard-setters and regulators, consistent with our policy of embracing external oversight.

We acknowledge that the issues identified in the AASB's Consultation Paper have been discussed among stakeholders for many years.

We view the AASB's short-term approach as non-controversial, and as such, we give our in-principle support. We agree with the AASB's reasoning for the application of the short-term approach, the goals of Phase 1, as well as the associated amendments that have been proposed.

While there may be some entities that will be affected by the implementation of the short-term approach, we do not believe these to be of such a degree as to warrant a halt to the short-term approach coming into effect.

We look forward to extensive industry consultation sessions in the coming months regarding Phase 2 of this project.

Yours sincerely

Marilyn Gwan
Partner - Audit & Assurance
Head of National Assurance Quality

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Submission to AASB: Revised Conceptual Framework – Phase 1

August 2018

8 August 2018

The Chairperson
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
Australia

Dear Kris

Invitation to Comment 39: Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statements Problems – Phase 1

Thank you for the opportunity to comment on the Invitation to Comment 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statements Problems* (phase 1).

Failure of the reporting entity concept

The Institute of Public Accountants (IPA) believes the centre-piece of the current differential reporting framework, the reporting entity concept, has been a failure in its application.

The reporting entity concept as applied by many preparers and auditors does not support transparency and comparability of financial reporting. The application of reporting entity concept represents a long-standing audit and regulatory failure for which there appears to have been inadequate redress and which may have prolonged the issues and concerns.

No rational basis for two conceptual frameworks

The IPA is of the opinion that there is no reasonable basis for having two conceptual frameworks in place after 1 January 2020 when the IASB's revised conceptual framework (RCF) becomes operative.

The IPA believes the operative date of any RCF should coincide with that commencement date. It is unacceptable that the AASB proposes to have two conceptual frameworks in place after that date with an indeterminate date for the replacement to become operative.

The IPA further believes that any revised differential reporting requirements should be operative from 1 January 2020. For most Australian companies this would mean that the first operative date for applying any new differential reporting requirements would be 30 June 2021. The IPA does not believe that if the differential reporting requirements were finalised in the 4th quarter of 2019, this would provide more than sufficient time to implement the reporting requirements.

On this basis while the IPA supports the adoption of the RCF, we reject the existence of two reporting frameworks beyond the operative date of the RCF.

Our comments and responses to the questions in the Invitation to Comment are set out in the Appendix to this letter.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen La Greca (stephenlagreca@aol.com) or Mr Colin Parker (colin@gaap.com.au) (a former member of the AASB), GAAP Consulting.

Yours sincerely

A handwritten signature in black ink, appearing to read 'V. Stylianou', with a stylized flourish at the end.

Vicki Stylianou
Executive General Manager, Advocacy & Technical
Institute of Public Accountants

About the IPA

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 80 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Competition and Consumer Commission (ACCC) on issues affecting our members, the profession and the public interest. The IPA merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.

Appendix

Specific matters for comment on Phase 1

Question 1

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

IPA response

No. The IPA is of the view that the AASB should not operate two conceptual frameworks once the RCF becomes operative.

The IPA believes a revised reporting regime (and abandonment of the Special Purpose Financial Reporting concept) for non-publicly accountable entities should be operative from 1 January 2020 to coincide with the operative date of the RCF. This would mean for most Australian entities the first date under the new RCF and reporting regime would be 30 June 2021. As such, the IPA does not support the proposal.

Question 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?

IPA response

As stated above the IPA is of the view that only a single conceptual framework should be operative from 1 January 2020 and this should apply to all entities.

Question 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?

IPA response

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.

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.

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.

Question 4

Do you agree with the AASB's amendments to the definition of "public accountability" in AASB 1053 per IFRS for SME's Standard (refer to Appendix A)?

IPA response

As stated in previous submissions, the IPA has the view the current scope of the definition of "public accountability" is too narrow. The IPA is of the view that public accountability extends to those entities that have received government funding, been granted significant government contracts, licences or service concessions as they have either benefited from taxpayer funding or have been contracted or licenced to undertake activities which have public interest implications.

The IPA is also aware of the view that not all financial service licensees (particularly non-corporate entities) are not reporting entities and by implication not publicly accountable. The IPA believes the proposed elements of the public accountability definition relating to fiduciary duty do not address this.

Question 5

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

IPA response

As the IPA believes there should be a single conceptual framework from 1 January 2020, the IPA does see the future relevance of SAC 1.

General matters for comment on Phase 1**Question 6**

Whether "The AASB's Standard-Setting Framework for For-Profit and Not-for-Profit Entities" has been applied appropriately in developing the proposals in Phase 1?

IPA response

The IPA is of a view that the proposal to have two conceptual frameworks (one of which is in conflict with IFRS) is inconsistent with the Standard-Setting Framework.

Question 7

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

IPA Response

The IPA notes many entities may have to produce consolidated accounts for the first time and depending on transitional provisions this may include comparatives. As a result, there may be resultant modified audit opinions as a result of group and opening balance issues. The IPA is unaware of any other regulatory or other issues that may impact these proposals.

Question 8

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

IPA response

The IPA is of the view the proposals would enhance financial statements prepared by users as the IPA believes the current differential reporting regime has resulted in financial statements that are neither comparable or transparent. However, the IPA believes the proposals would be enhanced by adopting a broader definition of public accountability.

Question 9

Whether proposals are in the best interest of the Australian economy.

IPA Response

The IPA believes the proposal would be in the best interests of the Australian economy as the proposals would enhance the comparability and transparency of financial reports and therefore their usefulness to users. The IPA believes the proposals would be further enhanced by adopting a broader definition of public accountability.

Question 10

Unless already provided in the 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.

IPA Response

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



Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007
via email: standard@asb.gov.au

8 August 2018

Dear Kris

Re: Invitation to Comment ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement problems* (Phase 1)

PwC welcomes the opportunity to comment on the AASB's short-term approach (phase 1) to applying the IASB's revised conceptual framework and solving the reporting entity and special purpose financial statement problems.

We fully support the adoption of the revised conceptual framework for publicly accountable for-profit entities and other entities wishing to state compliance with International Financial Reporting Standards (IFRS), as this is essential to allow these entities to maintain compliance with IFRS.

We also agree with the changes to the definition of 'public accountability' in AASB 1053 *Application of Tiers of Australian Accounting Standards*, as this ensures the same types of entities report under tier 1 of the Australian reporting framework that are required to comply with full IFRS globally. We have no comments on the proposed amendments to the accounting standards and to SAC 1 *Definition of the Reporting Entity* that are set out in Appendix A.

In relation to phase 2 of the adoption of the revised conceptual framework, we encourage the AASB to work together with the ACNC in developing additional simplified (tier 3) reporting requirements for smaller not-for-profit entities. A cash and commitments based approach could be worth investigating.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (02) 8266 8350 or regina.fikkers@pwc.com if you would like to discuss our comments further.

Yours sincerely,

Regina Fikkers
Partner, PricewaterhouseCoopers

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Ref: KLB/dr

9 August 2018

Ms Kris Peach
Chairman
Australian Accounting Standards Board
Level 14, 530 Collins Street
Melbourne VIC 3000

Dear Ms Peach

SUBMISSION – INVITATION TO COMMENT (ITC) 39, PHASE 1: SHORT-TERM APPROACH

We appreciate the opportunity to provide comment to the Australian Accounting Standards Board (the AASB) on its Consultation Paper: *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*, as contained in ITC 39 (ITC 39 or the Consultation Paper).

Pitcher Partners is an association of independent firms operating from all major cities in Australia. Firms in the Pitcher Partners network are full service firms and we are committed to high ethical standards across all areas of our practice. Our clients come from a wide range of industries and include listed and non-listed disclosing entities, large private businesses, family groups, government entities, and small to medium sized enterprises.

In our opinion, it is essential that Australian entities that are currently claiming compliance with IFRS are able to continue to do so. In order to achieve this outcome under the proposed 'Phase 1: Short-term approach', in our opinion, the IASB's Revised Conceptual Framework (the RCF) should be applied to:

- (a) Australian for-profit private sector entities that have public accountability (consistent with the existing requirements of paragraph 11(a) of AASB 1053 *Application of Tiers of Australian Accounting Standards*); and
- (b) other Australian for-profit entities that are voluntarily reporting compliance with IFRS, with effect no later than the date on which the RCF takes effect internationally.

B J BRITTEN	D A KNOWLES	P A JOSE	A T DAVIDSON	P MURONE	P B BRAINE	S J DALL	D R DOHERTY	I CULL
J BRAZZALE	M J LANGHAMMER	A R YEO	K L BYRNE	G J NIELSEN	G A DEBONO	M G JOZWIK	J C CHENG	B FARRELY
R RIGONI	M C HAY	M J HARRISON	C D WHATMAN	A D STANLEY	R I MCKIE	D W LOVE	J L BEAUMONT	A O'CARROLL
M W PRINGLE	S SCHONBERG	P W TONER	S D WHITCHURCH	N R BULL	F V RUSSO	B POWERS	M DAWES	
G M RAMBALDI	V A MACDERMID	T SAKELL	A E CLERICI	D C BYRNE	M R SONEGO	A SULEYMAN	B A LETHBORG	
D A THOMSON	S DAHN	G I NORISKIN	D J HONEY	A M KOKKINOS	A T CLUGSTON	K J DAVIDSON	M J WILSON	

Our detailed responses to the questions contained in ITC 39 are attached to this letter.

Please contact either myself or Darryn Rundell, Director - Audit & Accounting Technical (03 8610 5574 or darryn.rundell@pitcher.com.au), in relation to any of the matters outlined in this submission.

Yours sincerely

K L Byrne
Partner

D J Rundell
Director, Audit & Accounting Technical

Specific matters for comment:

Question 1

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

Response:

In our opinion, it is essential that Australian entities that are currently claiming compliance with IFRS (mandatorily or voluntarily, as the case may be) are able to continue to do so. In order to achieve this outcome under the proposed 'Phase 1: Short-term approach', in our opinion, the RCF should be applied to:

- (a) Australian for-profit private sector entities that have public accountability (consistent with the existing requirements of paragraph 11(a) of AASB 1053 *Application of Tiers of Australian Accounting Standards*); and
- (b) other Australian for-profit entities that are voluntarily reporting compliance with IFRS (e.g., Australian for-profit private sector entities, and Australian for-profit public sector entities, that voluntarily elect to apply Tier 1 reporting requirements in the preparation of general purpose financial statements),

with effect no later than the date on which the RCF takes effect internationally.

Although we support the intended outcome of the proposed 'Phase 1: Short-term approach', we encourage the AASB to reconsider the wording of the proposed amendments to pronouncements that will give effect to the proposals to ensure that the amendments:

- (a) do in fact achieve the intended outcome; and
- (b) do not give rise to any unintended outcomes.

For example, we note that the wording of the proposed 'Phase 1: Short-term approach' (as contained in the body of ITC 39) and the wording of the proposed amendments to pronouncements resulting from Phase 1 (as contained in Appendix A of ITC 39) do not align with the existing requirements of paragraph 11(a) of AASB 1053 *Application of Tiers of Australian Accounting Standards*. In particular, the proposed 'Phase 1: Short-term approach' states that this phase involves the RCF being applied to "*publicly accountable for-profit entities*" to enable them to maintain compliance with IFRS. In our opinion, the mandatory application of the RCF under the proposed 'Phase 1: Short-term approach' should be limited to "*for-profit private sector entities that have public accountability*" (consistent with the existing requirements of paragraph 11(a) of AASB 1053 *Application of Tiers of Australian Accounting Standards*).

Limiting the mandatory application of the RCF to "*for-profit private sector entities that have public accountability*" would not preclude, for example, for-profit public sector entities that are voluntarily reporting compliance with IFRS from applying the RCF, as the proposed amendments cater separately for such entities to enable them to maintain IFRS compliance. Moreover, amending all of the affected Standards consistent with the wording of the existing requirements of paragraph 11(a) of AASB 1053 should ensure no uncertainty arises among preparers and users as to the interpretation of the definition of 'public accountability' in Appendix A to AASB 1053.

We provide no comments on the application of the RCF to other entities (i.e., other than Australian for-profit private sector entities that have public accountability and other Australian for-profit entities that voluntarily elect to apply Tier 1 reporting requirements in the preparation of general purpose financial statements). Any comments we may have in relation to other entities will be made in a separate submission to the AASB on the proposed 'Phase 2: Medium-term approach'.

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

Response:

As outlined in our response to Question 1, in our opinion, the mandatory application of the RCF under the proposed 'Phase 1: Short-term approach' should be limited to *"for-profit private sector entities that have public accountability"* (consistent with the existing requirements of paragraph 11(a) of AASB 1053 *Application of Tiers of Australian Accounting Standards*).

Limiting the mandatory application of the RCF to *"for-profit private sector entities that have public accountability"* would not preclude, for example, for-profit public sector entities that are voluntarily reporting compliance with IFRS from applying the RCF, as the proposed amendments cater separately for such entities to enable them to maintain IFRS compliance.

In addition, we do not believe it would be appropriate to expand the proposed 'Phase 1: Short-term approach' to also involve the RCF being applied to the Australian Government and State, Territory and Local Governments, and GGSs of such Governments (subject to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*) that are required to prepare Tier 1 general purpose financial statements (under the existing requirements of paragraph 11(b) and paragraph 12 of AASB 1053 *Application of Tiers of Australian Accounting Standards*). Given that the Australian Government and State, Territory and Local Governments, and GGSs of such Governments, do not currently claim compliance with IFRS, in our opinion, it is not essential for the RCF to be applied to Australian not-for-profit public sector entities that are required to prepare Tier 1 general purpose financial statements in the short term.

Question 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? If so please provide specific examples including why these entities are not currently applying AASB 1053 and preparing Tier 1 GPFS although they would otherwise meet the definition of public accountability.

Response:

We are not aware of any specific examples.

Question 4

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

Response:

We agree with the proposed amendments to the Australian definition of 'public accountability' in AASB 1053 *Application of Tiers of Australian Accounting Standards*.

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, we recommend the AASB amend the second sentence in proposed paragraph B3 by:

- (a) replacing 'a' with 'their' (to read '...if they do so for reasons incidental to *their* primary business'); and
- (b) inserting ', in itself,' between 'not' and 'make' (to read '...that does not, *in itself*, make them publicly accountable').

Question 5

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

- (i) AASB 9 *Financial Instruments*;
- (ii) AASB 14 *Regulatory Deferral Accounts*;
- (iii) AASB 101 *Presentation of Financial Statements*;
- (iv) AASB 1048 *Interpretation of Standards*;
- (v) AASB 1053 *Application of Tiers of Australian Accounting Standards*; and
- (vi) AASB 1057 *Application of Australian Accounting Standards*.

Response:

As outlined in our response to Question 1, above, we encourage the AASB to reconsider the wording of the proposed amendments to pronouncements that will give effect to the proposals to ensure that the amendments do in fact achieve the intended outcome.

For example, we note that the wording of the proposed 'Phase 1: Short-term approach' (as contained in the body of ITC 39) and the wording of the proposed amendments to pronouncements resulting from Phase 1 (as contained in Appendix A of ITC 39) do not align with the existing requirements of paragraph 11(a) of AASB 1053 *Application of Tiers of Australian Accounting Standards*. In particular, the proposed 'Phase 1: Short-term approach' states that this phase involves the RCF being applied to "*publicly accountable for-profit entities*" to enable them to maintain compliance with IFRS. In our opinion, the mandatory application of the RCF under the proposed 'Phase 1: Short-term approach' should be limited to "*for-profit private sector entities that have public accountability*" (consistent with the existing requirements of paragraph 11(a) of AASB 1053 *Application of Tiers of Australian Accounting Standards*).

In addition, we note that the proposed amendments to pronouncements resulting from Phase 1 (as contained in Appendix A of ITC 39) do not incorporate other Australian for-profit entities that are voluntarily reporting compliance with IFRS (e.g., Australian for-profit private sector entities, and Australian for-profit public sector entities, that voluntarily elect to apply Tier 1 reporting requirements in the preparation of general purpose financial statements). In our opinion, the proposed amendments to pronouncements resulting from Phase 1 should be amended accordingly.

Consistent with our comments above, as well as the AASB's intention to clearly delineate the entities to which each of the Conceptual Frameworks will apply during Phase 1, we also recommend the AASB amend the proposed changes to the definition of a reporting entity in Appendix A of AASB 1053 to read as follows:

'This reporting entity definition is not applicable to...'

General matters for comment:

Question 6

Whether the AASB's For-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in Phase 1.

Response:

In our opinion, the AASB's For-Profit Entity Standard-Setting Framework has been appropriately applied in developing the Phase 1 proposal 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.

Question 7

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

Response:

We are not aware of any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the Phase 1 proposal 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.

Question 8

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

Response:

In our opinion, overall, the Phase 1 proposal 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.

Question 9

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

Response:

In our opinion, the proposals are in the best interests of the Australian economy.

Question 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.

Response:

We make no comment in relation to the costs and benefits of the proposals relative to the current requirements.

9 August 2018

Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West Victoria 8007
AUSTRALIA

Dear Kris

ITC 39 Consultation Paper - Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems – Phase 1

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on Phase 1 of the Consultation Paper. The views expressed in this submission represent those of all Australian members of ACAG.

ACAG supports Phase 1 of the Consultation Paper, in relation to proposals for publicly accountable entities preparing General Purpose Financial Statements (GPFS) and other entities that voluntarily report compliance with IFRS.

ACAG suggests that the Phase 1 proposals, in relation to Tier 2 and NFP entities, are further clarified and clearly articulated by the AASB in final drafting. This is suggested because ACAG members encountered a variety of interpretations and applicability outcomes based on consideration of the current proposals.

The attachment to this letter addresses the AASB's matters for comment outlined in the Consultation Paper, as well as areas where ACAG suggests the AASB could improve final drafting.

ACAG appreciates the opportunity to respond and trust that you find our comments useful.

Yours sincerely



Andrew Greaves
Chairman
ACAG Financial Reporting and Accounting Committee

AASB Specific Matters for comment

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

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

ACAG agrees with the short-term approach identified in the Consultation Paper, that the Revised Conceptual Framework (RCF) should be applicable for publicly accountable for-profit (FP) entities that are required to prepare Tier 1 GPFS and other entities that are voluntarily reporting compliance with IFRS, and the existing Framework should continue to be applicable to other entities in the short term. However, ACAG has also identified some concerns with this approach.

ACAG notes that the wording in the drafted proposals goes beyond “other entities that are voluntarily reporting compliance with IFRS” and refers to “other for-profit entities that elect to apply the RCF”.

ACAG interprets the proposals to mean there will be no mandatory changes until financial years beginning on, or after, 1 January 2020 (paragraph 157). At that time, Phase 1 begins, i.e. the RCF, the associated *Amendments to References to the Conceptual Framework in IFRS Standards* (proposed AASB 2018-X) and the amendments proposed in Appendix A would become effective for FP entities that are required to prepare Tier 1 GPFS and other FP entities that elect to apply the RCF. Also, during the period until 1 January 2020, FP entities (private sector and public sector) preparing financial statements in accordance with Australian Accounting Standards, being Tier 1 or Tier 2, will be able to early adopt these amendments.

ACAG understands that the current reporting entity concept including the ability to prepare special purpose financial reports will continue, where applicable, until Phase 2 begins.

During Phase 1, FP entities that are required to prepare Tier 1 GPFS and other FP entities that elect to apply the RCF, will apply the RCF. For other entities (e.g. Tier 2 entities, NFP entities or non-reporting entities), reference to a “Framework” should, through the operation of AASB 1048 (amended as proposed in the ITC), mean the existing Framework.

However, ACAG raises concerns about the likely changes to be made to individual accounting standards by the IASB to reflect and refer to the RCF, and the subsequent adoption of such changes in Australia. For example, inter alia, the reference to a “Framework” in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (paragraph 11) is likely to be amended to refer to the RCF and ACAG expects this to lead to a similar amendment in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* for the selection of accounting policies in the absence of a suitable standard. ACAG suggests that care is taken to ensure the appropriate framework is referred to, to ensure compliance with IFRS (where required) and to avoid confusion for entities not required to comply with the RCF during Phase 1.

While the above means that until Phase 1 ends, both sets of entities will follow the recognition and measurement (R&M) requirements of their respective Framework, these R&M requirements could potentially lead to different outcomes and accounting treatments.

ACAG believes that this is an important implication that the AASB needs to clearly communicate as an acceptable feature of Phase 1. Failure to do so may result in uncertainty by Tier 2 entities (that are FP entities) about whether they should early adopt the RCF to follow the same R&M as Tier 1 entities.

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?

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

ACAG agrees with the AASB's approach for entities preparing GPFS in accordance with Tier 1 reporting requirements (who are currently claiming compliance with IFRS).

As the AASB is using the definition of public accountability from the updated IFRS for SMEs, ACAG recommends that the guidance accompanying the IFRS for SMEs for interpreting the definition also be included or cross-referenced.

ACAG also notes that the ITC includes an applicability paragraph in some proposed amendments to individual standards that includes "*for-profit entities that have public accountability that are required to comply with Australian Accounting Standards*". ACAG suggests the AASB clearly articulates what the term "required" refers to. Is the "requirement" prescribed by legislation, ASIC regulations, the entity's constitution, a contractual funding agreement or another instrument? This will greatly assist interpretation of the applicability of these amendments.

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?

If so please provide specific examples including why these entities are not currently applying AASB 1053 and preparing Tier 1 GPFS although they would otherwise meet the definition of public accountability.

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.

4. Do you agree with the AASB's amendments to the definition of 'public accountability' in AASB 1053 per IFRS for SMEs Standard (refer to Appendix A)?

Please indicate reasons for your response and if you disagree, please provide suggestions for the AASB to consider.

ACAG agrees with these proposals. As noted above in question 2, ACAG recommends there is a link to the accompanying IFRS for SMEs guidance on public accountability.

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

ACAG agrees with the proposals however, suggests the proposals in relation to NFP entities, are further clarified and articulated by the AASB in final documents. This is suggested as ACAG members encountered a variety of interpretations upon consideration of the proposals and the deferral of applicability of the RCF to NFP entities.

AASB General Matters for comment

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.

Yes, the *AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities* appears to have been appropriately applied.

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

ACAG does not expect significant issues with the Phase 1 proposals for not-for-profit public sector entities or for-profit public sector entities.

ACAG does expect issues with the Phase 2 proposals. There are numerous entities in the public sector where financial statements are being prepared other than for public lodgement. ACAG notes that there will likely be an impact on current reporting arrangements for such entities where their financial statements are required to be prepared in accordance with Australian Accounting Standards and are currently prepared as SPFS.

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

ACAG is not able to comment on whether the proposals would result in financial statements that would be useful to users.

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

ACAG is not able to comment on whether these proposals are in the best interests of the Australian economy.

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.

ACAG is not able to comment on this issue.

Other comments

ACAG has no further comments on the proposals.

9 August 2018

Ms Kris Peach
Chair
Australian Accounting Standards Board
Podium Level,
Level 14, 530 Collins Street,
Melbourne VIC 3000

By email: standard@aasb.gov.au

Dear Kris,

AASB ITC 39 Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems – Phase 1: Short-term approach

We welcome the opportunity to provide the Australian Accounting Standards Board ("AASB", "the Board") with our views on Phase 1 of the AASB's Consultation Paper ITC 39.

Comments on Phase 1: Short-term approach

Fundamentally, Phase 1 proposes that the IASB's Revised Conceptual Framework ("RCF") should be applicable for publicly accountable for-profit entities that are required to prepare Tier 1 GPFS and other entities that are voluntarily reporting compliance with IFRS, and the existing Framework should continue to be applicable to other entities in the short term until the medium term solution is implemented.

Issues the Board is attempting to address

As stated in paragraph 35 of ITC 39, "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 Board purports that that the 'do nothing' option will result in all entities losing the ability to claim IFRS compliance and that the conflict between the RCF and SAC 1 is insurmountable.

We note that, in the main, Australian not-for-profit entities are unable to claim compliance with IFRS because the AASB introduced a number of amendments to Australian Accounting Standards ("AAS") that are inconsistent with IFRS. Adoption of the RCF will have no effect on the ability of those not-for-profit entities to claim compliance with IFRS.

It is proposed that the IASB RCF be applied to publicly accountable for-profit entities that are required to prepare Tier 1 GPFS. Prima facie, this would have no effect on those entities as they currently comply with full IFRS.

Paragraph 3.10 in the RCF defines a 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 reporting entity is not necessarily a legal entity.' In other words,

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according to the RCF, an entity that prepares 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).

The AASB accepts that "to date, the AASB is not aware of any significant issues caused by using the term 'reporting entity' in these Standards as the term could be read in the context of the Australian reporting entity concept without causing confusion (ie until now the IASB has not defined the term). However, because the RCF includes a chapter specifically on the reporting entity and defines the term differently to the Australian reporting entity concept, it will become increasingly difficult to read the term in two different ways, particularly as and when AAS are amended/revised and there are more references to the term as defined in the RCF."

The AASB has not made it clear why, or in what circumstances, a conflict (if there is one) between the RCF and SAC 1 would affect that population of publicly accountable for-profit entities applying Tier 1 GPFRs, such that they could not claim IFRS compliance if the AASB did not immediately adopt the RCF.

In our opinion, the AASB has not made the case for why the RCF should be introduced immediately for publicly accountable for-profit entities as part of Phase 1.

Justification for change

Although not requested as part of the feedback requested on the Phase 1 proposals, in our view, the AASB has not justified the urgent need for the changes contained in ITC 39. For example, through its own presentations and publications the Board acknowledges that:

- only 0.6% of all companies registered with ASIC (approximately 14,000 entities) prepare SPFR; and
- only 0.1% of all companies registered with ASIC (approximately 3,000 entities) prepare SPFR that do not fully comply with the recognition and measurement requirements of AAS.

We also challenge the Board's assertions that data aggregators, analysts, banks and the Australian Taxation Office are somehow disadvantaged, or not having their information needs met, by that 0.1% of entities not preparing GPFRs that comply with the measurement and recognition requirements of AAS. (ITC 39 para 53; AASB Staff Briefing presentation – May 2018)

Part of the AASB's justification for change is that some companies and entities registered with the ACNC are not properly self-assessing their status as a non-reporting entity. We suggest that if a small percentage of entities are not 'following the rules', then it is the responsibility of the regulators (ASIC and the ACNC) to address those instances rather than the AASB changing the rules for everyone.

We do not believe that the Board has sufficiently articulated a compelling case for change. Similarly, the Board has not fully considered the costs to business of imposing this change.

Our concerns

We are concerned that the adoption of the RCF in parts, that is, initially to publicly accountable for-profit entities that are required to prepare Tier 1 GPFS, will lock the AASB and other stakeholders into adopting that single RCF for all entities. This is evidenced by the fact that:

- i) the AASB is not supportive of a two Conceptual Framework solution in the long-term; and

- ii) The AASB's project timeline (page 9 of ITC 39) indicates the Board only intends to issue a Phase 2 Exposure Draft. We recommend that, following consideration of the responses to the ITC and the Board's responses to constituent feedback, the Board issues an Exposure Draft on the entire proposals.

We are also concerned that:

- i) The early adoption of the RCF as part of the Phase 1 proposals may have unintended consequences on the Phase 2 proposals; and
- ii) the Board has not fully considered the costs to business, and the potential increase in the regulatory burden on some entities, of imposing the changes described in the Phase 2 proposals.

Conclusions

For the reasons described above, we oppose early adopting the RCF to publicly accountable for-profit entities (the Phase 1 proposals) until, at least:

- i) The Board receives and considers constituent feedback on the Phase 2 proposals;**
- ii) The ACNC legislative review has been completed and the government's proposed responses are made public; and**
- iii) The Board undertakes a full cost benefit analysis by way of Regulatory Impact Statement of the effects of the Board's entire proposals.**

Should you wish to discuss any aspects of our submission, please contact the undersigned.

Sincerely

Nexia Australia Pty Ltd



Martin Olde
Technical Director



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9 August 2018

Kris Peach
Chair and CEO
Australian Accounting Standards Board
PO Box 204
Collins Street West VICTORIA 8007

Dear Kris,

Request for Comment on Phase 1 of the Consultation Paper "Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems"

Ernst & Young Australia is pleased to comment on the above Invitation to Comment. We welcome the opportunity to contribute to the future of financial reporting in Australia.

Overall we consider that the proposals released by the AASB in Phase 1 of the Consultation Paper (the "Paper") are in the best interests of the Australian economy. Ernst & Young support the maintenance of compliance with International Financial Reporting Standards in Australia, and therefore support revising the definition of "Reporting Entity" for consistency with that used by the IASB in its Revised Conceptual Framework. However, we draw your attention to our response to question 5 in relation to the potential confusion caused by the removal of the 'reporting entity' definition per SAC 1, and its interaction with the requirement in AASB 10.Aus4.2 for an ultimate Australian parent to prepare consolidated financial statements, irrespective of whether an ultimate foreign parent has prepared IFRS consolidated financial statements.

Our view is that it is the standard setter's responsibility to provide a framework for the preparation of financial statements in accordance with Australian Accounting Standards (AAS). We encourage those determining the need for preparing financial reports - across all sectors and types of entities in Australia - to consider the needs of users when determining "which entities" should prepare financial reports in accordance with AAS. We support the same underlying recognition and measurement principles for all entities preparing financial reports.

Our detailed responses to the questions raised in Phase 1 in the Invitation to Comment are provided in the appendix to this letter. We would be pleased to discuss our comments further with either yourself or members of your staff. If you wish to do so, please contact Frank Palmer on (02) 9248 5555 or Tony Hanrahan on (03) 9635 4036.

Yours sincerely

Ernst & Young

APPENDIX – Specific matters for comment on Phase 1

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

We agree, because we believe maintenance of IFRS compliance is fundamental to Australia's adoption decision in 2005.

However, we consider another approach could be to introduce the RCF for *all* entities as part of Phase 1, along with maintenance of the reporting entity concept (as per SAC 1) for a period for entities other than a) publicly accountable for-profit entities required to prepare Tier 1 GPFS and b) entities that are voluntarily reporting compliance with IFRS.

- If the RCF is implemented just for Tier 1 entities (or those that voluntarily claim IFRS compliance) – as proposed by the AASB – then the delay in adoption of the RCF for other entities under Phase 2 could mean inconsistent accounting policies may evolve for similar transactions, affecting the AASB's long held view of transaction neutrality. This could then create additional transitional issues on ultimate adoption of the RCF for these other entities.
- Although the AASB is concerned about the potential confusion with the use of 'reporting entity' in two different contexts, the IASB's concept of reporting entity is already used in some Australian standards, as noted in paragraph 40 of the Paper, and this has not caused problems.
- We are not proposing as part of Phase 1 the additional amendments that are contemplated by Option 5 in the Paper (which include changing the name of the Reporting Entity concept, continuing to allow entities to self-assess whether they should prepare GPFS or not, and maintaining SPFS, albeit with prescribed recognition, measurement and disclosure requirements).

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

We concur with consistent application across both the public and private sector for those entities deemed 'publicly accountable' and therefore preparing fully compliant IFRS financial statements.

We are concerned – similar to the concern in the previous question – about the possibility of differences in accounting policies arising across the public sector due to two sets of conceptual frameworks existing for a period of time.

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

We consider there to be two main issues with the application of the definition of public accountability, although the first is not necessarily new.

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.

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

We support the use of 'public accountability' as the basis for determining the reporting requirements to be applied by for-profit private sector entities preparing GPFS and agree with the AASB's clarification of the application of the 'public accountability' in the Australian context.

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

- (i) AASB 9 Financial Instruments;
- (ii) AASB 14 Regulatory Deferral Accounts;
- (iii) AASB 101 Presentation of Financial Statements;
- (iv) AASB 1048 Interpretation of Standards;
- (v) AASB 1053 Application of Tiers of Australian Accounting Standards; and
- (vi) AASB 1057 Application of Australian Accounting Standards.

Overall we agree with the proposed amendments made to SAC 1 and AAS (as set out in the Paper's Appendix A) but note the following two issues.

- The amendment made to the scope of AASB 133 *Earnings per Share* (via amendments to AASB 1057 *Application of Australian Accounting Standards*). We are unclear why a reference is required to the Corporations Act (rather than AAS as is included for other amendments). The additional scope requirements in AASB 133 paragraph 2 already limits the standard's application to certain entities.

- No amendments have been made to AASB 10.Aus4.2. This paragraph notes:

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

With the amendments to other AAS and the limitations on application of SAC 1, this paragraph will confuse entities with public accountability, because 'reporting entity' in this paragraph is in the context of SAC 1 (which will no longer exist). It is not clear whether consolidated financial statements continue to be required by the ultimate Australian parent (irrespective of any foreign parent IFRS compliant financial statements).

General matters for comment on Phase 1 due 9 August 2018

Q6 - 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.

For for-profit entities, we believe the AASB's standard-setting framework has been appropriately applied, subject to clarity of AASB 10.Aus 4.2 as noted in Q5. Also, we do not consider any factors described in paragraph 37 of *The AASB's For-Profit Entity Standard-Setting Framework* have been triggered. Therefore we do not consider any Australian specific amendments are required to the IASB Revised Conceptual Framework.

We have similar comments for not-for-profit publicly accountable entities and not-for-profit entities that voluntarily claim compliance with IFRS (albeit we do not believe many entities in this sector seek compliance with IFRS or would be publicly accountable, and as such are unlikely to be impacted by these proposals).

Q7 - Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.

We are not aware of regulatory issues that may affect the implementation of Phase 1.

We strongly encourage those determining the need for preparing financial reports - across all sectors and types of entities in Australia - to consider the needs of users when determining "which entities" should prepare financial reports in accordance with AAS (i.e., GPFS).

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

Subject to our comments above, overall we agree that the proposals would result in financial statements that would be useful to users.

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

We agree that the proposals are in the best interests of the Australian economy. We agree that Australia should continue to maintain IFRS recognition and measurement principles for its financial reporting, and for those entities stating compliance with IFRS as issued by the IASB this needs to be maintained on a continuous basis.

Q10 - 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.

We do not believe the impact of these Phase 1 proposals will be significant.

9 August 2018

Ms Kris Peach
Chair
Australian Accounting Standards Board
(Submitted via AASB website)

Dear Ms Peach

Re: Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems

Thank you for the opportunity to comment on this consultation. This short submission provides background about COBA member and their reporting.

COBA is the industry association for Australia's customer-owned banking institutions – mutual banks, credit unions and mutual building societies. The customer owned banking sector comprises 74 authorised deposit-taking institutions (ADIs) with total assets of more than \$110 billion, 4 million customers, and 10 per cent of household deposits. Our members are predominately involved in retail banking — providing residential mortgages, personal loans, credit cards and deposit products to households.

Key Points

- COBA members are publicly accountable entities as ADIs and therefore subject to Tier 1 general purpose financial statement (Tier 1 GPFS) reporting.
- Larger COBA members have securitisation trusts that are generally providing special purpose financial statements (SPFS) and they should have the option to continue to do so subject to agreement with their users. COBA notes that the AASB expects to provide further guidance on trusts.

Mutual ADIs as Tier 1 GPFS reporting entities

All COBA members are ADIs. COBA members are regulated by ASIC as financial services companies and as public companies limited by shares or limited by shares & guarantee. Our members are also 'for-profit' institutions for accounting purposes and do not share the characteristics of the typical 'not-for-profit'.

COBA members are publicly accountable under AASB 1053¹ as ADIs are one of the groups of 'for-profits' deemed to have public accountability. Therefore, COBA's members are required to apply Tier 1 requirements in preparing general purpose financial statements.

COBA notes that the AASB states that this proposal is not expected to change the accounting requirements for Tier 1 GPFS entities.

¹ AASB 1053 Application of Tiers of Australian Accounting Standards. Appendix B.

COBA members and securitisation trusts

Larger COBA members have securitisation trusts under their control. These trusts are used for term securitisation to access funding from investors, self-securitisation to access liquidity from the Reserve Bank of Australia and 'warehousing' to access revolving lines of credit (generally from a major bank).

These securitisation trusts generally report SPFS. Given these trusts are consolidated into the parent ADI, these statements would be prepared under the Australian Accounting Standards (AAS) recognition and measurement requirements.

COBA recognises that the AASB notes that these changes will not apply GPFS to entities that "are not currently required by legislation or otherwise to prepare financial statements in accordance with AAS". Several COBA members note that their trusts are likely to fit into this 'unimpacted' category. However, a COBA member raises concerns about the general future of SPFS reporting, even for non-publicly accountable, non-lodging, non-AAS entities, given the AASB's proposed changes.

COBA also understands that some securitisation trusts that may be captured within the scope of GPFS reporting, even if they are not publicly accountable.

COBA notes that shifting to GPFS is likely to be inappropriate for securitisation trusts, particularly if users are in a position to access information that already meets their needs (e.g. SPFS, monthly investor reports or more mortgage data). One COBA member notes this would lead to a "material increase in the quantum of disclosures and, consequently, a material increase in the work required to prepare them". In some cases, these transition costs may be low but can add up where there are multiple trusts concerned. These costs should also be put in the context of the limited additional value of GPFS, recent increases in securitisation costs from the newly implemented APS 120² and the continually increasing regulatory burden on ADIs.

COBA notes that the AASB has indicated that it is likely to publish FAQs to provide further clarification around securitisation trusts. COBA would welcome such further clarification.

COBA member subsidiaries or associates

Some COBA members also have ASIC-regulated subsidiaries or associates (i.e. Corporations Act companies). While some entities are not impacted as they are small proprietary companies (i.e. not required to lodge reports with ASIC), others may be captured in the Phase 2 of this proposal as either non-publicly accountable public companies or large proprietary companies. COBA will encourage concerned members to attend AASB's September outreach sessions.

Thank you for the opportunity to comment on this consultation paper. Please contact Mark Nguyen, Senior Policy Adviser on 02 8035 8443 if you have any further queries.

Yours sincerely



LUKE LAWLER
Director - Policy

² APRA's Prudential Standard on Securitisation which come into force on 1 January 2018

9 August 2018

Ms Kris Peach
 Chair and CEO
 Australian Accounting Standards Board

Via website: <http://www.aasb.gov.au/Work-In-Progress/Comments-to-AASB.aspx>

Dear Ms Peach

ITC39

Applying the IASB's Revised Conceptual Framework – Phase 1

Our comments and recommendations regarding ITC39 are provided in this submission. Responses to specific questions as requested by the AASB are provided in the attachment on page 2.

Saward Dawson operates in Melbourne, Australia. Our clients come from a range of industries and include large private businesses, small to medium enterprises, and a significant number of private sector not-for-profit entities. We are focused on enhancing the relevance, reliability and understandability of financial reporting for users.

In summary we hold the following views:

1. We agree with the AASB's objective to retain IFRS compliance and accordingly we support the proposals of Phase 1.
2. We understand that the AASB's clearly stated objective to remove special purpose financial reporting from the Australian Accounting Standards. We are actively considering and discussing the proposal contained in Phase 2 with our clients, other accounting firms and regulators to provide you with practical feedback to the proposals with particular focus on user needs with private sector not-for-profit entities.

Please do not hesitate to contact us should you wish to discuss further any matters arising from this submission.

Yours Sincerely



P Shields
 Partner



J Tulk
 Partner

AASB Specific Matters for Comment

1. Do you agree with the short-term approach to maintain IFRS compliance by introducing the RCF in Australia? That is, do you agree that the RCF should be applicable for publicly accountable for-profit entities that are required to prepare Tier 1 GPFS and other entities that are voluntarily reporting compliance with IFRS (who are currently claiming compliance with IFRS), and the existing Framework should continue to be applicable to other entities in the short term until the medium term solution is implemented?

We agree with the short term approach proposed by the AASB in order to maintain IFRS compliance for publically accountable entities. We support the continuation of the existing framework for other entities to provide time for genuine consultation and debate in order to determine a solution with specific reference to the needs of users.

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? That is, do you agree that the RCF should be applicable for publicly accountable public sector entities that are required to prepare GPFS in accordance with Tier 1 reporting requirements (who are currently claiming compliance with IFRS) as well?

No comment.

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

No.

4. Do you agree with the AASB's amendments to the definition of 'public accountability' in AASB 1053 per IFRS for SMEs Standard (refer to Appendix A)?

We have not identified any specific concerns with the definition.

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

We have not identified any specific concerns with the proposed amendments.

9 August 2018

Ms Kris Peach
Chair Australian Accounting Standards Board
via Email: standard@aasb.gov.au

Dear Kris

ITC 39 CONSULTATION PAPER:

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

Phase 1: Short-term approach

I am pleased to provide the Australian Accounting Standards Board (AASB) with my comments on the Consultation Paper (CP).

This submission reflects my position as a consultant to business including both For-Profits (FP) and Not-for-Profits (NFPs), and their own advisers including auditors. This submission has also benefited with input from discussions with key constituents.

I do not support the Proposals for the following reasons:

1. Simpler and less costly solution for Tier 2 Entities

IFRS for SMEs which is the default global accounting standard for non-publicly accountable entities (i.e. generally non-listed reporting entities - Tier 2) is not allowed as an option to adopt instead of International accounting standards (IFRS). IFRS for SMEs has significantly reduced recognition and measurement (R&M) requirements which are based on IFRS recognition and measurement rules. IFRS for SMEs also has significantly less disclosure requirements compared to IFRS or the AASB's Reduced Disclosure Requirements (RDR) that are an option for Tier 2 entities.

On that basis for those companies that wish to avail themselves of IFRS for SMEs, they should be able to exercise an option to reduce their costs of preparing and having audited General Purpose Financial Reports (GPFRs), like the United Kingdom (UK) which also allows as a further option a form of Reduced Disclosure Requirements (UK RDR). Many other overseas countries also allow the option of IFRS for SMEs, including most recently Papua New Guinea!

It is challenging to understand how the AASB and the Australian Financial Reporting Council (FRC) require the AASB to adopt IASB accounting standards when IFRS for SMEs is a specific accounting standard for non-publicly accountable entities (123 (b) and (c) of the CP). More particularly the AASB's view is stated on the basis that adopting IFRS for SMEs would result in additional costs. Certainly not the view of the IASB nor for those countries such as the UK that allow it for non-publicly accountable entities. As it is merely an option, there are no additional costs if not adopted.

My comments on the AASB's decision to not allow IFRS for SMEs as an option, as detailed in Appendix C of the CP, are contained in Appendix 2

2. Simpler and less costly option for Entities preparing Special Purpose Financial Reports (SPFRs)

Entities preparing SPFRs are doing so as there are no general-purpose users (SAC 1 paragraphs 6 and 12 define general purpose users). IFRS and IFRS for SMEs is designed for those entities that are preparing high quality financial reports (GPFRs), hence those standards have less relevance.

At present, it is much less costly for those entities to continue to comply with the disclosure provisions of the three basic IFRS/IAS/AASB accounting disclosure standards being AASB 101, AASB 107 and AASB 108, without having to adopt complex and costly R&M requirements that the International Accounting Standards Board (IASB) has stated are designed for publicly accountable i.e. generally listed entities. IFRS for SMEs is also less costly with simplified R&M for non-listeds that are producing GPFRs. However, for those entities that prepare SPFRs the IASB does not have any specific accounting standards, as that is not its mandate.

Interestingly the AASB acknowledges that another tier of reporting might be considered for Charities, but no such support for other SPFR entities.

I question whether the AASB's statement at paragraph 42 which states that anyone preparing AAS (Australian Accounting Standards) should be preparing GPFRs, is an appropriate reflection of the background to AASs given that AAS's do allow SPFRs of much less complexity. Before the AASB mandates GPFRs for AASs I believe it would be necessary for the AASB to consult with, which is a Phase 2 project, but in an appropriate time scale, not just 3 months, so that other regulators and entities can remove compliance with AASs that will be fundamentally different to what was originally intended by the AASB when it adopted the Reporting Entity concept in 1990.

Paragraph 66 of the CP refers to the time and effort required to make necessary legislative change, but the inability of the AASB to do just this, since it has been researching change in financial reporting requirements, might suggest that a quick fix which is not supported by those that are producing SPFRs is sufficient evidence to suggest that there may not be such a problem requiring an AASB immediate and costly solution. Complaints about SPFRs seem to basically originate from the AASB!

I would support the AASB considering basic R&M requirements that SPFR entities generally follow as other regulators have done as detailed in paragraph 8 of the CP, and simplified disclosures following further consultation with constituents, but not rushed through in less than 18 months for application a year later (hardly the medium term as referred to in paragraph 90 (b) of the CP. Further comment will follow on Phase 2 of the CP due 9 November 2018.

3. Significant impact on Charities

Paragraph 90 (b) of the CP notes the need for staggered relief in the medium term as few NFPs (Not-for-Profits, so particularly Charities) "...on the basis that few NFPs are expected to be applying full R&M)."

It defies belief that any Charities would be required to adopt listed company recognition and measurement rules which simply are not fit for NFP purpose, and reduce the funds that should be spent on charitable activities. This will be a significant issue for the Australian Charities and Not-for-Profits Commission (ACNC) in meeting its objective of "...reduction of unnecessary regulatory obligations."

4. AASB's Premise for Reform of the Reporting Entity clash misunderstands the restriction of IFRS GPRs in the IASB's Conceptual Framework for Financial Reporting (RCF)

The RCF only applies to reporting entities that apply full IFRS. It is not applicable to non-publicly accountable entities that produce GPRs on an RDR basis, nor does it apply to entities that produce SPFRs. On that basis the AASB could simply rebadge non-reporting entities as Australian Non-reporting entities, there would be no confusion, which is acknowledged in paragraph 13 (b) of the CP.

Interestingly the IASB does not seem to have a problem for non-publicly accounting reporting entities that adopt IFRS for SMEs (paragraph 87 (c) & (d)). Clearly not an untenable problem for the IASB (paragraph 101-102 of the CP), and inconsistent with the AASB's claim of losing IFRS compliance (paragraphs 128-130 and 134 of the CP), and the costs of maintaining 2 Frameworks, which RDR requires (paragraph 148).

5. AASB's Premise for Reform is flawed on SPFR Entities Self-Assessing

Paragraphs 4-6 of the Executive Summary refers to the lack of comparability, trust and transparency resulting from self-assessing. However, that ignores the principle that by definition SPFR entities do not have users who are relying on their financial reports (i.e. Accounts) for making economic rational decisions. Instead, any users are able to obtain the specific information they need (i.e. owners, lenders and potential investors in particular), as otherwise the entity would not be a SPFR. In reality, the preparation of SPFRs and any audit or audit review requirements are due to the Corporations Act that requires some SPFRs, and other legislation (Charities) to prepare financial reports that require compliance with applicable accounting standards.

Paragraph 7 refers to AASB Research Report 1 which it is stated suggests a strong need to find a solution. However as previously advised to the AASB, this Report only looks at indicators of users, and not actual users of financial information. The Report is very scant on any evidence that users of financial reports exist for those entities producing SPFRs. Hence a solution looking for a non-existent problem. This issue is covered in my Technical Paper available at: http://keithreilly.com.au/wp-content/uploads/2017/05/17_4-Reporting-Entities-Paper.pdf

Paragraphs 49 to 54 of the CP refer to the Incat case in 2000 and the use of financial information by data aggregators. However, ASIC has not acted against another SPFRs entity and if there is a user of more detailed GPRs, no approach has to my knowledge been made to ASIC, as that would trigger changing the entity to a reporting entity.

It is interesting to note that the ACNC allows the use of SPFRs without any R&M requirements.

The Australian Parliament has considered on several occasions the reporting entity concept but has not made any changes to the Corporations Act, which negates the argument that the Government intended the change in thresholds to lodge as being a trigger to require GPRs.

Paragraph 8 of the Executive Summary refers to a further issue with the AASB's mandate under S224 of the ASIC Act. Again a careful reading of that Section repeats the Statement of Accounting Concepts 1 Definition of the Reporting Entity (SAC 1) as to the need to allow users to make and evaluate decisions about scarce resources. For a SPFR entity, the users are able to obtain their own specific information so the S224 problem does not exist.

Therefore, I would suggest that there is no evidence of any self-assessing problem, and that is reflected by the Australian Securities and Investments Commission (ASIC) not acting on the misapplication of the reporting entity concept, apart from one instance some 20 years ago. So, no significant problems to solve.

Paragraph 63 of the CP refers to S299 of the Corporations Act in relation to enabling companies to compete effectively overseas. Not allowing IFRS for SMEs and simplified accounting for non-publicly accountable entities that are competing with overseas entities that have less compliance costs does not seem to meet the requirements of S229.

Paragraphs 88 (e) and 89-90 refer to reduced risks for directors and auditors in classification. There is no evidence that those risks exist, and no evidence has been given as to auditor report qualifications on this issue.

Paragraph 144 refers to reduced advisory costs for determining reporting requirements, but no evidence has been provided that this has been an issue to date.

6. Due process issues without an Exposure Draft

It is highly unusual for the AASB to go direct from a Consultation Paper or Invitation to Comment to changing an accounting standard without giving constituents the opportunity to consider the AASB's views following submissions made and then seeking comment on a draft accounting standard (Exposure Draft). Given the significance of the issues, which have been subject to debate since 1995, the rush to amend the Reporting Entity Concept seems unwise and perhaps suggests that the AASB has already made its mind up and is not prepared to re-consider its approach.

7. No Costs v Benefits Analysis

The AASB's Statement of Intent provides the response of the AASB to the Government's Statement of Expectations of 7 April 2014 and in particular to the Government's commitment to reducing red tape and compliance costs to business and the community. Not allowing entities to have the option of reducing their costs by adopting at their option IFRS for SMEs, or requiring SPFR entities to adopt listed company R&M does not appear to comply with the Government's requirements. The absence of specific costs on both IFRS for SMEs and requiring SPFRs to have more costly accounting and assurance requirements does not seem to accord with the Government's Regulatory Burden Measurement Framework.

It is disappointing that the AASB which has been researching this issue for some 20 years and at a significant but not disclosed cost to the Government Budget for the AASB, ASIC and the FRC, is still unable to provide any indication of the additional costs that SPFRs will be required to meet. There has also been no evidence of discussion with the IASB on why it believes that the costs of compliance with IFRS for SMEs compared to compliance with IFRS, nor any discussion with the UK Financial Reporting Council that allows RDR and IFRS for SMEs as an option for non-publicly accountable entities.

http://www.aasb.gov.au/admin/file/content102/c3/AASB_Statement_of_Intent.pdf

General statements as in paragraph 47 that the AASB wishes to understand what transitional relief may be needed to alleviate the additional reporting burden, are not consistent with reducing unnecessary red tape compliance.

Paragraph 115 notes the further empirical research being undertaken by the AASB to determine those entities including Charities that do not apply R&M. Until that research is publicly available, it seems reasonable to delay any final solutions!

It would also be useful to know the take-up of RDR as there is a view that the real cost savings in IFRS for SMEs is the simplification of R&M.

My comments on the Specific and General Matters for Comment raised by the AASB are attached as Appendix 1.

If you require any further information or comment, please contact me.

Keith Reilly
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Specific matters for comment on Phase 1 due 9 August 2018

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

Answer - No. Entities that are not publicly accountable should have the option, which is available in most overseas countries to adopt IFRS for SMEs. Australia has adopted the IASB's accounting standards framework that only applies to IFRS accounting standards (i.e. mandatory for publicly accountable companies). For non-publicly accountable entities, there is no need for IFRS compliance, and hence as with those countries that are allowing IFRS for SMEs as an option, or indeed a form of RDR which Australia does, there is no requirement or need to be IFRS compliant. Requiring IFRS compliance would rule out the RDR as an option, which does not seem to have been a problem for the AASB to date.

For entities, preparing special purpose financial report (SPFRs), there should be no requirement that they be forced to prepare costlier GPFRs that in RDR guise would be non-compliant with the IFRS framework, given that there is no demand for GPFRs.

Refer to the covering letter for more detail.

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

Answer - No. Entities that are not publicly accountable should have the option, which is available in most overseas countries to adopt IFRS for SMEs. Australia has adopted the IASB's accounting standards framework that only applies to IFRS accounting standards (i.e. mandatory for publicly accountable companies). For non-publicly accountable entities, there is no need for IFRS compliance, and hence as with those countries that are allowing IFRS for SMEs as an option, or indeed a form of RDR which Australia does, there is no requirement or need to be IFRS compliant. Requiring IFRS compliance would rule out the RDR as an option, which does not seem to have been a problem for the AASB to date.

For entities, preparing special purpose financial report (SPFRs), there should be no requirement that they be forced to prepare costlier GPFRs that in RDR guise would be non-compliant with the IFRS framework, given that there is no demand for GPFRs.

Refer to the covering letter for more detail.

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

Answer – No.

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

Answer – No. It is not clear why amendments are being proposed, and exactly what they are.

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

Answer – No. It is not clear why amendments are being proposed.

Q6 – 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.

Answer – No. Not allowing IFRS for SMEs, as an option for non-publicly accountable entities and foreshadowing that SPFR entities will be required to adopt IFRS R&M is contrary to the Government’s expectation of reducing un-necessary compliance costs.

Q7 – Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.

Answer – Yes there are regulatory issues. Not allowing IFRS for SMEs, as an option for non-publicly accountable entities and foreshadowing that SPFR entities will be required to adopt IFRS R&M is contrary to the Government’s expectation of reducing un-necessary compliance costs.

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

Answer – No. Not allowing IFRS for SMEs, as an option for non-publicly accountable entities and foreshadowing that SPFR entities will be required to adopt IFRS R&M is contrary to the Government’s expectation of reducing un-necessary compliance costs.

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

Answer – No. Not allowing IFRS for SMEs, as an option for non-publicly accountable entities and foreshadowing that SPFR entities will be required to adopt IFRS R&M is contrary to the Government's expectation of reducing un-necessary compliance costs.

Q10 – 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.

Appendix 2

Analysis of the AASB's decision to not allow IFRS for SMEs as an option for non-publicly accountable reporting entities

Para 21 of the CP states: Most notably, IFRS for SMEs has different recognition and measurement requirements compared with IFRS. Previous research by the AASB indicates more than 75% of non-disclosing entities that need to publicly lodge financial statements in accordance with AAS with ASIC are currently complying with recognition and measurement requirements of AAS. Therefore, moving to a framework which moves away from this seems counter-intuitive when trying to improve the consistency, comparability, usefulness and credibility of financial reporting in Australia.

It does seem odd that the AASB is striving for a higher level of 'consistency, comparability, usefulness and credibility of financial reporting in Australia' than the IASB that issues IFRS for SMEs. The IASB recognises that non-publicly accountable entities do not necessarily require listed company benchmarks, hence a significant reduction in those entities costs of preparing and having audited financial statements compared to Australia. How can the AASB justify additional costs that overseas countries do not require for their entities preparing financial statements?

Paragraph 174 refers to the additional costs of moving from full IFRS R&M to IFRS for SMEs. Whilst no evidence is provided as to why there are additional costs when the IASB states that it is a reduced cost environment, the point missed is that IFRS for SMEs is just an option, and so if there are additional costs, then the option is not exercised. Denying entities that believe there are reduced costs, as stated by the AASB is hardly in the best economic interests of those entities.

Paragraphs 177-178 criticise the IFRS for SMEs standard as it has not been updated for the newer more complicated revenue, financial instruments and leases (but ignores Insurance). However, as the ASB would well know, the IASB has determined following advice from the IFRS for SMEs Implementation Committee which I (Keith Reilly) is the Australian representative, that these amended standards would complicate non-publicly accountable entities accounting and are not necessary. The simplified R&M in IFRS for SMEs follows the general principles in the amended standards.

Paragraph 182 refers to the AASB Staff Paper on IFRS for SMEs. It is not a AASB Paper those views do not necessarily coincide with the views of the AASB, it is stated. It is interesting that the AASB Staff disagree with the IASB which the AASB rebadges IFRS as AASBs!

More telling is that the AASB Staff Paper on Comparison of Standards for Smaller Entities acknowledges that in the UK there are significant differences from IFRS (and AASBs) which results from the adoption of IFRS for SMEs simplified R&M. Why does the AASB remain opposed to simplified R&M which the UK and other countries that have adopted IFRS for SMEs are able to do?

10 August 2018

Kris Peach
Chair and CEO
Australian Accounting Standards Board

Via website : <http://www.aasb.gov.au/Work-In-Progress/Comments-to-AASB.aspx>

Dear Kris

ITC 39 Applying the IASB's Revised Conceptual Framework Phase 1

Thank you for the opportunity to comment on the AASB's proposals to Apply the IASB's Revised Conceptual Framework and Solve the Reporting Entity and Special Purpose Financial Statement Problems (ITC 39). This is a very significant reform and we commend the AASB for its efforts in researching and formulating its proposals, communicating them to all stakeholders and providing a range of opportunities for wider discussion.

This submission focuses on the proposals set out in Phase 1 of ITC 39, but also provides some preliminary feedback on Phase 2 of the proposals gained from our engagement to date with our members and other stakeholders.

Adopting the IASB's Revised Conceptual Framework in Australia

The Australian Financial Reporting Framework would benefit from simplification, particularly in the not-for-profit sector. This consultation is an important step on the path to reform.

Overall, we are supportive of the board's plan to stage the revised conceptual framework's introduction so that it is available as soon as possible to those entities that already prepare IFRS compliant general purpose financial reports and wish to continue to do so. While it is not desirable to operate with two conceptual frameworks for any length of time, we consider that a phased approach offers a practical solution to some of the adoption challenges.

While the underlying need behind the Phase 1 proposals is clear and the approach appears to be pragmatic, we do not consider that, at this stage, the AASB has sufficiently developed the case for the direction it plans to take in Phase 2 of its proposals.

Our general comments on the Phase 1 proposals are set out below, together with a preliminary indication of the nature of and reasons for our concerns about Phase 2. These comments are further developed via responses to the AASB's specific and general questions in Appendix A. Appendix B contains further information about Chartered Accountants Australia and New Zealand.

Phase 1: short-term approach

In our view, the short-term approach in Phase 1 is a pragmatic one. Using it should, in the majority of cases, resolve the impact of the IASB's "reporting entity" definition on IFRS compliant entities without them needing to incur unnecessary cost or undue effort in transitioning to the revised conceptual framework. The retaining of IFRS compliant status for these entities is of key importance and we consider that this approach will achieve that objective.

However, we are concerned that the AASB has indicated that it may not issue an Exposure Draft (ED) of the changes set out in Appendix 1 of ITC 39, should it receive sufficient support from constituents on the overall direction of its Phase 1 proposals. Given the complexity of this consultation, our view is that the AASB should release an ED of the proposed changes to its standards. The consultation period need not be lengthy, however such an approach would allow constituents time to adequately focus on those specific changes and identify any unintended consequences in a manner that may not occur when it is wrapped up within the broader consultation.

Phase 2: medium-term approach

We will be providing a more detailed submission on the Phase 2 medium-term approach in November. In the meantime we set out below some preliminary feedback from our members, which we believe will be of value to the board as it deliberates the responses to its Phase 1 proposals.

- We agree that the proposals will provide a more consistent basis for reporting for non-publicly accountable entities and should lead to greater comparability and transparency of financial reports lodged on public registers. However, at this stage, we do not consider there to be sufficient evidence of user needs to justify the tiers of reporting requirements being proposed.
- The proposals focus on accounting standard-setting alone. Attempting to "fix" the reporting framework in such a piecemeal fashion risks deferring important questions, such as which entities should have to publicly report.
- We are concerned that the cost impact of prescribing IFRS-based accounting standards and general purpose financial reporting, particularly for those entities that fall outside of ASIC or ACNC requirements, is not yet fully understood.
- The AASB has indicated that reporting requirements for registered charities and not-for-profit entities will be tied to the ACNC legislative review, the outcomes of which are not yet known by our members or the public. The timing and relative cost/benefit of any such proposals is therefore seen as uncertain.

Overall, we are concerned that the AASB's proposals for Phase 2 is likely to result in an expansion of general purpose financial reporting in Australia that is far in excess of what users need and without adequate examination of the relative costs and benefits of that approach.

We recommend that the AASB undertakes further research and consultation on these matters and uses that information to ensure that Phase 2 outcomes are based on what is in the best interests of the Australian economy. In particular, we recommend that the AASB:

- undertakes further, more in-depth research into user needs, with a focus on users of financial reports of non-publicly accountable entities and what information they require that they are not in a position to demand from the entities themselves

- seeks up-to-date, empirical data on the number and types of entities lodging publicly available financial reports and the basis on which that financial information is prepared
- surveys preparers of both special purpose and general purpose financial reports in order to estimate the financial costs of any proposed increase in reporting requirements
- continues to engage with legislators and regulators across all sectors to drive a collaborative approach to financial reporting framework reform.

We are pleased that the AASB is already taking action in some of these areas. We look forward to further opportunities to engage with the AASB and other stakeholders to ensure that reform delivers financial reporting frameworks that are fit for purpose now and in the future.

If you have any questions about our submission, please contact Ceri-Ann Ross, Reporting and Assurance Leader Ceri-Ann.Ross@charteredaccountantsanz.com.

Yours sincerely



Simon Grant FCA
Group Executive, Advocacy and Professional
Standing
Chartered Accountants Australia and New
Zealand



Ceri-Ann Ross FCA
Reporting & Assurance Leader
Chartered Accountants Australia and
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APPENDIX A

Specific matters for comment on Phase 1

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

Answer 1 – We agree that it is important to maintain IFRS compliance for those entities that have already achieved it. The IASB's conceptual framework underpins these standards and therefore it is essential that the current version of that framework be available for adoption by those entities in Australia preparing IFRS-compliant general purpose financial reports.

Making the revised conceptual framework applicable to all for-profit entities meeting a revised definition of 'publicly accountable' appears to be a pragmatic way of achieving this outcome, given that the term is already used as the basis for determining tiers of reporting requirements in AASB 1053 *Application of Tiers of Australian Accounting Standards*. However, we have concern that there has been insufficient time to examine this concept and its revised definition well enough in the Australian context to be confident that there will not be any unintended consequences, particularly anything that may have an impact on the proposed Phase 2 approach. We therefore recommend that the use of the revised definition be more specifically addressed in an Exposure Draft of the changes proposed for Phase 1. This will allow more detailed stakeholder consideration of the effects of its application in Australia.

We do agree that more time is needed to determine the appropriate reporting frameworks for non-publicly accountable for-profit entities and not-for-profits. Leaving the existing conceptual framework in place while this discussion occurs is appropriate, and so we support a staged introduction.

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

Answer 2. In principle, we consider that the revised conceptual framework should be made available to any entity wishing to claim or maintain IFRS compliance. However, as in our response to Q1 above, we recommend that the revised definition of 'publicly accountable' be further examined through an ED process to ensure there are no unintended consequences of its application.

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

Answer 3. At this stage we are not aware of any specific examples, other than certain securitization vehicles in the financial services sector of which the AASB has indicated that it is already aware.

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

Answer 4. We consider that further consultation is required to determine whether the international definition of public accountability is fit for purpose within the Australian context. This should occur via an ED of the implementation of the Phase 1 proposals, once the AASB has in principle support for its direction in this Phase.

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

Answer 5 – As above, we consider the general approach is a pragmatic one, but the exact details need the more focused and careful consideration that a specific ED on the changes would provide.

General matters for comment on Phase 1

Q6 – What are your views on 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?

Answer 6 – We consider that the AASB has appropriately applied its *For profit entity standard setting framework* in seeking to maintain IFRS compliance for publicly accountable entities. However we have concerns about the foreshadowed increase in regulatory burden on non-publicly accountable entities in Phase 2. At this stage, we do not consider that the AASB has sufficiently developed its case for user needs that underpin their assumptions. According to paragraph 29 of framework, user need, public interest issues and cost benefit should be key factors in developing requirements for this group.

Q7 – What are your views on whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?

Answer 7 – The Significant Global Entity (SGE) concept, introduced as part of the government’s Multinational Tax Avoidance measures, should lead to more for-profit entities preparing and lodging general purpose financial reports. This may have an impact on the “problem” the AASB is trying to solve through this consultation, by seeking to achieve an accounting outcome through tax legislation.

In our view, a more appropriate approach to the “problem” of special purpose reports would be for the accounting and auditing standard-setters, regulators and legislators to drive collaborative solutions, developing a consistent legislative approach to the types of entities that need to report publicly and the appropriate format for those reports.

Q8 – What are your views on whether, overall, the proposals would result in financial statements that would be useful to users?

Answer 8 – We consider that more research is required to understand and articulate what users need, especially for entities that are not publicly accountable, which is where this reform proposes its biggest changes.

Q9 – What are your views on whether the proposals are in the best interests of the Australian economy?

Answer 9 – We are of the view that the maintenance of IFRS compliance for entities needing or wishing to comply are in the best interests of the economy, and so change as envisaged in Phase 1 is needed. However, we consider that further research is required to demonstrate that the proposals are similarly beneficial for all other entities. We will expand on this view in our Phase 2 submission.

Q10 – Unless already provided in response to specific matters for comment above, what are your views on 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?

Answer 10 – We consider that 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 lodgment information.

Appendix B: About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 117,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation accounting professionals across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.

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14 August 2018

Kris Peach
Chair
Australian Accounting Standards Board
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By email: standard@asb.gov.au

Dear Kris

Invitation to Comment – ITC 39 Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems (Phase 1)

CPA Australia represents the diverse interests of more than 163,000 members working in 125 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia welcomes the opportunity to provide comments in response to the above AASB Consultation. We acknowledge the AASB's efforts in developing this Consultation and supporting materials, and its ongoing engagement with stakeholders to inform them of the proposals.

CPA Australia notes the AASB's decision to pursue the two-phased Option 1, following its own consideration of five options. While details have been provided for all five options including the pros and cons for each option, the AASB is only seeking feedback on its preferred Option 1. Accordingly, our organisation's submission restricts its comments to the proposals relating to that option only, provided in the **Attachment** to this letter.

CPA Australia is also in the process of engaging with and obtaining feedback from our members and stakeholders on these proposals. The initial comments regarding the Phase 2 proposals are based on feedback received to date. We look forward to providing further comments in due course.

If you require further information on our views expressed in this submission, please contact Ram Subramanian, Policy Adviser – Reporting, on +61 3 9606 9755 or at ram.subramanian@cpaaustralia.com.au.

Yours sincerely



Paul Drum
Head of Policy

Introduction

CPA Australia's submission initially provides some general/overall comments in response to the Phase 1 proposals. Comments are also provided in response to the specific questions regarding the Phase 1 proposals.

Since phases 1 and 2 under Option 1 are interlinked, CPA Australia has also given some initial consideration and provided comments relating to the Phase 2 proposals.

General comments

Phase 1 approach

CPA Australia supports the adoption of the IASB Revised Conceptual Framework (RCF) for entities that state compliance with IFRS in their financial statements. The AASB has chosen the revised 'public accountability' definition in the IFRS for Small and Medium-Sized Entities (IFRS for SMEs) as the lever to distinguish entities that state compliance with IFRS from entities that do not state such compliance. Notably, the AASB proposes to adopt the 'public accountability' definition in IFRS for SMEs, but does not consider the IFRS for SMEs as an appropriate solution for further consideration as part of these proposals. Although we do not consider the proposed Phase 1 approach a sustainable way forward in the medium to long-term, we agree that it provides a pragmatic stop-gap solution to incorporating the RCF into the AAS framework.

However, we have received feedback indicating that there is some concern about potential unintended consequences that may arise from the pragmatic approach proposed under Phase 1. For example, we have been made aware of some entities in the financial services sector which are likely to be affected by the Phase 1 proposals. Whilst we are not aware of other examples of entities that may also be affected, it is our view that all entities that are potentially impacted by the Phase 1 proposals should be given an adequate opportunity to consider and comment on the proposals. We note that the AASB does not intend to issue an Exposure Draft on its Phase 1 proposals, but given the gravity of the proposals, we suggest the AASB does follow normal due process in this instance and issue an Exposure Draft.

Phase 2 approach

CPA Australia agrees with the view expressed in the Consultation that the underpinning of Australian Accounting Standards (AAS) by two conceptual frameworks in the medium to long term is neither sustainable nor desirable. Proposals to replace the current differential reporting regime with an IFRS based general purpose financial reporting framework for all entities that prepare financial statements in accordance with AAS will however have far reaching economic implications. To ensure that an appropriate financial reporting framework which meets the needs of all stakeholders is implemented, it is critical the AASB gives careful consideration to numerous factors before further developing its proposals under Phase 2.

The following highlights the key factors that require further attention from the AASB:

- User needs: There is insufficient evidence of the needs of users who will rely on IFRS based general purpose financial statements that are prepared in accordance with the proposed requirements. There is need for clear, unequivocal evidence of the existence of such users and their information needs that align with the proposed requirements.
- Current research needed: The research referred to in the Consultation relates to 2010 and prior periods, and does not consider the impact of subsequent developments such as AAS Reduced Disclosure Requirements. Empirical evidence based on more up to date research is needed to make a more informed assessment of the current reporting framework.

- Reporting thresholds: Major changes to corporate financial reporting are being proposed by the AASB with no due consideration of the financial reporting thresholds within Corporations Act 2001. It is our view that these proposals are incomplete, and possibly inadequate, without proper consideration of those thresholds. Whilst we appreciate a review of the Corporations Act 2001 is outside the scope of the AASB, we intend to raise this matter with Australian Treasury.
- Flow-on effect: The extent of the impact of the proposals on AAS based financial reporting in Australia for non-statutory purposes is not clear. We recommend the AASB gathers and provides evidence on the potential impact of the proposals on such financial reporting.
- Not-for-profit (NFP) reporting: The further development of financial reporting proposals for private sector NFP entities appear to hinge on the outcome of the legislative review of the Australian Charities and Not-for-profits Commission (ACNC). Statutory reporting by NFPs extend much beyond entities registered with the ACNC. We suggest a more comprehensive consideration of all relevant statutory financial reporting requirements by NFPs is considered in the development of proposals for this sector.
- Cost/ benefit analysis: The Consultation details some of the benefits that may arise from the proposals. Equally, a thorough analysis and clear illustration of the costs that may arise as a result of the proposals is needed. A comprehensive and objective cost/ benefit analysis is recommended before proceeding further with the proposals.
- Reporting entity definition clash: The Consultation paper highlights a 'reporting entity' definition clash as one of the problems that has required the AASB to develop these proposals. In our view, the Consultation does not provide sufficient, clear evidence of a "reporting entity" definition clash.

Specific questions/ comments

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

As stated previously, CPA Australia agrees with the proposed short-term approach for entities that state IFRS compliance in their financial statements. However, any unintended consequences of maintaining IFRS compliance through the new 'public accountability' definition needs further examination. As suggested in the cover letter, we suggest the development and issue of an Exposure Draft that further explores the proposals and provides affected stakeholders an opportunity to consider and comment on the Phase 1 proposals in isolation.

As stated earlier in this submission we suggest the AASB gives further consideration to the Reporting Entity definition clash that has been highlighted as one of the problems this Consultation seeks to resolve. We note that Chapter 3 of the RCF reproduced in Appendix 3 of the Consultation omits footnotes in the original document. In particular, we believe footnote 7 in the RCF which states that 'throughout the *Conceptual Framework*, the term 'financial statements' refers to general purpose financial statements' is germane to stakeholders considering these proposals. We suggest the AASB considers the impact of this statement on the proposals as part of its further analysis, and also provides stakeholders reviewing the proposals the same opportunity by including the footnotes in further consultations.

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?

See our above comments in response to Q1.

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

As stated earlier in this submission, we have been made aware of some entities in the financial services sector which are likely to be affected by the Phase 1 proposals. Whilst we are not aware of other examples of entities that may also be affected, it is our view that all entities that are potentially impacted by the Phase 1 proposals should be given an adequate opportunity to consider and comment on the proposals. As stated in our response to Q1 above, we suggest the AASB develops and issues an Exposure Draft to allow stakeholders an opportunity to further consider and comment on the proposals.

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

See our comments above in response to Q1 and Q3, and our comments under General Comments in this submission.

5. Do you agree with the proposed amendments to SAC 1 Definition of the Reporting Entity and the following Australian Accounting Standards set out in Appendix A?

We have expressed some concerns in our responses above and in the General Comments section where we suggest the AASB gives consideration to in further developing its Phase 1 proposals.

GRAEME MACMILLAN

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9th August 2018

Ms Kris Peach
Chair and CEO
Australian Accounting Standards Board
Level 14, 530 Collins Street
MELBOURNE VIC 3000

Dear Kris,

Response on applying the IASB's Revised Conceptual Framework – Phase 1

In response to the Consultation Paper and the recent Workshop undertaken by the AASB, I wish to submit that Australia should retain Statement of Accounting Concepts No 1 (SAC 1), *The Reporting Entity*, as it remains the most powerful and effective concept underpinning our financial reporting. It sets aside legal form and concentrates on the substance of the economic entity required to produce general purpose financial reports.

Q1 – Do you agree with the short-term approach to maintain IFRS compliance by introducing the RCF into Australia?

No - Instead of trying to fit the inadequate IASB Conceptual Framework 'RCF' recommendations into Australian accounting standards, we should simply remove the reference to the RCF 'reporting entity' from the existing accounting standards (AAS) where it is referenced (including AASB 3 and AASB 12). The RCF idea of reporting entity is so wishy washy its absence from AASBs would not be missed, and the concept imbedded in SAC 1 would remain for guidance to accountants, whether or not legislators and regulators choose what form of financial reporting standards should be applied. Maintaining SAC1 would not be inconsistent with the RCF.

My views are formed from the strength SAC1 has given me over many years, especially promoting the use of accounting standards into the public sector and not for profit sectors. A concept is a concept, not a rule.

The problem of Special Purpose Financial Reports (SPFSs) – is essentially a regulatory matter, not a conceptual accounting one.

Q2 Do you agree that the short-term approach should be applicable to both public accountable for-profit private sector and public sector entities?

I strongly believe that the AASBs should apply to all entities regardless of their objectives, purpose, industry classification or intent. Otherwise, we do not have standards, only different rules according to how someone classifies an entity. The question of size is different, as most entities will not have access to accounting skills, although technology is rapidly changing that. Let's not make up any more reasons for entities to be considered different – accounting is accounting is accounting.

Q3 Are you aware of publicly accountable for-profit entities currently self-assessing as non-reporting entities and preparing SPFS that would have implications under the AASB's short-term approach?

No – but I have an example of a large **not-for-profit entity** currently self-assessing as a non-reporting entity and preparing SPFS that has implications for the proposed AASB short-term approach.

Q4 Do you agree with the AASB's amendments to the definition of 'public accountability' in AASB 1053 per IFRS for SMEs Standard?

No – see my comments under Question 1. SAC1 is strong because it covers all entities despite any economic or institutional classifications. The amendments proposed to “fit” the RCF are simply unnecessary if you take a conceptual view.

Q5 – Do you agree with the proposed amendments to SAC1 *Definition of the Reporting Entity* and the following Australian Accounting Standards, as set out in Appendix A?

No – simply unnecessary if we maintain SAC1 is relevant to all entities. The current amendments proposed make it even more confusing. Cannot we simply declare that for purposes of applying accounting concepts, SAC1 definitions should be maintained?

It seems to me that the fundamental problem with the current IASB pronouncements are based on “private sector” notions – e.g., the definition of public accountability, whereas SAC1 is conceptually based on the reporting entity, notwithstanding its economic/institutional classification. This is the major asset of Australian accounting. If we make unnecessary complicated changes to the present AASBs to fit in with some inconsistent framework, we are only making it worse.

Better we spend out time in trying to simplify the application of accounting standards and convincing governments and regulators of the need to take a holistic and consistent approach to financial reporting.

Yours sincerely,

Graeme Macmillan, FCA (ret)



Submission on ITC 39 CONSULTATION PAPER:

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

Phase 1: Short-term approach (ITC 39)

ITC 39 IS NOT SUPPORTED

I do not support the Australian Accounting Standards Board's (AASB) proposals in ITC 39 as IFRS for SMEs is not allowed as an option for non-publicly accountable reporting entities. This is contrary to the policy of the International Accounting Standards Board (IASB) that produces International Financial Reporting Standards (IFRS) that Australia re-badges as Australian Accounting Standards (AASBs). For non-publicly accountable reporting entities the IASB allows IFRS for SMEs as an option and this followed by many overseas countries including the United Kingdom.

IFRS for SMEs is designed by the IASB to be a more cost effective standard compared to IFRS for non-publicly accountable reporting entities (ie generally not listed entities). I believe that it is in my clients' best interests to reduce unnecessary compliance costs and therefore its clients should have the option to adopt IFRS for SMEs and hence reduce the cost burden.

Whilst some of my non-publicly accountable entities may wish to stay with IFRS, others may not, and to deny those clients the opportunity to reduce their compliance costs, does not seem to be in the best interests of those clients, and contrary to the public interest principles that the accounting profession states is its mission.

I also question whether the AASB is in compliance with its legislative requirement to follow International Accounting Standards, and whether it complies with the Australian Government's commitment to reduce unnecessary red tape compliance costs. Whilst the AASB appears to believe that IFRS for SMEs may not be cost effective, it has provided no evidence to support this claim, it is contrary to the views of the IASB and many overseas countries that allow IFRS for SMEs as an option, and is not the AASB's decision, as it should be up to the entities and the users of their financial statements.

Please contact me if you require anything further.

Yours faithfully

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Ms Kris Peach
Chair
Australian Accounting Standards Board
POBox204
Collins Street West VIC 8007

8 August 2018

Dear Kris

ITC 39 -Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems - Phase 1: Short-term approach

We are pleased to have the opportunity to comment on Australian Accounting Standards Board (AASB) Consultation Paper ITC 39 -*Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* (ITC 39) - Phase 1: Short-term approach.

We agree with the short-term approach proposed in ITC 39. One of the central tenets of the AASB strategy is the adoption of IFRS-based accounting standards to support comparable financial reporting around the world for the benefit of financial statements preparers and users. This enables publicly accountable for-profit entities in Australia to claim (and maintain) compliance with IFRS. We also agree with the AASB not issuing an Exposure Draft for the short-term approach or the proposed amendments to the identified Australian Accounting Standards as detailed in Appendix A of ITC 39.

Please refer to the Appendix for our detailed comments on the specific and general matters for which feedback was requested.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact myself on (02) 9455 9744 or Julie Locke on (02) 6248 1190.

Yours sincerely

Michael Voogt
Director

Appendix

Specific matters for comment

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

We agree with the short-term approach to maintain IFRS compliance by introducing the RCF in Australia. One of the central tenets of the AASB strategy is the adoption of IFRS-based accounting standards to support comparable financial reporting around the world for the benefit of financial statements preparers and users. This enables publicly accountable for-profit entities to claim (and maintain) compliance with IFRS.

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

We agree that that the short-term approach should be made applicable to publicly accountable for-profit private sector entities. The definition of public accountability contained in AASB 1053 does not apply to public sector entities. For those public sector entities electing to prepare Tier 1 GPFS, and claiming IFRS compliance, we agree that the short-term approach should be applicable.

We do not foresee issues with applying the short-term approach in both sectors – i.e. for entities that are required, or voluntary elect, to prepare Tier 1 GPFS.

- 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?*** If so please provide specific examples including why these entities are not currently applying AASB 1053 and preparing Tier 1 GPFS although they would otherwise meet the definition of public accountability.

We have made a number of enquiries amongst our client base and not identified any groups of entities which meet the public accountability definition and are self-assessing as non-reporting entities and preparing SPFS.

We are aware as part of wider community consultation that some Australian securitisation vehicles with notes (debt) listed on a stock exchange may not have previously assessed whether they meet the public accountability definition. Typically these entities are preparing SPFS.

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

We agree with the AASB's amendments to the definition of 'public accountability' in AASB 1053 per IFRS for SMEs Standard.

- 5 ***Do you agree with the proposed amendments to SAC 1 Definition of the Reporting Entity and the following Australian Accounting Standards, as set out in Appendix A:***
- (i) ***AASB 9 Financial Instruments;***
 - (ii) ***AASB 14 Regulatory Deferral Accounts;***
 - (iii) ***AASB 101 Presentation of Financial Statements;***
 - (iv) ***AASB 1048 Interpretation of Standards;***
 - (v) ***AASB 1053 Application of Tiers of Australian Accounting Standards; and***
 - (vi) ***AASB 1057 Application of Australian Accounting Standards.***

We agree with the proposed amendments to SAC 1 *Definition of the Reporting Entity* and the Australian Accounting Standards detailed above, as set out in Appendix A.

General matters for comment

- 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.***

We consider that the Standard-Setting Frameworks has been appropriately applied in developing the proposals for Phase 1.

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

We are not aware of any other issues.

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

We believe overall the proposals would result in financial statements that would be useful to users.

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

Having for-profit publicly accountable entities able to prepare globally comparable financial reports, and claim IFRS compliance, is, we believe, in the best interests of the Australian economy.

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.

We have no further comments.



3 August 2018
 Ms Kris Peach
 Chair
 Australian Accounting Standards Board
 PO Box 204, Collins Street West
 Melbourne, Victoria, 8007

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Dear Kris

Re: ITC 39 CONSULTATION PAPER Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems

QBE Insurance Group Limited (QBE) is an Australian-based public company listed on the Australian Securities Exchange. QBE is Australia's largest international insurance and reinsurance company with operations in over 30 countries and territories. We are also one of the top 20 global insurers and reinsurers as measured by net earned premium.

QBE welcomes the opportunity to comment on ITC 39 CONSULTATION PAPER Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems which was issued by the AASB in May 2018. We appreciate that developing an appropriate framework for application of accounting standards is a significant and complex task and a long-term project that requires coordinating the efforts of a range of stakeholders including the preparers and users of financial statements, regulators that oversee financial reporting and government policy-makers.

QBE's main interest in this topic, and the focus of its submission, is financial reporting by subsidiary entities of a listed Group, including intermediate holding companies.

In the attached response, we set out our concerns regarding the adequacy of the research undertaken to support the AASB's proposed changes. We note that the AASB acknowledges concerns around consolidation and equity accounting in that it *"does not have data to understand the impact of this requirement (i.e. the number of entities that would need to prepare consolidated or equity accounted financial statements that are currently not doing so, is not known. The AASB will conduct further research and undertake outreach activities to better understand the extent of this requirement and constituent views."*

We believe that changes should not be made to the level of reporting required until the impact of the changes on preparers is fully understood and this can be properly balanced against clearly identified benefits for users. This should not be resolved by transitional relief but requires a more sustainable and thoughtful solution which does not disadvantage Australian companies in a global market.

We urge the AASB to do more work on distinguishing between the different types of entities that are currently preparing and lodging Special Purpose Financial Statements (SPFS) to identify appropriate, cost-effective solutions for each group. For example, we consider the following situations to be very different and needing different solutions:

- (a) A large proprietary company preparing unconsolidated financial statements and there is no alternative source of consolidated information for users.
- (b) A wholly-owned subsidiary preparing unconsolidated financial statements and there is an alternative source of consolidated information for users available in the form of fully-IFRS compliant Group General Purpose Financial Statements (GPFS).



Before embarking on such a major change to the current reporting framework, we suggest that the AASB should consider the following key factors:

- (a) Australia currently applies IFRS requirements broadly and this distinguishes the Australian financial reporting landscape from other jurisdictions where IFRS application is generally limited to listed entities i.e. IFRS is not necessarily applied to unlisted entities. It is difficult to make valid comparisons when Australia appears to have applied IFRS with a much broader scope than we see in other major jurisdictions. The approach in Australia has added a significant economic cost to Australian companies requiring more compliance activity, and we urge the AASB to consider whether the approach put forward for SPFS is not simply adding to the economic burden at the expense of our global competitiveness.
- (b) The risk that some entities may inappropriately apply SPFS concepts does not necessarily indicate that the concepts are flawed and should be phased out entirely. This would effectively penalise a majority for the behaviour of a minority.
- (c) The research used to support the AASB proposals in ITC 39 is helpful; however, it does not clearly set out user needs or whether users are able to, and do, access the information outside financial statements. In addition, the AASB notes it has not researched the extent of the impact on preparers regarding consolidation and equity accounting which would add considerable cost burden. The research on such an important area of Australian financial reporting must be conducted in a robust, systematic and thorough manner so that the results are clear and any proposed changes to reporting requirements that are based on those results can be well-accepted by the financial reporting community.
- (d) The AASB should not act in isolation and ITC 39 refers to consulting with government regulators who also have a crucial role in determining which entities should lodge what level of financial statements. It is currently not clear how and when those regulators might act and the way in which their actions might impact on the AASB's standards.

We therefore consider the Phase 2 proposals to be premature at this stage. Without the necessary research, it is not feasible to know how the existing reporting requirements might most usefully be changed to best serve the needs of users and to ensure Australian preparers are not unduly burdened economically.

We have responded to the AASB request for comment on Phase 1. As we see that the two Phases are inextricably linked, we have included preliminary comments on Phase 2 and we will revisit our responses to Phase 2 by the November timeline. Our responses are included in Appendices as follows:

- Appendix 1 - Specific matters for comment on Phase 1
- Appendix 2 - General matters for comment on Phase 1
- Appendix 3 - Preliminary comments on Phase 2

We would be happy to discuss and further clarify the point raised in this letter. Please contact Anne Driver on anne.driver@gbe.com for coordination of further input.

Yours sincerely,

Inder Singh
Chief Financial Officer



Appendix 1 - Specific matters for comment on Phase 1

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

Yes - however, we do not agree with the AASB's reasoning set out in ITC 39. We are raising this in the context of Phase 1, because agreeing with some of the logic used for Phase 1 might be seen as agreeing with its use in forming the Phase 2 proposals about which we have serious concerns. Please refer to our preliminary comments on Phase 2 in Appendix 3.

Q2 – Do you agree that the short-term approach should be made applicable to both publicly accountable for-profit private sector and public sector entities? That is, do you agree that the RCF should be applicable for publicly accountable public sector entities that are required to prepare GPFS in accordance with Tier 1 reporting requirements (who are currently claiming compliance with IFRS) as well?

No comment.

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

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.

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

We support the proposed amendments to the definition of 'public accountability'.

Depending on what is meant by 'holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses', there may some life insurance entities that would be captured by the need to provide full IFRS reports when they currently prepare SPFS. For example, intermediate life insurance holding companies and other wholly-owned life insurance subsidiaries of listed insurance Groups selling investment-style contracts may be caught by the requirements apply IFRS and prepare GPFS where the Group also applies IFRS and its GPFS include all the relevant information for users. This would seem an inappropriate use of resources.

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

- (i) AASB 9 Financial Instruments;
- (ii) AASB 14 Regulatory Deferral Accounts;
- (iii) AASB 101 Presentation of Financial Statements;
- (iv) AASB 1048 Interpretation of Standards;



- (v) AASB 1053 Application of Tiers of Australian Accounting Standards; and***
- (vi) AASB 1057 Application of Australian Accounting Standards.***

We can accept the proposed amendments, subject to the satisfactory resolution of the matters raised in relation to Q3 and Q4.



Appendix 2 - General matters for comment on Phase 1

Q6 – Whether the AASB's For-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in Phase 1.

ITC 39 seems to be based on the logic that there is an inconsistency between Australia's existing financial reporting framework and the RCF and this leads the AASB to a particular set of proposals. We are not clear why this is the case and note the following:

- (a) The RCF is not mandatory and its release in Australia is not necessarily a trigger for changing the applicability of standards in Australia.
- (b) The fact that there is a unique reporting entity definition in Australia is not necessarily a problem:
 - (i) Every jurisdiction has its own way of determining the application of accounting standards – as shown by the research for ITC 39, there is no universal approach. Multiple definitions for the same term is not a new issue and has, to-date, not been regarded as a problem. For example, 'contract' is defined differently in IFRS 15 *Revenue from Contracts with Customers* and IAS 32 *Financial Instruments: Presentation*. Provided the purpose of each definition is made clear (for example via the Glossary), two uses of the term 'reporting entity' can coexist. This is particularly the case since its use in the Conceptual Framework is general in nature, rather than being used to direct the application of IFRS versus other types of reporting. The IASB's focus in respect of IFRS is on entities reporting to investors who participate in global capital markets (e.g. listed entities) [IFRS Foundation *Constitution*, paragraph 2], not some wider set of entity types for which the AASB is responsible.
 - (ii) As far as we can determine, Australia's approach to using IFRS as the basis for reporting requirements across a wide range of entities (including modified when necessary for not-for-profit entities) is unique. Assuming the AASB remains satisfied with this approach, we see no reason why 'uniqueness', of itself, is a basis for change particularly when we are not aligning to a more broadly accepted approach.
- (c) The fact that special purpose financial reporting is not a feature in other jurisdictions does not invalidate this approach and nor does it automatically mean there is a problem to be fixed for all types of entities that prepare SPFS.

Q7 – Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.

We are not aware of other regulatory issues beyond those included in ITC 39. We do think there is an opportunity for the AASB to work with regulators and legislators to remove requirements to prepare and lodge financial statements for entities that have Group entities preparing and lodging information that satisfies all relevant user needs. Whilst the AASB notes this is a longer term project, we see that it has the merit of streamlining requirements of regulators and legislators with the production of financial statements which could lead to a more efficient and streamlined regulator reporting function.

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

Bearing in mind the significant potential consequences for preparers of financial statements from a broadening of the application of IFRS, we are concerned that there has not been adequate research to support the current AASB proposal. Our concern is based on AASB comments, as follows:

- (a) Paragraph 8 of ITC 39 says: "Preliminary discussions with users, including lenders and insolvency practitioners, indicate that their needs for information about liquidity, solvency, cash flows, commitments and contingencies are currently not being provided for in most SPFS and in some instances GPFS." Paragraph 53 refers to 'anecdotal evidence' relating to data aggregators. Given that the whole rationale for financial reporting is the needs of users, we do not believe 'preliminary discussions' and 'anecdotal evidence' are a sufficient basis for the proposals in ITC 39. We consider that a more targeted research with an identified set of relevant users must be performed and published to ensure that there is appropriate balance between the needs of users and their ability to access information and the economic costs associated with significantly extending disclosure obligations for Australian entities.



- (b) Paragraph 55(a) of ITC 39 says; “Removing the ability for entities to self-assess as non-reporting entities and elect to prepare SPFS would result in: (a) improved transparency and comparability amongst similar types of entities for users”. That is a view which seems, as yet, untested through research. For example, it is possible that companies with the same types of roles in a Group structure are already preparing comparable financial reports. It is also possible that many or most of the companies preparing SPFS have no users, or that they have users and the SPFS are meeting their needs. Again, without the research, this remains conjecture.

We note that Research reports No 1 and No 7 are helpful; however, they do not specifically identify user needs (other than in a theoretical sense) and do not provide sufficiently granular analysis to necessarily enable useful conclusions to be drawn about each type of company in the total population. For example:

- (i) Research Report No 1 separately identifies large proprietary companies and unlisted public companies etc., but the sample does not identify whether the companies are part of another reporting company. Accordingly, it is difficult to draw any conclusions about the extent to which recognition and measurement requirements are applied by companies that serve particular purposes – such as wholly-owned subsidiaries or intermediate holding companies.
- (ii) Research Report No 7 outlines reporting in a number of jurisdictions and demonstrates the wide variation in arrangements. Each jurisdiction is unique because financial statement lodgement requirements are the result of many different factors and stakeholders and the institutional arrangements for setting reporting requirements differ across jurisdiction. Accordingly, there is no one jurisdiction we can necessarily use as a model, or a direct comparison, for Australia. It is not clear what can be learned from that benchmarking. It is also not clear why the North American models of reporting, which seem to limit reporting to cases where there are clearly-identifiable users, are not appropriate in Australia. The North American approach would have the benefit of minimising compliance only work where there is no user benefit.

The research on such an important area of Australian financial reporting must be conducted in a robust, systematic and thorough manner so that the results are clear and any proposed changes to reporting requirements that are based on those results can be well-accepted by the financial reporting community.

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

We consider Phase 1 proposals are in the interest of the economy such that preparers producing general purpose reports can continue to claim IFRS compliance. This is relevant for access to global capital markets.

We have significant concerns around phase 2 proposals as any approach which requires increased levels of reporting without appropriate costs/benefit will be detrimental to Australia.

We are concerned that adequate research has not been performed to support such a significant change. In particular, there has been no research of the preparer's perspective to ensure adequate balance of the cost/benefits as identified in paragraph 91 of ITC 39 as follows:

“Concern about consolidation and equity accounting - the AASB does not have data to understand the impact of this requirement (i.e. the number of entities that would need to prepare consolidated or equity accounted financial statements that are currently not doing so, is not known. The AASB will conduct further research and undertake outreach activities to better understand the extent of this requirement and constituent views. A specific matter for comment is included to understand transitional relief needed to minimise the impact of this change.

Anecdotal evidence³⁸ indicates that some entities preparing SPFS are consolidating and equity accounting for the purposes of securing funding. Therefore, preparing consolidated and equity accounted financial statements for parent entities may not be overly onerous.”

As well as highlighting the lack of a user perspective, this approach suggests transitional relief would be an appropriate response to the additional burden on preparers. We disagree with this approach and believe that research is needed to determine if the additional burden on preparers is justified.

Q10 – 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.

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.

3



Appendix 3 – Preliminary comments on Phase 2

We consider the Phase 2 proposals to be premature. Without appropriate research on the needs of users of financial statements, it is not clear how the existing reporting requirements should be changed, if at all.

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

We partially agree with the Phase 2 approach. Reforms may be needed based on the AASB's research, but we do not think it is helpful to combine the release of the RCF with the nature of the reforms. QBE urges the AASB to consider the application of Australian Accounting Standards based solely on serving the best interests of financial statement stakeholders, including users, preparers and regulators. That will involve considering the outcomes that are fit for purpose in the context of cost-benefit constraints to avoid imposing unnecessary economic burden on Australian entities.

QBE's main interest is in ensuring that the financial statement requirements applicable to its subsidiaries are fit for purpose. QBE's Australian subsidiaries are proprietary companies. This same legal category is also used by large and small family businesses that have no Group entity sitting over the top that reports publicly to investors. Accordingly, each legal category of company, even when stratified by size, represents a heterogeneous set of entities with different financial statement stakeholders who have potentially different needs. The advantage of the notion of SPFS has been in achieving either consistent or differential levels of reporting as needed by stakeholders without necessarily having to achieve consistency across each legal entity category. If the AASB wishes to see all entities lodging GPFS, it needs to do more work on identifying relevant Tiers of GPFS and/or more work with regulators to rationalise lodging requirements.

Q12 – Which of the AASB's two GPFS Tier 2 alternatives (described in paragraphs 167-170) do you prefer? Please provide reasons for your preference.

We do not regard either of the proposed Tier 2 alternatives to be suitable for some types of entities that are currently required by regulation to prepare financial statements but regard themselves as not being reporting entities and currently prepare SPFS. This includes intermediate holding companies of listed Groups and other wholly-owned subsidiaries where the Group applies IFRS and the Group's GPFS include all the relevant information for users. The intermediate holding companies and other wholly-owned subsidiaries have no users for their financial statements.

Q13 – Do you agree that we only need one Tier 2 GPFS alternative in Australia (either Alternative 1 GPFS – RDR or the new Alternative 2 GPFS – SDR described in paragraphs 167-170)? Why or why not?

Q16 – What concerns do you have on consolidating subsidiaries and equity accounting associates and joint ventures as proposed in the AASB's medium-term approach? What transitional relief do you think the AASB should apply? Please provide specific examples and information.

Q17 – If the new Alternative 2 GPFS – SDR described in paragraphs 167-170) is applied, do you agree that the specified disclosures would best meet users' needs? If not, please explain why and provide examples of other disclosures that you consider useful.

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

In relation to Q13, Q16, Q17 and Q18, if the current reporting framework is changed to require all lodging entities to prepare GPFS, there needs to be another version of Tier 2 comprising all the IFRS recognition and measurement requirements and minimal presentation and disclosure requirements. Those minimal presentation and disclosure requirements should not include consolidation as this would be a costly exercise for intermediate holding companies for no benefit. While the IFRS recognition and measurement requirements need to be applied by subsidiaries within IFRS-compliant Groups for operational purposes, the same is not true of presentation and disclosure.

Q14, Q15, Q19, Q20 not responded to at this stage.



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8 August 2018

Dear Kris,

Application of the Australian Reporting Framework to Securitisation Entities

Thank you for your time recently to meet and speak with the Australian Securitisation Forum (ASF) to discuss the Australian Accounting Standards Board's (AASB) current consultation paper 'Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems', and its potential impact on Australian securitisation vehicles (SPVs). We greatly appreciate your time and interest in understanding more about our industry and how any proposed changes to the current reporting framework may impact market participants.

Background

The AASB's project is focused on ensuring that the accounting rules and framework in Australia are in compliance with International Financial Reporting Standards and promote comparability and clarity in reporting to markets and users of the financial statements. As an industry we are strongly supportive of this initiative.

As part of your industry consultations, you met with the ASF to further understand the Australian securitisation industry, the current reporting framework commonly applied by Australian securitisation SPVs, and to understand and assess the potential impact of the removal of Special Purpose Financial Reports on securitisation SPVs. During that meeting, it was determined that the focus of the AASB's interest was in particular, whether or not certain SPV's, being those with notes that are listed on the ASX, or other international exchanges, met the criteria for Public Accountability, as defined in AASB 1053 *Application of Tiers of Australian Accounting Standards* (AASB 1053; see Appendix A). As a result, this letter focuses only on ABS with listed notes. Following the discussion with the AASB, we offered to provide more information on certain aspects of the market which you felt may impact the assessment of whether such SPVs meet the

definition of Public Accountability, being publically issued asset backed securities 'ABS' (including residential mortgage backed securities 'RMBS'). As an industry, we are confident that such ABS are not publically accountable, and have set out our rationale in this letter, and do not believe that any obligation to Tier 1 reporting for such ABS would enhance the operation of the market, nor the information considered by investors when determining where to allocate resources. We have included additional information on the industry (see Appendix C) and excerpts from example legal documents in Appendix D to this letter which may assist your consideration of the matters contained herein. We are aware other banking sector bodies have in the past held diverging views and we welcome the opportunity to clarify the position for Australian ABS, or for additional guidance from the AASB if it disagrees with our position herein.

The ASF is confident that ABS trusts do not meet the definition of Disclosing Entities under the Corporations Act, nor are Reporting Entities, nor Publically Accountable entities, and are not therefore required to apply Tier 1 general purpose financial reporting. Currently most ABS trusts prepare special purpose financial reports on this basis. If these interpretations or requirements were to change, there would be considerable additional cost and effort incurred, particularly for those entities who are wholly reliant on securitisation funding.

Application of the Corporations Act, ASX Listing Rules and ASIC lodging requirements

The question of whether ABS with listed notes have any legal obligations under the Corporations Act 2001 (the Act) to produce financial statements has been considered by law firms who are members of the ASF. Their conclusion is that ABS do not meet the definition of a Disclosing Entity under the Act, nor is there any obligation under the ASX listing rules for financial reports to be lodged with the ASX for those ABS with listed, not quoted notes. No copies of financial statements are lodged with ASIC as these are not corporate entities, nor registered managed investment schemes, meaning that external agencies are unable to widely access these financial statements.

Application of the definition of Publically Accountable to ABS

For-profit entities that have *public accountability* are required under AASB 1053 to prepare Tier 1 reporting requirements general purpose financial statements. This requires the preparation of financial statements which comply with all the recognition and measurement requirements of Australian Accounting Standards, as well as all of the disclosure requirements.

The definition of publically accountable states that;

'A for-profit private sector entity has public accountability if:

- (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);'
- (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

Does the nature of issuance and/or trading of ABS result in public accountability?

A focus discussion area between the AASB and the ASF has been whether or not ABS with listed notes meet the definition of publically accountable entities. The ASF does not believe that listed notes in ABS result in the issuing vehicle being designated publically accountable, as notes issued

by ABS are not instruments that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).

In considering the first aspect of the definition, it is important to understand the process for listing of ABS notes on the ASX (or other international markets) as well as the commercial rationale for listing and the process for any subsequent trading of listed notes. These areas are further explored below.

- Listed, not quoted Notes

Critical to the function of a healthy securitisation market is appetite for ABS notes from investors, both international and domestic. A number of securitisations notes are listed, either on the ASX, international exchanges or both. Not all notes for all deals are listed, as this depends on investor requirements. See Appendix D.1 for an extract from an information memorandum (the document prepared by the Issuer to market the transaction to potential investors) which demonstrates that it is individual notes issued by the ABS, rather than the ABS itself which is listed. For example, the most recent CBA Medallion 2017-2 transaction listed 2 tranches out of a total of 7 issued.

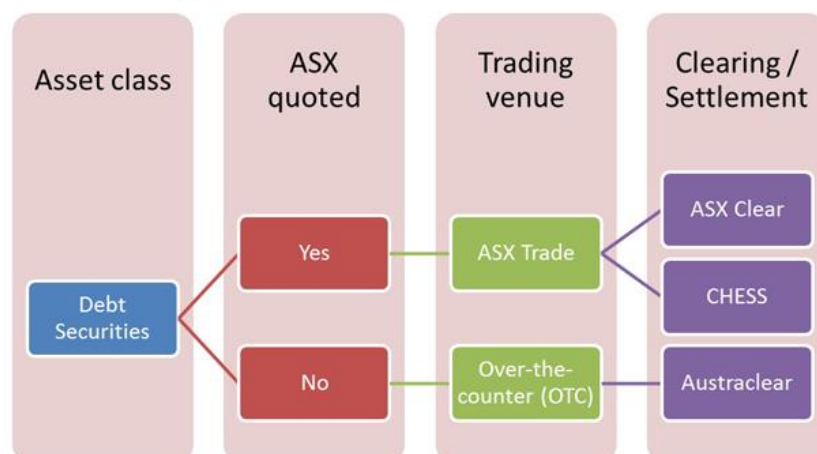
Under the ASX debt listing requirements, there are two types of debt listings – traded and wholesale (also referred to as “Listed Not Quoted”). Securitisation issuers in Australia adopt the wholesale approach. The ASX debt listing guide provides further information¹.

The below extract is taken from the ASX website.

Quoting debt securities on ASX

Companies seeking to raise debt finance take advantage of quoting debt securities on ASX for many of the same reasons that they quote shares. These include:

- access to capital for growth;
- diversifying funding sources from traditional bank lending;
- the strong public and investor profile of the ASX market; and
- access to a range of investors – both institutional and retail.



¹ https://www.asx.com.au/documents/products/debt_listing_guide.pdf.

The ASX identifies that in relation to being listed (but not quoted):

- *satisfies the 'public offer test' (see section 128F(3) of the Income tax Assessment Act 1936 (Cth) - domestically issued bonds are now marketable overseas, so long as certain conditions are met;*
- *typically satisfies overseas investors whose mandates require securities to be listed; and*
- *is a timely and efficient process.*

The ASX website states that “these securities are typically issued on an excluded offer basis (i.e. without a prospectus) to sophisticated/professional investors, pursuant to section 708 of the Corporations Act and are not quoted on ASX. To satisfy regulatory compliance and investor requirements wholesale corporate debt issuers are often required to list their securities on an internationally recognised exchange²”

The above information supports our explanation to the AASB regarding the rationale for listing of notes (being a requirement of investor mandates). It is important to also note that investors are only wholesale sophisticated investors, **Retail investors are specifically prohibited from investing in ABS** (see Appendix C and Appendix D).

The question is then asked whether ABS notes are issued for trading in an over-the-counter market for the purposes of the definition of public accountability. The AASB has requested further information as to how the notes initially price and the process for subsequent trading of investment by investors in order to further understand the operations of the market.

- Price setting and trading of notes post issuance

The price setting process at issuance involves a “roadshow” and “bookbuild” to potential sophisticated investors. These roadshows are co-ordinated by the deal managers (banks), who market the offering directly to their investor client base. Investors receive the following: a term sheet (a summary of the transaction), ratings agency assessment, information memorandum and pool cut with stratifications (summary data about the assets to be securitised). No financial reports are provided. In making their investor decision at the time of issue and subsequent to issue, investors may also analyse the transaction using modelling platforms provided by service providers such as Intex and Bloomberg. Due to the fact that the notes are listed, but not quoted, it is not possible to refer to the ASX for a ‘price’ of a note, or to actively trade via the ASX

Initial settlement payments, subsequent disbursements on notes and any buying/selling of notes are cleared through Austraclear, which holds details of the investor bank accounts. The trustee (a third party) is responsible for maintaining the register of investors, though investment is often made via custodian entities, making the ultimate holder of notes difficult to identify. Austraclear is the primary settlement facility in Australia for debt instruments.

² <https://www.asx.com.au/listings/debt-listing/non-quoted-securities-wholesale.htm>

Sale of notes, which are infrequent, do not occur directly through the ASX or another exchange – rather they occur under individual contracts (OTC) and price details are not publicly disclosed. If an investor in a note wishes to enact a sale, any transaction of the notes is negotiated between investors who are registered participants in the Austraclear system. The buyer/seller will negotiate their price, the buyer submits a notification to Austraclear and it is matched to a similar notification Austraclear receives from the seller.

Given the fact that financial statements are produced once a year and the dynamic nature of the assets that would impact the value of a note, the financial statements are not a reference point as part of the negotiation process.

The Issuer is not informed of the price nor necessarily given access to an updated register, although they may be requested to provide access to the investor to the Issuer's reporting data room. This means that at any one point the Issuer does not necessarily know the holder of all of its notes.

As noted above, the ASX does not quote a price for the notes listed thereon. It is not possible to determine a 'market price' for ABS notes via the ASX as there is no traded market with observable prices. The lack of liquidity in the secondary market for these notes and the challenges inherent in pricing and trading them is well known and understood by market participants. Each information memorandum provided to investors includes a section on risk factors potentially impacting investors, and lack of liquidity or a quoted market for trading is noted as a key investor risk therein. See Appendix D.2 for extracts from representative information memoranda.

- International listings

Due to the limits in size and appetite of the Australian market for certain classes of notes, many issuers seek international investors to supplement their Australian investor base. In order to meet internal mandate requirements, some European investors require that the notes be "listed" (but not traded) on a stock exchange. As with Australian listings, the listing occurs on a note class by class basis (i.e. it is not the trust that is listed, but rather specific note classes issued by the individual trust), and similarly to ASX rules, listing on the exchanges which are regularly used by securitisation issuers (Ireland, UK, Luxembourg) do not require financial statements preparation and lodgement as a listing requirement.

The ASF therefore believes that the processes outlined above do not meet the definition of trading in an over-the-counter market when the Q&A 2011/03 in IFRS for SMEs is applied to the current situation (See Appendix A for full Q&A):

"the availability of a published price does not necessarily mean that an entity's debt or equity instruments are traded in a public market. For example, in some countries over-the-counter shares have a quoted price, but the market has no facility for trading and so buyers and sellers deal with each other directly. This would not constitute trading in a public market³."

³ <http://archive.ifrs.org/nr/rdonlyres/dc73fe51-35ed-4128-bdf4-50256b66e62a/0/3ifrsdraftqainterpretationsoftradedinapublicmarketapril2011.pdf>

Given there is no published price, and no facility for market participants to trade via an exchange, whether in Australia or internationally, and applying the spirit of the above Q&A, we believe that listed, but not quoted ABS securitisation transactions do not meet the first part of the definition of public accountability, being an entity whose debt is traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets). We also note that the process for selling notes between investors does not vary between those ABS with publically listed notes and those without, so it would appear unusual if a different reporting framework existed for ABS where the only practical difference between the structures is that one has a note listed on an exchange due to an international investor mandate.

Does an ABS hold assets in a fiduciary capacity for a broad group of outsiders?

The second element of the public accountability definition considers holding assets in a fiduciary capacity for a broad group of outsiders. Whilst ABS arrangements do involve holding assets on behalf of investor, investors in an ABS arrangement are sophisticated wholesale investors and typically each arrangement would involve a limited number of investors. The ASF has canvassed a number of issuers and believes the maximum number of investors in the entire ABS structure (i.e. across all tranches of notes issued, not just those listed) that would be seen in an Australian ABS is circa 30.

The ASF therefore believes that a securitisation ABS is akin to an investment fund, closed to the general public and with only a few specifically selected participants (*IFRS for SMEs* Section 1: Entities that typically have public accountability).

Additionally, the ASF has considered the information used by potential investors into ABS transactions, and whether these could be considered a broad group of outsiders that would require the information contained in the financial statements in order to reach their investment decisions. We have confirmed with a number of investors in the ASF that the information they analyse, prior to any investing post issuance, is the information prepared by the Issuer/trust manager regarding cashflows, income levels, arrears and allocation of cash between parties to the transaction, as well as the excess spread. This information is all cash based, and prepared monthly and provided to potential investors on request. They do not generally ask for financial statements at a Trust level and financial reporting information is not a basis for the judgmental decision as to whether to invest.

As such, the assets held in an ABS are not held for a broad group of outsiders. Hence the second element of the public accountability definition is also not met.

The Accounting Framework as currently applied by Australian ABS

For the reasons listed above, industry participants have historically concluded that ABS are not publically accountable. We are aware there is diversity in practice of whether an entity is first assessed for Public Accountability or as a Reporting Entity, however do not believe that the order of assessment would change the positions reflected in this letter. The definition of a Reporting Entity is “an entity in respect of which it is reasonable to expect the existence of users who rely on the entity’s general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources.”

The securitisation industry has historically concluded ABS do not meet the definition of Reporting Entities, as there are not users who rely on the entity's general purpose financial statement for information that will be useful to them for making and evaluating decisions about the allocation of resources. This is due to a limited number of entities being party to ABS transactions (typically the issuer (being the sponsoring entity), the trustee and the external investors); see Appendix B for a typical Australian securitisation structure, and more detailed analysis of the parties to transactions). These parties all have access to more up-to-date, and more relevant detailed cash flow, loan performance and loan data in the form of monthly investor reports than would be provided by a full disclosure set of general purpose financial reports (GPFR). This is supported by the fact that when investors enter into a transaction, no detailed financial reporting information is included in the Information Memoranda, nor are investors regularly seeking access to financial reports post initial issuance. Given the crucial relationship between Issuers and Investors, any additional information requested by Investors is prioritised by Issuers in practice. See Appendix C.

As a result, most Australian ABS currently apply the special purpose reporting framework to their financials, which requires the application of the recognition and measurements requirements of Australian Accounting Standards, but not all the disclosure requirements. In practice such financial statements are usually only made available on request by Investors and requests to obtain a copy of them rare. The requirement to produce financial statements is usually a compliance matter, as most ABS have an obligation to produce financial statements written into the underlying trust documents that govern the operation of the trusts. This is the only obligation to prepare financial statements for ABS.

To the extent that the AASB agrees with our assessment herein, and determine ABS are not publically accountable, and that ABS are not Reporting Entities, the ASF does not believe that subsequent to the removal of SPFR, the preparation of Tier 1 or RDR financial reports would significantly enhance comparability or information available to those in the securitisation industry. As a result, for new trust vehicles, the ASF has established an industry working group to ensure that any new ABS do not inadvertently include wording which could be construed to require preparation of full Tier 1 general purpose financial reports, and instead reference financial information in a format that is tailored to be appropriate for the users, being the trustee and investors in the specific transaction. Many ABS will wind down (call) over the transition period during which the AASB is planning on removing the ability to use special purpose financial reports, and the ASF will work with the industry to enable a practical transition for the remaining ABS given the cost prohibitive practicalities of amending trust deeds for all outstanding ABS.

Engagement with Industry

We hope that the information contained in this letter assists the AASB in its understanding of the Australian securitisation market and its participants and operations. The ASF strongly believes that the nature of the market and its sophisticated, wholesale investors, and in particular the lack of trading via an exchange, given the illiquid unobservable secondary market in the issued notes means that Australian ABS do not meet the definition of publically accountable entities.

In addition, we would struggle to understand how the needs of market participants, in particular investors who are the key parties exposed to ABS transactions, would be more informed through the provision of Tier 1 financial reports, given they currently receive plentiful, timely and relevant information which is more pertinent to their understanding of their investment. It would appear unusual to us that theoretically, two identical structures could be perceived as

having one be publically accountable, but not the other if the only difference between the two would be whether a tranche of notes was listed.

Finally, we believe the additional burden of producing Tier 1 general purpose financial reports would be significant, particularly for those market participants that are wholly funded by securitisation and which have a very different business model to traditional banks. These entities are focused on bringing competition and innovation to the Australian mortgage market. They would not have the ability to easily absorb the cost (see Appendix C for information on the challenges and costs associated with amending trust documentation).

If the AASB disagrees with our assessment of public accountability for ABS, as an industry we would request a transition period to cover the expected life of the majority of current outstanding ABS (average life 5 years depending on transaction) to allow for participants in that transaction to make the necessary amendments to Trust Deeds, for example to specifically allow investors to seek additional financial information on request, including fully AASB compliant financial reports if required, to enable the industry to manage the practical challenges and additional cost implications involved in changing trust documentation.

We have listened and are grateful for your feedback and suggestions regarding amending trust documents on a go-forward basis to ensure that any ongoing reporting obligations, outside those imposed by the ASX, the Corporations Act or Australian Accounting Standards are framed in an industry appropriate manner avoiding inadvertently requiring application of Tier 1 Accounting Standards.

Thank you for considering the information contained herein. Please do not hesitate to contact us if further information about the Australian securitisation market and transactions between its participants would be of assistance.

Yours sincerely



Chris Dalton
Chief Executive Officer



Heather Baister
Chair of ASF Accounting & Tax Subcommittee

APPENDIX A: KEY ACCOUNTING FRAMEWORK PRONOUNCEMENTS

Bold emphasis added throughout

- **AASB 1053 *Application of Tiers of Australian Accounting Standards***

Appendix A.

Public accountability means accountability to those existing and potential resource providers and others external to the entity who make economic decisions but are not in a position to demand reports tailored to meet their particular information needs.

A for-profit private sector entity has public accountability if:

- (a) its debt or equity instruments **are traded in a public market** or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or **an over-the-counter market**, including local and regional markets); or
- (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

Appendix B - Public Accountability

B1 Public accountability is defined in Appendix A. The notion of public accountability is consistent with the notion adopted by the IASB in its International Financial Reporting Standard for Small and Medium sized Entities (IFRS for SMEs). It is different from the notion of public accountability in the general sense of the term that is often employed in relation to not-for-profit, including public sector, entities.

B2 The following for-profit entities are deemed to have public accountability:

- (a) disclosing entities, even if their debt or equity instruments are not traded in a public market or are not in the process of being issued for trading in a public market;
- (b) co-operatives that issue debentures;
- (c) registered managed investment schemes;
- (d) superannuation plans regulated by the Australian Prudential Regulation Authority (APRA) other than Small APRA Funds as defined by APRA Superannuation Circular No. III.E.1 Regulation of Small APRA Funds, December 2000; and
- (e) authorised deposit-taking institutions.

- **Statement of Accounting Concepts SAC 1 –*Definition of a Reporting Entity***

Reporting entity means an entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial statements for information **that will be useful to them** for making and evaluating decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries.

- **IFRS for SME's Definition of Public Accountability**

An entity has public accountability (and, therefore, should use full IFRS) if: it has issued debt or equity securities in a public market, or it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund, or investment bank.

- **IFRS for SMEs Section 1 Q&A 2011/03 “*Interpretation of ‘traded in a public market’ in applying the IFRS for SMEs*”**

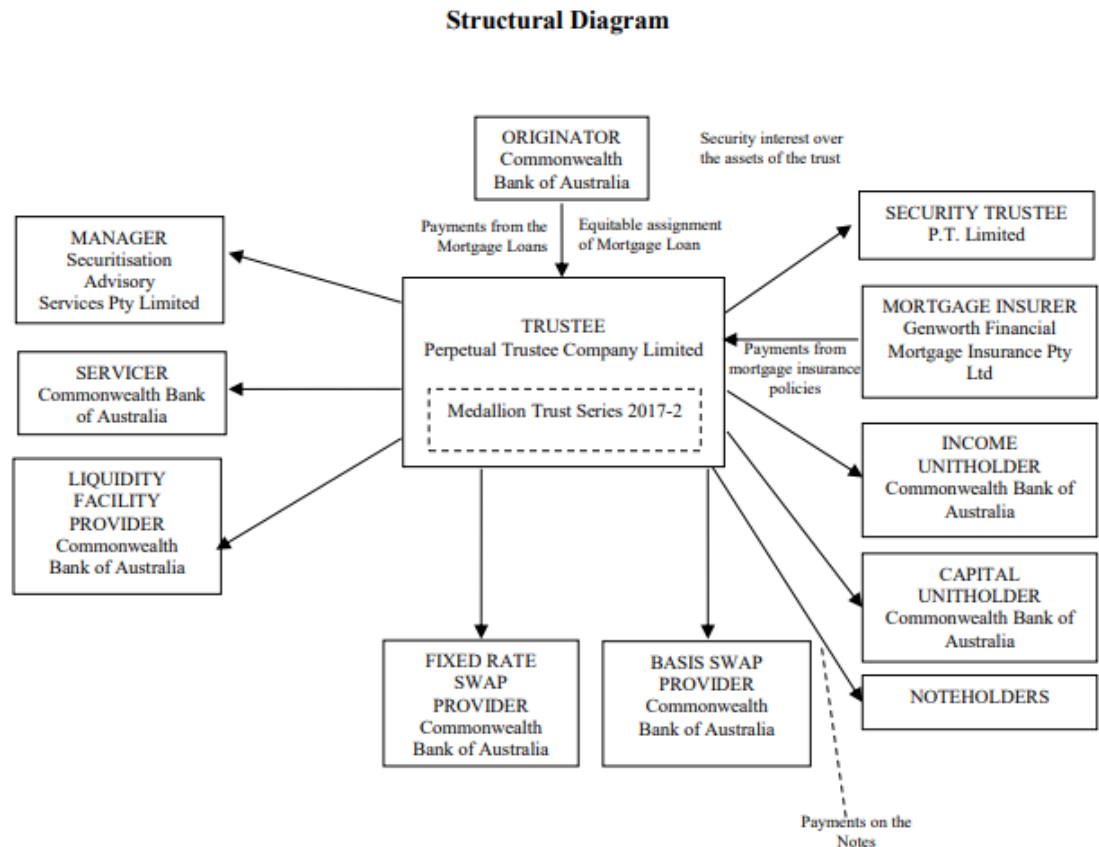
An entity has public accountability ‘if its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market’ (paragraph 1.3). How broadly should ‘traded in a public market’ be interpreted in the definition of public accountability? For example, in Europe does it include only those markets that are defined as ‘regulated markets’ for the purpose of EU accounting regulations or does it also include other markets such as growth share markets and over-the-counter markets? **In addition, would a listing of convenience, i.e. a market in which a ‘net asset value’ price is published but no trading occurs in that market, make an entity publicly accountable?**

Q&A.4 Furthermore, the availability of a published price does not necessarily mean that an entity’s debt or equity instruments are traded in a public market. **For example, in some countries over-the-counter shares have a quoted price, but the market has no facility for trading and so buyers and sellers deal with each other directly. This would not constitute trading in a public market.** However, if trading occurs only occasionally in a public market, even only a few times a year, this would constitute trading.

APPENDIX B – A TYPICAL RMBS / ABS SECURITISATION STRUCTURE

The structure below is taken from the most recent CBA securitisation information memorandum, page 17

[https://www.commbank.com.au/content/dam/commbank/about-us/securitisation/pdf/medallion-trust-reports/series-2017-2-medallion-trust/information-memorandum/34094526\(10\)_Information%20Memorandum%20-%20Medallion%202017-2.pdf#](https://www.commbank.com.au/content/dam/commbank/about-us/securitisation/pdf/medallion-trust-reports/series-2017-2-medallion-trust/information-memorandum/34094526(10)_Information%20Memorandum%20-%20Medallion%202017-2.pdf#)



All roles other than Security Trustee and Mortgage Insurer are performed by CBA or its subsidiaries. Noteholders are external investors.

APPENDIX C: ADDITIONAL INFORMATION REQUESTED BY THE AASB

INFORMATION REQUESTED BY THE AASB

During the recent meeting between the AASB and the ASF, a range of other topics were discussed briefly with the AASB, details of which have been included herein to assist the AASB in understanding the operation of the Australian market, and the information currently available to those investors. These matters include:

- Current financial statement requirements for ABS
- Users of the financials
- Nature of investors,
- Treatment of ABS in Issuer financials.
- Information produced by Issuers,
- Processes for amendment of trust documentation, including cost

1. Current Financial Statement requirements for ABS

As trusts, the ABS are not subject to the requirements of the Corporations Act or ASIC requirements to produce financial statements. It is however common practice for the key legal documents which establish and determine the operation of each ABS (the Master Trust Deed and the Series Supplements) to require the preparation of a set of financial statements. The wording used in these documents varies but is often framed as 'in accordance with generally accepted accounting principles' or 'Australian accounting standards', with these usually not being defined in the Trust documents. Lawyers working with the ASF have informed us that they do not believe the intention of this phrasing was to require compliance with a specific accounting framework, otherwise these phrases would have been further defined and capitalised, rather to require the preparation of financials that would be considered relevant to the trust. Other wording that has been applied has been to prepare a financial report containing the net tax income of each trust. As trusts outside the Corporations Act, and ASIC requirements, it is this requirement in the trust documents that is the only factor requiring the preparation of financial statements. The financial reports produced and audited are available on request to investors, however it is our understanding that this is very rarely, if ever sought.

We are aware there is diversity in practice of whether an entity is first assessed for Public Accountability or as a Reporting Entity, however do not believe that the order of assessment would change the positions reflected in this letter. A Reporting Entity is defined as "an entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources."

Most ABS have been determined not to be Reporting Entities as defined in Statement of Accounting Concepts SAC 1 "Definition of the Reporting Entity" (see Appendix A) as the only users have been determined to be the investors and trustees who have access to additional information via the monthly investor reporting which is more relevant, up to date and more

focused on their needs as investors. See Appendix B for a typical structure and the parties to an ABS transaction. As such, the majority of securitisation trusts in the Australian market produce special purpose financial reports and do not prepare detailed AASB 7 disclosures. Most sets of trust financial statements do however list the roles performed for the trust (Trustee, Trust Manager, Servicer etc.) which are the key related party transactions, as well as the fees paid to the related parties for these roles.

Section 4.7A of the ASX Listing Rules requires that where an ASX Debt Listing is required to comply with section 319 or 601CK of the Corporations Act, the accounts must be lodged with ASX. If there are no Corporations Act requirements, then the accounts lodged with any overseas regulators must be lodged with the ASX. Whilst the listing rules appear to be silent on an Australian trust, being the structure used for Australian ABS, some trustees and trust managers may assess that where a trust manager provides the trustee or investor financial statements (by virtue of a trust deed requirement), then these should be provided to the ASX. If, however no financial statements are prepared, there is no overarching requirement by the ASX (or any of the other key listing exchanges) for such financial statements to be made available.

- *Users of the Financial Statements and Information Available to Them.*

As noted previously, key roles in an ABS transaction are typically the issuer, the trustee and the external investors, all have access to more up-to-date data in the form of monthly investor reports than would be provided by a full disclosure set of general purpose financial reports (GPFR). These monthly investor reports focus on monthly cashflows, arrears and loss information and summary pool (underlying asset) information. As the underlying assets within a trust must be held for collection for the duration of the transaction term and cannot be sold, typical general purpose financial reporting disclosures (AASB 7) covering matters such as fair value of assets, liquidity etc. are of minimal interest to investors. Information such as credit risk management and market risk is already fully disclosed in more detail in the prospectus to external investors than is commonly provided in financial statements (see sections 7 and 11.3 of CBA's most recent information memorandum to demonstrate level of detail regarding approach to credit risk and default risk on these assets⁴). An example of monthly reporting provided to investors have already been provided to the AASB. Further examples for the CBA transaction can be seen at:

https://www.commbank.com.au/content/dam/commbank/about-us/securitisation/pdf/medallion-trust-reports/series-2017-2-medallion-trust/investor-report/M0172_InvestorReport_25Jun2018.pdf#

https://www.commbank.com.au/content/dam/commbank/about-us/securitisation/pdf/medallion-trust-reports/series-2017-2-medallion-trust/servicer-certificate/M0172_ServicerCertificate_25Jun2018.pdf#

As such, the ASF strongly believes that the provision of additional information in line with the disclosure requirements of Tier 1 general purpose financial reports, would not provide any additional information to parties to an ABS transaction, being the external investors, and

⁴ [https://www.commbank.com.au/content/dam/commbank/about-us/securitisation/pdf/medallion-trust-reports/series-2017-2-medallion-trust/information-memorandum/34094526\(10\)_Information%20Memorandum%20-%20Medallion%202017-2.pdf#](https://www.commbank.com.au/content/dam/commbank/about-us/securitisation/pdf/medallion-trust-reports/series-2017-2-medallion-trust/information-memorandum/34094526(10)_Information%20Memorandum%20-%20Medallion%202017-2.pdf#)

therefore would not aid the open and transparent operation of markets. As noted below, investors into the Issuers of ABS (as opposed to the ABS trusts themselves) will have access to more detailed, and disclosures via the issuers consolidated financial statements.

2. RBA repo-eligibility

Certain senior notes in ABS are registered by the Issuers with the Reserve Bank of Australia (RBA) as being repo-eligible if they meet certain requirements specified by the RBA. The RBA can therefore be considered to be an interested party to an ABS if the senior note is repo-eligible. As a condition of repo-eligibility, issues are required to be compliant with the Reserve Bank's reporting requirements for asset-backed securities. These requirements include monthly reporting to the RBA of over 100 data points on each loan within a securitisation, as well as the monthly cashflow waterfall (being the cash received by each ABS on the assets as well as payments made on the notes and to service providers). These data requirements are specified by the RBA and therefore clearly tailored to their needs. In addition, a redacted version of the RBA reporting is required to be made available to permitted users, including potential investors, which therefore provides detailed information to wholesale investors considering acquiring notes in a secondary market transaction. Further details on the availability of information to permitted users can be seen at:

<http://www.rba.gov.au/securitisations/reporting-guidelines/index.html>

3. Inclusion of financial information regarding ABS into Issuer financial statements

Most ABS trusts are consolidated into the financial reports of the Issuers. The application of AASB 10 *Consolidation* to a standard ABS structure (similar to that set out in Appendix B) results in a conclusion that the issuer has:

4. power over the trust (the investee) due to its role of Servicer responsible for collections on the underlying assets;
5. exposure or rights to variable returns from its involvement with the investee (due to its holding of residual income units which distribute margins earned, and absorb first losses in the structures); and
6. the ability to use its power over the trust to affect its returns.

This means that the securitisation vehicles are included in the consolidated financial statements and disclosures of the Issuer, to the extent that that Issuer meets the requirements for Tier 1 or Tier 2 reporting. For banks and listed entities, this would include Tier 1 disclosures. For non-bank lenders that are not listed, this will depend on their obligations under the Corporations Act and their determination of Reporting Entity under SAC 1.

• Nature of Investors in ABS Structures

Securitisation structures are not available for investment by retail investors. This is clearly stated in every Information Memorandum where it is expressly stated that the notes are not to be offered to retail investors, or subsequently transferred to retail investors. (see Appendix D.3). As such the only investors in such structures are sophisticated wholesale investors with the knowledge and understanding to interpret the information contained in the investor reporting and the information memorandum.

- *Cost and effort to prepare Tier 1 GPFR*

The preparation of Tier 1 GPFR by Issuers for each ABS would take considerable time and effort. We acknowledge that on a consolidated basis, the information is already available and disclosed in the Issuers' consolidated financial statements, however the split of this information into trust by trust level data is not usually readily available and would involve analysis of certain aspects of the trusts which are not disclosed in the consolidated financial statements as the junior notes, residual income units and inter-group fees which are usually on consolidation and which would take time to assess, audit and prepare.

Issuers have estimated the internal cost to prepare each set of Tier 1 financial reports would take approximately 2.5 days of manpower to prepare and review. Audit firms estimate the additional cost to audit each set of trust financial statements would be approximately \$35k.

This would disproportionately impact the non-bank lender members of the industry given their large number of trusts (some having up to 20 ABS) and the size of these issuers, which make up approximately 6% of the Australian mortgage market.

The ASF therefore believes that if it were determined by the AASB that general purpose financial reporting was appropriate for ABS, the cost and effort that would be incurred in preparing general purpose financial statements for ABS Issuers could be considerable for certain market participants, without adding additional information, clarity or value to the market and its participants, including investors.

- *Practicalities and obligations in amending Trust documents*

As noted above, the current driver of the preparation of financial reports for ABS has been requirements of the underlying transaction documents. For some SPV structures, which are not listed on any exchanges for external investors, and therefore outside the areas of the AASB's current focus (for example warehouse trusts and internal securitisations where there are minimal contracting parties to the transaction) the ability to clarify or amend financial reporting requirements within the transaction documents is relatively straightforward.

The amendment of transaction documents for ABS however is more complicated. See Appendix D.4. The securitisation market has historically taken a conservative approach to the amendment of Master Trust Deeds and their accompanying Series Notices which underpin the requirements of each trust. Whilst amendments are allowable under the legal documents, it has generally been interpreted that any change to the legal documents will impact the noteholders, and as such, require the consent of a majority, or specified percentage of Noteholders prior to effecting. As such, the ASF believes a Trustee would likely seek to obtain consent from Noteholders prior to effecting an amendment to the legal documents to either remove or rephrase the requirement to produce financial statements. The practicalities of this are challenging, time consuming and costly and with no guarantee of a successful outcome, especially for those Issuers with a large number of issuances, given that the Issuer does not necessarily know which investor holds which note (see section A on trading of notes via Austraclear).

APPENDIX C – EXTRACTS FROM INFORMATION MEMORANDA.

Extracts are taken from CBA's Series 2017-2 Medallion Transaction (CBA) and Pepper Group's Pepper Residential Securities Trust No. 20. (Pepper). These are provided as indicative of typical securitisation structures, and to show uniformity of approach between different issuers (Major Bank / non-bank lender; prime transaction / non-conforming).

C.1 Listings

Pepper: Section 3 'Risk Factors: Listing on the Australian Securities Exchange'

An application has been or will be made by the Trust Manager to list the Class A1-S Notes, the Class A1-a Notes, the Class A2 Notes and the Class B Notes on the Australian Securities Exchange. There can be no assurance that any such listing will be obtained. The issuance and settlement of the Class A1-S Notes, the Class A1-a Notes, the Class A2 Notes and the Class B Notes on the Closing Date is not conditioned on listing the Class A1-S Notes, the Class A1-a Notes, the Class A2 Notes or the Class B Notes on the Australian Securities Exchange.

C.2 Liquidity of Notes

Pepper Extract:

Section 1.3 "Selling Restrictions"

No person has taken or will take any action that would permit a public offer of the Offered Notes in any country or jurisdiction. The Offered Notes will be offered non-publicly pursuant to certain exemptions from the Securities Act. The Offered Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any form of application, advertisement or other offering material may be issued, distributed or published in any country or jurisdiction, unless permitted under all applicable laws and regulations. The distribution of this Offering Circular and the offer or sale of the Offered Notes may be restricted in some jurisdictions. In particular, there are restrictions on the distribution of this Offering Circular and the offer and sale of the Offered Notes in the United Kingdom, the European Economic Area, Australia and in the U.S. You should inform yourself about and observe any of these restrictions. For a description of further restrictions on offers and sales of the Offered Notes, see Section* ("Notice to investors – transfer restrictions in respect of the Class A1-u1 Notes") and Section ("Notice to Investors – transfer restrictions in respect of the Offered A\$ Notes").

Section 3 "Risk Factors" – You may not be able to resell your offered notes"

The Lead Managers and the Co-Managers are not required to assist the Offered Noteholders in reselling the Offered Notes. There is currently no secondary market for the Offered Notes. [Although an application has been or will be made to list the Class A1-S Notes, the Class A1-a Notes, the Class A2 Notes and the Class B Notes on the Australian Securities Exchange,] a secondary market for the Offered Notes may not develop. If a secondary market does develop, it might not continue or might not be sufficiently liquid to allow the Offered Noteholders to resell any of the Offered Notes readily or at the price the Offered Noteholders desire. The market value of the Offered Notes is likely to fluctuate, which could result in significant losses to the Offered Noteholders.

Section 3.2 “Secondary Market Risk” –

The Dealers have undertaken to use reasonable endeavours, subject to market conditions, to assist Noteholders (other than Redraw Noteholders) so requesting to locate potential purchasers of the relevant Notes from time to time in order to facilitate liquidity in the relevant Notes. However, there is no assurance that any secondary market for the Notes will develop or, if one does develop, that it will provide liquidity of investment or will continue for the life of the Notes.

C.3 Non-retail Nature of Investors:

Pepper: Section 25.3 “Offering Restrictions”

“Accordingly, each Lead Manager and each Co-Manager represents and agrees that it:

- (d) the offer or invitation does not constitute an offer to a “retail client” as defined for the purposes of section 761G of the Corporations Act;”

“Each purchaser of Class A1-u Notes, by its acceptance thereof, will be deemed to have acknowledged, represented to, warranted and agreed with the Trustee, the Trust Manager, the Note Trustee and the Lead Managers and the Co-Managers as follows:

- 6) The purchaser is not a “retail client” for the purposes of Chapter 7 of the Corporations Act.”

Pepper Section 1.2 “Offeree Acknowledgements”

The Offered Notes are being offered pursuant to the exemptions from registration under the Securities Act described in the Section* (“Notice to investors – transfer restrictions in respect of the Class A1-u Notes”) and Section Investors – transfer restrictions in respect of the Offered A\$ Notes”) (as applicable) and have not been nor will they be registered under the U.S. Securities Act of 1933, as amended (“**Securities Act**”), or the securities laws of any other jurisdiction. The Offered Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as described under (“Notice to investors – transfer restrictions in respect of the Class A1-u Notes”) and Section* (“Notice to Investors – transfer restrictions in respect of the Offered A\$ Notes”) (as applicable) and the applicable state securities laws pursuant to registration or exemption therefrom. There can be no assurance that a meaningful secondary market for the Offered Notes will develop. See Section (“Notice to investors – transfer restrictions in respect of the Class A1-u Notes”), Section * (“Notice to Investors – transfer restrictions in respect of the Offered A\$ Notes”) and (“Risk Factors”) under the heading “You may not be able to resell your Offered Notes

C.4 Amendments to Transaction Documents

CBA: Section 1.10 “Issue Not Requiring Disclosure to Investors under the Corporations Act “
This Information Memorandum is not a “Prospectus” for the purposes of Chapter 6D of the Corporations Act or a “Product Disclosure Statement” for the purposes of Chapter 7 of the Corporations Act and is not required to be lodged with the Australian Securities and

Investments Commission under the Corporations Act as each offer for the issue, any invitation to apply for the issue, and any offer for sale of, and any invitation for offers to purchase, the Notes to a person under this Information Memorandum:

(a) ..

(b) is made to a professional investor for the purposes of section 708 of the Corporations Act; or

(c) does not otherwise require disclosure to investors under Part 6D.2 of the Corporations Act and is not made to a Retail Client.

A person may not (directly or indirectly) offer for issue or sale, or make any invitation to apply for the issue or to purchase, the Notes nor distribute this Information Memorandum except if the offer or invitation:

(a) does not need disclosure to investors under Part 6D.2 of the Corporations

Act;

(b) is not made to a Retail Client; and

(c) complies with any other applicable laws in all jurisdictions in which the offer or invitation is made.

Extract from Information Memorandum pertaining to amendments to legal documents

CBA Extract

Section 10.2 Modifications of the Master Trust Deed and Series Supplement

The Trustee and the Manager, with respect to the Master Trust Deed, and the Trustee, the Manager, the Seller and the Servicer, with respect to the Series Supplement, may amend, add to or revoke any provision of the Master Trust Deed or the Series Supplement (as applicable), subject to the limitations described below, if the amendment, addition or revocation:

(a) in the opinion of the Trustee is necessary to correct a manifest error or is of a formal, technical or administrative nature only;

(b) in the opinion of the Trustee, or of a lawyer instructed by the Trustee, is necessary or expedient to comply with the provisions of any law or regulation or with the requirements of the government of any jurisdiction or any governmental agency;

(c) in the opinion of the Trustee is required by, a consequence of, consistent with or appropriate or expedient as a consequence of an amendment to any law or regulation or altered requirements of the government of any jurisdiction or any governmental agency, including, an amendment, addition or revocation which in the opinion of the Trustee is appropriate or expedient as a result of an amendment to Australia's tax laws or any ruling by the Australian Commissioner or Deputy Commissioner of Taxation or any governmental

announcement or statement, in any case which has or may have the effect of altering the manner or basis of taxation of trusts generally or of trusts similar to any of the Medallion Trust Programme trusts;

(d) in the case of the Master Trust Deed, relates only to a Medallion Trust Programme trust not yet constituted;

(e) in the opinion of the Trustee, will enable the provisions of the Master Trust Deed or the Series Supplement to be more conveniently, advantageously, profitably or economically administered; or

(f) in the opinion of the Trustee is otherwise desirable for any reason. Any amendment, addition or revocation referred to in the last two of the above paragraphs which in the opinion of the Trustee is likely to be prejudicial to the interests of:

(i) a Class of Unitholders, may only be effected if those Unitholders pass a resolution by a majority of not less than 75% of the votes at a meeting approving the amendment, addition or revocation or all such Unitholders sign a resolution approving the amendment, addition or revocation, subject to the following paragraph;

(ii) all Unitholders, may only be effected if the Unitholders pass a resolution by a majority of not less than 75% of the votes at a meeting approving the amendment, addition or revocation or all Unitholders sign a resolution approving the amendment, addition or revocation. A separate resolution will not be required in relation to any Class of Unitholders;

(iii) a Class of Noteholders, may only be effected if those Noteholders pass a resolution by a majority of not less than 75% of the votes at a meeting approving the amendment, addition or revocation or all such Noteholders sign a resolution approving the amendment, addition or revocation, subject to the following paragraph; or

(iv) all Noteholders, may only be effected if the Noteholders pass a resolution by a majority of not less than 75% of the votes at a meeting approving the amendment, addition or revocation or all Noteholders sign a resolution approving the amendment, addition or revocation. A separate resolution will not be required in relation to any Class of Noteholders.

The Manager must advise the Rating Agencies in respect of each Medallion Trust Programme trust affected by the amendment, addition or revocation no less than 10 Business Days prior to any amendment, addition or revocation of the Master Trust Deed or the Series Supplement and must provide the Trustee with a Rating Affirmation Notice in relation to the proposed amendment, addition or revocation. The Trustee may not amend, add to or revoke any provision of the Master Trust Deed or the Series Supplement if the consent of a party is required under a Transaction Document unless a Rating Affirmation Notice has been provided to the Trustee.



ACT
Government

Chief Minister, Treasury and
Economic Development

ITC 39 sub 18

Ms Kris Peach
The Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Dear Ms Peach *KMS*

Invitation to Comment (ITC) 39 – Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to ITC 39 - *Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*.

On balance, HoTARAC supports the approach preferred by the AASB in ITC39 (Option 1), on the basis that no change will be required for not-for-profit (NFP) public sector entity as part of Phase 1. This provides a logical short-term approach to the “SPFS problem”, integrated with the implementation of the IFRS Revised Conceptual Framework. HoTARAC notes that consideration of public sector reporting requirements will also involve consideration of the issues raised in the *Discussion Paper: Improving Financial Reporting for Australian Public Sector*, and that consideration of the issues raised in ITC 39 should not be considered in isolation.

The attachment to this letter sets out HoTARAC’s comments on the specific and general matters. If you have any queries regarding our comments, please contact Peter Brown from the Commonwealth Department of Finance on (02) 6215 2969 or by email to peter.brown@finance.gov.au.

Yours sincerely,

David Nicol

CHAIR

Heads of Treasuries Accounting and Reporting Advisory Committee

16 August 2018

Specific Matters for Comment

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

Yes. The main reason is we expect that the RCF will need to be modified for NFP issues, and that this process will take some time. While the ideal approach would be that modifications are made and the RCF applied to all entities at the same time, HoTARAC acknowledges the need of IFRS compliant entities to use the RCF on its application date.

HoTARAC does not expect major differences in application of accounting standards to emerge if the period for implementation of Phase 2 is kept short. If Phase 2 takes a long time there could be issues in “mixed” public sector groups comprised of entities applying different conceptual frameworks.

Question 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?

HoTARAC’s view is that the RCF should be applicable to all entities claiming compliance with IFRS (whether mandatorily or voluntarily), whether they are in the private or public for-profit sectors. Compliance with IFRS should be the criterion, not the sector in which they operate.

Question 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?

No. This is usually not an option in the not-for-profit (NFP) public sector, and we have not identified any instances in the for-profit public sector.

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

No comment. This applies to entities in the for-profit private sector.

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

HoTARAC has not reviewed these proposals in detail. However, if they result in no change to the NFP public sector reporting requirements during Phase 1, HoTARAC would support the proposed amendments.

Question 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?

HoTARAC agrees that the *AASB Standard Setting Framework for Not-for-Profit Entities* has been appropriately applied. See also Question 8.

HoTARAC provides no comment in respect of the *AASB Standard-Setting Framework for For-Profit Entities*.

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

HoTARAC notes that reporting requirements for NFP public sector entities are set by regulators in each jurisdiction, either in legislation or with authority derived from legislation, and which may limit the ability to make changes to financial reporting frameworks. However, HoTARAC does not expect this to affect the implementation of the proposals in Phase 1.

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

HoTARAC's view is that 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: Improving Financial Reporting for Australian Public Sector*. Consideration of reporting models for the public sector may involve consideration of IPSAS standards

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

No comment.

Question 10. The costs and benefits relative to the current requirements, & etc?

HoTARAC does not expect significant changes in financial statements of either for-profit or NFP public sector entities during Phase 1. Accordingly, we do not expect significant changes to preparation and audit costs for NFP entities.

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”). We do not expect this effect to be significant.

16 August 2018

Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Via Email: standard@asb.gov.au

Dear Ms Peach

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

Thank you for the opportunity to provide a submission on the Consultation Paper – Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems (“**the CP**”).

The Australian Institute of Company Directors (**AICD**) is committed to excellence in governance. We make a positive impact on society and the economy through governance education, director development and advocacy. Our membership of more than 43,000 includes directors and senior leaders from business, government and the not-for-profit sectors.

The AICD supports the need for consultation in order to adopt the International Accounting Standards Board (**IASB**) revised Conceptual Framework (**RCF**) in Australia. We also acknowledge that special purpose financial statements (**SPFS**) are not comparable and that the Australian Accounting Standards Board (**AASB**) is concerned that the framework allows entities to ‘self-assess’ their compliance obligations.

1. Executive Summary

The AICD generally supports the short-term approach outlined in the CP. This approach will enable entities to continue to comply with International Financial Reporting Standards (**IFRS**) where relevant. For those entities where IFRS is not relevant, the AICD supports the AASB proposal to continue to allow them to adopt the existing Framework and prepare SPFS if appropriate.

However, we highlight the following matters for further consideration by the AASB:

- For publicly accountable entities within a wholly owned group structure currently producing SPFS, further assessment of user needs should be undertaken prior to any standard being introduced; and
- We consider the introduction of two conceptual frameworks into the Australian reporting framework is a significant change that warrants application of regular consultation requirements, which includes the issue of an Exposure Draft.

In regards to the AASB's medium term approach, the AICD notes that it does not support an increase in regulatory burden for for-profit entities or not-for-profit entities. Therefore, we would be unlikely to support any proposed changes to the reporting framework to be considered as part of Phase 2, without a significant financial reporting threshold increase (across for-profits and not-for-profits) sufficient to balance the increased reporting burden. We will explore this matter further in our Phase 2 submission.

2. Phase 1 – Short-term approach

The AICD supports the AASB's short-term approach in considering any changes to the reporting framework, in so far as it considers publicly accountable entities separately to those that are not publicly accountable. This approach is outlined in paragraph 70 of the CP and proposes:

- The IASB's RCF to apply to publicly accountable for-profit entities and other entities that voluntarily report compliance with IFRS
- All other entities to continue to apply the AASB's existing framework enabling them to continue to use the Australian 'reporting entity' concept
- Amendments to the definition of publicly accountable to align with the revised IASB definition.

3. Publicly Accountable entities

The AICD considers that it is important for listed companies to maintain compliance with IFRS as part of the broader development of a single set of accounting standards for worldwide use. The reason for this support is:

- IFRS facilitates the ability for listed entities to attract capital; and
- IFRS enables improved comparability with global peers.

In order to maintain IFRS compliance, these entities will be required to adopt the IASB's RCF. Therefore, we support the introduction of the IASB's RCF into the Australian Financial Reporting Framework, as it applies to listed entities.

We note the definition of public accountability includes not only listed entities but also other entities that operate in a fiduciary capacity, such as banks, credit unions, insurance companies and registered managed investment schemes. We are aware that many of these non-listed publicly accountable entities already prepare GPFS and therefore the changes proposed by AASB will have no impact. Therefore, we have no objections to the IASB's RCF applying to these entities.

However, we are aware that some wholly owned entities exist that meet the definition of publicly accountable and currently prepare SPFS (on the basis that no external users exist for the financial statements). These entities will be impacted by the AASB proposals by requiring the preparation of GPFS, resulting in an increase in reporting burden through more disclosures and possibly consolidation, arguably for no user benefit. We consider the AASB should further explore the user needs for such a requirement, particularly for entities within a wholly owned group structure, to ensure no unintended consequences result.

4. Non-publicly Accountable entities

The AICD considers that the existing Framework (i.e. continuing to allow the 'reporting entity' concept and the preparation of SPFS) should continue to be applicable to other entities (i.e. non publicly accountable entities), at a minimum in the short term.

We consider that any change to these requirements will be a compliance burden for these entities, many of whom are SMEs and have resource constraints. Therefore, any proposals for change should require extensive analysis, compelling evidence and thorough consultation as well as a reasonable transition period for implementation.

In order to present compelling evidence for change in the future we would recommend:

- A current analysis of the existence of SPFS across all sectors and the extent of adoption of accounting standards, in order to assess the impact of its withdrawal. This should include consideration of the flow-on effect for those entities preparing financial reports for non-statutory purposes.
- A current analysis of the adoption of the Reduced Disclosure Regime across all sectors, in order to assess the impact of its withdrawal
- A thorough consideration of the financial reporting framework as a whole, including consideration of financial reporting thresholds within the *Corporations Act* 2001 (which should include a review of companies limited by guarantee thresholds)
- A comprehensive study of user needs in both the for-profit and not-for-profit sectors identifying who the users are, and what information they require in an annual financial report that they cannot access elsewhere
- The review of user needs should assess whether IFRS compliance and global comparability is necessary for these entities.

5. Next steps

The AICD will consult further with members as we explore the AASB options provided in the CP, with a view to providing a Phase 2 submission in November 2018.

We hope our comments will be of assistance to you. If you would like to discuss any aspect of this submission, please contact Kerry Hicks, Senior Policy Adviser, on 61 (0) 28248 6635 or at khicks@aicd.com.au.

Yours sincerely



LOUISE PETSCHLER

General Manager, Advocacy

16 August 2018

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

Dear Kris,

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

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

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

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

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

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

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

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

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



Australian Banking
Association

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

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

Yours faithfully,

Tony Pearson

Chief Economist & Executive Director

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Appendix A

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

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

1. Phase 1 specific matters for comment

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

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

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

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

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

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

1.1 Securitisation vehicles

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

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

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

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

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

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

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

AASB 1053

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

[emphasis added]

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

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

¹ https://www.asx.com.au/documents/rules/austraclear_system_regulations.pdf

² <https://www.asx.com.au/listings/debt-listing.htm>

³ <http://www.rba.gov.au/securitisations/data-to-be-reported/index.html>

SAC 1

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

[emphasis added]

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

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

Separation of management from economic interest

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

Economic or political importance/influence

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

Financial characteristics

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

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

The removal of SAC 1 and the reporting entity definition from various Standards would require securitisation vehicles to prepare Tier 1 general purpose financial statements. As noted above, no

existing or potential users exist for this information. Therefore, we do not believe that any user benefit would arise from the AASB's proposals in this respect.

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

- 1) Continued application of Australian Accounting Standards
- 2) Amendments made to trust deeds to stipulate appropriate framework to apply to financial statements.

1.1.1 Continued application of Australian Accounting Standards

To ascertain the potential costs that would be imposed, the ABA obtained estimates from its members and also with auditors to identify incremental costs for transition and ongoing application of the proposals. The table below outlines the estimated impact on entities in the securitisation sector⁴:

Activity	Transition (\$'000)	Ongoing (\$'000)
Review disclosures, in particular: <ul style="list-style-type: none"> - AASB 1 <i>First-time Adoption of Australian Accounting Standards</i> - AASB 7 <i>Financial Instruments: Disclosures</i> - AASB 13 <i>Fair Value Measurement</i> - AASB 124 <i>Related Party Disclosures</i> <p>The transition impact is based on an average of 1 FTE (internal or contractor) required for 6 months at a manager experience level. This FTE will be required to assess the changes required to financial reporting templates per entity.⁴</p>	68.4 – 75.6	-
Transition audit, calculated as a third of current average audit expense per issuance (each issuance prepares individual financial statements). ⁴	7.9 – 8.7	-
Ongoing preparation effort for all but AASB 1 identified above. Calculated based on an average of 0.1 FTE (internal or contractor at manager level) required for 2 months every year to prepare / review financial statements. This cost will be incurred for each issuance.	-	2.3 – 2.5
Ongoing audit fee increase (SPFR vs Tier 1 GPFR). This is based on the one exception noted previously where a securitisation vehicle prepares Tier 1 GPFR and consultation with auditors. Expectation is an average 40% increase in audit fees for each issuance.	-	10.0
Incremental cost arising from AASB proposals	76.3 – 84.3	12.3 – 12.5

1.1.2 Amend trust deeds to stipulate applicable accounting framework

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

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

1.1.3 Overall

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

1.2 Internal registered managed investment schemes

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

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

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

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

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

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

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

1.2.1 Update to AASB 3 conceptual framework cross-references

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

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

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

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

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

1.2.2 No requirement to prepare general purpose financial statements

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

2. Phase 1 general matters for comment

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

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

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

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

3. Phase 2 specific matters for comment

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

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

In addition, the ABA notes that APRA-regulated entities are prohibited from entering into deeds of cross guarantee⁵ and therefore all subsidiaries of those regulated entities are unable to obtain ASIC relief from preparing financial statements.

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

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

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

Q12 – Which of the AASB's two GPFS Tier 2 alternatives (described in paragraphs 167-170) do you prefer? Please provide reasons for your preference.

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

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

Q17 – If the new Alternative 2 GPFS – SDR (described in paragraphs 167-170) is applied, do you agree that the specified disclosures would best meet users' needs? If not, please explain why and provide examples of other disclosures that you consider useful.

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

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

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

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

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

4. Phase 2 general matters for comment

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

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

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

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

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

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

5. Interaction between revised *Framework* and SAC 1

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

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

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

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

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

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

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



17 August 2018

Kris Peach
Chair
Australian Accounting Standards Board
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Australia

By email: standard@asb.gov.au

Dear Kris

Invitation to Comment – ITC 39 Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems (Phase 1)

Thank you for the opportunity to comment on Invitation to Comment – ITC 39 Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems (Phase 1).

The provided comments have been prepared after considering the ITC and participating in sessions held by the Australian Accounting Standards Board (AASB).

Initiatives of the AASB to explore approaches that improve the quality of general purpose financial reporting are an important part of its work program.

However, as rightly acknowledged by the AASB in the ITC it is only player in this space. Its role is to specify what framework and accounting standards should apply to general purpose financial statements.

In contrast, it is the role of the lawmaker to determine who of its regulated entities should prepare general purpose financial statements.¹

I support this division of responsibilities.

The ITC identifies two matters – special purpose financial statements and the clash of the reporting entity definitions – that the AASB believes are problematic and require resolution.

I agree that there is merit in the AASB examining the two matters. My recommendations and the basis for those recommendations follow.

Recommendations

1. Regarding special purpose financial statements, I support the withdrawal of SAC 1 *Definition of the Reporting Entity* and 'self assessment', but not in isolation of an explicit statement from the lawmaker about who of its regulated entities should prepare general purpose financial statements.

To withdraw SAC 1 and self assessment without that action from the lawmaker would not be consistent with the past intention of our *Corporations Act 2001* lawmakers (and those lawmakers in other

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¹ For non-regulated entities it is for the members through the entity's constitution to specify a requirement to produce general purpose financial statements.

jurisdictions who have replicated in their own laws requirements the same as the *Corporations Act*).

2. Regarding the clash of the reporting entity definitions, I do not think a pragmatic stop-gap solution to incorporating the revised conceptual framework into the Australian Accounting Standards framework is required.

I do not think the AASB has provided sufficient evidence in support of its assertion about a clash of definitions. I think SAC 1 and the revised conceptual framework can successfully co-exist until the lawmaker articulates who of its regulated entities should prepare general purpose financial statements.

Nevertheless, if the AASB decides to proceed with its pragmatic stop-gap solution I could accept its unnecessary action in the short term as long as the AASB is certain that there will be no unintended consequences.

Special Purpose Financial Statements

The ITC refers to the numerous issues identified in the *AASB Research Report No 1* with the current mechanism for differential reporting whereby preparers self-assess what type of financial reporting is required when a regulator requires the preparation and public lodgement of financial statements.

It is my view that it is the role of the lawmaker to determine who of its regulated entities should prepare general purpose financial statements.

Currently, we have SAC 1 and AASB 1057 *Application of Australian Accounting Standards* answering the who question and I agree with the AASB on the need to remove self assessment from the Australian Accounting Standards Framework.

However, I do not agree with the AASB position to progress with the removal of self assessment without legislative amendments.

To do so would not be consistent with the intentions of the lawmaker.

The *Corporations Act* s296(1) states "The financial report for a financial year must comply with the accounting standards."

I acknowledge that the *Corporations Act* does not explicitly refer to the reporting entity concept as described in SAC 1.

However, I contend that the lawmaker was very aware of the SACs and their role in self assessment and it was a deliberate decision of the lawmaker that the law reference is to 'accounting standards' and not 'general purpose financial statements (reports)'.

Support for this view include (underlining used by me for emphasis):

- The Explanatory Memorandum to the Company Law Review Bill (1997) an antecedent law to the *Corporations Act* that includes a discussion of SAC 2: *Objectives of General Purpose Financial Reporting*.
- The Explanatory Memorandum states, "A financial report will be required to comply with accounting standards and any further requirements in the *Corporations Regulations* (Bill s 296). This requirement does not repeat the existing reference in section 298 to

'applicable accounting standards' because each standard describes the companies and entities to which it applies." (paragraph 13.30).²

- The Auditing Standards Board Exposure Draft 50 *The Audit Report on Financial Information Other Than a General Purpose Financial Report*: "legally the financial statements of a company which is not a reporting entity can be properly drawn up in accordance with applicable Accounting Standards without actually applying any of the substantive requirements of the Standards." (see Picker, R *The Author Replies* Australian Accounting Review 1992 November p15).

Clash of the reporting entity definitions

The AASB position is that the release of the International Accounting Standards Board (IASB) revised conceptual framework requires urgent action by the AASB to remove the Australian reporting entity concept.

The action is justified as necessary to resolve the issue that comes from having different definitions of reporting entity - the definition in SAC 1 and the different IASB definition incorporated into the revised conceptual framework.

Preparing General purpose Financial Statements

SAC 1 answers the question who should prepare general purpose financial statements as under SAC 1 it is reporting entities that are to prepare general purpose financial statements. SAC 1 also answers the what question - general purpose financial statements are prepared in compliance with accounting standards.

In contrast, the revised conceptual framework does not answer the who question as the revised conceptual framework applies to reporting entities defined as entities that are obliged by law or choose to prepare general purpose financial statements (see the revised conceptual framework paragraph 3.1, footnote 7 to paragraph 3.1, and paragraph 3.10). It answers the question of what requirements are to be imposed on those entities.

Notwithstanding SAC 1 answering who and what questions and the revised conceptual framework answering only what questions, I do not agree with the AASB's assertion about a clash of definitions.

I consider both definitions describe the same group of preparers insofar as the type of financial statements is concerned.

Boundary of the Reporting Entity

The AASB position is that SAC 1 is not consistent with the description of the boundary of the reporting entity included in the revised conceptual framework.

SAC 1 paragraphs 14 and 15 address the identification of the boundary of a reporting entity and make clear that the boundary of a reporting entity is based on the information needs of users and not for example based on a class of legal entity.

The revised conceptual framework paragraphs 3.13 and 3.14 include similar guidance.

² For example, the application paragraph of AASB 1024 Consolidated Accounts (May 1992). This Standard:

- (a) applies to each company that is the parent entity in an economic entity which is a reporting entity in relation to the economic entity's first financial year that ends on or after 30 June 1992 and later financial years; and
- (b) when operative, supersedes Accounting Standard AASB 1024: Consolidated Accounts, the making of which was notified in Gazette No. S260 on 20 September 1991.

I acknowledge that the discussion in the revised conceptual framework addresses what "faithful representation" means in the context of economic activities of the reporting entity.

However, I contend it would be most unlikely that SAC 1 and the revised conceptual framework discussions would result in a different boundary of a reporting entity. I do not agree with the AASB position that they are fundamentally different.

The attachment includes answers to some of the specific questions asked along with some other comments.

If you have any queries on the provided comments, please contact me at mshying@swin.edu.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'm shying', with a stylized flourish at the end.

Dr Mark Shying CA
Swinburne Business School

Specific questions/ comments

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

No. I do not think a pragmatic stop-gap solution to incorporating the revised conceptual framework into the AAS framework is required. I think SAC 1 and the revised conceptual framework can successfully co-exist until the lawmaker articulates who of its regulated entities must prepare general purpose financial statements.

Nevertheless, if the AASB decides to proceed with its pragmatic stop-gap solution I could accept its unnecessary action in the short term as long as the AASB is certain that there will be no unintended consequences.

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?

See my above comments in response to Q1.

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

I encourage the AASB to explore further the interplay of its proposals with the reporting requirements of:

- 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.
- Entities that include Special Purpose Financial Statements in a prospectus document (see ASIC RG 228 *Prospectuses: Effective disclosure for retail investors* paragraph 95).
- Entities that include Special Purpose Financial Statements in a demerger scheme document (e.g., the demerger scheme document for the OneMarket demerger from Westfield).
- Unlisted public companies accessing crowd-source funding, given the absence of a secondary market.
- 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. I note a secondary market is not expected.

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

See my comments above in response to Q1, and my comments about the *IFRS for Small and Medium-Sized Entities* (IFRS for SMEs) standard in Other comments in this submission.

5. Do you agree with the proposed amendments to SAC 1 Definition of the Reporting Entity and the following Australian Accounting Standards set out in Appendix A?

See my comments above in response to Q1.

Other comments

For its Phase 1 approach, 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 state such compliance.

Notwithstanding this decision, the AASB does not consider the IFRS for SMEs as an appropriate solution for further consideration as part of these proposals.

I encourage the AASB to reconsider its position on the IFRS for SMEs standard.

For its Phase 1 approach, the AASB does not plan to issue an Exposure Draft. I encourage the AASB to reconsider its position, which represents a departure from due process.



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The Chair
Australian Accounting Standards Board
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Dear Madam

**INVITATION TO COMMENT ITC 39 APPLYING THE IASB'S REVISED CONCEPTUAL FRAMEWORK,
SOLVING THE REPORTING ENTITY AND SPECIAL PURPOSE FINANCIAL STATEMENT PROBLEMS
(PHASE 1)**

Thank you for the opportunity to comment on the proposals to resolve the clash in definitions of 'reporting entity' in SAC 1 *Definition of the Reporting Entity*, and the IASB's revised Conceptual Framework. Our comments included in this letter refer only to the Phase 1 proposals (resolving the clash for Tier 1 publicly accountable entities). We will submit comments on the Phase 2 proposals at a later date.

In order uphold the Financial Reporting Council's directive that Australian entities should apply International Financial Reporting Standards (IFRS), and to maintain IFRS compliance for publicly accountable entities in the short-term when the IASB's revised Conceptual Framework becomes effective, we agree with the proposals set out in ITC 39 to operate two Conceptual Frameworks for years commencing on or after 1 January 2020.

Please refer to Appendix 1 for our detailed comments.

If you have any comments regarding this request, please do not hesitate to contact me.

Yours faithfully

Aletta Boshoff
Partner
National Leader, IFRS Advisory

SPECIFIC MATTERS FOR COMMENT

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

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

BDO comment:

We agree with this approach in order to maintain IFRS compliance for Tier 1 publicly accountable entities. Failing to apply the RCF from 1 January 2020 will result in Australian publicly accountable entities not being able to claim compliance with International Financial Reporting Standards (IFRS).

Question 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?

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

BDO comment:

As noted in our response to Question 1 above, we agree with the proposed short-term approach of making the RCF applicable to **all Tier 1 publicly accountable entities** under AASB 1053 *Application of Tiers of Australian Accounting Standards*. Failing to require compliance with the revised RCF for **all publicly accountable entities** would result in some Tier 1 entities (public sector publicly accountable entities) not being able to claim compliance with IFRS. Further, excluding one type of publicly accountable entity from these proposals would, in our opinion, result in an undesirable two-tiered accounting approach for publicly accountable entities that are all 'for-profit'.

We understand that in practice, there would be no change for-profit public sector entities, these entities currently being required to prepare Tier 1 general purpose financial statements under AASB 1053 anyway.

Question 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?

If so, please provide specific examples including why these entities are not currently applying AASB 1053 and preparing Tier 1 GPFS although they would otherwise meet the definition of public accountability.

BDO comment:

We are not aware of any publicly accountable for-profit entities self-assessing as non-reporting entities and preparing special purpose financial statements.

Question 4: Do you agree with the AASB's amendments to the definition of 'public accountability' in AASB 1053 per IFRS for SMEs Standard (refer to Appendix A)? Please indicate reasons for your response and if you disagree, please provide suggestions for the AASB to consider.

BDO comment:

We agree with the proposed amendments to the definition of 'public accountability' as it will ensure consistency with IFRS for SMEs and avoid confusion.

We agree with the proposal to remove of the introductory wording '...means accountability to those existing and potential resource providers and others external to the entity who make economic decisions but are not in a position to demand reports tailored to meet their particular information needs..' because these words have the hallmark of concepts outlined in the existing definition of 'reporting entity' in SAC 1, which is not relevant in assessing whether an entity is publicly accountable or not.

We also agree with the deletion of the examples given in subsection (b) because we believe it could lead readers to think that these are the only types of entities acting in a fiduciary capacity for a broad range of outsiders as one of its primary business. We also note the proposed addition to the Basis of Conclusions to AASB 1053, paragraphs B3 and B4, which we believe better articulate the difference between entities holding assets in a fiduciary capacity on trust for reasons **incidental to its primary business** (paragraph B3), as opposed to entities holding assets in a fiduciary capacity as **one of its primary businesses**.

Question 5: Do you agree with the proposed amendments to SAC 1 Definition of the Reporting Entity and the following Australian Accounting Standards, as set out in Appendix A.

BDO comment:

Yes, we agree with these proposals.

GENERAL MATTERS FOR COMMENT

Question 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.

BDO comment:

Yes, we agree.

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

BDO comment:

We are not aware of any issues.

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

BDO comment:

Yes, we agree that overall these proposals would result in financial statements that would be useful to users because IFRS compliance would be maintained for for-profit publicly accountable entities.

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

BDO comment:

Yes, we agree.

Question 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.

BDO comment:

We are not aware of any additional costs that would arise from these proposals given that all for-profit publicly accountable entities, both in the private sector and public sector, should be preparing Tier general purpose financial statements now anyway.

ITC39 Revised Conceptual Framework – Phase 1 – Additional comments – David Hardidge

ITC 39 Consultation Paper - Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems – Phase 1

I was involved in contributing to the Australasian Council of Auditors-General (ACAG) submission, as part of my role as Technical Director at Queensland Audit Office.

I support that submission and submit the attached comments covering:

- Application of the RCF to Tier 2 entities and non-reporting entities before Phase 2
- AASB 1048 RCF Note description
- Other AASB 1048 drafting
- Unintended consequences of referring to “required”

My comments are applicable to for-profit entities.

Regards,

David Hardidge
21 August 2018

Application of the RCF to Tier 2 entities and non-reporting entities before Phase 2

I interpret the consequences of the proposals as going beyond the AASB's stated scope of "entities that are required to prepare Tier 1 GPFS and other entities that are voluntarily reporting compliance with IFRS" (paragraph 164(a)). The proposals appear to require the use of the revised conceptual framework (RCF) from 1 January 2020 until the start of Phase 2 by:

- entities preparing Tier 2 GPFS – this will allow Tier 2 and Tier 1 entities to use the same recognition and measurement criteria
- non-reporting entities required to comply with AASB 108 (i.e. ACNC entities and companies following ASIC RG 85) – this will mean the clash of terminology in the short-term until Phase 2 commences.

My reasoning is based on my expectation that AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (paragraph 11) will be amended by AASB 2018-X, being the equivalent to *Amendments to References to the Conceptual Framework in IFRS Standards*. AASB 108 paragraph 11 relates to the selection of accounting policies in the absence of a suitable standard. While AASB 2018-X was not included in ITC39, I expect the amendments to be based on:

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Selection and application of accounting policies

...

- 11** In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:
- (a) the requirements in IFRSs dealing with similar and related issues; and
 - (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the ~~Framework~~**Conceptual Framework for Financial Reporting (Conceptual Framework)**.^{*†}

^{*} In September 2010 the IASB replaced the ~~Framework~~ with the *Conceptual Framework for Financial Reporting*.

[†] Paragraph 54G explains how this requirement is amended for regulatory account balances.

Extract from *Amendments to References to the Conceptual Framework in IFRS Standards*

AASB 108 is mandatory for entities preparing Tier 2 financial statements, and for non-reporting entities required to comply with AASB 108 (i.e. ACNC entities and companies following ASIC RG 85). Therefore, from 1 January 2020, the RCF will be applicable to those entities – unless the AASB makes other amendments.

AASB 1048 RCF Note description

I interpret the draft proposals as being there will be no mandatory changes until financial years beginning on or after 1 January 2020 (paragraph 157).

With the issue of the *Conceptual Framework*, the associated *Amendments to References to the Conceptual Framework in IFRS Standards* (proposed AASB 2018-X), and the amendments proposed in Appendix A, the following entities can early adopt the RCF before 1 January 2020:

- Tier 1 entities

- other entities that are voluntarily reporting compliance with IFRS
- Tier 2 entities
- non-reporting entities applying AASB 108.

As I explained above, I interpret the proposals as being mandatory from 1 January 2020 for the above entities, including Tier 2 entities and non-reporting entities applying AASB 108.

ITC39 Appendix A (page 33) includes the following proposed Note associated with the amendments to AASB 1048 for the RCF (Table 3):

Conceptual Framework for Financial Reporting

Note – this pronouncement is applicable only 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

Based on my reasoning, I believe the Note contains two errors (until the Note is removed on the commencement of Phase 2):

- The first is that the Note refers to the amendment being applicable to “other for-profit entities that elect to apply this Framework.” While that statement may be correct for the period until 1 January 2020, it is not correct for Tier 1 entities for periods after then as there will be no election choice.
- The second is that the Note refers to “for-profit entities that have public accountability that are required to comply with Australian Accounting Standards”. While this statement is correct after 1 January 2020, when the amendments become mandatory, it is not correct during the early adoption period until 1 January 2020.

Other AASB 1048 drafting

I suggest modifying the wording of AASB 1048 paragraph 10 and paragraph 11 as the current drafting (that is not proposed to be updated under Phase 1) appears to:

- Retain the references to the title of the conceptual framework as *Framework for the Preparation and Presentation of Financial Statements*, even though the title has changed to *Conceptual Framework for Financial Reporting (Conceptual Framework)*
- Assume that there is only one conceptual framework for any particular financial year – which does not seem to cater for the retention of the old conceptual framework for AASB 3 and AASB 14, when the RCF commences.

Extracts from AASB 1048:

10 Each reference to the *Framework for the Preparation and Presentation of Financial Statements (or Framework)* in other Australian Accounting Standards (including Interpretations) is taken to be a reference to the relevant pronouncement listed in Table 3 below. Each row in Table 3 is to be treated as a separate provision of this Standard.

[Table 3 omitted]

11 This Standard updates references to the *Framework* in Australian Accounting Standards (including Interpretations) to the relevant amended version of the *Framework*. The principal application date listed in each row of Table 3 is a reference to annual reporting periods beginning or ending (as indicated) on or after the date specified. An entity may elect to apply an amended version of the pronouncement to

annual reporting periods in advance of that stated in Table 3, subject to any early application paragraphs.

Unintended consequences of referring to “required”

The ACAG submission notes that the ITC includes applicability paragraphs that includes “for-profit entities that have public accountability that are required to comply with Australian Accounting Standards”. ACAG suggested the AASB clearly articulates what the term “required” refers to. For example, is the “requirement” prescribed by legislation, ASIC regulations, the entity’s constitution, a contractual funding agreement or another instrument?

I suggest that different wording be used to avoid possible unintended consequences. An example of such unintended consequences arising from the use of similar references to “require” were introduced by amendments to the Corporations Act section 295(2) in 2011. These amendments were to allow removal of parent entity financial statements when consolidated financial statements are prepared. The wording used was:

Financial statements

- (2) The financial statements for the year are:
- (a) unless paragraph (b) applies—the financial statements in relation to the company, registered scheme or disclosing entity required by the accounting standards; or
 - (b) if the accounting standards **require** the company, registered scheme or disclosing entity to prepare financial statements in relation to a consolidated entity—the financial statements in relation to the consolidated entity required by the accounting standards.

(Emphasis added)

Some interpretations of those amendments are that a non-reporting entity preparing consolidated special purpose financial reports is not able to take advantage of the amendments. This is because as they are a non-reporting entity, the entity is not “required” to prepare consolidated financial statements. This interpretation means that an unlisted non-reporting entity has greater reporting obligations than a listed entity.

This issue was raised in responses to Treasury’s Proposed Amendments to the Corporations Act (November 2011). Comment letters are located at:

<https://treasury.gov.au/consultation/proposed-amendments-to-the-corporations-act/>

Responses from the four large accounting firms were:

- Deloitte – States that wording is unclear
- EY – States that a significant number believe that non-reporting entities are ineligible for relief
- KPMG – States that entities preparing consolidated special purpose financial statements are precluded from the relief
- PwC – Notes the different views, and that they believe the entity should be exempted from preparing parent entity financial statements.

Further background was included in PwC Value Accounts – Special Purpose – Annual financial reporting 2014:

Separate parent entity financial statements

VALUE ACCOUNTS Special Purpose Pty Limited does not include separate financial statements for the parent entity in the financial report. Instead, we have provided condensed financial information for the parent entity in a separate note (note 27), as required under *Corporations Regulation* 2M.3.01.

Entities should be aware that there are different views about the application of the law in respect of the separate parent entity information that must be presented in special purpose financial statements. Some commentators argue that the removal of the separate entity financial statements by non-reporting entities is not permitted under the revised section 295 of the *Corporations Act* 2001 (the Act) as amended by the *Corporations Amendment (Corporate Reporting Reform) Act* 2011. Others hold the opposite view.

Section 295 of the Act requires separate parent entity financial statements to be presented if the accounting standards do not require consolidated financial statements. AASB 127 *Consolidated and separate financial statements* does not apply to non-reporting entities; ASIC has stated in Regulatory Guide 85 *Reporting requirements for non-reporting entities* (RG 85) that non-reporting entities do not need to prepare and lodge consolidated financial statements if neither the parent entity nor the group are a reporting entity. On that basis, some commentators argue that consolidated financial statements are not required by non-reporting entities; therefore, section 295 still requires the preparation of separate parent entity financial statements.

In our view, non-reporting entities should not be subject to more onerous reporting requirements than reporting entities. Consolidation is prima facie a recognition and measurement requirement. RG 85 states that non-reporting entities, which are required to prepare financial reports in accordance with the Act, must still comply with the recognition and measurement requirements of all applicable accounting standards in order to give a true and fair view of their financial position and results of their operations. If a parent entity considers consolidation necessary in order to provide users of the financial report with a true and fair view, then we believe the entity should be allowed to remove the separate parent entity financial statements from its financial report under section 295 of the Act.

Given the different views in practice, entities may choose to obtain legal advice on the appropriate course of action before lodging a financial report without full parent entity financial statements.

Source:

PwC Value Accounts – Special Purpose – Annual financial reporting 2014
<https://www.pwc.com.au/assurance/ifrs/assets/value-accounts-special-purpose-2014.pdf>