



**RSM Australia Pty Ltd**

Level 32, Exchange Tower  
2 The Esplanade Perth WA 6000  
GPO Box R1253 Perth WA 6844

T +61(0) 8 9261 9100  
F +61(0) 8 9261 9111

Email: [ralph.martin@rsm.com.au](mailto:ralph.martin@rsm.com.au)  
Direct line: 08 9261 9374

15 October 2018

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

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**

We are pleased to respond to the AASB’s invitation to comment in respect of the matter listed above.

We are supportive of the AASB’s approach to tackling this issue. We strongly support the need for Australia to maintain compliance with International Financial Reporting Standards (“IFRS”) within its financial reporting framework. We also believe that Special Purpose Financial Statements (“SPFS”) represent an issue that the AASB needs to tackle. The current self-assessment framework to determining an entity’s reporting status is no longer fit for purpose, and results in the provision of financial statements on public record that serve little use, and may even in some cases provide information that is misleading. We believe that the requirement for General Purpose Financial Statements (“GPFS”) to be prepared instead of SPFS would result in financial statements that would be more useful to users.

We are therefore supportive of Option 1 of the approaches considered by the AASB, as we believe this offers a viable long-term solution, while allowing sufficient time for transition for affected entities. From the two options provided for the new Tier 2 reporting framework, we support continuation of the Reduced Disclosure Regime (“RDR”) and have a strong preference for this over Specified Disclosure Requirements (“SDR”), about which we have some concerns. Our reasons for supporting RDR are set out below. However, we would encourage the AASB to revisit the RDR in order to assess whether any further reductions to required disclosures could be implemented.

Our response to each of the AASB’s questions in its Invitation to Comment is set out below.

We would be pleased to discuss our firm’s views further with you. Please contact me on 08 9261 9374 should you wish to discuss our comments above.

Ralph Martin  
National Technical Director

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RSM Australia

**RSM Australia's Response to Specific Matters for Comment requested by the AASB**

**Q11 – Do you agree with the AASB's Phase 2 approach**

We agree with the AASB's proposal to split the project into two phases. Maintaining compliance with IFRS for Public Interest Entities ("PIEs") should be considered non-negotiable, and therefore requires immediate action by the AASB. Since any changes to SPFS are likely to impact a majority of current preparers of financial statements, and may increase costs in some instances, it is appropriate that these proposals are more widely consulted on, and that any transition period is longer.

We support the AASB's proposal that all entities required to prepare financial statements which are publicly available, in accordance with Australian Accounting Standards, should prepare general purpose financial statements. In our view, once legislation requires an entity to prepare financial statements which are available on public record, those financial statements can no longer be considered special purpose, since the directors of the preparing entity will be unaware of who is using the financial statements. Indeed, the current framework effectively places directors in an impossible position. To determine their reporting requirements, directors must assess who the users of their financial statements are. However, once financial statements of an entity are made publicly available, the entity's directors could have no knowledge of who might be reading their financial statements, or for what purpose.

We also note with interest the results of the AASB's research into financial statements filed with ASIC and other regulators, in particular, that there are ratings agencies and others who download all publicly available data, and use it for the purpose of data analytics, credit ratings, or similar. We believe this supports the AASB's position that it can no longer be stated with confidence that there are no users who are placing reliance on a particular set of financial statements.

If entities are required by law to report their results publicly, then it should be done in a meaningful, consistent, and transparent way. The current reporting entity framework does not achieve this. We believe that the preparation of GPFS by all entities who are required to publicly report under Australian Accounting Standards would provide greater clarity and consistency.

**Q12 – Which of the AASB's two GPFS Tier 2 alternatives**

We would be strongly in favour of the retention of the Reduced Disclosure Regime ("RDR"). We believe there are several reasons that support this position:

- The Reduced Disclosure Regime was introduced by the AASB in 2010. It was designed to match disclosures to user needs and cost-benefit principles, and was largely consistent with the disclosure requirements of IFRS for SMEs.
- Among those entities who have adopted it, we have found that it has been broadly accepted, and that where entities were already preparing SPFS based on full adoption of the recognition and measurement requirements of Australian Accounting Standards, the additional disclosures have generally not been onerous to prepare.
- We believe it would be burdensome and unjust for those entities who already prepare RDR financial statements to have to transition to a new reporting framework. We note that the number of such entities is likely to have increased over the past year, as a result of the new requirements for Significant Global Entities ("SGEs") to prepare GPFS. In our experience, users of RDR financial statements have been satisfied with the reports presented to them.
- The Reduced Disclosure Regime has also been adopted by New Zealand as part of its differential financial reporting framework. Retention of the RDR would be consistent with the AASB's objective of Trans-Tasman harmonisation wherever possible.
- We believe the SDR's "all or nothing" approach to disclosure would not result in the best outcome for users, and, in some circumstances, could be onerous for preparers. For example, it contains no disclosure of the liquidity or profile of borrowings, which is likely to be a key disclosure for some users. On the other hand, it requires full-IFRS disclosure of other areas, such as related party transactions and impairment. These may be onerous to prepare, and would be of questionable relevance in some

instances. For example, it is doubtful whether detailed disclosures on the impairment testing of goodwill, including the key assumptions and related sensitivity analysis, would be useful or relevant for the readers of the financial statements of many proprietary companies.

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

**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)?**

Our preference would be for RDR to be the only alternative available, in order that the Australian financial reporting framework remain as simple as possible. However, if the AASB does believe that the introduction of SDR is necessary, we would prefer that it is introduced as an alternative to RDR, not as a replacement for it.

Our reasons for this are set out above, but we would again highlight that we believe that those entities that have already adopted RDR should not be effectively penalised for this choice, and should have the option to continue preparing their financial statements on this basis in future.

**Q14 – Do you agree with the AASB’s decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply?**

We concur with the AASB’s decision not to introduce IFRS for SMEs as an option within Australia at this time. The purpose of the proposed changes is to increase consistency and comparability, and the inclusion of an alternative basis of recognition and measurement would appear inconsistent with that aim.

A key argument in favour of allowing IFRS for SMEs in Australia would be for the benefit of foreign-owned subsidiaries where the parent reports consolidated results under IFRS for SMEs in its home jurisdiction. We note that this issue may occur, as IFRS for SMEs is available as an option in nearly 100 other jurisdictions. However, in many of these, it exists as an alternative to local GAAP rather than a replacement for it, and take-up remains relatively low. In our experience, this issue is therefore rare in practice. Should IFRS for SMEs gain wider recognition globally in future, we would support the AASB revisiting this decision.

**Q15 – If the AASB implements one of the two proposed alternatives (described in paragraphs 167-170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1) Should AASB 1 be applied, or simpler relief provided?**

AASB 1 provides an appropriate framework for the recognition and measurement of the transition to Australian Accounting Standards for the first time. For many entities, where recognition and measurement have been followed previously in their SPFS, the impact of transition to GPFS will be minimal. This has been our experience with entities which have already transitioned from SPFS to RDR.

We believe that it would not be appropriate to apply the disclosure requirements of AASB 1 in full on transition from SPFS to GPFS, and that some level of relief should be provided. In particular the presentation of a third balance sheet is unlikely to be useful for many users.

We note that the impact will be greatest for those entities that will need to apply consolidation and equity accounting for the first time on transition. There may be an argument in favour of allowing transitional relief in respect of the presentation of comparative information for such entities. Instead, a “modified retrospective” approach conceptually similar to that in the new revenue and leases standards could be developed.

**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?**

We support the AASB's approach of requiring consolidation and equity accounting for all financial statements prepared under Australian Accounting Standards. The approach taken by some preparers of SPFS in not applying the consolidation standard, on the basis that it was a disclosure standard, was technically questionable, given that consolidation affects the recognition and measurement of some assets and liabilities. The non-consolidation approach could be used to obscure information about the true financial position and performance of a group of companies.

On this basis, we would not be supportive of any transitional relief which resulted in the consolidation requirements of AASB 10 not being applied in full. However, as noted above, we do believe that there should be relief from the full presentation of comparative information in the initial year of adoption.

**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?**

As noted in our response to Q12, we have concerns about the proposed scope of the SDR disclosures. We believe they would be too onerous in some areas and lacking in others.

We believe that users' needs would be met best by retention and reform of the existing RDR framework.

**Q18 – Do you have any other suggested alternatives for the AASB to consider as a GPFS Tier 2 and whether this would be applicable for for-profit and not-for-profit sectors?**

We do not believe that the AASB should consider any other alternatives in the for-profit sector.

We note that the AASB has already raised the possibility of a third tier of disclosure in the not-for-profit sector. We believe this idea has merit. We would encourage the AASB to continue working together with the ACNC to develop its proposals in this area.

**Q19 – Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative?**

We believe that this would be best addressed through a separate project, involving the AASB, the ACNC and other interested stakeholders.

**Q20 – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals?**

We are not aware of any legislative impediment to the implementation of these proposals.





2 November 2018

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

*By email: [standard@asb.gov.au](mailto:standard@asb.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 2: Medium-term approach***

We welcome the opportunity to provide the Australian Accounting Standards Board ("AASB", "the Board") with our views on Phase 2 of the AASB's Consultation Paper ITC 39.

On 4 September 2018, the Board decided to exclude not-for-profit entities from the proposals in ITC 39 and, instead, intends to develop a separate consultation paper for not-for-profit entities at some time in the future.

The AASB has stated in ITC 39 that it is not proposing a Tier 3 reporting framework. It has also previously stated its desire to develop and apply Australian Accounting Standards ("AAS") in a sector neutral manner. As stated in our response to Phase 1 of ITC 39, we remain concerned that the adoption of the Revised Conceptual Framework ("RCF") and decisions taken by the Board regarding the form and structure of Tier 2 GPFR in a piecemeal fashion (that is, initially only to for-profit entities), will lock the AASB and other stakeholders into adopting that single framework for not-for-profit entities.

Consequently, we strongly recommend that:

- i) The Board not proceed with its current proposals until any amendments have been made to the financial reporting requirements and thresholds in the ACNC Act following the ACNC legislative review; and
- ii) Subsequent to those changes, the AASB issue a comprehensive exposure draft incorporating its final proposals relating to both for-profit and not-for-profit entities to enable stakeholders to consider the Board's proposals in their entirety.

This submission should be read in conjunction with our comments on Phase 1 dated 9 August 2018.

**Nexia Australia Pty Ltd**

Level 16, 1 Market Street  
Sydney NSW 2000  
PO Box H195  
Australia Square NSW 1215

**p** +61 2 9251 4600

**f** +61 2 9251 7138

**e** [info@nexiaaustralia.com.au](mailto:info@nexiaaustralia.com.au)

**w** [nexia.com.au](http://nexia.com.au)

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## Comments on Phase 2: Medium-term approach

### Issues the Board is attempting to address and justification for change

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.

A key element of the Board's reasoning for change is that data aggregators, credit analysts, banks and the Australian Taxation Office are users of financial reports and that they are disadvantaged, their benchmarking data invalidated or are not having their information needs met, by potentially 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 – September 2018)

Financial reports cannot be all things to all users. By virtue of the proposals contained in ITC 39, the AASB implicitly agrees that the information needs of users of non-publicly accountable entities' financial reports do not extend to all disclosures required by AAS. The AASB has asserted there are users without clearly articulating what information those users apparently want from financial reports that is not being currently provided.

Part of the AASB's justification for change is that some companies and entities registered with the ACNC and ASIC are not properly self-assessing their status as a non-reporting entity. We agree with the comments of the AASB Chair, who was quoted as saying, "from our perspective, the vast majority of companies are already complying with RG85 and doing the right thing and it seems very unfair to us that a small minority of people are not complying with the same requirement and really having a competitive advantage because they've chosen not to comply with ASIC's regulatory guidance." (Accountants Daily, 31 May 2018 <https://www.accountantsdaily.com.au/tax-compliance/11726-aasb-speaks-up-on-proposed-financial-reporting-changes>)

We suggest that if a small percentage of entities are not 'following the rules', then it is the responsibility of the regulators (ASIC and the ACNC) to address those instances rather than changing the existing framework.

We are aware that some vested interests support the Board's proposals as an opportunity to generate additional fees from the preparation and audit of GPFRs that mandatorily apply AASB 10 and AASB 128. In this scenario of winners and losers, we are concerned that the Board has not fully considered the additional costs to business and the increase in the regulatory burden on some entities of imposing this change.

Our responses to the specific matters on Phase 2 are contained in the attached appendix.

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

Sincerely

**Nexia Australia Pty Ltd**



**Martin Olde**  
Technical Director

## Appendix – Specific matters for comment on Phase 2

### Specific matter for comment

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

We disagree with the AASB’s Phase 2 approach as described in paragraph 166 for the reasons described at Q12 below.

***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 prefer neither GPFR Tier 2 alternatives.

In our opinion:

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

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

***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?***

Our preliminary view is that there should be only one Tier 2 GPFS alternative and that SPFR should be available for those entities below reporting thresholds. Our preliminary view may change depending upon the outcome of the Board’s proposals in respect of NFP entities.

***Q14 – Do you agree with the AASB’s decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not-for-profit sectors.***

For the reasons set out by the Board in ITC 39, we agree that GPFS – IFRS for SMEs should not be available in Australia as a Tier 2 alternative.

***Q15 – If the AASB implements one of the two proposed alternatives (described in paragraphs 167-170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1) Should AASB 1 be applied, or simpler relief provided? Please provide specific examples and information.***



Appendix C Exemptions for business combinations of AASB 1 states "An entity shall apply the following requirements to business combinations that the entity recognised before the date of transition to Australian Accounting Standards". (emphasis added)

It is unclear, but unlikely, that entities currently preparing SPFS that do not apply AASB 10 would therefore be able to apply the exemptions for previous business combinations contained in Appendix C of AASB 1 unless the Board clarified the application of those requirements.

We maintain that full retrospective application of AASB 3 and AASB 10 would be impracticable. Furthermore, applying AASB 3 and AASB 10 prospectively to new business combinations would fail the AASB's own objective of IFRS compliance, comparability and arguably would not present a true and fair view of the entity's financial position or performance.

It is possible that other unintended consequences and practical difficulties may exist in applying AASB 1 on transition that we have not identified to date. We recommend that the Board undertake detailed field testing before deciding on transition requirements.

***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.***

We have significant concerns regarding the mandatory application of AASB 10 and AASB 128 as proposed in the AASB's medium-term approach.

Specifically, we have concerns from both preparation and audit perspectives. These relate to the ability of preparers to determine the business combination accounting to past transactions in accordance with AASB 3 (including which version would apply) and the ability of auditors to opine on such information.

We are unable to support the proposal without first undertaking significant additional outreach and analysis to explore and identify actual and unintended consequences as well as practical implementation issues arising from the Board's proposal. We recommend that the Board examine specific case studies to determine the practicality of its proposals.

***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.***

We do not agree with the proposed GPFS – SDR. We are unable to determine whether "the specified disclosures would best meet users' needs" because neither we nor the AASB have ascertained what the disclosure needs of hypothetical users are.

Nevertheless, in our opinion inclusion of the full disclosure requirements of AASB 15 and AASB 136 for entities that do not have 'public accountability' is excessive.

***Q18 – Do you have any other suggested alternatives 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).***

No.

***Q19 – Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).***

As the AASB has deferred consideration of applying the proposals in ITC 39 to not-for-profit entities, this question is not addressed in this submission.

***Q20 – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals?***

No.

### **General matters for comment**

***Q21 – Whether The AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).***

We do not believe that the proposals satisfy the Board's objective of 'improving comparability, trust and transparency within financial reporting to meet user needs, whilst mitigating, where appropriate, the increased reporting burden for some entities who are required to prepare financial statements in accordance with AAS'.

***Q22 – Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.***

ITC 39 states that "These proposals would not impact the 'public lodgment relief' granted to 'grandfathered proprietary companies' (provided they meet certain conditions) under s1408 of the Corporations Act. However, we note that these grandfathered large proprietary companies are still required to prepare financial statements and comply with the audit provisions of Chapter 2M.3 of the Corporations Act.

Because those entities are privately held and not required to publicly file their audited financial statements, those reports are predominantly prepared as SPFS.

Consequently, the effect of the AASB's proposals is that those entities will be required to prepare GPFS, notwithstanding those financial statements are not publicly available.

Those entities will face additional financial statement preparation time and cost as well as increased audit cost for no discernable benefit.

We are not satisfied that the AASB has undertaken a full cost/benefit analysis of, or identified all classes of entities that may be effected by, the proposals and remain concerned that the proposal will add to the regulatory burden of those affected entities for little or no public benefit.

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

In our opinion, the proposals in their current form, would increase the regulatory cost burden on many entities that outweighs the perceived benefits to an unidentified cohort of potential users.

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

While the proposals may be viewed by some as in the best interest of the accounting profession, we believe that the cost to those affected entities outweighs the perceived benefits of the changes. We would prefer that if deficiencies exist in the existing reporting framework that the regulators use their existing enforcement powers to address those issues.

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

***Q25 – 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.***

No additional comments.





Australian Government



Australian  
**Charities** and  
**Not-for-profits**  
Commission

24 October 2018

Our ref: EXT2018/59

Ms Kris Peach  
Chair  
Australian Accounting Standards Board (AASB)  
PO Box 204  
COLLINS STREET VIC 8007

Dear Ms Peach

**AASB Consultation Paper ICT 39 May 2018 - *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems***

The Australian Charities and Not-for-profits Commission (**ACNC**) welcomes the opportunity to comment on ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* (**ITC 39**). We provide this letter which includes general comments only, noting the change in scope to ITC 39 by the AASB Board at its September 2018 board meeting that "proposals in ITC 39 will apply only to for-profit entities". As such the ACNC will not be providing comments in relation to the proposals applying to for-profit private sector entities.

The ACNC was established on 3 December 2012 by the *Australian Charities and Not-for-Profits Commission Act 2012* (Cth) (**ACNC Act**). The objects of the ACNC Act are to:

- maintain protect and enhance public trust and confidence in the Australian not-for-profit (NFP) sector;
- support and sustain a robust, vibrant, independent and innovative Australian NFP sector; and
- promote the reduction of unnecessary regulatory obligations on the Australian NFP sector.

The ACNC maintains a free and searchable online public register of charities (**the Charity Register**). The Charity Register helps the public to understand the work of the charity sector and enables charities to be transparent by publishing information about their governance, activities, operations, and finances.





As at 11 October 2018, there were 56,498 charities registered with the ACNC. The ACNC regulates charities in Australia which are a sub-sector of the Not-for-profit sector. It is with regard to the impact of the proposed change on the charities sub-sector within which we frame our response. [ACNC Commissioner's Policy Statement 2017/04: Financial reporting scaffolding policy](#) guides ACNC participation in dialogue about financial reporting.

The ACNC agree that extensive research and consultation with NFP entities will need to continue to obtain a comprehensive understanding of the impact of removing Special Purpose Financial Statements in Australia which are currently accepted under the ACNC Act and the options available for the NFP sector to replace them. There are already significant changes in relation to financial reporting and legislative reform which are impacting charities and the ACNC is mindful of this in the broader environment.

The ACNC welcomes the opportunity to continue working with the AASB and the NFP sector to support a better financial reporting framework that is proportionate, fit for purpose, meets the needs of users and minimises regulatory burden on charities. Greater consistency and comparability in financial reporting should assist to underpin trust and confidence in the sector.

In the meantime, the ACNC will continue to administer the reporting requirements as set out in Division 60 of the ACNC Act.

Please do not hesitate to contact Mel Yates, at [Melville.Yates@acnc.gov.au](mailto:Melville.Yates@acnc.gov.au) or 03 927 59595 should you have any queries in relation to the above.

Yours sincerely,

Hon Dr Gary Johns  
Commissioner  
Australian Charities and Not-for-profits Commission

8 November 2018

Kris Peach  
Chair and CEO  
Australian Accounting Standards Board

Via website: <https://www.aasb.gov.au/Work-In-Progress/Open-for-comment.aspx>

Dear Kris

## ITC 39 Applying the IASB's Revised Conceptual Framework Phase 2

Thank you for the opportunity to comment on the AASB’s consultation paper on ‘Applying the IASB’s Revised Conceptual Framework and Solve the Reporting Entity and Special Purpose Financial Statement Problems’ (ITC 39). We note the significance of this reform and appreciate the AASB’s efforts in developing these proposals and its continued engagement with stakeholders to widely discuss them.

QIC is a Queensland Government Owned investment manager that manages over 200 funds for over 100 investors and prepares more than 90 financial statements each year. The majority of these financial statements are prepared as special purpose financial statements to meet the requirements of Trust Deeds, investors and external lenders where relevant. In preparing these special purpose financial statements, QIC complies with all recognition and measurement requirements (except for consolidation and equity accounting) and all disclosure requirements assessed to be useful to the users of the financial statements.

This submission focuses on the proposals set out in Phase 2 of ITC 39, with QIC's comments provided in Appendix A to this letter.

Overall, we are supportive of the AASB's decision to align the definition of a 'reporting entity' under Australian Accounting Standards (AAS) to that under the IASB's Revised Conceptual Framework (RCF). We are also supportive of the AASB's decision to simplify and standardise the Australian Financial Reporting Framework by removing the option to prepare special purpose financial statements and continuing with only two reporting tiers. However, we have some reservations regarding the two Tier 2 alternatives provided in the proposals and whether this would in fact result in more useful financial statements to our users.

We are pleased that the AASB is already considering alternatives in some of these areas. We look forward to further opportunities to engage with the AASB to ensure that reform delivers a fit for purpose financial reporting framework for all its stakeholders.

If you require further information on our views expressed in this submission, please contact Moditha Perera, Accounting Advisory, on +61 7 3360 6659 or at [m.perera@gic.com](mailto:m.perera@gic.com).

Yours sincerely

CMSlate

**Claire Blake**  
CFO



## Appendix A: Specific matters for comment on Phase 2

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

Yes, we agree with the proposal to mandate compliance with RCF for all entities complying with AAS. It provides a more consistent basis for preparing financial statements for the financial statement preparers of all reporting entities and will facilitate greater comparability and transparency of financial reports for its users.

### **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.**

Our view is that neither of the two Tier 2 alternatives specified in the proposal fully meet the requirements of all stakeholders of the financial reporting framework.

QIC provides all its investors quarterly reports with detailed information on their investments as well as tailored additional reporting under RG 97 *Disclosing fees and costs in PDSs and periodic statements* where requested. Therefore, for most funds managed by QIC, preparation of annual financial reports is primarily a compliance requirement. The newly proposed SDR regime (Alternative 2) makes the preparation process somewhat more straight-forward by specifying nine accounting standards to be fully complied with. However, as a responsible investment manager, QIC also ensures that the annual financial reports provide relevant and useful information to users rather than just meeting compliance requirements. In our view, the SDR regime unduly focuses on some accounting standards while inappropriately placing less importance on the requirements of others.

For example, the SDR regime requires that all disclosure requirements under AASB 124 *Related Party Disclosures* are adhered to (in accordance with materiality assessment of the reporting entity). QIC and its managed funds have a variety of intercompany transactions, including but not limited to: manager fees, expense recovery fees, intercompany receivables and payables, related party investments and related party investment returns.

Currently, QIC presents and discloses these transactions according to the nature of the transaction, similar to if the transaction occurred with an unrelated party. We do not then separately re-disclose these transactions as related party transactions as we view this exercise to not only be onerous, but also add little additional value to the financial statement users. The investors are interested in the performance of the investment assets and the fund rather than the source of the expense or income. The related party fees are charged in accordance with the contracts agreed to by the investors, and therefore additional disclosures in the financial statements would not provide any new information. In addition, if investors are interested in obtaining additional information on fees and expenses, they can request and receive this information under RG 97 reporting requirements. QIC does however provide detailed disclosures under AASB 13 *Fair Value* on the fair value methodologies used in estimating the fair value of investments, as we view this information to be useful to the user of the financial statements. We note that the SDR regime does not, for example, consider this standard to be as important to the users.

The existing RDR regime (Alternative 1) while allowing for more flexibility for the financial statements to be prepared with relevant and useful information, still requires more disclosures than what we consider to be useful to the users. This may result in relevant information being obscured by less relevant disclosures which are there purely for compliance requirements.



We propose that a Tier 2 regime that is similar to the current RDR regime, but with less cumbersome disclosure requirements would be the best fit for all stakeholders of the Tier 2 financial reporting framework.

**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?**

Yes. As mentioned above, it provides a more consistent basis for preparing financial statements for the financial statement preparers of all reporting entities and will facilitate greater comparability and transparency of financial reports for its users.

**Q14 – Do you agree with the AASB’s decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not-for-profit sectors.**

Yes. As noted in the Consultation Paper, IFRS for SMEs have different recognition and measurement requirements than existing IFRS and AAS which then reduces comparability among entities.

**Q15 – If the AASB implements one of the two proposed alternatives (described in paragraphs 167-170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.**

Please refer to our response in Q16 below.

**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.**

The primary users of the financial statements of QIC’s funds are interested in the performance of the funds and their underlying assets. As investors, they are interested in the capital appreciation of the assets and their market value, as opposed to historical cost. To this end, preparing stand-alone financial statements for the fund which carries all its investments designated at fair value (due to being managed on a fair value basis) provides the relevant information to the users. If the fund was to prepare consolidated financial statements, this would not provide relevant or useful information to the users of the financial statements.

We note that AASB 10 *Consolidated Financial Statements* provides an exception to consolidation if the entity meets the ‘investment entity’ definition. However, we also note that this is a strict definition that has a number of requirements which need to be met in order to qualify as an investment entity. For example, the definition requires documented exit strategies to be in place in order to qualify as an investment entity. Where a fund is created to carry one or few specific investments for one investor, it is unlikely that there would be documented exit strategies in place at the creation of the fund. The fund would be managed on the instructions of the investor, with the view of capitalising on any capital appreciation of the investments when the opportunity arises. Such a fund would not meet the current definition of an ‘investment entity’. However, this does not negate the fact that the investor is still interested viewing the performance of the fund and its investment on a fair value basis. Should consolidation and equity accounting be mandated for all entities, not only would the preparation of the financial statements be unduly cumbersome, but they would also not provide relevant or useful information to the users.

We acknowledge that one way of avoiding this unintended impact of the reform is by amending and updating current fund documentation to meet the requirements of an ‘investment entity’. This itself would



be an expensive and lengthy process. To provide transitional relief, we request that the Board considers the option of grandfathering existing funds to allow them to continue preparing stand-alone financial statements with all investments measured at fair value as they are managed on a fair value basis. Where new funds are created, the new reporting framework will be taken into consideration to ensure that appropriate documentation is in place.

**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.**

No. Please refer to our response in Q12 above.

**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).**

Yes. Please refer to our response in Q12 above.

**Q19 – Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).**

Not applicable – QIC is a for-profit entity.

**Q20 – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.**

We are not aware of any legislation that refers to SPFS that may be impacted by these proposals.



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

QBE INSURANCE GROUP LIMITED  
ABN 28 008 485 014

Head Office  
82 Pitt Street  
Sydney NSW 2000  
AUSTRALIA

Postal Address  
GPO Box 82  
Sydney NSW 2001  
AUSTRALIA

Telephone: +61 (2) 9375 4444  
Facsimile: +61 (2) 9235 3166  
DX 10171 Sydney Stock Exchange

Dear Kris

**Re: ITC 39 CONSULTATION PAPER Phase 2 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 supplement its earlier submission on ITC 39 dated 3 August 2018. Our main interest in Phase 2 of this topic, and the focus of our submission, is financial reporting by subsidiary entities of a listed Group.

QBE is comfortable with the current framework for financial reporting which allows for special purpose financial statements (SPFS). The advantage of the concept of SPFS is the ability to achieve either consistent or differential levels of reporting as needed by stakeholders without necessarily having to achieve consistency across each legal entity category.

QBE's preferred approach for wholly-owned subsidiaries of listed Groups is to require application of full recognition and measurement requirements of IFRS and minimal disclosure requirements consistent with the current approach. Any requirements for these entities in excess of minimal disclosure, where there are no external users will add a significant cost burden to preparers and, by definition, does not provide benefits for users. We consider that the more extensive disclosures proposed in the Tier 2 alternatives identified in ITC 39 at the subsidiary level would have no relevance to the Group's users.

QBE understands from discussion with AASB staff that the concern we expressed in our earlier Phase 1 response (i.e. that the ITC 39 proposals could lead to intermediate holding companies having to present consolidated financial statements) has been addressed insofar as the ITC 39 proposals, if implemented, would not remove the existing exception from presenting consolidated financial statements in paragraph 4 of AASB 10 *Consolidated Financial Statements*.

We would appreciate the AASB confirming our understanding that any changes expected to emerge from the ITC 39 process would not affect the existing intermediate holding company exception in AASB 10.4 from the requirement to present consolidated financial statements.

If there is to be a change to the framework for Australian reporting we remain of the view that further transparent research is required to distinguish between the different types of entities that are currently preparing and lodging SPFS in order to identify the most appropriate and cost-effective solutions for each type. A more robust long-term solution could be achieved by the AASB working with legislators to remove requirements to prepare and lodge financial statements for individual entities within a Group that prepares and lodges financial statements that satisfies all the relevant user needs.

Bearing in mind the significant economic burden for Australian preparers of financial statements from a broadening of the application of IFRS disclosures, we consider further research is needed to support the current AASB proposals regarding Tier 2 reporting. Should the AASB proceed with reforms based on the Phase 2 proposals, QBE considers there should be a Tier 2 alternative for subsidiaries in a consolidated Group where the Group applies full IFRS and its GPFS include all the relevant information



for users and the subsidiaries do not issue debt or equity securities to the public and have no users for their financial statements.

Appendix 1 contains our responses to the specific matters for comment on Phase 2 and Appendix 2 contains our responses on general matters for comment 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@qbe.com](mailto:anne.driver@qbe.com) for coordination of further input.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Inder Singh'.

**Inder Singh**  
**Chief Financial Officer**





## **Appendix 1 – Specific matters for comment on Phase 2**

As noted in our covering letter, without clarity over the types of entities preparing SPFS and the needs of their users, and given the need to balance this with costs of compliance for preparers, it is not clear how the existing reporting requirements should be changed, if at all. Our specific responses to the Phase 2 questions are set out below.

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

We prefer the AASB consider the application of Australian Accounting Standards based solely on serving the best interests of financial statement stakeholders, including users, preparers and regulators, rather than seeing the IASB revised Conceptual Framework for Financial Reporting (RCF) as a trigger to instigate reforms. As noted in our covering letter we consider Option 2 a potentially viable approach which has the benefit of retaining the current SPFS.

If Option 1 is adopted, we consider further work is required to identify all the relevant groups of entities and the expected needs of their users to allow the AASB to develop relevant Tiers of GPFS for each type of lodging entity or to make recommendations to regulators on the rationalisation of lodging requirements to achieve cost-beneficial outcomes. This is particularly relevant in Australia where we have very broad application of IFRS.

For example, QBE’s Australian subsidiaries are proprietary companies, a legal category also used by large and small family businesses that have no Group parent entity that reports publicly to investors. When stratified by size this legal grouping therefore represents a heterogeneous set of entities with different financial statement stakeholders who have potentially different needs and would require different Tiers for reporting.

QBE’s focus is on ensuring that the financial statement requirements applying to its Australian subsidiaries continue to be appropriate to the size, complexity and user requirements of these entities.

### ***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.***

In relation to Q12, we do not regard either of the proposed Tier 2 alternatives to be suitable for entities currently required to prepare financial statements and which regard themselves as not being reporting entities and currently prepare SPFS. This includes wholly-owned subsidiaries of listed Groups where the Group applies IFRS and the Group’s GPFS include all the relevant information for users. These wholly-owned subsidiaries (which do not issue debt or equity securities to the public) have no users for their financial statements. As noted in the covering letter and Q13 below we believe an additional Tier 2 alternative is required for these entities.

Furthermore, it is not clear what will be specifically required by Alternative 2 currently proposed by the AASB. Until the AASB clarifies what would be required in Alternative 2 based on the consultation noted in footnote 50 of ITC 39 among users, which should be rigorous and transparent, it is difficult for us to express a preference for either Alternative 1 or Alternative 2.

### ***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?***

No – if wholly-owned subsidiaries of listed Groups are to be required to prepare GPFS then a further alternative is needed that involves all recognition and measurement requirements but no or minimal disclosures. These wholly-owned subsidiaries (which do not issue debt or equity securities to the public) have no users for these subsidiary financial statements and their preparation would be a compliance exercise only. Accordingly, it is important to minimise the cost of their preparation. [Please refer to our response to Q18.]

If wholly-owned subsidiaries of listed Groups (which do not issue debt or equity securities to the public) were exempted from preparing GPFS, then a single Tier 2 alternative may be appropriate. However, there seem to be many different types of entities (in terms of nature and size) that would need to prepare (at least) Tier 2 GPFS under the ITC 39 proposals and we believe there is insufficient data for us to determine whether one Tier 2 GPFS alternative would be adequate.





**Q14 – Do you agree with the AASB’s decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not-for-profit sectors.**

We support the AASB approach of having consistent, IFRS-based, recognition and measurement requirements across all Australian GPFS to the extent feasible because it provides a base-line level of comparability and a common ‘language’ across Australian financial reporting. For example, if a publicly-listed Group’s users had the opportunity to make a comparison with the performance of an unlisted entity in the same industry, it is beneficial for the same recognition and measurement requirements to be applied at all levels of general-purpose financial reporting. This also provides a common basis for consolidating entities where necessary. Unfortunately, this benefit will be limited only to Australian-based entities and entities in other countries that might in future adopt a similar reporting framework to the AASB.

Given that there are some variations from IFRS recognition and measurement requirements in the *IFRS for SMEs* (and the potential for more variations in future as IFRS evolve), we would not support using the *IFRS for SMEs* in Australia.

**Q15 – If the AASB implements one of the two proposed alternatives (described in paragraphs 167-170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.**

Provided the exception in paragraph 4 of AASB 10 *Consolidated Financial Statements* still applies we do not see the need for transitional relief.

**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.**

QBE notes its strong support for retaining the existing exception from presenting consolidated financial statements in paragraph 4 of AASB 10 *Consolidated Financial Statements*. As referred to in the covering letter, we have confirmed with AASB staff that there is no intention to remove this exception. However, we note that sections of the ITC 39 could imply that this exception is subject to review.

**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.**

If Alternative 2 GPFS – SDR were the only Tier 2 form of reporting available, we consider that the disclosures would be excessive for wholly-owned subsidiaries of listed Groups (which do not issue debt or equity securities to the public).

In respect of wholly-owned subsidiaries of listed Groups (which do not issue debt or equity securities to the public), we suggest requiring only the following:

- ~ the presentation requirements from AASB 101 *Presentation of Financial Statements* and AASB 107 *Statement of Cash Flows*;
- ~ the disclosure requirements from AASB 101.15-26 on compliance with Standards and going concern and from AASB 101.137-138 on legal structure and ultimate parent etc.; and
- ~ the disclosure requirements from AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The AASB 101, AASB 107 and AASB 108 requirements provide the necessary structure for financial statements and essential information about the entity’s accounting policies, its legal form and principal activities and relevant links to the entity’s Group.

We do not consider that the disclosures from AASB 124 *Related Party Disclosures*, AASB 136 *Impairment of Assets*, AASB 15 *Revenue from Contracts with Customers* and AASB 112 *Income Taxes* would be helpful for wholly-owned subsidiaries and they could pose a significant cost burden. In particular:

- (a) related party disclosures could be burdensome due to the number of links the subsidiary might have with other members of its Group, which in isolation could be meaningless; and



- (b) income tax disclosures at the subsidiary level may not be comprehensible in isolation because a subsidiary's tax affairs could be intertwined with those of other members of the Group within a jurisdiction.

**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).**

If the current reporting framework were changed to require all lodging entities to prepare GPFS, we consider there needs to be another version of Tier 2 comprising all the IFRS recognition and measurement requirements and minimal presentation and disclosure requirements as set out in Q17. Those minimal presentation and disclosure requirements should not include consolidation.

This version of Tier 2 would be available for those entities that are required to prepare GPFS but otherwise have no users. Ordinarily, this would include wholly-owned subsidiaries (which do not issue debt or equity securities to the public) within IFRS-compliant Groups.

**Q19 – Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).**

We are unable to comment on this question because we are not familiar with the needs of stakeholders in the not-for-profit private sector in respect of service performance reporting, fundraising and administration cost disclosures.

**Q20 – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.**

We are not aware of any such legislation.





## Appendix 2 – General matters for comment on Phase 2

***Q21 – Whether The AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).***

Our comments are confined to *The AASB's For-Profit Entity Standard-Setting Framework*.

We note the focus of these Frameworks is on developing accounting policies that are, to the extent feasible, the same as IFRS and consistent across all types of entity. We think the due process for a project on fundamentally changing the way Australian entities report must include thorough and transparent research and presentation of findings in order to provide users with the optimal reporting without unduly burdening preparers.

***Q22 – 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 currently aware of any further issues but believe it is too early to comment on this question because the specific proposed changes are unclear.

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

Please refer to our comments above about listed Groups and their subsidiary entities, which are based on a sound understanding of the needs of our users.

We are unable to respond to this question more generally because we have limited insight on what is useful to users of the various other types of entities addressed in ITC 39.

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

Any proposals which increase the cost burden without substantiated benefits would not be considered to be in the interests of the Australian economy.

***Q25 – 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.***

From a Group reporting perspective, any increase in disclosures relevant to our wholly owned subsidiaries who are currently reporting SPFS would be considered an increased cost with no benefit. We are unable to quantify the likely costs of the proposals until the selected approach is determined.





The Chair  
Australian Accounting Standards Board  
PO Box 2014  
Collins Streets West VIC 8007  
Australia

9 November 2018

Dear Madam

**Response to the AASB Consultation Paper – Applying the IASB’s Revised Conceptual Framework (RCF) and Solving the Reporting Entity and Special Purpose Financial Statement Problems**

Insurance Australia Group Limited (IAG) is pleased to provide its response to the request for feedback on Phase 2 of the AASB Consultation Paper. IAG is supportive of the AASB’s continued efforts to align the Australian Accounting Standards with the IASB’s RCF.

IAG has responded to the specific matters for comment on Phase 2 (Q11 to Q20). If you require any additional information then, in the first instance, please contact Kiran Rathod, Executive Manager – Financial Control on (02) 9292 3140.

A handwritten signature in blue ink, which appears to read 'Peter Grant'.

---

Peter Grant

Group General Manager, Finance

## Specific matters for comment on Phase 2

### Q11 Do you agree with the AASB's Phase 2 approach (described in paragraph 166)?

Why or why not?

#### IAG Response

IAG's preference is Option 2: Operate with two Conceptual Frameworks – apply IASB's RCF to some entities to maintain IFRS compliance and retain the existing Framework for others (i.e. retain the Australian reporting entity concept and SPFS for others).

We believe the costs associated with moving to Option 1 would exceed the benefits. For an entity to be eligible to apply the SPFS framework, it generally does not have public accountability or is classified as a non-reporting entity. Hence, in their nature, the financial statements of these entities are relied upon by a limited audience. The consultation paper raises the issue of self-assessment on the type of financial reporting required (paragraph 44) which may be addressed through consultation with ASIC and the introduction of more prescriptive rules around the self-assessment process.

### Q12 Which of the AASB's two GPFS Tier 2 alternative (described in paragraphs 167-170) do you prefer?

Please provide reasons for your preference.

#### IAG Response

If Option 2 were to be mandated then IAG would prefer Alternative 2: GPFS – Specified Disclosure Requirements. The reasons this is our preferred position are:

- This alternative adopts a more prescriptive approach to disclosure requirements, with specific requirements set out for all entities;
- The resultant consistency in disclosures will allow for greater comparability across entities; and
- Adoption would be less onerous given the alignment with the recognition and measurement requirements under the SPFS regime.

We note that this alternative would potentially introduce new disclosure Standards (Related Party Disclosures, Impairment of Assets, Revenue and Income Taxes) and the AASB is consulting on these specified disclosures as part of its consultation process. IAG would welcome the opportunity to participate as part of this consultation process.

### 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 – RDR described in paragraphs 167-170)?

Why or why not?

#### IAG Response

Yes, we agree there should only be one Tier 2 GPFS alternative in Australia. We believe providing optionality has the potential to constrain the comparability of reporting across entities.

### Q14 Do you agree with the AASB's decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply?

Please give reasons to support your response, including applicability for the for-profit and not-for-profit sectors.

#### IAG Response

The IFRS for SMEs includes differential recognition and measurement requirements when compared with other IFRS standards and limits accounting policy options. For those entities preparing SPFS that have adopted the full measurement and recognition standards, moving to

IFRS for SMEs would reduce comparability and create inconsistencies when these entities are consolidated for Group reporting purposes. Hence, we agree with AASB's decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative.

- Q15 If the AASB implements one of the two proposed alternatives (described in paragraphs 167-170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Should AASB 1 be applied, or simpler relief provided?**

**Please provide specific examples and information.**

#### **IAG Response**

Entities preparing SPFS are generally less complex in nature and have a limited cohort of financial statement users'. We believe application of AASB 1 is not needed as the SPFR already comply with the recognition and measurement principles and hence the application of AASB 1 will not provide any meaningful information.

We note that the RCF will apply to publicly accountable entities from 1 January 2020 onwards and for all other entities from 1 January 2021 onwards and there will be outreach activities with the preparers in the interim duration. We are supportive of this approach and would appreciate the opportunity to participate in the targeted outreach activities and provide further feedbacks on the implementation guidance as they are framed.

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

**Please provide specific examples and information.**

#### **IAG Response**

Where the reporting entity cannot get the exemption under AASB 10, *Consolidated financial statements*, the costs of applying these new requirements may be onerous on smaller entities which produce financial statements for a limited pool of users and have been classified as non-reporting entities. The users of these financial statements may not have the required financial literacy to understand the consolidated financial statements or the impact of equity accounting associates and joint ventures. In our opinion, the costs associated with this change exceed the benefits, in particular for smaller entities.

- 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.**

#### **IAG Response**

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

**Q18 Do you have any other suggested alternatives 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).**

**IAG Response**

We do not suggest any alternatives but suggest AASB consider Option 2: Operate with two Conceptual Frameworks. As noted in our response to Q11, we believe the costs associated with this change would exceed the related benefits.

**Q19 Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative?**

**Please explain rationale (including advantages and disadvantages).**

**IAG Response**

We believe this question will be better addressed by NFP private sector entities.

**Q20 Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.**

**IAG Response**

We are not aware of any legislation that refers to SPFS that might be impacted by these proposals.

## General matters for comment on Phase 2

- Q21 Whether the AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).**

### IAG Response

We believe the AASB has followed due process in the standard setting process.

- Q22 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.**

### IAG Response

None that we are aware of, other than the cost/benefit considerations noted earlier.

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

### IAG Response

As noted earlier, IAG's preference is Option 2. We strongly believe the SPFS regime adequately meets user needs in a practical and cost-effective manner.

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

### IAG Response

Many small and medium-sized businesses that do not have public accountability and are currently classified as non-reporting entities prepare SPFS. The change may result in a material additional compliance burden for these companies without, in our view, commensurately increasing the value the resultant financial statements to users' of the financial statements.

- Q25 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.**

### IAG Response

As noted in the earlier responses, we do not expect the benefits of transitioning to Option1 would exceed the related costs as, in our experience, the current reporting framework is meeting the needs of the users of financial statements. IAG has yet to perform a detailed cost estimation and impact assessment of the potential alternative approaches.

9 November 2018

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

*Via Email: standard@aasb.gov.au*

Dear Kris

**Submission on Consultation Paper – Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems, Phase 2 (Medium-term Approach)**

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 (“**CP**”) in relation to Phase 2 (Medium-term Approach).

The Australian Institute of Company Directors (**AICD**) has a membership of more than 43,000 including directors and senior leaders from business, government and the not-for-profit (**NFP**) sectors. The mission of AICD is to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society.

The AICD supports the need for review of the Australian financial reporting framework, given its complexities and its impact on a wide range of entities. We also acknowledge that special purpose financial statements (**SPFS**) are not comparable because of its self-assessment approach to compliance obligations.

Our responses to the specific and general matters on which the Australian Accounting Standards Board (**AASB**) requested feedback for Phase 2 are set out in the Appendix.

**1. Overview – for-profit entities**

The AICD does not support the AASB’s preferred Phase 2: Medium-term Approach which involves removing the ability for non-publicly accountable entities to prepare and lodge SPFS and to instead require general purpose financial statements (**GPFS**).

We do not consider that the rationale presented in the CP on the problems with SPFS is clear and based on unequivocal evidence. More empirical evidence is needed, based on up-to-date information on the current state of reporting, the identification of the relevant users and the deficiencies with SPFS from those users before this project should proceed.

Further, we are concerned that such an expansion of GPFS will be in excess of user needs without adequate analysis of the costs and benefits of the change. The alternatives proposed by the AASB will increase the compliance burden on business by requiring:



- Consolidations and equity accounting;
- Increased complexity in adopting the recognition and measurement of International Financial Reporting Standards (**IFRS**); and
- Additional disclosures.

The AICD considers that a broader review of the Australian financial reporting regime should be undertaken by exploring both elements – review of ‘who’ needs to lodge financial reports and a review of ‘what’ these entities should be reporting. The AASB proposals attempt to explore the ‘what’ without policy makers addressing the ‘who’. Only a review of these parts together will enable the development of an effective financial reporting regime that will support the economy without imposing unnecessary compliance burden on small business.

In the meantime, we encourage the AASB to work with regulators in providing additional support to business and professional advisers to better understand who can prepare SPFS and regulators to ‘enforce’ its application in the most effective manner.

## **2. Overview – not-for-profit entities**

We note the AASB announcement, after the release of the proposals in the CP, indicating their intention to apply the proposals in the CP only to for-profit entities. We agree that the impact of removing SPFS is more significant on the NFP sector and a longer timeframe is needed to consider the best outcome for this sector. We support the AASB working with NFP regulators and the sector itself to develop consistent national reform proposals for the sector.

In particular we note the recommended increase in charity financial reporting thresholds in the recent review of the Australian Charities and Not-for-profits Commission. We support an increase in charity financial reporting thresholds, and consider that thresholds should also be reviewed more broadly across the whole NFP sector.

Even with increased NFP thresholds, NFP thresholds will remain much lower than those in the for-profit sector. Therefore, we do not consider that a ‘one size fits all’ reporting framework will necessarily suit both the for-profit and NFP sectors, particularly as the users likely want different information from financial reporting in these sectors. Therefore, we recommend the AASB consider a simpler accounting standard, with recognition, measurement and disclosure simplifications, to apply to certain NFP entities. Such a standard should consider user needs, the size and capacity of the entities and requirements in other jurisdictions around the world.

## **3. Next steps**

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 028248 6635 or at [khicks@aicd.com.au](mailto:khicks@aicd.com.au).

Yours sincerely



**LOUISE PETSCHLER**  
General Manager, Advocacy

## **Specific matters for comment on Phase 2**

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

The AICD does not support the AASB’s preferred Phase 2: Medium-term approach which involves removing the ability for non-publicly accountable entities to prepare and lodge SPFS and to instead require GPFS.

We do not consider that the rationale presented in the CP on the problems with SPFS is clear and based on unequivocal evidence. More empirical evidence is needed, based on up-to-date information on the current state of reporting, the identification of the relevant users and the deficiencies with SPFS from those users before this project should proceed.

Further, we are concerned that such an expansion of GPFS will be in excess of user needs without adequate analysis of the costs and benefits of the change. The alternatives proposed by the AASB will increase the compliance burden on business by requiring:

- Consolidations and equity accounting;
- Increased complexity in adopting the recognition and measurement of IFRS; and
- Additional disclosures.

The alternatives proposed by the AASB do not offer a suitable ‘one size fits all’ reporting framework for non-publicly accountable entities. We note that internationally both the UK Financial Reporting Council and the IASB have recognised that IFRS does not suit SME entities, and have therefore produce a standard particularly suited to SME users with recognition, measurement and disclosure differences. Therefore, we consider that the AASB should explore these options further and consult specifically on the appropriateness of adoption of such an option in Australia if unequivocal evidence can be produced that special purpose financial reports do not meet user needs. We do not consider that the evidence presented to date is sufficiently robust or up-to-date on the current reporting framework.

The AICD considers that a broader approach to the review of the Australian financial reporting regime should be undertaken by exploring both elements – review of ‘who’ needs to lodge financial reports and a review of ‘what’ these entities should be reporting. The AASB proposals attempts to explore the ‘what’ without policy makers addressing the ‘who’. Only a review of these parts together will enable the development of an effective financial reporting regime that will support the economy without imposing unnecessary compliance burden.

### **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 consider that either of these Tier 2 alternatives are appropriate to meet the wide range of user needs that exist for non-publicly accountable entities.

We consider the reduced disclosure regime (**RDR**) has been an acceptable alternative to full IFRS for the last five years, although note that the extent of disclosure reductions from full IFRS could be increased.

However, in our view neither RDR nor Specified Disclosure Requirements (**SDR**) are an acceptable alternative to SPFS.

**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?**

Until the broader framework is reviewed – reviewing both ‘who’ needs to lodge financial reports along with a review of ‘what’ the entities should be reporting, we do not support requiring all entities to prepare GPFS.

Without any review of the financial reporting thresholds, we do not consider that only one alternative to full IFRS is sufficient.

**Q14 – Do you agree with the AASB’s decision that GPFS – *IFRS for SMEs* (outlined in Appendix C paragraphs 18–36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not for-profit sectors.**

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

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

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

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

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

**Q15 – If the AASB implements one of the two proposed alternatives (described in paragraphs 167–170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.**

The AICD does not support one of the two proposed alternatives, as noted above.

If the AASB proceeds with its project, transitional relief would be appropriate to the maximum extent possible.

**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.**

Our concerns with consolidation arise because preparing consolidated accounts is costly and for no obvious user need. If users required consolidated accounts, they would have been specifically requested and prepared under the current framework.

Transitional relief could include not applying the requirements retrospectively, not requiring comparatives and allowing the deeming of cost as fair value for opening balances. However, even with this transitional relief, preparing consolidated accounts comes with a compliance cost to business with no obvious user need.

**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.**

We do not agree that GPFS – SDR would best meet user needs. Developing a set of disclosures that meet user needs would require analysing each standard individually using similar principles to those set out in IFRS for SMEs. We question why the government should embark on such a costly exercise when suitable frameworks already exist in jurisdictions around the world.

**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).**

No other suggestions than already discussed above.

**Q19 – Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).**

The NFP private sector is incredibly diverse in terms of the purposes, structure, size and maturity of the entities within it. It follows that the users of these entities’ financial reports are also diverse, comprising people such as funders, donors, beneficiaries, members, regulators and the general public.

In order to make evidence-based policy decisions about the format of financial reporting, a theoretical understanding must be developed about who the users of NFP financial reports

are and what information they need. AICD is not aware that such an understanding has been developed by the AASB.

The AICD recommends that the AASB, together with relevant regulators and policy-makers, undertake comprehensive research to establish this before advancing any significant reform to the NFP financial reporting framework.

Notwithstanding this, the AICD does not support the inclusion of mandatory service performance reporting information or fundraising and administration cost disclosures as part of any GPFS Tier 2 alternative.

The AICD holds the view that such standardised performance measures do not contribute to building a picture for users about a NFPs performance.

Many NFPs will already use some form of performance measures, but others will communicate their purpose by means of case study, personal testimony or through more sophisticated social impact measurement initiatives.

Further, such metrics are not comparable between entities and could lead to erroneous conclusions about the performance and impact of NFP entities. It could also lead to adverse policy outcomes whereby entities are incentivised to compete on metrics such as administration cost ratios at the expense of their overall impact and effectiveness in delivering their mission.

The introduction of standardised performance measures would undermine the flexibility of NFP entities to communicate with their stakeholders in a way that is tailored to their unique circumstances. This would be an adverse outcome for the NFP sector and for donors.

**Q20 – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.**

We are not aware of any legislation that refers to SPFS. However, guidance exists in the form of ASIC's RG 85 *Reporting requirements for non-reporting entities* and the ACNC web page (<https://www.acnc.gov.au/annual-financial-report-general-and-special-purpose-statements>) on SPFS. Such guidance may also exist on state/territory regulator information websites.

## **General matters for comment on Phase 2**

**Q21 – What are your views on whether *The AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities* (the Framework) have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).**

Paragraph 29 of the Framework indicates that the AASB must take into consideration user need, public interest issues and undue cost or effort considerations. We do not consider the AASB has provided sufficient evidence that it has applied these criteria in developing its CP.

**Q22 – 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?**

To date ‘comply with accounting standards’, the term contained in legislation as well as many non-legislative agreements (such as trust deeds and the like), has been interpreted as applying the reporting entity concept. This concept has allowed for SPFS in circumstances where users can demand information from the entity and do not have to rely on GPFS to make decisions about scarce resources.

We consider that if ‘comply with accounting standards’ were to have a different meaning, and only mean that GPFS would be acceptable, this would require a substantial amount of clear evidence indicating that SPFS were not meeting the public benefit need for public reporting. We do not consider the CP has provided a substantial amount of clear evidence in this regard. Such a change would be substantial and have a huge increase in reporting burden on many companies, many of which are SMEs.

We understand the AASB may consider that many entities already adopt the recognition and measurement of IFRS and therefore the proposals in the CP may not impose a huge increase in reporting burden in this regard. The AICD challenges this finding, as this statement has never been tested through regulator findings and there is a lack of understanding of full IFRS accounting standards in the non-publicly accountable sector.

**Q23 – What are your views on whether, overall, the proposals would result in financial statements that would be useful to users?**

We believe the proposals in the CP provide insufficient evidence of the identity of users and their needs for the financial statements of non-publicly accountable entities. Therefore, we do not consider the proposals would result in financial statements that would be useful to users.

**Q24 – What are your views on whether the proposals are in the best interests of the Australian economy?**

AICD does not consider the proposals are in the best interests of the Australian economy, because:

- Sufficient evidence has not been provided to demonstrate the nature of the problem with SPFS; and
- The proposals will create an extensive compliance burden on business, particularly for SMEs. This would be contrary to the government’s current efforts to provide initiatives to help small business grow through tax cuts, less red-tape, simpler GST reporting and providing tools for easier compliance.





# Grant Thornton

An instinct for growth™

Kris Peach  
Chair and CEO  
Australian Accounting Standards Board

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**Grant Thornton Australia  
Limited**  
Level 17  
383 Kent Street  
Sydney, NSW  
2000  
T +61 2 8297 2400  
F +61 2 9299 4445

9 November 2018

## Grant Thornton Australia Submission – Phase 2 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 2 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.

As we noted in our submission to Phase 1 of the Consultations, we acknowledge that the issues identified in the AASB's Consultation Paper have been discussed among stakeholders for many years.

We conclude from discussions with stakeholders and the AASB that our preferred revised framework is GPFS – Specified Disclosure Requirements, which we believe will result in a lower transitional cost, and will result in simpler financial reporting requirements in the longer term.

We note that our comments on the Consultations are in the context of the new framework being effective for the for-profit sector only at this stage.

Please see the attached Appendix for our answers to specific questions in the AASB's Discussion Paper. Should you have any queries related to our submission, please feel free to contact me.

Yours sincerely

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

ABN-41 127 556 389 ACN-127 556 389

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## Answers to specific questions in ITC 39 Discussion Paper for Phase 2 Consultations

In this section, Grant Thornton Australia offers feedback on the specific and general matters for comment requested by the AASB in ITC 39, paragraphs 195-196.

### Specific matters for comment on Phase 2

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

Grant Thornton Australia welcomes all measures and consultations by the Board that provide clarity, consistency, and simplicity to preparers and users of financial statements.

We acknowledge that the Board has invested a significant amount of resources to this consultation process. Having reached this phase of the consultation, we agree in principle with the AASB's Phase 2 approach.

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.

Having examined the alternatives in the discussion paper, we conclude that our preferred revised framework is GPFS – Specified Disclosure Requirements (Alternative 2), which we believe will result in a lower transitional cost, and will result in simpler financial reporting requirements in the longer term.

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?

We agree there is a need for only one new tier in the context of for-profit entities in the interests of consistency and clarity.

Creating more than one Tier 2 GPFS alternative for for-profit entities risks lending itself to confusion for both preparers and users of financial statements.

Q14 – Do you agree with the AASB's decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not for-profit sectors.

We agree with the AASB's determination not to implement GRFR – IFRS for SMEs. Australia already has recognition and measurement requirements for all financial statements prepared under Corporations Act, a move to IFRS for SMEs would not be favourable to the Australian market.

We acknowledge that IFRS for SMEs is a viable alternative for jurisdictions where SMEs would otherwise make a significant leap from their local GAAP to full IFRS compliance if not for the availability of IFRS for SMEs.

Q15 – If the AASB implements one of the two proposed alternatives (described in paragraphs 167- 170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.

Consistent with feedback at roundtables, we agree there would be a benefit in providing relief for the inclusion of comparative information in the first effective period of the new standard. In our view, the modified retrospective approach, in line with the transitional arrangements for new major standards such as AASB 15 *Revenue from Contracts with Customers*, would be the most appropriate option.

As it would not provide consistency, clarity nor simplicity for preparers and users of financial statements, we do not support the notion of grandfathering the existing Special Purpose Financial Statements regime for entities already applying it.

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.

Our discussions with our clients reflect that consolidation will be the most significant issue in the application of the new framework, as ASIC's RG 85 *Reporting requirements for non-reporting entities* does not make consolidation compulsory for entities preparing Special Purpose Financial Statements.

We agree there would be a benefit in providing relief for the inclusion of comparative information for consolidation in the first effective period of the new standard, as this is in line with the modified retrospective approach applied in new major standards such as AASB 15 *Revenue from Contracts with Customers*.

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.

Whether the specified disclosures would meet users' needs would need further consultation with stakeholders.

We do note, however, that the proposed GPFS – SDR framework does not currently include the subsequent event disclosures in AASB 110 *Events after the Reporting Period*. We would recommend that the AASB considers adding subsequent event disclosures in line with AASB 110 to the proposed framework.

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).

We have no specific comment on this question.

Q19 – Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).

This NFP-centred question is for a later consultation round as advised by the AASB. However, for this topic, the answer is dependent on broader legislative requirements. For the moment, some of these issues are embedded within legislation. In future consultation rounds, harmonisation with the results of the ACNC legislative review will be key to smooth implementation of any reforms.

Q20 – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.

There are none of which we are aware.

## General Matters for comment on Phase 2

Q21 – Whether The AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).

It appears that the AASB has been making an effort to be applying the frameworks appropriately. We have seen nothing to suggest otherwise.

Q22 – Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.

As mentioned in our answer to Q14, resourcing at the entity level may be a challenge when implementing the new regime.

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

The degree of usefulness will be on a case-by-case basis, but in general, we agree with proposals that will provide clarity, consistency and simplicity for users.

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

All proposals that bring a level of consistency and clarity to end users of financial statements, as well as improved consistency with overseas usage, is welcomed and will surely be in the long-term interests of the Australian economy.

Going forward, there will be a need continually to critique the size criteria for the applicable tiers. The AASB will need to consider consistency for different types of entities e.g. different legal structures, as that will continue to deliver inconsistent reporting (trusts, partnerships, grandfathered entities).

More broadly, the idea of the consultations and the Standards is to look after stakeholders – we must ask ourselves why it continues to be in the interests of the Australian economy that a class of corporate citizens be exempt from reporting.

Q25 – 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 nonfinancial) 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 nothing to add on this point.

The Chair  
Australian Accounting Standards Board  
PO BOX 204  
Collins Street West  
Melbourne VIC 8007

9 November 2018

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  
2)**

Thank you for the opportunity to comment on the Board's proposals to remove special purpose financial reporting in Australia for entities preparing financial statements in accordance with Australian Accounting Standards.

While we acknowledge that the AASB's Phase 2 approach will create additional work, and some increased costs for some entities currently preparing special purpose financial statements, we agree with the approach on the basis that it will:

- remove the subjectivity currently present in the process for self-assessing whether an entity is a 'non-reporting entity',
- improve the consistency, comparability, usefulness, and credibility of financial statements prepared for regulatory purposes (i.e. for users other than shareholders),
- improve the comparability for entities of similar economic circumstances, and
- improve the trust and transparency within financial reporting to meet user needs.

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

## APPENDIX 1

### Question 11: Do you agree with the AASB's Phase 2 approach (described in paragraph 166)

Why or why not?

**BDO comment:**

While we acknowledge that the AASB's Phase 2 approach will create additional work, and some increased costs for some entities currently preparing special purpose financial statements, we agree with the approach on the basis that it will:

- remove the subjectivity currently present in the process for self-assessing whether an entity is a 'non-reporting entity',
- improve the consistency, comparability, usefulness, and credibility of financial statements prepared for regulatory purposes (i.e. for users other than shareholders),
- improve the comparability for entities of similar economic circumstances, and
- improve the trust and transparency within financial reporting to meet user needs.

We note from the AASB's Research Report No. 1 that more than three quarters (76%) of non-disclosing entities publicly lodging financial statements are already complying with the recognition and measurement requirements of Australian Accounting Standards. Therefore additional costs to these entities from applying the proposals in Phase 2 will result from the need to:

- Provide some additional disclosures (GPRS - RDR or GPFS - SDR), and
- Prepare consolidated and/or equity accounted financial statements.

However, the 24% of such entities that do not currently comply with the recognition and measurement requirements of Australian Accounting Standards will incur significantly greater initial costs if these Phase 2 proposals are adopted.

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

Please provide reasons for your preference.

**BDO comment:**

Should the Board decide to proceed with the Phase 2 approach described in paragraph 166, we prefer the GPFS - RDR alternative because preparers and users are already familiar with these requirements, having been available as a general purpose alternative to Tier 2 since 2010. We also note that this alternative is being used successfully by 'significant global entities' having to provide general purpose financial statements to the ATO.

While at first glance the GPFS - SDR alternative appears to require overall fewer disclosures than GPFS - RDR (and therefore would appear to be a satisfactory compromise to entities having to step up their level of disclosure to general purpose financial statements), we do not believe that providing in-depth

disclosures about a limited number of transactions and balances provide information that is useful to users of financial statements. The GPFS - SDR approach requires disclosure only for the following specific transactions and/or balances:

- Revenue from contracts with customers (AASB 15 *Revenue from Contracts with Customers*)
- Income taxes (AASB 112 *Income Taxes*)
- Impairment of non-financial assets (AASB 136 *Impairment of Assets*), and
- Related party transactions (AASB 124 *Related Party Disclosures*).

Many entities have significant transactions and balances that fall outside these above-mentioned standards, and in those cases, SDR would not require disclosure at all. For example, entities with significant financial instruments, business combinations, or subsidiaries and associates, under the SDR approach would not be required to provide any disclosure under AASB 7 *Financial Instruments: Disclosures*, AASB 3 *Business Combinations*, or AASB 12 *Disclosures of Interests in Other Entities*, whereas under RDR, minimum disclosures across all standards is required. We believe this spread of information is desirable to give users a complete picture of the financial affairs of the entity.

However, we do note that many entities are sensitive about certain competitive information being made available in the public domain, including, in particular, information related to gross margins. Applying the RDR approach would result in this information being disclosed, being easily be derived by deducting the amount of 'inventories recognised as an expense during the period', as required by AASB 102 *Inventories*, paragraph 36(c) from sales revenue. We note that ASB 102.36(c) is not removed under RDR.

**Question 13: 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?

**BDO comment:**

Yes we agree that all Tier 2 entities required to prepare general purpose financial statements in accordance with Australian Accounting Standards should only have one disclosure alternative, i.e. GPFS - RDR, or GPFS - SDR.

As these entities are all considered non-publicly accountable (i.e. are unlisted entities whose debt and equity instruments are not traded in a public market, and which do not hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses), we believe it could cause confusion amongst users by having two different disclosure alternatives for GPFS for what is essentially a homogenous group of entities. We are also concerned that having a choice could result in entities moving between methods from year to year to avoid having to disclose material information.

**Question 14: Do you agree with the AASB's decision that GPFS - IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply?**

Please give reasons to support your response, including applicability for the for-profit and not-for-profit sectors.

**BDO comment:**

Given that IFRS for SMEs is only updated every three years, we agree with the AASB's decision not to make IFRS for SMEs available in Australia as a Tier 2 alternative because it could result in measurement bases and disclosures being significantly out of step with Tier 1 recognition and measurement principles, and it could also seriously lag behind in terms of disclosures for new standards.

We also believe that it would result in:

- Significant additional costs for practitioners (including staff training) in having to become educated with an additional set of recognition, measurement and disclosure standards, and
- Lack of comparability with entities applying GPFS - RDR or GPFS - SDR alternatives (both in recognition and measurement, and disclosure differences), particularly for for-profit entities.

**Question 15: If the AASB implements one of the two proposed alternatives (described in paragraphs 167-170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)?**

Please provide specific examples and information.

**BDO comment:**

*Our comments below relate to the preparation of separate financial statements only - transitioning from SPFS to GPFS*

*Disclosures*

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

*Recognition and measurement*

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

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



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

**Question 16: 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.

**BDO comment:**

***Our comments below relate to the first-time preparation of consolidated financial statements only - transitioning from SPFS to GPFS.***

Entities required to prepare consolidated or equity accounted financial statements for the first-time are likely to face a number of challenges, including:

- Where the interest in the subsidiary, associate or joint venture was acquired a number of years ago, much of the information required to prepare consolidation/equity accounting will no longer be available, e.g. fair values of assets, pre-acquisition share capital and retained earnings, etc., and
- Having the resources, skills and time to complete the process.

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

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

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

Where the date of acquisition is known, and pre-acquisition amounts are also known - we recommend that the relief afforded by AASB 1, paragraph C4(j) from having to apply 'fair value' acquisition accounting to prior business combinations should be made available.

Goodwill is determined essentially as the difference between the cost of the parent entity's investment in the subsidiary, and the net carrying amount of the subsidiary's assets recognised and measured in accordance with Australian Accounting Standards on acquisition date. That is, no fair value adjustments are made to asset values on consolidation as part of business combination accounting, but instead all recognised in goodwill.

A simple example demonstrating how the relief would work is demonstrated below:

	Parent entity	Subsidiary	Consolidation adjustments	Total	
Assets	1,000	500	0	1,500	Facts known:
Investment in subsidiary	200		(200)	0	1. Acquisition price was \$200 (cost of investment)
Goodwill			50	50	2. Assets in Subsidiary at date of acquisition were \$150 carrying amount.
	1,200	500	(150)	1,550	3. Share capital at acquisition date was \$100
					4. Retained earnings at acquisition date was \$50
Share capital	100	100	(100)	100	5. Applying C4(j), no FV adjustments to asset values of \$150
Retained earnings	1,100	400	(50)	1,450	Acquisition journal entry is therefore:
Consolidation reserve	0			0	
	1,200	500	(150)	1,550	Dr Share capital 100
					Dr Retained earnings 50
					Dr Goodwill 50
					Cr Investment in subsidiary 200

### Method 2 - Historical information not available

Where the information in Method 1 above is not available (e.g. because the acquisition occurred so long ago), a 'short-cut' transition option whereby no adjustments are made for pre-acquisition amounts on the date of initial application should be available to entities as a practical expedient.

A simple example demonstrating how this transitional relief might work is demonstrated below:

	Parent entity	Subsidiary	Consolidation adjustments	Total
Assets	1,000	500	0	1,500
Investment in subsidiary	200		(200)	0
	1,200	500	(200)	1,500
Share capital	100	100	(100)	100
Retained earnings	1,100	400		1,500
Consolidation reserve	0		(100)	(100)
	1,200	500	(200)	1,500

In this scenario, no goodwill is recognised, with all net consolidation adjustments recognised as a reserve within equity.

### Implications for AASB 1053 Application of Tiers of Australian Accounting Standards

We note that AASB 1053, as currently drafted, does not cater for our two transitional reliefs proposed above and would create inconsistencies if made available to entities applying consolidation and equity accounting for the first time. We recommend that consequential amendments be made to AASB 1053 as appropriate.

In particular, AASB 1, Appendix C (Chart 1) does not lend itself to applying AASB 1 as a transition option if consolidation and equity accounting are viewed (as per ASIC's Regulatory Guide 85) as a presentation requirement (i.e. recognition and measurement requirements had previously all been complied with). Chart 1 only permits the application of AASB 1 when moving from special purpose to general purpose financial statements if recognition and measurement requirements had previously not been complied with. Applying the logic in ASIC Regulatory Guide 85, recognition and measurement requirements had previously been complied with, therefore the relief in AASB 1 will not be available unless the AASB make an amendment to say that it is.

**Question 17: 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.

**BDO comment:**

As noted to our response in Question 12 above, we do not believe that providing in-depth disclosures about a limited number of transactions provides information that is useful to users of financial statements. The SDR approach requires disclosure only for the following specific transactions and/or balances:

- Revenue from contracts with customers (AASB 15 Revenue from Contracts with Customers)
- Income taxes (AASB 112 *Income Taxes*)
- Impairment of non-financial assets (AASB 136 *Impairment of Assets*), and
- Related party transactions (AASB 124 *Related Party Disclosures*).

Many entities have significant transactions and balances that fall outside these above-mentioned standards, and in those cases, SDR would not require disclosure. We believe that GPFS - RDR would better suit user needs as it would ensure a base level of disclosure across all transactions and balances.

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

Please explain rationale (including advantages and disadvantages and the costs and benefits expected).

**BDO comment:**

We do not have any other suggested alternatives for GPFS Tier 2 for-profit entities reporting in accordance Australian Accounting Standards.

However, we believe there is merit in considering a Tier 3 approach for use by not-for-profit entities at the request of not-for-profit regulators in order to reduce compliance costs in this sector.

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

Please explain rationale (including advantages and disadvantages).

**BDO comment:**

We believe that service performance reporting, fundraising and administrations cost disclosure provide useful information to the users of NFP private sector entities and should therefore be included as part of the chosen GPFS Tier 2 alternative.

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

If yes, please provide specific information.

**BDO comment:**

The *Australian Charities and Not-for-profits Commission Regulation 2013* refers to the preparation of special purpose financial statements (section 60.30) which would need to be removed.

**Question 21: Whether the AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).**

**BDO comment:**

The AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem in relation to for-profit entities.

**Question 22: 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.

**Question 23: Whether, overall, the proposals would result in financial statements that would be useful to users.**

**BDO comment:**

In our view the proposals would result in financial statements that would be useful to users. .

**Question 24: Whether the proposals are in the best interests of the Australian economy.**

**BDO comment:**

Yes we believe the proposals are in the best interests of the Australian economy as it removes differential reporting for similar entities and brings Australian into line with overseas countries.

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

**BDO comment:**

Please refer to our comments under specific matters for comment.



9 November 2018

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

*Via website: [www.aasb.gov.au](http://www.aasb.gov.au)*

Dear Kris

**Submission on Consultation Paper: Applying the IASB's Revised Conceptual Framework and solving the reporting entity and special purpose financial statement problems, Phase 2 – (medium-term approach)**

Thank you for the opportunity to comment on the above consultation paper ("ITC 39").

We agree that the Australian financial reporting framework would benefit from simplification and clarification and that this consultation is an important step on the path to achieving this reform. We are therefore appreciative of the effort that the AASB has gone to in researching its proposals, communicating them to all stakeholders and providing a range of opportunities for wider discussion.

This submission expands on the preliminary views on Phase 2 of ITC 39 that we expressed in our submission on Phase 1 (short-term approach) of that consultation, dated 10 August 2018. These views still do not support the AASB's planned direction for Phase 2.

We note that since the AASB issued ITC 39, it has decided to defer consideration of the reform proposals it contains relating to the not-for-profit (NFP) sector to a subsequent consultation. We support the need for such a separate NFP consultation, which we see as a critical part of the overall reform package. We therefore encourage the AASB to continue working with the significant NFP regulators, and with the sector itself, to develop consistent national reform proposals for them.

However, as discussed in more detail below, our preference would be for the AASB to prioritise progressing this work ahead of any further advance of the for-profit standard setting reforms. We believe NFP reporting is the area of greatest need and that the outcomes from the board's NFP reform work could positively inform the approach we see as needed for the for profit (FP) sector reform. This will then allow the final development of a suitable, but consistent, framework for both sectors. Accordingly, while we have limited our comments in this submission to the planned FP sector reforms, we have included references to NFP issues where they are relevant.

**Conceptual Framework adoption options**

As detailed in our submission on Phase 1 of ITC 39, we supported the AASB's choice of Option 1 for that

phase as the most pragmatic approach to resolve the challenge posed by the IASB's new definition of the 'reporting entity'. The need to maintain international harmonisation of our framework means it is important to make the IASB's revised Conceptual Framework (RCF) available as soon as possible to support the general purpose financial statements of those entities that are already IFRS compliant, and wish to remain that way.

## Application of Option 1 to Phase 2

However, as foreshadowed in our previous submission, our support for the implementation of Phase 1 of Option 1 does not extend to the AASB's implementation plans for Phase 2 of this option.

While we support financial reporting reform for entities that do not have public accountability, we do not consider that the AASB has sufficiently developed the case for the direction it proposes to take in this phase, or that its response will adequately address the financial reporting 'problem' it is seeking to resolve. Therefore we cannot support either of the AASB's current proposals for Phase 2. Our reasons for this and our views on an alternative way forward are set out below.

## Our reasoning

The decision not to support the AASB's Phase 2 proposals is based on our members' concerns that they are likely to result in an expansion of the application of general purpose financial reporting in Australia to a level that is far in excess of what users need, and without adequate examination of the relative costs and benefits of that change. Both of the alternatives put forward in ITC 39 do not offer a suitable 'one size fits all' reporting framework for entities that are not publicly accountable or provide a solution that could adequately address user needs without accompanying regulatory reform. These concerns are dealt with in more detail in our responses to questions 12 and 13.

Attempting to 'fix' the reporting framework using standard setting alone defers two important questions:-

- which entities should have to publicly report – a matter for the relevant policy makers, legislators and regulators and
- what they should report – a matter for these policy makers, legislators and regulators as well as the standard setters

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

## Our preferred way forward

We therefore encourage the AASB to work with Treasury in the for-profit sector, to achieve suitable legislative framework reform before it undertakes further reform via its standard setting mandate. This approach would mirror the approach the AASB has indicated it is already taking for the NFP sector, by working with regulators, and the sector itself, to formulate the appropriate financial reporting framework for that sector.

In order to further a more holistic solution, in conjunction with CPA Australia, we have written to Treasury seeking their review of the reporting thresholds in the Corporations Act 2001 as a matter of priority. Our letter



to Treasury is attached to this submission.

We recognise that framework reform needs to provide a consistent, comparable, transparent and enforceable structure for all the entities that are required to lodge financial statements on public registers. However that structure needs sufficient flexibility to appropriately address the varying needs of the users of those reports. We therefore surveyed our members to identify what reporting framework would more appropriately reflect user needs.

The outcomes of this research highlight a need for substantial statutory threshold reform and for the refinement, and better enforcement of, a reporting framework which is as firmly focused on identified users as SAC 1 currently is.

Their views on the exact nature of this framework vary, with significant support for the status quo, and mixed levels of support for well targeted reduced disclosure alternatives and for a reduced recognition and measurement framework. The clear message is a preference for reform to adopt a 'bottom up' approach to financial reporting, involving the specification of a suitable 'minimum reporting package' for lodging entities based on identified user needs, but only once appropriate lodgement threshold decisions have been taken. For larger non-publicly accountable entities whose users may demand more information than this minimum package provides, directors could 'add on' (from IFRS) in order to satisfy this need.

Developing this minimum package should include a more thorough consideration of a role for IFRS for SMEs (or a domestically developed SME package with a similar objective) as a means of reducing onerous recognition and measurement requirements in IFRS for smaller entities.

In light of this desired direction, we consider that it could be more beneficial to prioritise further work on the NFP sector reforms first as the learnings from that consultation process are likely to provide significant insight into what should constitute minimum lodgment requirements for the for-profit sector.

We anticipate that our survey findings, accompanied by the additional research the AASB has been conducting during the consultation period via its surveys of users and preparers and its investigations of regulatory data bases, should allow the board, in conjunction with the key regulators, to develop and re-expose a more evidence based and fit for purpose proposal. Such a solution, coupled with threshold reform and an appropriately recalibrated regulatory enforcement regime, is far more likely to produce a result that would be in the best interests of the Australian economy than the proposals currently contained in ITC 39. We also believe that a more evidence based articulation of the 'special purpose problem' and more evidence based solutions will reduce the current diversity in stakeholder views about an appropriate framework alternative.

We look forward to continuing to engage with the AASB and the relevant legislators and regulators on this important project.

In the meantime, there are three short term improvements to our existing framework that could be achieved via the AASB's standard setting mandate. These are:

- Providing a clearer definition of specific entities the AASB believes do have 'public accountability' to reduce the most pressing primary sources of concern about comparability of financial information on the public record.
- Renaming the reporting entity concept in SAC 1 to remove the impediment its existence presents to adoption of the IASB's RCF, while allowing it to continue to underpin the existing differential reporting

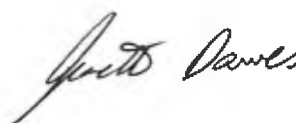
- regime.
- Providing more guidance around SAC 1's expectations for the identification of user needs to ensure its fundamentally valued principle is better applied in practice.

Our responses to the specific and general matters on which the AASB requested feedback for Phase 2 are set out in Appendix A. Appendix B provides information about Chartered Accountants Australia and New Zealand (CA ANZ). If you have any questions about our submission, please contact Jeanette Dawes, Senior Policy Advocate.

Yours sincerely



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



**Jeanette Dawes FCA**  
Senior Policy Advocate - Reporting and Assurance  
Chartered Accountants Australia and New Zealand

## Appendix A

### A1: Specific matters for comment on Phase 2

Note: Questions 1-10 refer to Phase 1 of ITC 39 and were responded to in our submission dated 10 August 2018)

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

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

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

**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 believe that either option is appropriate to meet the needs of users of the wide range of entities that are not publicly accountable. We do not consider that the AASB has adequately demonstrated how either option meets user needs in this regard.

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

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

**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?**

Until the issues of who should lodge financial statements on the public record, and what the users of those financial statements actually need are considered and identified, it is inappropriate to impose GPFS on all lodging entities. These entities range in size and complexity, and their users are primarily concerned with the measurement of performance in a format that is readily understood by the primary users i.e. management and owners, employees and creditors, rather than the making of investment allocation decisions.

Therefore the financial statements of these entities need to ensure that this performance is clearly and effectively disclosed, through fit for purpose financial reporting requirements, and not obscured by unnecessary and unhelpful reporting. What these disclosures are requires careful consideration of entities at the smaller end of the scale from a cost benefit perspective, given the limited resources available to these entities and their significance to the economy.

Bearing this in mind we are of the view that that the application of the current RDR to all the current 'non-reporting entities' would result in financial statements disclosures that are substantially in excess of this need since it is designed for entities at the larger end of the public accountability to lodging entity continuum. However, our members have expressed support for RDR as a conceptual reporting alternative, if it was to be better targeted to the smaller end of the lodgment spectrum.

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

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

**Q14 – Do you agree with the AASB's decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18–36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not for-profit sectors.**

While we acknowledge that IFRS recognition and measurement is widely used by non-publicly accountable entities, we believe that this is partly because a modified recognition and measurement option (such as IFRS for SMEs) has never been seriously offered as an alternative. It has also been unnecessary whilever SAC 1 allows smaller non publicly accountable entities measurement choice in order to effectively meet their user needs.

However it does become a valuable alternative in the development of a consistent and transparent 'bottom up' solution to lodging entity reporting requirements. Its recognition and measurement principles are far more suited to the needs of smaller entities than IFRS, while remaining IFRS like, and its disclosure principles already underpin our reduced disclosure regime.

**Q15 – If the AASB implements one of the two proposed alternatives (described in paragraphs 167–170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.**

While we do not support the introduction of either option, appropriate transitional relief needs to include consolidation relief that does not require retrospective application (see below).

**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.**

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

**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.**

We do not agree that SDR provides a suitable reporting option. SDR leaves out standards that have some recognition, measurement and disclosure requirements that we feel users of the financial statements of entities without public accountability would find useful. These requirements include appropriate portions of:

- AASB 2 *Inventories*
- AASB 3 *Business Combinations* (particularly regarding goodwill)
- AASB 8 *Segment Reporting*
- AASB 9 *Financial Instruments* (part 1) and AASB 132 *Financial Instruments: Presentation* (particularly regarding classifications of debt and equity and provisions for doubtful debts)
- AASB 116 *Property, Plant and Equipment* (particularly depreciation)
- AASB 1023 *Borrowing Costs*
- AASB 138 *Intangibles*
- AASB 119 *Employee Benefits*
- AASB 137 *Provisions, Contingent Assets and Contingent Liabilities*

SDR also includes disclosures from its selected standards that are in excess of what users need for these types of entities, as evidenced by the reductions offered by the current RDR for these standards.

Developing a more suitable reporting alternative would involve the analysis of each standard individually to identify and include only appropriate minimum disclosures, using the principles inherent in IFRS for SMEs (and the existing RDR).

**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).**



Our preferred solution initially involves a review of the lodging entity thresholds before any further changes are made. This is because a clear understanding of the reporting population is essential to setting cost effective requirements. Only then can informed decisions be taken on what that population should report and how it should report. Once this clear rationale for “who needs to lodge what”, the AASB could then develop a suitable ‘minimum financial reporting package’ for lodging entities.

The package could be based on IFRS for SMEs, mandating a minimum set of recognition, measurement and disclosure requirements that best meet user needs of lodging entities that are not publicly accountable. Where the user needs of entities at the larger end of that spectrum require more, directors could ‘add on’ from full IFRS in the interests of ensuring these needs are still met.

**Q19 – Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).**

Information about these activities can be important for users to obtain a clear understanding of the activities of some NFPs types, including charities. However charities and other NFPs are not a homogenous group. We therefore recommend that more detailed research and consultation with relevant stakeholders takes place to determine the users of charity and other not for profit reports, what information would be useful to them in making decisions and how these needs can be addressed through the reporting framework.

While we note the AASB has now limited this consultation to the for-profit space, our survey referred to in response to question 18 also sought preliminary feedback from members on options for NFPs which we would be happy to discuss further with the AASB at the appropriate time.

**Q20 – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.**

We are not aware of any legislation that refers to SPFS that might be impacted by these proposals. However, guidance documents regarding their acceptance of SPFS exist in ASIC and the ACNC and may also exist on relevant state/territory regulator websites.

## A2: General matters for comment on Phase 2

**Q21 – What are your views on whether *The AASB’s Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities* (the Framework) have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).**

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

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

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

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

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

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

**Q22 – 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?**

We believe insufficient work has been done to understand the legislative impact of these changes and to mitigate an unrealistic red tape burden. We believe a more appropriate approach to the “problem” of special purpose reports is to develop a consistent legislative approach to the types of entities that need to report publicly and what is the appropriate format and content for that report and then respond with the

Development of a minimum reporting framework that would support those entities.

**Q23 – What are your views on whether, overall, the proposals would result in financial statements that would be useful to users?**

We believe the current Phase 2 proposals demonstrate an insufficient understanding of the needs of users, especially for entities that are not publicly accountable, which is where this reform proposes its biggest changes. Accordingly these proposals would produce financial statements that would not be useful to a wide range of users, and would require a significant increase in preparer burden for no demonstrable benefit.

**Q24 – What are your views on whether the proposals are in the best interests of the Australian economy?**

We do not agree that the AASB has provided sufficient evidence to demonstrate that its current proposals are beneficial. We believe the Australian economy will gain a far greater long term benefit from a reform approach that is done holistically for the FP sector in the same way that the AASB is proposing to develop its proposals for the NFP sector. This holistic approach requires legislative and regulatory involvement to develop a consistent legislative approach to the types of entities that need to report publicly and what is the appropriate format and content of that report.

**Q25 – 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 nonfinancial) 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 reiterate our view that the AASB has insufficiently demonstrated why only GPFS meets the requirement of “financial statements prepared in accordance with accounting standards” and how the benefits to those users of implementing a Tier 1 or 2 only approach will exceed the substantial compliance burden it will present.

## Appendix B

### About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 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.

22 October 2018

Mr Adam Bogiatzis  
Senior Advisor, Corporations and Consumer Policy Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

By email: [adam.bogiatzis@treasury.gov.au](mailto:adam.bogiatzis@treasury.gov.au)

Dear Adam

**Treasury Review Proposal - Australian Accounting Standards Board consultation on the conceptual framework and special purpose financial statements (ITC 39)**

As the representatives of over 200,000 professional accountants in Australia, Chartered Accountants Australia and New Zealand (Chartered Accountants ANZ) and CPA Australia would like to jointly raise a matter with the Australian Treasury in relation to the above consultation currently being undertaken by the Australian Accounting Standards Board (AASB).

We are writing to you jointly to request that the Australian Treasury prioritise and conduct a comprehensive review of the financial reporting thresholds applicable to proprietary companies under section 45A of the Corporations Act 2001.

It is the long-held view of both Chartered Accountants ANZ and CPA Australia that these thresholds should be subject to a periodic and regular review to ensure that the regulatory framework they underpin is fit for purpose. Since improving the Australian financial reporting framework is the key objective of the AASB's current consultation, the issue of thresholds has once again been brought to the fore as we, and our members, give consideration to the content of the AASB's proposals. Our members work in diverse roles across public practice, commerce, industry, academia and the public and not-for-profit sectors throughout Australia and therefore have a significant interest and stake in the framework reform agenda.

We are concerned that the AASB's desire to unilaterally use its standard setting mandate to achieve financial reporting reform is only a partial solution to a more complex problem. In the context of companies and other entities regulated under the Corporations Act 2001, we believe that this problem needs to be addressed via consideration of both the lodgment thresholds and the AASB financial reporting framework. As noted in paragraph 67 of ITC 39, the AASB shares this view and while it

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indicates that legislative reform is being discussed as part of its Australian Financial Reporting Framework project, it has chosen to pursue an approach purely based on modifying its financial reporting framework for the private sector first.

We are strongly of the view that the AASB's reform of the Australian financial reporting framework should not occur in isolation but should coincide with a Treasury review of the financial reporting thresholds and associated requirements within the Corporations Act 2001.

We hold this view because one of the groups most impacted by the AASB's proposals will be large proprietary companies who have statutory reporting requirements under the Corporations Act 2001. These companies are the significant clients of, or employers of, many of our members.

In its consultation, the AASB is proposing to withdraw Statement of Accounting Concept 1 *Definition of The Reporting Entity* (SAC 1). If this occurs, all large proprietary companies will be required to prepare general purpose financial statements (GPFS). For those large proprietary companies nearer to the current reporting thresholds, this is likely to require the production of a level of financial information for which there is no clearly identified user need. The proposals include preparing consolidated financial statements that include their controlled entities, a substantial increase in the reporting burden. This information would be substantially in excess of what large proprietary companies currently produce and lodge now as special purpose financial statements.

We believe a Treasury review of thresholds now would be particularly timely for two reasons. These are:

- the financial reporting thresholds were introduced into the Corporations Act 2001 more than 10 years ago and have not been subject to a review since that time.
- current and ongoing research informing the AASB's reform project can be utilised by Treasury to review and reset the thresholds at an appropriate level that effectively meets user needs without imposing additional regulatory burden.

Without such a review, the AASB's proposals could result in an unreasonable regulatory burden being placed on smaller large proprietary companies for no other reason than that they fall within outdated thresholds. This burden is likely to increase further over time as new accounting standards, such as AASB 116 *Leases* operative for financial reporting periods beginning on or after 1 January 2019, bring onto the balance sheet assets and liabilities that were previously only disclosed as commitments. This makes it possible for an entity to breach the asset thresholds only due to a change in the accounting standards, rather than as a result of any changes in the underlying business or the user needs for their financial information.

We believe that a joint effort between the AASB and Treasury is necessary to produce a framework reform outcome for companies that will be in the best interests of all stakeholders. The result has the potential to provide all users of lodged financial statements with the information they need while ensuring that the reporting burden placed on preparers is not disproportionate. Such an approach is

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being adopted for reform in the not-for-profit sector, through the ACNC legislative review, and so we encourage Treasury to adopt a similar approach for the for-profit sector.

Chartered Accountants ANZ and CPA Australia are willing to engage with Treasury to explore possible options and assist with any deliberations. Please do not hesitate to contact either Ram Subramanian CPA (CPA Australia) at [ram.subramanian@cpaaustralia.com.au](mailto:ram.subramanian@cpaaustralia.com.au) or Jeanette Dawes (Chartered Accountants ANZ) [jeanette.dawes@charteredaccountantsanz.com](mailto:jeanette.dawes@charteredaccountantsanz.com) or if you would like to discuss the contents of this letter.

Yours sincerely



**Simon Grant FCA**

Group Executive – Advocacy, Professional  
Standing and International Development  
**Chartered Accountants Australia and New  
Zealand**



**Craig Laughton**

Executive General Manager  
Policy, Advocacy and Public Practice  
**CPA Australia**

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[cpaaustralia.com.au](http://cpaaustralia.com.au)



[charteredaccountantsanz.com](http://charteredaccountantsanz.com)

Malcolm Bunney  
143/10 Waterford Park Ave,  
Knoxfield 3180.  
[mpbunney@bigpond.com](mailto:mpbunney@bigpond.com) 7/11/2018

The Manager,  
Australian Accounting Standards Board,  
By email: [standard@asb.gov.au](mailto:standard@asb.gov.au)

Dear Sir/Madam,            Subject:- Submission Reporting Entity Phase 2 – Retirement Villages

I am a retired accountant living in a retirement village. The Retirement Villages Act 1986 requires a financial statement of income and expenditure to be presented to residents and audited by a registered auditor. (part 6, sections 3 and 4)

My concern is that the proposed changes will be avoided by retirement villages.

Background. The village owner has 80 retirement villages in Australia with 20,000 residents. The Village accounts consist of a statement of financial performance, financial position, and long term maintenance information. The accounts include the cost of running and maintaining the village. The income (\$800K p.a.) comes from service/maintenance fees and from a private water embedded network system. 50% of charges are related party transactions. The village is not a legal entity and has been declared a non- reporting entity. Income and expenditure are not matched in the same accounting period, funds are offset in a slush account outside the financial statements. Details can be provided.

Reply to general matters.

Q21. The proposal, Tier 2 GPFS, R & M, with 9 disclosures is excellent. The concern is that Village Owners and Auditors will find a way around this being applied to retirement villages by classifying not for profit, no public accountability, low \$'s, services provided under a contract, no profit is made, increases limited to CPI. The reality is that residents must use the owner to provide services, if income is short then supplied services will be reduced, there are indirect benefits to the owner.

Can retirement villages be specifically included, so the revised standards will be applied to Retirement Villages?

Q22. None is known.

Q23. The proposals provide significant to users because:-

- The proposals would provide a standard for the accounts to be prepared. If accounts were prepared to the proposed standards then there would be no material differences and residents could make informed decisions, and likely different decisions.
- Residents would be advised of related party transactions
- The audit report is for the owner and limits the auditor's responsibility to the owner. The proposals would provide residents with a higher level of assurance. .

Q24. Retirement Villages could improve their reputation by adopting the proposals. This could result in more people moving into retirement villages, enjoying a better life, and improving the Australian economy.

Q25. Costs and benefits of the proposal.

- The incremental cost to the owner to record and prepare Village accounts to the proposed standard would not be significant. With disclosures there is an initial cost to clarify and disclose related party transactions. Any costs would be spread over 80 villages.
- Audit costs of \$3300 p.a is based on a non-reporting entity and giving limited assurance. The owner is a reputable company and could comply with the proposed standards for 80 villages. The audit costs should still be low. A review instead of an audit could be an option if audit costs were a problem.
- The benefits are financial reports prepared accounting standards is that the reports are not for the village owner to give the results they would prefer. (break-even) Related party transactions are declared, the audit report would be for Residents, and comply with the requirements of the Retirement Village Act.

Malcolm Bunney. FCPA (Retired)

Ms K. Peach  
Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins St West Vic 8007

*By electronic submission to the AASB website*

Dear Ms Peach,

**REVIEW OF REVISED CONCEPTUAL FRAMEWORK ("RCF") AND ITC 39  
SUBMISSION TO AASB SPFS CONSULTATION**

**Introduction**

1. We are pleased to provide these comments to the Australian Accounting Standard Board ("AASB"), in respect of AASB Invitation to Comment ITC 39.
2. We are concerned that these proposals in ITC 39 demonstrate regulatory failure to properly consult with a wide range of entities. We are concerned that the AASB is unduly influenced by the Australian Securities and Investments Commission ("ASIC") and the 'Big-4' accounting firms.
3. We consider that the proposals in ITC 39 are fundamental to a majority of assurance and accounting work in Australia. Unfortunately, we consider that the AASB has failed to appropriately understand the fundamental impact that ITC 39 would have on the Australian economy and market. Accordingly, we do not agree with the proposals set out in ITC 39.
4. We consider that the changes proposed will have a significant impact across all Australian companies that need to lodge statements with ASIC and that this has not been properly understood by the AASB.
5. We are concerned with the AASB's limited advisory reach and 'capture' by a small number of technicians with limited client contact and operations experience who are employed by Global 'Big-4' accounting firms. We consider that the proposals and formation of ITC 39 are demonstrative of this regulatory failure.
6. Further, we consider that the AASB's approach to releasing this fundamental and far-reaching proposal in May 2018 with submissions due on 9 August and 9 November are unhelpful for the majority of smaller practices. These submissions have been due during (or shortly after) the busiest time of year for most practitioners who are dealing with the 4-month lodgement and reporting season

**Hanrick Curran Audit Pty Ltd**  
**Authorised Audit Company: 338599**

for the 30 June balancing companies. This represents another failure of the AASB to properly conduct its mission for ALL Australian companies.

7. By way of background, Hanrick Curran is a firm of Chartered Accountants who provide audit, tax and other services to various entities in the South-East Queensland region.
8. Our clients typically are medium and small private entities with reporting requirements that span shareholders, banks and other capital providers. Our clients typically report under both special purpose frameworks and general purpose frameworks under the *Corporations Act 2001*, the *Australian Charities and Not-for-profits Commission Act 2012* and the *Associations Incorporations Act 1981 (Qld)*. Our comments included herein are formed on the basis of our experience with our current and former clients.
9. Our responses to the specific questions in ITC 39 are included at Appendix A.

### General Comments

10. The Special Purpose Financial Reporting ("SPFR") framework provides an efficient and effective method of enabling smaller entities to comply with the requirements of the *Corporations Act 2001*. The SPFR framework enables entities to report and lodge information with ASIC and to provide information to shareholders without the considerable expense associated with the production of general purpose financial statements.
11. Despite the problems with special purpose financial reports identified in ITC 39, our practical experience with clients is that special purpose financial reports provide an extremely effective means of providing financial information to stakeholders in a cost-effective manner.
12. ITC 39 proposed certain changes to the tiers of reporting below general purpose financial statements (see paragraph 14 of ITC 39). We consider that the Australian economy would benefit from a:
  - a. Reduced Disclosure Regime ("RDR")("Tier 2"), and
  - b. Specified Disclosure Requirements ("SDR")("Tier 3"), and
  - c. a further 'tier 4' option for genuine special purpose reporting (e.g., for financial statements to accompany a small entity tax return).
13. We consider that, subject to materiality, the recognition and measurement requirements of all Australian Accounting Standards should be mandated for GPFS, RDR and SDR.
14. The recognition and measurement requirements should be strongly encouraged for SPFS unless their application is not-practicable or economically efficient and



where this is applied, additional explicit disclosure should be required indicating that the recognition and measurement requirements have not been applied.

15. We consider that Australian Accounting Standards should remain sector neutral. Accordingly, we do not support deferral of application of these amendments for the not-for-profit sector.

### Specific Comments

16. We are concerned with the conceptualisation of consolidation as a recognition and measurement issue rather than a disclosure matter. This is similar to the common mistake we see clients make where they consider matters 'on-consolidation' rather than ensuring that the underlying accounting in each entity has been correctly completed.
17. We consider that consolidation should remain a disclosure matter for 'Those Charged With Governance'.
18. We are concerned that the proposals in ITC 39 result in commercially sensitive information for private entities becoming publicly available. Unfortunately, in the Australian regulatory and legislative environment, private companies are compelled to provide significantly more information than is provided in comparable OECD economies. Accordingly, we generally do not support the proposals in ITC 39.
19. As we identified above, we are concerned regarding the AASB's regulatory failure to properly consult with a wide range of entities on this issue. We are concerned for the impartial approach adopted by the AASB and that they hold a prejudicial view regarding SPFS.
20. SPFS are fundamental to majority of assurance and accounting work in Australia. As we have stated above, we are concerned that the proposals set out in ITC 39 demonstrate a severe lack of understanding of the use of SPFS in the Australian economy. The 'issue' of special purpose reporting has been worked on by the profession since at least the release of ASIC RG 85 *Reporting Requirements for Non-Reporting Entities* in July 2000. We would have hoped that the past 18 years has provided the AASB with sufficient time to understand how complex and fundamental this is for Australian entities, sadly it appears not!
21. The general proposals in ITC 39 seem to suggest that consolidation will become a mandatory item of disclosure and considered in the same nature as a recognition and measurement criteria. We are concerned with proposals which suggest that consolidation will be mandatory for all entities that are required to lodge statements with ASIC. We consider that this will add further operating costs for these entities, without any substantial benefit for the Australian economy.

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We are very pleased to have been able to make this submission. If you have any queries in relation to our submission, please contact me directly on 0447 724 595.

Yours sincerely

**HANRICK CURRAN AUDIT PTY LTD**



**Matthew Green**  
**Director**

Matthew.Green@hanrickcurran.com.au

9 November 2018

**APPENDIX A**

Specific matters for comment on Phase 2

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

22. *No.*
23. *We consider that the limitation of options in the conceptual framework is not appropriate. We consider that the medium term approach needs to allow for the Reduced Disclosure Requirements, the Specified Disclosure Requirements and a further ‘tier 4’ option for genuine special purpose reporting (e.g., for financial statements to accompany a small entity tax return).*
24. *We consider that this issue is a more complex issue that needs a more considered response.*

**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.**

25. *We do not consider that a selection between these two options is appropriate.*
26. *We consider that both options are required, in addition to a third option, being a further ‘tier 4’ option for genuine special purpose reporting (e.g., for financial statements to accompany a small entity tax return).*
27. *We note research from Chartered Accountants which highlights that members in practice do not support the reduction in options as proposed in ITC 39.*

**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?**

28. *No, we do not agree with the proposals.*
29. *We consider that the proposals are too limited to be useful for practitioners.*
30. *We consider that the current proposals in ITC 39 would be too limited for the use of entities in the Australian market.*

**Q14 – Do you agree with the AASB’s decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18–36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not for-profit sectors.**

31. *Yes.*
32. *We consider that differential approaches to recognition and measurement in the Australian economy would be detrimental to the profession and to the comparability of financial information.*
33. *We consider that the universal application of recognition and measurement principles are beneficial to the economy and are easily and appropriately applied using the concepts of materiality that are fundamental to the application of accounting standards.*

**Q15 – If the AASB implements one of the two proposed alternatives (described in paragraphs 167–170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.**

34. *No comment.*

**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.**

35. *We refer to our comments at paragraph [16].*

**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.**

36. *We consider that the reporting of entities who are not publicly accountable should be left to the discretion of ‘Those Charged With Governance’. Accordingly, we are concerned with regulatory overreach in this area.*

**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).**

37. *We consider that the option in paragraph 14 and 166 are too limited to be applied in practice. We consider that Reduced Disclosure Requirements, Specified Disclosure Requirements and a further ‘tier 4’ option for genuine special purpose reporting (e.g., for financial statements to accompany a small entity tax return) are required for the Australian economy.*

**Q19 – Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).**

38. *No.*
39. *We consider that specified information required should be mandated by the Australian Charities and Not-for-profits Commission, the Australian Securities and Investments Commission or the Australian Parliament.*
40. *Any other reporting decisions regarding service information should be left to the discretion of ‘Those Charged With Governance’.*

**Q20 – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.**

41. *Yes. These proposals would be far reaching and affect items such as the Australian Charities and Not-for-profits Commission Act 2012 and ASIC Form FS70/71.*

**Q21 – What are your views on whether The AASB’s Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities (the Framework) have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).**

42. *We consider that these proposals have not been appropriately prepared and that they represent a degree of regulatory overreach.*
43. *We consider that these proposals illustrate the degree to which the AASB is isolated from practitioners in the small and medium size markets and ‘captured’ by ‘Big 4’ accounting firms.*
44. *We consider that further research and consultation is required to enable a more appropriate proposal to be made.*

**Q22 – 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?**

45. *There are a number of issues that are relevant to these proposals and we consider that the AASB should have been able to identify these prior to the issue of the ITC.*
46. *Further, we do not see special purpose financial reporting is the ‘problem’ that both the Australian Securities and Investments Commission and the Australian Accounting Standards Board see it as.*

**Q23 – What are your views on whether, overall, the proposals would result in financial statements that would be useful to users?**

47. *We agree with other comments we have contributed to, including “We believe the current Phase 2 proposals demonstrate an insufficient understanding of the needs of users, especially for entities that are not publicly accountable which is where this reform proposes its biggest changes. Accordingly these proposals would produce financial statements that would not be useful to a wide range of users, and would require a significant increase in preparer burden for no demonstrable benefit.”*

**Q24 – What are your views on whether the proposals are in the best interests of the Australian economy?**

48. *We do not consider that these proposals are in the best interest of the Australian economy.*



**Q25 – 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 nonfinancial) 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.**

49. *We consider that these proposals are going to be costly to small and medium sized businesses in the Australian economy.*
50. *We consider that these proposals are going to be costly to practices in these markets (i.e., non 'Big-4' firms).*

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CPA Australia Ltd  
ABN 64 008 392 452

Level 20, 28 Freshwater Place  
Southbank VIC 3006 Australia

GPO Box 2820 Melbourne  
VIC 3001 Australia

T 1300 737 373

Outside Aust +613 9606 9677

cpaaustralia.com.au

9 November 2018

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

By online submission:- [www.aasb.gov.au](http://www.aasb.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 2)**

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 appreciate the efforts of the AASB in conducting a number of outreach activities to engage with stakeholders to both inform and obtain feedback on the project. CPA Australia's submission has benefited from these outreach activities, and also reflects feedback received from members and other stakeholders.

CPA Australia supports the phase 2 approach to maintain, in the long term, IFRS compliance for all publicly accountable entities and entities voluntarily claiming IFRS compliance. In our earlier submission made on 14 August 2018 in response to phase 1 of the Consultation, we stated our support for the AASB's short-term phase 1 approach to adopt the IASB Revised Conceptual Framework (RCF) for entities that state compliance with IFRS in their financial statements. Our support was predicated on the basis that this approach provides a pragmatic stop-gap solution to incorporating the RCF into the Australian Accounting Standards (AAS) framework. We had also raised some concerns about some potential unintended consequences that may arise from the pragmatic approach proposed under Phase 1. We note the AASB has commenced considering the issues highlighted by stakeholders in relation to its phase 1 proposals, and no doubt any stakeholder concerns will be suitably addressed in finalising the phase 1 proposals.

CPA Australia does not support either of two alternatives proposed under a Tier 2 framework applicable to non-publicly accountable entities. This project initiated by the AASB will result in major changes to the Australian financial reporting framework that will have a significant economic impact and is expected to remain in place for many years to come. Given the importance of this initiative, it is our recommendation that a much more comprehensive analysis of the issues is required, more options for reporting need to be considered and the involvement of all lawmakers, regulators and standard-setters involved in the financial reporting supply-chain is essential. Our reasons for not supporting the AASB's phase 2 proposals are set out in detail below, and in the attachment to this letter.

**Better articulation of the problem**

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



- The need for clear, unequivocal evidence of the existence of users and their information needs that align with the proposed requirements.
- Empirical evidence based on more up to date research to make a more informed assessment of the current reporting framework.
- Major changes to corporate financial reporting are incomplete, and possibly inadequate, without proper consideration of financial reporting thresholds within Corporations Act 2001.
- A recommendation that the AASB gathers and provides evidence on the potential impact of the proposals on AAS based financial reporting for non-statutory purposes.
- The need for a more comprehensive consideration of all relevant statutory financial reporting requirements by NFPs, in addition to the financial reporting requirements of charities registered with the Australian Charities and Not-for-profits Commission (ACNC).
- Recommendation for a comprehensive and objective cost/benefit analysis before proceeding further with the proposals.
- Better articulation of the "reporting entity" definition clash identified as one of the problems that has required the AASB to develop these proposals.

We highlight some additional points in respect of the above factors for your consideration:

In respect of points 1 and 2 above, we note that the AASB has conducted further research and provided additional information to stakeholders with some evidence relating to user needs and its research on application of the reporting entity concept. However, we believe much further work and evidence is required in these areas before progressing the project further.

A cooperative effort between the AASB and Treasury is required to address the third point above. To assist with this, in conjunction with Chartered Accountants ANZ, we have written to Treasury seeking their review of the reporting thresholds in the Corporations Act 2001 as a matter of priority. Our letter to Treasury is attached to this submission.

In respect of the fifth point above, since issuing the Consultation, the AASB has stated that the proposals are being considered only in the context of for-profit entities and any financial reporting framework considerations applicable to not-for-profit (NFP) entities will be considered at a later stage. We appreciate the practical considerations that have led to the AASB's postponement decision. However, we recommend the AASB continues development of its proposals for the for-profit and NFP sectors concurrently as originally planned, for the reasons stated below:

- It is our view that the financial reporting needs of the NFP sector and their contributions to the Australian economy and society are of similar if not of more importance than the for-profit sector under current consideration.
- We are led to understand that the AASB may seek to develop different reporting requirements for the NFP sector compared to the for-profit sector, to accommodate the lower thresholds for financial reporting in the NFP sector. This approach may not align with the transaction-neutral approach at the heart of the AASB's standard-setting activities and may lead to a loss in comparability and consistency of financial reports. For example, under the *Aged Care Act 1997* Accountability Principles 2014 s35A, all approved providers of residential care services are required to prepare general purpose financial statements. As both for-profit and NFP entities are registered under this Act, the AASB's proposed approach could potentially give rise to different financial reports being prepared dependent on whether entities are classified as for-profit or NFP entities.

Feedback we have received since our previous submission has highlighted a further factor to be taken into consideration in addition to the above. Australian businesses operate through a number of structures including trust structures, and there is some concern that focusing the financial reporting reforms only on corporate entities and others with statutory financial reporting requirements does not adequately address the attributes of comparability, consistency and transparency that underpin the public interest objective. For statutory financial reporting requirements to serve the needs of the Australian economy as intended, it is necessary for a substance over form approach, where entities that operate through a particular business structure and enjoy similar benefits to a company (e.g. limited liability) are required to comply with uniform financial reporting requirements. Further, the impact of the proposals on entities that prepare financial reports for non-statutory purposes, but in compliance with Australian Accounting Standards (AAS) should also be considered before progressing the project further.

We appreciate that a significant amount of effort is required to address the factors highlighted above, and the AASB will need the cooperation of other regulators and lawmakers to achieve satisfactory outcomes in respect of some of the factors. In developing its proposals, the AASB has identified two problems, however given the magnitude of the proposals and their probable impact on the Australian financial reporting framework, we believe it is essential that the factors highlighted above are also taken into account in better articulating the financial reporting problem/s.



Although the AASB has articulated the "SPFS problem" in its Consultation, a much clearer articulation of the problem(s) that also take into account the above factors will assist in developing a robust, fit for purpose solution that stands the test of time and is sufficiently flexible to meet the evolving needs of the Australian economy.

We would also like to highlight that the success of a revised financial reporting framework will also require suitable regulatory oversight by the appropriate regulators, and we look forward to interacting with relevant regulators to identify how they intend to recalibrate their oversight functions to accommodate any revised financial reporting framework that eventuates.

### Contributing to the solution

Feedback CPA Australia has received from members and other stakeholders indicates that constituents have a range of views on the proposals applicable to entities that are not required to, or do not intend to voluntarily state compliance with IFRS in preparing their financial statements. These views range from retaining the status quo, support for both reduced disclosure alternatives proposed in the Consultation, and consideration of a reduced recognition and measurement framework. We expect a better articulation of the problem/s and factors relevant to this initiative, combined with more options for consideration by stakeholders will reduce the diversity in stakeholder views.

We see merit in the underlying desire to discontinue the current model of financial reporting based on the reporting entity concept facilitated through Statement of Accounting Concept 1 *The Reporting Entity Concept* (SAC 1). Obtaining sufficient support for this initiative however, in our view, is hampered by three key issues:

- Insufficient but essential involvement of Treasury in the change process
- A lack of clear articulation of the issues and unequivocal evidence supporting the project narrative and proposals
- Options being proposed are limited to reductions in disclosure, with no options relating to reductions in recognition and measurement being proposed for stakeholders' consideration and comment

We have provided commentary on the first two points in the previous section "better articulation of the problem".

In respect of the third point, some of our members and stakeholders have expressed concern that the "top down" approach of utilising the full recognition and measurement requirements of IFRS, a framework that has been developed by the International Accounting Standards Board (IASB) for entities with public accountability, will give rise to unnecessary regulatory burden if applied to all AAS based Australian financial reporting. Constituents should be presented with a simplified financial reporting framework option that includes reduced recognition and measurement requirements, in addition to the currently proposed options for reduced disclosures.

The AASB has given consideration to the IASB's IFRS for Small to Medium Sized Entities (IFRS for SMEs) and has decided not to pursue this option for the reasons stated in the Consultation. We are however of the view that there is merit in giving further consideration to the development of a simplified financial reporting framework for non-publicly accountable entities based on the IFRS for SMEs standard. We note that many jurisdictions around the world incorporate a simplified financial reporting solution for SMEs within their reporting frameworks, and around 80 of these are based on the IFRS for SMEs.

In addition to the above comments, we have provided responses to the questions raised in the Consultation as an attachment. 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](mailto:ram.subramanian@cpaaustralia.com.au).

Yours sincerely



**Ram Subramanian**  
Policy Adviser, Reporting  
CPA Australia



**Craig Laughton**  
Executive General Manager  
Policy, Advocacy and Public Practice  
CPA Australia



## Attachment

### Specific questions/ comments

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

For the reasons stated in the cover letter, whilst we agree with the proposed approach in the long term for publicly accountable entities, we do not agree with the proposed approach for non-publicly accountable entities.

This project initiated by the AASB will result in major changes to the Australian financial reporting framework that will have a significant economic impact and is expected remain in place for many years to come. Given the importance of this initiative, we reiterate our recommendation that a much more comprehensive analysis of the issues is required, more options for reporting need to be considered and the involvement of all lawmakers, regulators and standard-setters involved in the financial reporting supply-chain is essential.

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

As stated in the cover letter, we do not support either of the proposed alternatives. Further options that include a reduced recognition and measurement framework must also be considered and offered to stakeholders for their feedback.

In the event the AASB decides to pursue its current proposed two-alternative approach, feedback we have received indicates more support for the existing RDR framework.

#### 13. 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?

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

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

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

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

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

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



- 14. Do you agree with the AASB's decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18–36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not for-profit sectors.**

No, for the reasons stated in the cover letter and in responses to the previous questions, we do not agree with the AASB's decision that a financial reporting framework based on IFRS for SMEs should not be made available in Australia as a Tier 2 alternative. At the very least, the AASB should develop and propose a suitable option that is based on the IFRS for SMEs for consideration by stakeholders.

To address some of the concerns raised by the AASB, rather than adopting the IFRS for SMEs as is, the AASB could seek to build upon this standard using requirements from full IFRS, and any other reporting requirements considered appropriate to the Australian environment. It is possible that such an approach may also lend itself to developing a simplified reporting solution for the NFP sector. The United Kingdom has taken a similar approach with its SME standard FRS 102, which is based on the IFRS for SMEs and is applicable to both the for-profit and NFP sectors.

- 15. If the AASB implements one of the two proposed alternatives (described in paragraphs 167–170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.**

Transitional relief could include relief from consolidation, and other challenging standards such as AASB 16 *Leases*. We suggest the AASB undertake specific outreach activities to identify what transitional reliefs are beneficial to stakeholders.

- 16. 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.**

See our response to Q15 above. User needs and the costs/benefits of adopting consolidation and equity accounting remain in our view, the primary considerations in adopting these requirements.

- 17. 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.**

Feedback we have received indicates less support for the SDR approach.

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

As stated in our response to Q14, the AASB should develop and propose a suitable option that is based on the IFRS for SMEs for consideration by stakeholders. To address some of the concerns raised by the AASB, rather than adopting the IFRS for SMEs as is, the AASB could seek to build upon this standard using requirements from full IFRS, and any other reporting requirements considered appropriate to the Australian environment. It is possible that such an approach may also lend itself to developing a simplified reporting solution for the NFP sector. The United Kingdom has taken a similar approach with its SME standard FRS 102, which is based on the IFRS for SMEs and is applicable to both the for-profit and NFP sectors.

- 19. Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).**

Yes, we agree that further consideration should be given to the additional reporting requirements described above for NFP private sector entities. We agree with the general view expressed that the information arising from these reporting requirements better fulfil the user needs of stakeholders in the NFP sector.



**20. Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.**

While we are not aware of any legislation that specifically refers to SPFS that might be impacted by these proposals, we suggest the AASB be mindful of any unintended consequences that may arise. The current requirements, established a few decades ago, have been based on a framework that allows SPFS. While SPFS may not have been specifically mentioned in legislative requirements, there is likely to have been an understanding, or acceptance that entities, in particular small and medium sized enterprises, may prepare SPFS in certain circumstances.

**General matters for comment on phase 2**

**21. What are your views on whether *The AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities* (the Framework) have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).**

As highlighted throughout our submission, CPA Australia does not believe a project of this magnitude that seeks to fundamentally change the Australian financial reporting framework can be adequately addressed through the AASB's standard-setting activities alone. We also do not believe considerations relating to user needs and the cost of complying with AAS that are stated as important criteria in the standard-setting frameworks have been adequately addressed. Consideration of a simplified reporting framework that includes a reduction in recognition and measurement requirements may lead to lower costs for businesses.

We note and agree with the requirement for entities with public accountability to state compliance with IFRS in their financial statements. This is also the intention of the IASB in the development of the IFRS framework. However, the AASB has decided to diverge from the IASB's view that non-publicly accountable entities can have a different set of reporting requirements, as reflected in the IFRS for SMEs standard. The IASB has used public accountability as the dividing line between those entities that should adopt full IFRS and others that can adopt the IFRS for SMEs. Whilst the AASB is using the same public accountability criteria as a dividing line, we do not agree with its decision to depart from IASB's standard-setting ideology based on public accountability.

**22. 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?**

We do not believe the consequences, including any potential increases in regulatory burden arising from adopting the current proposals set out in the Consultation have been fully analysed and reflected in a way that can be fully appreciated by those that are likely to be affected. Any analysis should also consider the future impact of new IFRS such as AASB 16 *Leases* on affected stakeholders. For example, users of financial statements of small-to medium sized enterprises may not be interested in information about lease assets and liabilities relating to rented office and/or retail space included on balance sheets. The costs of measuring and recognising such information by non-publicly accountable entities should also be taken into consideration.

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

Feedback we have received indicates that whilst preparers and auditors may have the necessary knowledge and expertise to adopt the proposed new requirements, we have seen limited evidence to indicate that users of financial statements exist who specifically require such financial statements to be prepared in accordance with the full recognition and measurement requirements of IFRS. It would also be useful if the AASB could establish what appetite exists in the user community for financial statements based on a simplified financial reporting framework based on IFRS for SMEs.

**24. What are your views on whether the proposals are in the best interests of the Australian economy?**

For the reasons stated previously in this submission, we do not believe sufficient evidence has been gathered and presented to demonstrate that the proposals are in the best interests of the Australian economy. We reiterate our previous comments that the proposals could potentially increase costs for the Australian economy by imposing a recognition and measurement framework intended for listed companies or publicly accountable entities, on all other entities that are required to, or choose to prepare financial statements in accordance with AAS.

**25. 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 nonfinancial) 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.



## LETTER TO TREASURY FROM CPA AUSTRALIA AND CHARTERED ACCOUNTANTS ANZ

22 October 2018

Mr Adam Bogiatzis  
Senior Advisor, Corporations and Consumer Policy Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

By email: [adam.bogiatzis@treasury.gov.au](mailto:adam.bogiatzis@treasury.gov.au)

Dear Adam

### **Treasury Review Proposal - Australian Accounting Standards Board consultation on the conceptual framework and special purpose financial statements (ITC 39)**

As the representatives of over 200,000 professional accountants in Australia, Chartered Accountants Australia and New Zealand (Chartered Accountants ANZ) and CPA Australia would like to jointly raise a matter with the Australian Treasury in relation to the above consultation currently being undertaken by the Australian Accounting Standards Board (AASB).

We are writing to you jointly to request that the Australian Treasury prioritise and conduct a comprehensive review of the financial reporting thresholds applicable to proprietary companies under section 45A of the Corporations Act 2001.

It is the long-held view of both Chartered Accountants ANZ and CPA Australia that these thresholds should be subject to a periodic and regular review to ensure that the regulatory framework they underpin is fit for purpose. Since improving the Australian financial reporting framework is the key objective of the AASB's current consultation, the issue of thresholds has once again been brought to the fore as we, and our members, give consideration to the content of the AASB's proposals. Our members work in diverse roles across public practice, commerce, industry, academia and the public and not-for-profit sectors throughout Australia and therefore have a significant interest and stake in the framework reform agenda.

We are concerned that the AASB's desire to unilaterally use its standard setting mandate to achieve financial reporting reform is only a partial solution to a more complex problem. In the context of companies and other entities regulated under the Corporations Act 2001, we believe that this problem needs to be addressed via consideration of both the lodgment thresholds and the AASB financial reporting framework. As noted in paragraph 67 of ITC 39, the AASB shares this view and while it indicates that legislative reform is being discussed as part of its Australian Financial Reporting Framework project, it has chosen to pursue an approach purely based on modifying its financial reporting framework for the private sector first.

We are strongly of the view that the AASB's reform of the Australian financial reporting framework should not occur in isolation but should coincide with a Treasury review of the financial reporting thresholds and associated requirements within the Corporations Act 2001.

We hold this view because one of the groups most impacted by the AASB's proposals will be large proprietary companies who have statutory reporting requirements under the Corporations Act 2001. These companies are the significant clients of, or employers of, many of our members.

In its consultation, the AASB is proposing to withdraw Statement of Accounting Concept 1 *Definition of The Reporting Entity* (SAC 1). If this occurs, all large proprietary companies will be required to prepare general purpose financial statements (GPFS). For those large proprietary companies nearer to the current reporting

thresholds, this is likely to require the production of a level of financial information for which there is no clearly identified user need. The proposals include preparing consolidated financial statements that include their controlled entities, a substantial increase in the reporting burden. This information would be substantially in excess of what large proprietary companies currently produce and lodge now as special purpose financial statements.

We believe a Treasury review of thresholds now would be particularly timely for two reasons. These are:

- the financial reporting thresholds were introduced into the Corporations Act 2001 more than 10 years ago and have not been subject to a review since that time.
- current and ongoing research informing the AASB's reform project can be utilised by Treasury to review and reset the thresholds at an appropriate level that effectively meets user needs without imposing additional regulatory burden.

Without such a review, the AASB's proposals could result in an unreasonable regulatory burden being placed on smaller large proprietary companies for no other reason than that they fall within outdated thresholds. This burden is likely to increase further over time as new accounting standards, such as AASB 116 *Leases* operative for financial reporting periods beginning on or after 1 January 2019, bring onto the balance sheet assets and liabilities that were previously only disclosed as commitments. This makes it possible for an entity to breach the asset thresholds only due to a change in the accounting standards, rather than as a result of any changes in the underlying business or the user needs for their financial information.

We believe that a joint effort between the AASB and Treasury is necessary to produce a framework reform outcome for companies that will be in the best interests of all stakeholders. The result has the potential to provide all users of lodged financial statements with the information they need while ensuring that the reporting burden placed on preparers is not disproportionate. Such an approach is being adopted for reform in the not-for-profit sector, through the ACNC legislative review, and so we encourage Treasury to adopt a similar approach for the for-profit sector.

Chartered Accountants ANZ and CPA Australia are willing to engage with Treasury to explore possible options and assist with any deliberations. Please do not hesitate to contact either Ram Subramanian CPA (CPA Australia) at [ram.subramanian@cpaaustralia.com.au](mailto:ram.subramanian@cpaaustralia.com.au) or Jeanette Dawes (Chartered Accountants ANZ) [jeanette.dawes@charteredaccountantsanz.com](mailto:jeanette.dawes@charteredaccountantsanz.com) or if you would like to discuss the contents of this letter.

Yours sincerely

**Simon Grant FCA**

Group Executive – Advocacy, Professional  
Standing and International Development  
**Chartered Accountants Australia and New  
Zealand**

**Craig Laughton**

Executive General Manager  
Policy, Advocacy and Public Practice  
**CPA Australia**



9 November 2018

Ms Kris Peach  
Chair Australian Accounting Standards Board  
via Email: [standard@aasb.gov.au](mailto: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 2: Medium-term approach**

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

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

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

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

I do not support the proposals for Phase 2 for the following reasons:

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

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

## CF 14 (b) Revision of the AASB 1053 Tier 2 Framework

### *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, were included in my 9 August 2018 submission to the AASB on the Phase 1 proposals in the CP.

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

Entities preparing SPFRs ie non-reporting entities 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 4 basic IFRS/IAS/AASB accounting disclosure standards being AASB 101, AASB 107, AASB 108 and AASB 1054, 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 in an appropriate time scale, not just 6 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).

### *3. Significant impact on Charities*

Paragraph 90 (b) of the CP notes the need for staggered relief in the medium term “...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.”

I note that the AASB has announced that it will not be proceeding with NFPs for now with Phase 2, however I believe that the AASB should also exclude NFPs from Phase 1.

### *4. AASB's Premise for Reform of the Reporting Entity clash misunderstands the restriction of IFRS GPRFs 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 GPRFs 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](http://keithreilly.com.au/wp-content/uploads/2017/05/17_4-Reporting-Entities-Paper.pdf)

Paragraphs 49 to 54 of the CP refers 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 GPFs, 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 GPFs.

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

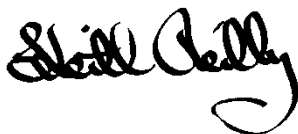
General statements as in paragraph 47 that the AASB wishes to understand what transitional relief may be needed to alleviate the additional reporting burden, are not consistent with reducing unnecessary red tape compliance.

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 an Appendix.

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

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

Keith Reilly  
Financial Reporting Adviser  
wally2088@hotmail.com  
[www.keithreilly.com.au](http://www.keithreilly.com.au)

**Specific matters for comment on Phase 2:**

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

(a) the RCF will be made applicable to all entities required by legislation or otherwise to comply with AAS;

*No. As detailed in my earlier comments, the International Accounting Standards Board's (IASB) Conceptual Framework for Financial Reporting (RCP) is not intended to be mandatory for entities to follow, so there is no reason for the AASB to mandate it. The RCP provides guidance, but it is not an accounting standard. Additionally, as I stated in my Phase 1 submission the RCF only has relevance to reporting entities that follow full IFRS which includes full IFRS disclosures i.e. not entities following RDR.*

*AASB 108 Paragraph 10 In the absence of an Australian Accounting Standard that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:*

*(a) relevant to the economic decision-making needs of users; and*

*(b) reliable, in that the financial statements:*

*(i) represent faithfully the financial position, financial performance and cash flows of the entity;*

*(ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;*

*(iii) are neutral, i.e. free from bias;*

*(iv) are prudent; and*

*(v) are complete in all material respects.*

*AASB paragraph 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 Australian Accounting Standards dealing with similar and related issues; and*

*(b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework.*

(b) the Tier 2 framework in AASB 1053 will be revised to include one of the following alternatives (these alternatives are described in more detail in paragraphs 167-170):

(i) Alternative 1: GPFS – Reduced Disclosure Requirements (RDR) – Existing Tier 2 (full recognition and measurement with reduced disclosures from each Accounting Standard, includes consolidation and equity accounting where applicable); or

(ii) Alternative 2: GPFS – Specified Disclosure Requirements (SDR) – New Tier 2 (full recognition and measurement with specified disclosures from some Accounting Standards, includes consolidation and equity accounting where applicable)

*No. I do not support listed company accounting for non-publicly accountable entities (i.e. non-listeds) as the IASB has stated quite clearly that non-publicly accountable entities should have the option of adopting more simplified IFRS i.e. IFRS for SMEs that has simplified disclosure and measurement, as well as simplified disclosures. This view was stated in my submission on Phase 1 of the CP.*

(c) Consequential amendments to AASB 1048 Interpretation of Standards and other Standards will be required as a result of changes in paragraph 166(a)-(b) (these will be detailed in the next phase of the consultation

process, once the alternative for revising Tier 2 has been determined); and transitional relief would be provided for entities moving from SPFS to GPFS and from one tier to another. Refer to Appendix B for illustrative amendments to pronouncements resulting from the AASB's medium-term approach.

*No. As I do not support the proposals in Q11 (b) above, I also do not support the consequential changes whatever they are.*

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.

*I do not support either of the alternatives as detailed in my comments in Q11 (c). My reasons are that the IASB has a cheaper alternative as an option being IFRS for SMEs, and it is not in the interests of the Government, the AASB or the accounting profession to ban a cheaper alternative that some believe is in the interests of clients rather than in the interests of accountants and auditors who have and will charge additional fees for listed company accounting rules. The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has demonstrated that apart from being illegal in not acting in the best interests of your client, it is also unacceptable to society.*

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?

*No. As detailed in my submission on Phase 1, I believe that for the AASB to be in compliance with its own mandate from the Government, it needs to both allow IFRS for SMEs as an option for non-publicly accountable entities, and I see no reason why non-reporting entities (e.g. family owned large pity companies) need to adopt full IFRS listed company recognition and measurement rules. The AASB has already acknowledged that it will consider simpler rules for charities in the not-for-profit sector, so why not for the for-profit sector?*

*The AASB should also be mindful of significant entities such as the major professional accounting firms that have revenues in excess of \$1 billion who do not have to comply with IFRS. It does seem unfair to hit smaller businesses with increased compliance costs in comparison, does it not?*

Q14 – Do you agree with the AASB's decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not for-profit sectors.

*No. As detailed in my 9 August 2018 submission on Phase 1, I believe that IFRS for SMEs is a less costly solution for non-publicly accountable entities, it is designed by the IASB for that purpose, and it is widely adopted globally. On that basis it should be available as an option and let the market decide.*

Q15 – If the AASB implements one of the two proposed alternatives (described in paragraphs 167- 170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.

*No. I do not agree with either of the 2 proposed alternatives, however if they are mandated, a period of at least 5 years would seem reasonable given the changes in accounting systems that will be required.*

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.

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

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.

*No. I do not agree as the disclosures appear to be significantly in excess of IFRS for SMEs and the existing AASB disclosure standards (AASBs 101, 107, 110, and 1054).*

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 detailed earlier, allow IFRS for SMEs as an option, allow non-reporting entities to maintain compliance only with the disclosure AASBs, and consider more simplified reporting requirements to those non-reporting entities after further research and consultation with constituents, which is what the AASB has announced it will do for NFPs.*

Q19 – Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).

*No. This should be an option given that it is not clear what the costs of collecting this information would be, and the concern that any increase in administration costs results in a reduced spend on charitable activities which is what the NFP has been established for.*

Q20 – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.

*No but I am surprised that the AASB has not researched this.*

## **General matters for comment on Phase 2**

Q21 – Whether the AASB’s Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).

*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.*

Q22 – 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 non-reporting entities will be required to adopt IFRS recognition and measurement rules is contrary to the Government’s expectation of reducing un-necessary compliance costs.*

Q23 – 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 non-reporting entities will be required to adopt IFRS recognition & measurement is contrary to the Government’s expectation of reducing un-necessary compliance costs. On that basis:*

*(a) I believe that the AASB should allow IFRS for SMEs as an option to full IFRS/AASBs, or RDR for non- publicly accountable reporting entities as is allowed by most overseas countries; and*

*(b) Non-Reporting Entities should be allowed to adopt the simplified disclosures in AASB 101, 107, 108 and 1054.*

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

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

Q25 – 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 nonfinancial) 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.

*In 2013 Moore Stephens were quoting a cost of around \$10,000 for Charities to convert from simplified non-reporting accounting to full IFRS which included additional audit costs. A then Grant Thornton internal estimate was that moving to IFRS for SMEs would cost around \$4,000 including audit costs. Savings if the RDR disclosures were adopted were estimated to be about 20% say \$2000 as the main cost was the full IFRS recognition and measurement requirements.*

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Level 38 International Tower Sydney 3  
300 Barangaroo Avenue  
Sydney NSW 2000

P O Box H67  
Australia Square 1215  
Australia

ABN 51 194 660 183  
Telephone: + 61 2 9335 7000  
Facsimile: +61 2 9335 7001  
DX: 1056 Sydney  
www.kpmg.com.au

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

9 November 2018

Dear Kris

**ITC 39 - Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems - Phase 2: Medium-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 2: Medium-term approach.

We note the direction agreed in the September 2018 AASB meeting to only apply the ITC proposals to for-profit entities. We have therefore contained our comments to these entities.

We agree with the AASB's Phase 2 approach as described in paragraph 166. We consider that continuing with two conceptual frameworks would require a strong case, which we do not believe exists. Our view is consistent with that of the AASB in that a single framework for all for-profit entities is the preferred option. It has been a number of decades since the implementation of the existing approach. We note that the current environment has an increased emphasis on transparency, comparability and consistency.

Of the two alternative proposed by ITC 39 we favour Alternative 1 GPFS – RDR. However, we advocate reducing the disclosures further than the current GPFS Tier 2 (RDR). Our alternative approach is set out in Question 12 in our Appendix.

We further support that the current financial reporting thresholds set by Treasury should be revisited as part of this reporting framework project.

Please refer to the Appendix for our detailed comments on the specific 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.



*Australian Accounting Standards Board  
Submission ITC 39 – Phase 2 Medium-term approach  
9 November 2018*

Yours sincerely

A handwritten signature in black ink, appearing to read 'Michael Voogt', written over a faint grid background.

Michael Voogt  
Director

## Appendix

### Specific matters for comment

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

We agree with the medium-term approach outlined in paragraph 166 of ITC 39. We support the revised Conceptual Framework for Financial Reporting being applicable to all for-profit entities required by legislation or otherwise to comply with Australian Accounting Standards.

We support introducing new reporting requirements with those entities that have traditionally meet the special purpose financial reporting requirements. We consider that continuing with two conceptual frameworks would require a strong case, which we do not believe exists. Our view is consistent with that of the AASB in that a single framework for all entities is the preferred option.

We see the application of two frameworks being problematic, primarily for the following reasons:

- It would be inefficient and impractical to maintain two conceptual frameworks –and by doing so has the potential to cause further confusion for stakeholders as to which framework to consider for their circumstances and what the differences between the two frameworks are.
- The potential for confusion around the reference to reporting entity concept in SAC 1 *Definition of a Reporting Entity*.
- Complexities for standard setters in maintaining two frameworks and the flow-on effects when amendments to Australian Accounting Standards occur.

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

We believe that the two Tier framework in AASB 1053 *Application of Tiers of Australian Accounting Standards* is appropriate.

#### Q12 – Which of the AASB's two GPFS Tier 2 alternatives (described in paragraphs 167-170) do you prefer? Please give reasons to support your response, including applicability for the for-profit and not-for-profit sectors.

Of the two GPFS Tier 2 alternatives presented, we believe a modified *Alternative 1 GPFS – RDR* (RDR) is the most appropriate.

During our consultation on this question there were a number of different views on the purpose and use of financial statements for non-publicly accountable for-profit entities. Some view the financial statement exercise as a compliance process with minimal additional value created by the financial statements. Others see the financial statements as a useful document that is used for a number of ongoing business purposes – for example, providing financial information in tender documents. Striking a balance will require further consultation with the wider Australian community.

‘Compliance process’ preparers seem to prefer an RDR approach with a list of required disclosures that provide information readily available from financial reporting systems. They prefer to simply compile a document.

At the other end of the scale there was consistent comment around the view that the current RDR disclosures require disclosure of too much information. A suggested alternative to a GPFS Tier 2 was set out in our submission to ED 277 *Reduced Disclosure Requirements for Tier 2 Entities*. An alternative could be a developed approach that starts with the only required disclosures being a summary accounting policy and one level of disaggregation of a balance sheet item described in a note. All additional disclosures are then left to the discretion of the preparers who are best placed to apply to their specific entity. If applied correctly this could provide the users of the financial statements the most relevant financial information whilst allowing preparers of financial statements an efficient and relevant method of reporting.

We anticipate that the exact format of a revised RDR approach will be the subject of a resulting Exposure Draft on Phase 2.

We acknowledge that RDR will not provide a definitive solution in addressing all the financial reporting challenges. Judgement will still be needed in identifying what is significant and material. Furthermore, in some instances the current format of RDR may result in companies disclosing far more than the users of financial statements would require and expect.

While *Alternative 2 GPFS – SDR* (SDR) attempts to achieve a compromise between the mandatory Australian Accounting Standards under the current statutory special purpose financial statements framework and current GPFS – Tier 2, the risk is that entities will still view these standards as the only standards required to be complied with and take a ‘de-minimis’ compliance attitude. This would result in only marginally improved financial statements compared to those currently prepared under the special purpose financial statements framework.

In addition to the above, the following were consistently comments received in regards to the SDR approach:

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

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

Given the direction agreed at the AASB meeting of 4 September 2018, ITC 39 proposals will apply only to for-profit entities. We have therefore not discussed the applicability for not-for-profit sectors.

**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?**

We agree there is the need for only one Tier 2 GPFS alternative in Australia. Before making our final conclusion we have considered a number of alternatives to a RDR or SDR approach. During conversations it has emerged that a third tier may well be desirable, however, it has been challenging to identify a logical and clear objective delineator.

We are of the view that a better outcome is for Treasury to tackle the regulatory decision of which entities – using an objectively measured threshold – need to prepare and lodge financial statements. This would provide a clear and consistent outcome.

**Q14 – Do you agree with the AASB’s decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not-for-profit sectors.**

We agree that IFRS for SMEs should not be made available in Australia as a Tier 2 alternative for entities to apply. As set out in Appendix C paragraphs 18 to 36, *IFRS for SMEs* includes different recognition and measurement principles compared with IFRS. To allow certain entities the option to prepare under different recognition and measurement principles would, in our view, be a backward step in relation to consistent financial reporting for preparers and users in Australia.

In Australia a number of subsidiary entities are consolidated up into Tier 1 financial statements. Different recognition and measurement principals will double the effort for preparers of these financial statements.

In summary, our current view is consistent with the views expressed when this issue was debated back in 2010.

**Q15 – If the AASB implements one of the two proposed alternatives (described in paragraphs 167-170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.**

We support the AASB in its desire to make the adoption of new reporting requirements as easy as possible. We canvassed areas of potential relief and the majority of the feedback was in



relation to providing a practical expedient to apply both consolidation and equity accounting prospectively, based on current information available to the company upon adoption of the new framework. Refer to further comments in the next question.

In general we believe that applying the first time adoption guidance set out in AASB 1 *First-time Adoption of Australian Accounting Standards* would be appropriate. Companies that have complied with RG 85 *Reporting requirements for non-reporting entities* should already be applying all the recognition and measurement requirements of Australian Accounting Standards.

A number of preparers that we consulted with would prefer a practical expedient similar to that in other new accounting standards – for example AASB 16 *Leases*. This practical expedient would apply only for the first year after the change. It would not make it compulsory to provide comparatives disclosures for information that was not disclosed in the notes to the financial statements for the year before transition.

**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.**

We have received consistent comments around the complexities and challenges in applying consolidation and equity accounting for the first time. Overall the biggest concern is the lack of detailed historical information and records around interests in associates and subsidiaries. This is particularly so where there have been changes in ownership percentage over time.

AASB 1.IG27 currently provides guidance when a consolidation has not been previously prepared. Our initial view would be that this could be applied for the medium-term approach. A similar type practical expedient would be needed for equity accounted investments.

We anticipate that details of the transitional relief will be the subject of a resulting Exposure Draft on Phase 2.

**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.**

Should *Alternative 2 GPFS – SDR* be applied we agree with the additional areas selected – revenue, impairment, related parties and income taxes. We would question if all the required disclosures in the respective Australian Accounting Standards should be required. The Tier 1 disclosures in these standards are extensive and based on our consultation we would question if all the information is required for non-publicly accountable for-profit entities.

Refer also back to question 12 in relation to the reservations we have over *Alternative 2 GPFS – SDR* proposal.

**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). Please explain rationale (including advantages and disadvantages and the costs and benefits expected).**

Refer to discussion above in question 12.

**Q19 – Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).**

Given the direction agreed at the AASB meeting of 4 September 2018, ITC 39 proposals will apply only to for-profit entities. We have therefore not addressed this question which relates to the not-for-profit sector.

**Q20 – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.**

We are not generally aware of any legislation that refers to SPFS that might be impacted by these proposals.



**Crowe Horwath (Aust) Pty Ltd**

ABN 84 006 466 351  
Member Crowe Horwath International

Level 17, 181 William St  
Melbourne VIC 3000 Australia  
GPO Box 4324

Melbourne VIC 3001 Australia

Tel +61 3 9258 6700

Fax +61 2 9258 6722

[www.crowehorwath.com.au](http://www.crowehorwath.com.au)

9 November 2018

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

via the AASB website

Dear Ms Peach

### **Conceptual Framework for Financial Reporting - Comments on Phase 2**

Crowe Horwath is pleased to respond to the Australian Accounting Standards Board's (the AASB's) invitation to comment number 39 (ITC 39) and provide comments on specific matters in relation to Phase 2.

We support the AASB's proposal to simplify the current reporting framework and enhance the consistency, comparability, transparency and usefulness of financial statements. Our preference is to maintain the existing Tier 2 Reduced Disclosure Requirements as a way of balancing the benefits of financial information to users and costs to preparers of providing that information. At the same time, we see this as an opportunity to revise Tier 2 disclosures which are still viewed by many as burdensome and not sufficiently different to Tier 1. At the same time, we would not rule out the possibility of Tier 3 or a different framework altogether for not-for-profit entities even if introducing a separate framework would go against the long-established principle of Australia having only one set of accounting standards.

Our responses to the specific questions posed in ITC 39 are attached as Appendix 1 to this letter.

Crowe Horwath appreciates the opportunity to express our views and trust that you will find our comments useful in deciding the future direction of the *Australian Financial Reporting Framework* project.

Yours sincerely

**Jara Dean**  
National Technical Senior Manager

Encl.

## APPENDIX

### Crowe Horwath's detailed responses to specific questions on Phase 2

**Question 11 - Do you agree with the AASB's Phase 2 approach (described in paragraph 166)? Why or why not?**

We agree with the approach as it maintains the two Tiers of reporting requirements for general purpose financial statements (GPFS) as a way of balancing the benefits of financial information to users and costs to preparers of providing that information. Furthermore, the approach also means that there is only one set of accounting standards in Australia.

**Question 12 – 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 support Alternative 1: GPFS – RDR.

One of the problems with the current regime, as identified by the AASB, is the lack of comparability for entities of similar economic circumstances due to their ability to self-assess what type of financial reporting is required. In our view, this problem would not be solved if Alternative 2: GPFS – SDR was adopted because entities would be allowed to choose which disclosures from non-mandatory Accounting Standards to include in their financial reports. For example, AASB 16 *Leases* requires a lessee to disclose specific information which is useful in understanding the effect of leases on the financial position, performance and cash flows of the lessee. While entities would be required to measure and recognise lease liabilities and corresponding right-of-use assets, under Alternative 2: GPFS – SDR, one entity could choose to disclose some or all information required under AASB 16 while another entity could choose not to disclose any information altogether. This would, in our view, reduce comparability and transparency of the financial reports. Under Alternative 1: GPFS – RDR, those disclosures would be consistent and comparable and would enhance the transparency of financial reporting.

**Question 13 – 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?**

Yes, we are of the view that only one Tier 2 GPFS alternative should be adopted in respect of for-profit entities to avoid situations where two similar entities can prepare financial reports under different frameworks. The reasons why we believe that only one alternative should be available are the same as in our response to Question 12, namely comparability and transparency of financial reporting.

However, we would not rule out the possibility of Tier 3 or a different framework altogether for not-for-profit entities. Although introducing a separate framework would go against the principle of having only one set of accounting standards.

**Question 14 – Do you agree with the AASB's decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not-for-profit sectors.**

We agree with the AASB's decision on the basis that the disadvantages of IFRS for SMEs outweigh their advantages as outlined in paragraphs 21 to 35 of Appendix C to ITC 39. The adoption of IFRS for SMEs has been slow and sporadic compared to the adoption of IFRS. In addition, preparers and users of financial reports in Australia are used to having one set of

accounting standards. To introduce a different set of recognition and measurement rules would unsettle the industry and would require a significant investment by the industry to upskill preparers, users and auditors on a new framework.

**Question 15 – If the AASB implements one of the two proposed alternatives (described in paragraphs 167- 170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.**

We believe that AASB 1 *First-time Adoption of Australian Accounting Standards* adequately deals with transitioning from special purpose financial statements to financial statements prepared under the reduced disclosure requirements. It is paramount that entities are given sufficient time to transition and exemptions from the presentation and disclosure requirements relating to comparative information be expanded to, for example related party transactions, financial instruments and fair value disclosures.

We contemplated whether some relief should be available in the application of consolidation and equity accounting, as this appears to be an area of concern for entities that currently prepare special purpose financial statements. However, providing any relief from consolidation or equity accounting beyond the exceptions set out in AASB 1 would, in our opinion, undermine the project's goal of consistent, comparable, transparent and useful financial statements

**Question 16 – 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.**

In our opinion, the option available to non-reporting entities that opt to prepare special purpose financial statements without applying consolidation or equity accounting is the key problem of the existing regime. Addressing this issue will, without doubt, impact entities that are not currently consolidating or equity accounting. The main concerns include the availability, reliability and auditability of information that would be used on initial application of relevant standards and the ongoing financial and administrative burden on subsidiaries, associates and joint ventures to prepare information used in the consolidation and consolidated financial reporting. Some entities would also face technological challenges and the lack of consolidation skills.

**Question 17 – 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.**

Financial reports are an important means of communicating relevant information to users. Information that may be relevant to users in one sector or industry may not be relevant to the needs of users in other sectors or industries. For this reason, we believe that Alternative 2: GPFS – SDR does not meet the objective of general purpose financial reporting. Furthermore, the specified disclosures would be regarded by many entities as all that is required with no need to make disclosures beyond those prescribed (but which may be necessary for the financial report to be useful to users). In our opinion, there could be other disclosures relevant to users of financial statements prepared under Alternative 2: GPFS – SDR, such as (but not limited to):

- Property, plant and equipment
- Fair value measurements
- Financial instruments
- Leases.

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

**Question 18 – Do you have any other suggested alternative for the AASB to consider as a GPFS Tier 2 and whether this would be applicable for for-profit and not-for-profit sectors? Please explain rationale (including advantages and disadvantages and the costs and benefits expected).**

Given the low take-up of Tier 2 among for-profit-entities, we believe that this may be an appropriate time to revisit Tier 2 disclosures which are still viewed as burdensome and not sufficiently different to Tier 1. We also believe that a possible alternative would be an introduction of a separate Tier applicable to not-for-profit entities.

**Question 19 – Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).**

No response is provided to this question due to the shift in focus of ITC 39 to only cover the for-profit sector. However, we believe that the proposed additional disclosures have merit.

**Question 20 – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.**

We are not aware of any such legislation. However, there may be instances where enabling legislation of some public sector entities requires the preparation and specifies the content of financial reports that may be inconsistent with the proposed requirements. Under the proposed changes, by definition, those entities would be regarded as publicly accountable entities and as such would be required to prepare Tier 1 GPFS.

**Q21 – Whether the AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).**

We have no concerns with the way in which the AASB developed the proposals.

**Q22 – 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 such issues.

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

We believe that the proposed changes will lead to more consistent, comparable and transparent financial reporting that may be more useful to users. The proposed changes would assist the preparers and auditors by removing the option to self-assess whether an entity is a reporting entity and subsequently the type of financial reporting.

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



Harmonising the Australian reporting framework will assist entities in meeting their reporting obligations in other jurisdictions and promote Australia's international influence in relation to the development of accounting standards.

**Q25 – 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 nonfinancial) 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 anticipate that preparers will incur additional cost in preparing financial reports, largely due to the application of consolidation and equity accounting. The increased cost will result from the preparation of consolidated financial reports and their audits, including for example obtaining fair value measurements for the testing of goodwill that has not been previously recognised because the entity did not apply consolidation accounting. There will also be one-off cost resulting from redesigning financial reports, upgrading existing financial reporting systems and upskilling accounting staff in consolidation and consolidated reporting.

The benefits will come in removing the inconsistencies in self-assessing what type of reporting to apply and thus improving the comparability, transparency and usefulness of financial reporting. Entities eligible to report under Tier 2, but which opted to continue reporting under Tier 1 because they did not view the reduced disclosure requirement to be sufficiently different may reconsider their decision if the new Tier 2 frameworks provides a better alternative.



**BUSINESS COUNCIL**  
OF CO-OPERATIVES AND MUTUALS

Submission in response to AASB Consultation Paper: Applying  
the IASB's Revised Conceptual Framework and Solving the  
Reporting Entity and Special Purpose Financial Statement  
Problems

November 2018

# Table of Contents

1	Introduction.....	2
2	Evaluation Criteria .....	2
3	Commentary.....	3
4	Responses to matters for comment (Phase 2) .....	4

# 1 Introduction

The Business Council of Co-operatives and Mutuals (BCCM) appreciates the opportunity to provide comments on this Consultation Paper. The development of appropriate accounting and reporting standards for co-operatives and mutuals is of considerable significance to the wellbeing of our sector and of Australia in general.

Co-operative and mutual enterprises (CMEs) have been a part of the fabric of Australian life and business since the mid 1800s. They provide a business platform for small agricultural producers, community settlement programs, housing and financial and insurance services to Australians. They continue to serve with 8 in 10 Australians being members of a co-operative or mutual organisation. CMEs carry on business in a range of primary, secondary and tertiary industries.

Interest in this model of doing business is growing, both internationally and in Australia. CMEs proved their resilience by surviving the global financial crisis, while many investor-owned firms collapsed.

Formed in 2013 following the United Nations International Year of the Co-operative, the BCCM aims to educate, inform and advocate for recognition of the sector and for measures that create a level playing field between co-operatives and other businesses. The need for government action to include CMEs in regulatory and policy development is evident from the findings and recommendations of the Senate Economics References Committee Inquiry into Cooperative, mutual and member-owned firms, and the Hammond Review into Access to Capital for CMEs.

# 2 Evaluation Criteria

Our criteria for assessing the merit of the proposed Phase 2 reflect the wide diversity within the co-operative and mutual sector. They range from internationally recognised and competitive agricultural co-operatives through significant operators in financial markets who have retained their mutual status during 150 years plus of economic cycles through to regional and local arts, crafts, retail, healthcare and sporting co-operatives – and many permutations in between.

We advocate for development of accounting and reporting standards which exhibit (inter alia) the following features:

- Simplicity and Clarity – our larger members employ qualified professionals who are skilled in interpreting complex documentation. But it should also be possible for our smaller members to identify easily and quickly what their accounting and reporting responsibilities are without substantial expenditures on external advisers.
- A tiered approach – the level of reporting required should reflect the relative size and breadth of the potential population of persons/entities interested in/affected by the detail contained it.

We note that other criteria are set out in various standards, which are also relevant considerations.

## 3 Commentary

Based on the above criteria, the BCCM is largely supportive of the Medium-term approach to apply the Revised Conceptual Framework (RCF) to all entities.

In particular we support:

**3A The adoption of the revised definition of a Reporting Entity** contained in the IASB's RCF as 'an entity that is required, or chooses, to prepare financial statements.'

The definition is simple and clear in comparison with the existing definition in Statement of Accounting Concepts 1 (SAC1), which requires a judgement as to the existence or otherwise of users dependent on general purpose financial reports for making and evaluating decisions about the allocation of scarce resources. The judgement is made by the reporting entity and consequently there is anecdotal evidence that some entities have de-selected themselves inappropriately.

**3B A change in nomenclature from 'General Purpose Financial Statements' and 'Special Purpose Financial Statements'** due to the lack of clarity as to what those purposes might be and whether there are any other types such as (for instance) Limited Purpose Financial Statements.

The Corporations Act and the Co-operatives National Law effectively specify that certain (clearly defined) companies and co-operatives respectively must prepare a financial report which complies with the accounting standards. It would seem appropriate therefore for a revised SAC 1 or AASB 1053 to require reporting entities to prepare Complying Financial Statements (CFS) and to require those financial statements which do not meet the relevant reporting requirements to be referred to as Non-Complying Financial Statements (NCFS).

**3C Continuation of the application of different tiers of Australian Accounting Standards**

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

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

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

**3D Differentiating between the disclosure requirements and the recognition and measurement requirements.**

Meeting the recognition and measurement requirements of the accounting standards should be part of the basic establishment of any For-Profit or Not-for-Profit enterprise large enough to



be required to produce financial statements. There is a quantum difference, however, between that capability and the level of resources required to prepare certain disclosures. Meeting full recognition and measurement requirements should therefore be part of any minimum disclosure requirements even at Tier 3 level.

### **3E Requirement for Consolidated Financial Statements**

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

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

## **4 Responses to matters for comment (Phase 2)**

### **Q11 Do you agree with agree with AASB's Phase 2 approach?**

Yes, for the most part. The reason is best illustrated by Diagrams 2 and 3 in paragraph 190 of the Consultation Paper, which show a considerable measure of simplification in the reporting framework from one to the next. We are concerned that the first box in the decision tree in Diagram 3 still poses the question whether there is legislation or 'other requirement' which requires a financial report complying with Australian Accounting Standards. Further clarity on what the 'other requirement' might be is necessary before the framework is implemented.

### **Q12 Which of the AASB's two GPFS Tier 2 alternatives do you prefer?**

Alternative 2 GPFS – SDR is preferred because it appears to provide greater simplicity and clarity.

### **Q13 Do you agree that we only need one Tier 2 GPFS alternative in Australia?**

Yes, for the same reasons as our answer to Question 12.

### **Q14 Do you agree with the AASB's decision that GPFS - IFRS for SMEs should not be made available as a Tier 2 alternative?**

Yes. We will be better served by having one set of standards and determining which ones are not required for Tier2 reporting rather than two sets of standards and having to determine which set apply to which entities.

### **Q15 If the AASB implements one of the two proposed alternatives as a GPFS Tier 2 what transitional relief should apply?**

The transitional relief currently available in AASB 1 is adequate for a fully resourced entity which has planned well for a transition to full first-time adoption of Australian Accounting Standards.

The recommendation in Section 3C above addresses the position of less well-resourced entities which nevertheless wish/are required to prepare CFS Tier 2 by providing a comprehensive

timetable for attainment of that level of disclosure.

**Q16 What concerns do you have on consolidating subsidiaries and equity accounting associates and joint ventures as proposed. What transitional relief do you think the AASB should apply?**

We are very concerned about the value of any financial statements of an economic entity with subsidiaries/associates/joint ventures which are not prepared on a consolidated and/or equity accounted basis as discussed in section 3E above. The only transitional relief should be that which is currently available in the accounting standards.

**Q17 If the new Alternative 2 GPFS – SDR is applied do you agree that the specified disclosures would best meet users' needs?**

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

**Q18 Do you have any other suggested alternatives for the ASB to consider as a GPFS Tier 2?**

No.

**Q19 Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative?**

Only if and when relevant standards have been developed which provide for comprehensive and consistent categorisations of such revenues and expenditures and their inter-relationships. Current disclosures can be inconsistent across the sector which could result in totally misleading comparisons and conclusions.

**Q20 Are you aware of any legislation that refers to SPFS that might be impacted by these proposals?**

No.

**Q21 Whether the AASB' Standard Setting Frameworks for For-Profit and Not-for-Profit have been applied appropriately in developing the proposals in Phase 2?**

Please refer to BCCM's previous submission in respect of the Frameworks in which we strongly advocated for use of the expression Not-for-Profit to be confined to those entities eligible for registration as a charity.

**Q22 Whether there are any regulatory or other issues that may affect the implementation of the proposals?**

Not that we are aware of.

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

The proposals do not appear to detract from the current level of usefulness of financial statements.

**Q24 Whether the proposals are in the best interests of the Australian economy?**

The proposals are aimed at improving the comprehensibility of the system for determining financial reporting requirements. As such they are likely to improve Australian entities'

competitiveness and access to capital. Unfortunately the economic benefits are not separately identifiable (from those resulting from other factors) so as to be sufficiently quantifiable to qualify for recognition under the IFRS framework.

#### **Q25 Commentary on costs and benefits of the proposals**

The BCCM does not have access to any specific data on potential costs and benefits. We can only re-iterate that simple and clear requirements are easier and cheaper to meet and that smaller entities should not be burdened with any requirements beyond those appropriate to their size and activities.

#### **Contact:**

Anthony Taylor  
Policy Officer  
[info@bccm.coop](mailto:info@bccm.coop) ; (02) 9239 5931



## **Submission on applying the International Accounting Standards Board's (IASB) Revised Conceptual Framework and solving the reporting entity and Special Purpose Financial Statement (SPFS) problems**

**5 November 2018**

The Tax Justice Network Australia (TJN-Aus) welcomes this opportunity to make submission on the issue of applying the International Accounting Standards Board's (IASB) Revised Conceptual Framework and solving the reporting entity and Special Purpose Financial Statement (SPFS) problems.

Members of the TJN-Aus use financial statements to assess compliance of companies with tax legislation and to make investment decisions. There has been considerable frustrations that some large corporations have changed to SPFSs to make their tax and financial affairs less transparent to the general public, employees and investors, while other large businesses have become more transparent in their tax and financial affairs. As noted in the AASB's consultation paper, companies that seek finance from external financial institutions are already providing very detailed financial information to the financial institutions (far more than they provide to equity investors), usually under a non-disclosure agreement with the financial institution. Thus, shifting reporting from SPFSs to General Purpose Financial Statements would not represent significant extra work for many companies.

As noted by Professor Peter Wells, SPFSs mean "consolidated reports are not presented and related party transactions are not disclosed, but this may only be the tip of the iceberg. Accordingly, special purpose financial statements may be of limited value in capturing the activities of the company, and lack comparability."<sup>1</sup> He further stated "Inconsistency in accounting practices across firms is problematic as it undermines how easily accounts can be understood and compared. It also renders computer-based analysis and use of financial statement information impossible."

As noted in the consultation paper, the Australian Government is the only government in the world that permits entities to self-assess what type of financial reporting is required when a regulator requires the preparation and lodgement of financial statements. This means that similar entities can report differently, with some preparing General Purpose Financial Statements (GPFs) and others preparing SPFSs based on different self-assessments. The TJN-Aus agrees with the consultation paper "This reduces comparability for entities of similar economic circumstances and undermines the fundamentals of trust and transparency."

The following large corporations switched from providing GPFs to SPFSs, with the year when this happened in brackets:<sup>2</sup>

- JBS Holdco Australia Pty Ltd KPMG (2013)
- News Australia Holdings (2014)

<sup>1</sup> Peter Wells, 'Challenges surface over 'special purpose' reports', *The Australian Financial Review*, 11 July 2018, p. 9.

<sup>2</sup> <https://www.michaelwest.com.au/special-purpose-approach-by-accountants-hides-corporate-secrets/>

- BMW Australia Ltd (2014)
- Unilever Australia (2014)
- Johnson & Johnson Pty Ltd (2014)
- Pfizer Australia Holdings Pty Ltd (2014)
- Oracle Corporation Australia Pty Ltd (2014)
- Fuji Xerox Australia Pty Ltd (2015)
- Sanofi-Aventis Australia Pty Ltd (2013)
- Novartis Australia Pty Ltd (2014)
- BUPA Australia Healthcare Holdings Pty Ltd (2014)
- Merck Sharp & Dohme (Aust.) Pty Ltd (2014)
- Roche Products Pty Ltd (2014)
- Proctor & Gamble Australia Pty Ltd (2014)
- Robert Bosch (Australia) Pty Ltd (2014)
- Adidas Australia Pty Ltd (2014)
- Avon Products Pty Ltd (2010)
- Smith & Nephew Pty Ltd (2014)

The TJN-Aus also agrees with the consultation document that the Australian reporting entity concept:

- (a) Is not well understood;
- (b) Is not applied consistently in practice;
- (c) Is too subjective for regulators to enforce effectively and accordingly does not create a level playing field; and
- (d) Increases risk for directors and those charged with governance who are responsible for determining what form of financial statements to prepare.

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

The TJN-Aus welcomes the move to eliminate SPFSs, as they make it hard to compare companies and to fully understand their financial activities. They also mean there is not a level playing field between the financial reporting of businesses.

The TJN-Aus would have preferred Option 3, as this option (as noted in the consultation paper) would "facilitate consistency, transaction neutrality between sectors and tiers, enable greater comparability between entities, and ensure global transferability."

**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.**

Consistent with TJN-Aus's desire for greater transparency and better comparability between financial statements of entities, we prefer Alternative 1 as it better delivers these outcomes.

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

The proposals are an improvement on the current situation and create much better access to corporate financial information. The TJN-Aus has been deeply frustrated by the Australian subsidiaries of large multinational corporations being able to hide behind SPFSs to conceal the details of their business, creating an unfair advantage over their Australian competitors that filed GPFSs. For example, the TJN-Aus was frustrated in attempts to understand the financial activities for Glencore and Google Australia by their use of SPFSs.

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

The TJN-Aus believes the outlined approach is in the best interest of the Australian economy as it will result in a more level playing field for businesses operating in Australia, as noted in the consultation paper. The removal of SPFSs will create greater financial transparency for



the general community, which in turn will hopefully increase confidence that businesses are paying the taxes they should pay in Australia. It will also make it easier for investors to assess and compare companies, leading to better investment decisions which in turn will benefit the Australian economy. It is also fair for employees to be able to assess the financial situation of the businesses they work for, given their livelihoods are dependent on those financial situations.

Further, as noted by Professor Wells:<sup>3</sup>

*A benefit from increased compliance with accounting standards would be the increased ability of companies to prepare and disseminate financial reports electronically. This type of technology is not new, and will allow Australia to move into the 21<sup>st</sup> century, providing significant benefits to users of financial statements.*

Dr Mark Zirnsak  
Secretariat  
Tax Justice Network Australia  
c/- 29 College Crescent  
Parkville, Victoria, 3052  
Phone: (03) 9340 8807  
E-mail: [mark.zirnsak@victas.uca.org.au](mailto:mark.zirnsak@victas.uca.org.au)

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<sup>3</sup> Peter Wells, 'Challenges surface over 'special purpose' reports', *The Australian Financial Review*, 11 July 2018, p. 9.

### **Background on the Tax Justice Network Australia**

The Tax Justice Network Australia (TJN-Aus) is the Australian branch of the Tax Justice Network (TJN) and the Global Alliance for Tax Justice. TJN is an independent organisation launched in the British Houses of Parliament in March 2003. It is dedicated to high-level research, analysis and advocacy in the field of tax and regulation. TJN works to map, analyse and explain the role of taxation and the harmful impacts of tax evasion, tax avoidance, tax competition and tax havens. TJN's objective is to encourage reform at the global and national levels. The Tax Justice Network aims to:

- (a) promote sustainable finance for development;
- (b) promote international co-operation on tax regulation and tax related crimes;
- (c) oppose tax havens;
- (d) promote progressive and equitable taxation;
- (e) promote corporate responsibility and accountability; and
- (f) promote tax compliance and a culture of responsibility.

In Australia the current members of TJN-Aus are:

- ActionAid Australia
- Aid/Watch
- Anglican Overseas Aid
- Australian Council for International Development (ACFID)
- Australian Council of Social Service (ACOSS)
- Australian Council of Trade Unions (ACTU)
- Australian Education Union
- Australian Manufacturing Workers Union
- Australian Nursing & Midwifery Federation
- Australian Services Union
- Australian Workers Union, Victorian Branch
- Baptist World Aid
- Caritas Australia
- Centre for International Corporate Tax Accountability and Research
- Community and Public Service Union
- Electrical Trades Union, Victorian Branch
- Evatt Foundation
- Friends of the Earth
- GetUp!
- Greenpeace Australia Pacific
- International Transport Workers Federation
- Jubilee Australia
- Maritime Union of Australia
- National Tertiary Education Union
- New South Wales Nurses and Midwives' Association
- Oaktree Foundation
- Oxfam Australia
- Save the Children Australia
- Save Our Schools
- SEARCH Foundation
- SJ around the Bay
- Social Policy Connections
- TEAR Australia
- The Australia Institute
- Union Aid Abroad – APHEDA
- UnitedVoice
- Uniting Church in Australia, Synod of Victoria and Tasmania

- UnitingWorld
- Victorian Trades Hall Council
- World Vision Australia

9 November 2018

The Chairman  
AASB*By email*

Dear Sir

**Re: Discussion Paper DP/2013/1 A Review of the Conceptual Framework for Financial Reporting**

Westworth Kemp Consultants value the opportunity to provide feedback into the consultative process surrounding the development of a conceptual framework for financial reporting. We are a boutique consultancy specialising in financial reporting, assurance and compliance issues, particularly in the context of litigation and dispute resolution ([www.westworthkemp.com.au](http://www.westworthkemp.com.au)). The nature of our work is such that we often see instances where financial reporting has failed as a communication tool for stakeholders and we are therefore keen to contribute to the establishment of sound conceptual underpinnings for the development of accounting standards.

We support the AASB in its decision to adopt the international conceptual framework, and make some observations as to what the effect of that should be on the Australian reporting entity concept.

In our view, all entities that lodge financial statements prepared under a fair presentation framework with a regulator should comply with all the recognition and measurement tenets of accounting standards. While this may at first sight appear draconian, several factors must be borne in mind:

1. Lodgement with a regulator places the financial statements on the public record and makes them accessible to anyone willing to pay the fee. The preparer therefore does not know who the user might be.
2. Smaller entities by and large have simpler transactions. However, if a small entity has a complex transaction, the preparer of the financial statements should apply professional competence and due care under APES 110 in order to understand the complex transaction within the context of the accounting standards and ensure that the resulting balances are fairly stated.
3. Entities that appear to be privately held may have some stakeholders who are less involved in the business and whose rights can be jeopardised by others who are closer to the management of the entity. This can become apparent in the case of family disputes involving substantial family companies.
4. The availability of software packages like Xero makes compliance with standards much easier than it used to be.
5. There is scope for lobbying for a change to the Corporations Act raising the financial thresholds at which a proprietary company is considered large.
6. There is scope for reducing the disclosure burden of full recognition and measurement as set out in paragraph 166 onwards of the ITC.

Our views are informed by the fact that we have seen a number of instances where the preparation of special purpose financial reports has prejudiced the rights of stakeholders.

1. SMSF accounts for a number of funds where the financial planner took the beneficiaries' savings and used them for options trading. The accountant for the fund accounted for the options on a cash basis and ignored the fact that a liability to the bank for losses was building up. The beneficiaries lost significant amounts of money and the case is currently before the courts. The funds also held impaired financial assets at their full cost without provision.
2. A group of unconsolidated non-reporting entities that had borrowed heavily, the stakeholders of which were not closely involved in the management of the entity and were not in a position to understand their financial exposure. The entity also had intangible assets that had not been subject to impairment testing.
3. A privately owned non-bank lender where there was geographic separation between owners, who thought they were closely involved, and management who prepared special purpose financial reports and did not make provision for impaired loans under AASB 139.
4. A substantial private company with a related party owned by other family members. The auditor was unable to ascertain the fair value of the intercompany balances and creditors were recognised in companies other than those in which the liabilities actually arose.

While the idea of tailoring reporting to the needs of users as described in SAC 1 is appealing, it has not worked in practice because the concept is not sufficiently robust for regulators to be able to support it by means of regulatory action. In our view, the way in which the reporting entity concept has been applied hitherto has led to poor practices both in the compilation and the audit of financial reports.

We are also concerned that the existence of non-reporting entity accounting with its relaxed attitude to recognition and measurement has led in some firms to a lack of rigour in compilation and audit engagements for smaller clients purporting to prepare general purpose reports.

We attach hereto our responses to the questions for specific comment.

Yours faithfully



C N Westworth, LLB, FCA, FAICD



## **Appendix – Responses to specific questions**

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

We agree with the AASB’s Phase 2 approach.

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.

Our preference is for Alternative 1 – GPFS RDR. It already exists and is familiar to users and has the flexibility to respond to the specific features of each business.

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?

We agree that we only need one set of Tier 2 requirements, but recommend that the AASB lobby for a raising of the small proprietary company threshold.

We also suggest that Australia needs an optional Tier 3 best practice small company accounts that practitioners could use for smaller entities requiring more than just a tax return or a cash based statement of income and expenditure.

Q14 – Do you agree with the AASB’s decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not-for-profit sectors.

We would not object to IFRS for SMEs being made available as an option. It is a cohesive set of requirements which while falling short of full recognition and measurement is nevertheless a recognised GAAP. If an entity chose to adopt IFRS for SMEs instead of RDR, that fact would have to be prominently disclosed under the Basis of Preparation in Note 1.

Q15 – If the AASB implements one of the two proposed alternatives (described in paragraphs 167 - 170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.

In our view AASB 1 is adequate.

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.

While establishing fair value will be difficult, that in itself is not a reason for not requiring consolidation and equity accounting.

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.

Our preference is for Alternative 1.

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).

See our answer to Question 13 above.

Q19 – Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).

No comment

Q20 – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.

No

### **General matters for comment on Phase 2**

In our view the proposals are in the interests of the Australian economy as they will result in an improvement in the quality of financial information that is held on the public record and make that financial information more useful to users.

However we also suggest that the AASB should lobby for

- a review of the disclosure thresholds in the Corporations Act and
- the removal of the absurd grandfathering concession for the old exempt proprietary companies that do not qualify as small.

**Submission for: ITC 39 Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems [Phase 2]****Submitted on: 9 November 2018****Background:**

IFRS SYSTEM develops and distributes statutory financial reporting software. By working with our users, auditors, professional bodies and regulators we aspire to deliver the world's best statutory financial reporting software.

We have analysed 1,784 Annual Reports (incorporating the financial statements) for Australian reporting entities for the 30 June 2018 year end, that were prepared using IFRS SYSTEM and lodged with ASIC (and for listed entities ASX) as part of our consideration and research for the answers below.

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

Yes.

Special purpose is inconsistent with other countries and reduced disclosure requirements (RDR) general purpose is not that much extra work in return for the benefit of the robust framework it provides.

The step to converting from special purpose to RDR general purpose financial statements is not as bad as many people fear. Our research shows that a typical set of special purpose financial statements converted to RDR general purpose only increases the content in the notes by 15%. Put into context, this means that a 30-page set of special purpose financial statements becomes a 33-page set of RDR general purpose financial statements. Also, most people agree that the additional disclosures add significantly to the financial statements and therefore it is a positive step up. So, by converting from special purpose to RDR general purpose it is possible to produce more meaningful accounts without the burden of full general purpose reporting.

We publicly supported the conversion from special purpose to RDR general purpose in the following LinkedIn article 'The end is nigh for special purpose, but is step up to RDR so bad?':

<https://www.linkedin.com/pulse/end-nigh-special-purpose-step-up-rdr-so-bad-michael-berrington/>

*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.*

RDR Existing Tier 2, as identified in 166(b)(i), so two existing frameworks are maintained: RDR general purpose and full general purpose.

*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?*

Yes.

As per Q12, we are proposing RDR Existing Tier 2, as identified in 166(b)(i), so two existing frameworks are maintained: RDR general purpose and full general purpose.

The more frameworks that exist, the more complexity and confusion there is (and opportunity to choose the incorrect framework). If you look at Ireland and the United Kingdom they follow FRS 101 (which is RDR general purpose) and FRS 102 (which is full general purpose). You are either one or the other and it prevents entities falling through the gaps or try to fly under the radar. With the current third option of special purpose, there were plenty of entities adopting special purpose and this has somewhat been corrected with the ATO enforcement for significant global entities of general purpose. As per the ATO's guidance, we remind those companies that RDR general purpose is sufficient. Refer to our LinkedIn article on this matter:

<https://www.linkedin.com/pulse/significant-global-entities-sges-can-lodge-australian-berrington/>

Here is the link to the ATO guidance:

<https://www.ato.gov.au/Business/Public-business-and-international/Significant-global-entities/General-purpose-financial-statements/>

*Q14 - Do you agree with the AASB's decision that GPFS - IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not-for-profit sectors.*

Yes.

The reduced disclosures in RDR general purpose are sufficient (and if you open up discussion on what else could be reduced, we would ask to consider eliminating the disclosures for fair value measurement, aggregate compensation for key management personnel and share-based payments). There is no need to introduce another framework.

*Q15 - If the AASB implements one of the two proposed alternatives (described in paragraphs 167-170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.*

No specific relief, but a window to adopt the new framework should be given. For instance, if the new rules are finalised during 2019, then they should apply to reporting periods commencing on or after 1 January 2021 or 1 January 2022.

*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.*

This is perhaps more of an urban myth than anything. We checked 1,058 single entity 30 June 2018 Annual Reports and only 9 (5 unlisted public and 4 proprietary) of these reports (less than 1%) have subsidiaries and do not produce a consolidated report. So, based on our data, this scenario is extremely rare and not worthy of special exemptions, these reports should simply fall into line with the RDR framework.

*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.*

We do not believe a new framework should be introduced, retain the existing RDR general purpose and full general purpose as they currently exist; and remove special purpose. This is consistent with our answers above, which explain the position in more detail.

Signed on behalf of IFRS SYSTEM.



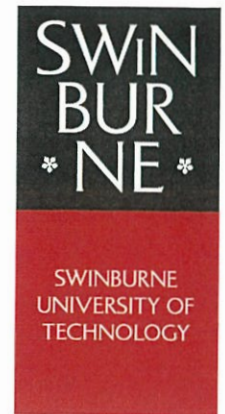
Michael Berrington  
Director  
IFRS SYSTEM Pty Limited

[michael.berrington@ifrssystem.com](mailto:michael.berrington@ifrssystem.com)



9 November 2018

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



By email: [standard@asb.gov.au](mailto: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 2)**

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 2).

The provided comments have been prepared after considering the ITC, participating in sessions held by the Australian Accounting Standards Board (AASB) and discussions with AASB technical staff in relation to Phase 1 of the ITC. I have reviewed the publicly available submissions to Phase 1 along with the AASB technical staff analysis and recommendations.

**Context**

The two phases of ITC 39 are linked. Accordingly, before addressing Phase 2, I think it useful to briefly revisit Phase 1,

What action (if any), is required of the AASB following the release of a Revised Conceptual Framework (RCF) by the International Accounting Standards Board (IASB) to enable the directive of the Financial Reporting Council (FRC) to continue to be operationalised? Answering this question, along with the proposal to remove special purpose financial reporting are the focus of Phase 1 of the ITC.

My submission to Phase 1 contained two observations summarised here:

1. The AASB has not demonstrated why there is a conflict between the RCF and SAC 1 *Definition of the Reporting Entity* that would affect publicly accountable for-profit entities applying Tier 1 General Purpose Financial Statements (GPFS), so they could not continue to claim compliance with International Financial Reporting Standards (IFRS); absent immediate action from the AASB.
2. It is for the lawmaker to determine who of its regulated entities should prepare GPFS.

In contrast, the role of the AASB is one of specifying what framework(s) and accounting standards should apply to the different entities in the preparation of those GPFS.

This is the division of labour in many other jurisdictions.

Faculty of Business and Law  
Accounting, Economics and  
Finance

Hawthorn  
Victoria 3122 Australia

[swinburne.edu.au](http://swinburne.edu.au)

And the IASB acknowledges it does not have the authority to determine who must, should, or could prepare GPFS. This is the environment in which the International Financial Reporting Standards are developed.

The way that SAC 1 currently operates distorts this divide as SAC 1 and AASB 1057 *Application of Australian Accounting Standards* answer the who question.

I support the withdrawal of SAC 1, but not in isolation of an explicit statement from the lawmaker as to who of its regulated entities should prepare GPFS.

## **Phase 2**

Regarding charities and other private and public not-for-profit sector entities, I support the AASB decision at the September 2018 meeting not to proceed with the Phase 2 plan now.

Instead, the AASB will undertake research and related activities to better understand the features of the different entities of those sectors and the needs of the users of the GPFS of those different entities.

Armed with that information, the AASB and its not-for-profit sector constituents will be much better placed to consider how categorising not-for-profit entities by their features, along with the comprehensive information about user needs might then be used to inform the development of one or more proposed financial reporting framework(s) for application by a not-for-profit entity in the preparation of its GPFS.

My recommendations are:

1. Regarding for-profit entities, the AASB not proceed with the Phase 2 plan agreed by the AASB at the September 2018 meeting (i.e., to proceed to develop a Tier 2 GPFS financial reporting framework for for-profit entities), hereafter, referred to as modified Phase 2.

Work on the modified Phase 2 plan should be delayed until the AASB has performed significantly more research into the different features of for-profit entities, including those for-profit entities whose features involve serving a particular purpose such as wholly-owned subsidiaries or intermediate holding companies.

That research will also need to obtain information about the needs of users with respect to the GPFS of the different entities.

With that information in hand, the AASB and its for-profit constituents will be much better placed than they are now to consider how categorising for-profit entities by their features, along with the comprehensive information about user needs might then be used to inform the development of one or more proposed financial reporting framework(s) for application by a for-profit entity in the preparation of its GPFS.

2. On matters of developing financial reporting framework(s), the AASB take a synchronised approach when considering proposals for



frameworks and their application to for-profit and not-for-profit private and public sector entities.

There is a potential threat to the rigour applied by the AASB in its decision making if the start date of the modified Phase 2 plan is not delayed so as to coincide with the unknown-start date of the not-for-profit entity Phase 2 plan.

3. On matters of what financial reporting framework(s) to develop, the AASB not rule out of Tier 2 GPFS a financial reporting framework that uses a recognition and measurement model different from that used in IFRS, for example, *IFRS for Small and Medium-Sized Entities* (IFRS for SMEs) or FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.
4. On matters of future proofing financial reporting framework(s) so that they remain fit for future purpose, the AASB supplement its archival research with research that has a future orientation. ITC 39 heralds a major change to the current financial reporting framework. AASB Research Report No. 1 *Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements* issued in 2014 (Research Report No. 1) which provides descriptive statistics for the population of entities preparing special purpose financial reports that are lodged with the Australian Securities and Investment Commission (ASIC) is a useful document. However, Research Report No. 1 cannot be the basis for future proofing financial reporting frameworks. For example, the recent amendments to 2017's equity crowdfunding legislation to allow small proprietary limited companies to raise money from retail investors without needing to convert to an unlisted public structure illustrates how fluid the for-profit environment is.

If the AASB was to reconfirm its modified Phase 2 plan to develop a for-profit entity Tier 2 GPFS financial reporting framework, I ask the AASB to consider Recommendations 3 and 4 when operationalising that plan.

I have responded to the AASB request for comment Phase 2 (see Appendix A). The AASB decisions in September 2018 to modify Phase 2 of the ITC to focus on for-profit entities frame my response.

I have also prepared some other comments for your consideration (see Appendix B) whereby I recommend that the AASB:

1. Undertake further research as to the meaning of public accountability.
2. Delete paragraph B2 of AASB 1053, the AASB's supplement to the IASB definition of public accountability (that deems some for-profit entities to have public accountability). The presence of the supplement is not consistent with the way the IASB uses public accountability.

If you have any queries on the provided comments, please contact me at [mshying@swin.edu.au](mailto:mshying@swin.edu.au).

Yours sincerely

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

Dr Mark Shying CA

Swinburne Business School

## Appendix A

### Specific matters for comment on Phase 2

ITC 39.106 describes the AASB's proposed medium-term approach to apply the IASB RCF to all entities (Phase 2).

At the September 2018 meeting of the AASB, the AASB agreed to modify Phase 2 of the ITC to focus on for-profit entities. That decision frames my response to the matters for comment.

#### **11. Do you agree with the AASB's Phase 2 approach (described in paragraph 166) Why or why not?**

No, I do not agree with the AASB's Phase 2 approach (or the modified Phase 2 approach).

Anstis and Steenkamp assert "Reform of the Australian financial reporting framework depends on the involvement of the government policymakers and regulators who have the power to identify entities that must report publicly and their reporting requirements."<sup>1</sup>

The reference to 'reporting requirements' is significant. The AASB does not have the authority to determine who must, should or could prepare GPFS.

The Parliamentary Joint Statutory Committee on Corporations and Securities has issued reports that include its consideration of the reporting entity concept.<sup>2</sup> Notwithstanding statements made about the reporting entity concept, the Parliament of the Commonwealth of Australia has not been moved to make changes to the *Corporations Act* 2001 or its antecedent legislation.

In the absence of action by lawmakers to articulate who of their regulated entities should prepare GPFS, for the AASB to proceed with the original or modified Phase 2 plans would be premature.

Further, work on the modified Phase 2 plan should be delayed until the AASB has performed significantly more research into the different features of for-profit entities, including those for-profit entities whose features involve serving a particular purpose such as wholly-owned subsidiaries or intermediate holding companies. That research will also need to obtain information about the needs of users with respect to the GPFS of the different entities.

With that information in hand, the AASB and its for-profit constituents will be much better placed than they are now to consider how categorising for-profit entities by their features, along with comprehensive information about user needs might then be used to inform the development of one or

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<sup>1</sup> Anstis & Steenkamp, Reform of the Australian Financial Reporting Framework, Perspective, CAANZ, June 2016.

<sup>2</sup> See for example, Parliamentary Joint Committee on Corporations and Securities, Report on the First Corporate Law Simplification Bill 1994, March 1995, and Parliamentary Joint Committee on Corporations and Securities, Report on Aspects of the Regulation of Proprietary Companies, March 2001



more proposed financial reporting framework(s) for application by a for-profit entity in the preparation of its GPFS.

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

I do not support either of the two GPFS Tier 2 alternatives.

I think in the absence of comprehensive data and information about for-profit entities the AASB and its for-profit constituents are not well placed to make the necessary assessment.

See my response to Question 11.

Further, a Tier 2 GPFS financial reporting framework that uses a recognition and measurement model different from that used in IFRS, for example, IFRS for SMEs or FRS 102 should also be considered with feedback sought from stakeholders.

**13. 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?**

No, I do not agree. I think in the absence of comprehensive data and information about for-profit entities to rule in or out Tier 2 GPFS frameworks – be they Alternative 1 or Alternative 2 or a different alternative - is premature.

I note the IASB research pipeline includes a research project "SMEs that are subsidiaries", a project whose objective is to assess whether it would be feasible to permit SMEs to use a reduced disclosure requirements framework. If the research establishes this approach would be feasible, there may well be two alternative frameworks available to be used by reporting entities that do not have public accountability.

See also my response to Questions 11 and 12.

**14. Do you agree with the AASB's decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not-for-profit sectors.**

No, I do not agree with the AASB's decision that IFRS for SMEs not be made available as a Tier 2 alternative. I think to rule out IFRS for SMEs is premature. Instead feedback should be sought from stakeholders on their views about a Tier 2 GPFS financial reporting framework that uses a recognition and measurement model different from that used in IFRS.

**15. If the AASB implements one of the two proposed alternatives (described in paragraphs 167- 170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.**

I have no comment on what transitional relief should be applied.

**16. 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.**

I have no comment on what transitional relief should be applied.

- 17. 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.**

I have no comment on the specified disclosures.

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

See my response to the earlier questions and the recommendations of my cover letter.

- 19. Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).**

I have no comment to this question as it is not relevant to the modified Phase 2 plan.

- 20. Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.**

No, I am not aware of any legislation that refers to SPFS that might be impacted by these proposals.

#### **General matters for comment on Phase 2**

- 21. Whether The AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities<sup>3</sup> . have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).**

Largely, ITC 39 refers to the data and findings of Research Report No. 1. More specifically, ITC 39 relies on those parts of Research Report No. 1 that deal with the analysis of a random sample of 394 large proprietary limited company lodgements to ASIC for the annual report years ending in 2009 and 2010.<sup>4</sup>

I acknowledge the usefulness of Research Report No. 1. However as acknowledged by the AASB, the report has its limitations.

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<sup>3</sup> Refer to The AASB's For-Profit Entity Standard-Setting Framework and The AASB's Not-For-Profit Entity Standard-Setting Framework.

<sup>4</sup> ITC 39 asserts a more recent analysis of lodgements made to ASIC by a random sample of 394 large proprietary companies for annual report years 2008-2015 is largely consistent with the analysis in Research Report No. 1 (unpublished working paper Potter, Tanewski and Wright, Financial Reporting by Private Companies in Australia: Current Practice and Opportunities for Research).



I think in the absence of comprehensive data and information about for-profit entities and user needs the AASB is not well placed to develop further the proposals in modified Phase 2. Consequently, its' for-profit constituents are not well placed to make the necessary assessment.

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

I believe the cost to preparers of Tier 2 Alternatives 1 and 2 would be greater than the costs those entities would incur when applying a financial reporting framework that uses a recognition and measurement model different from that used in IFRS.

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

I believe that in some circumstances the financial statements prepared using Alternatives 1 and 2 would be useful to users.

However, other alternatives may have greater utility or a greater utility for some users.

I encourage the AASB to consider the approach used in the UK which includes both a reduced disclosure framework standard and a standard that uses a recognition and measurement model different from that used in IFRS.

Also, see my response to the earlier questions and the recommendations of my cover letter.

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

I do not think the AASB has established the proposals are in the best interests of the Australian economy. See my response to the earlier questions and the recommendations of my cover letter.

**25. Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or nonfinancial) 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.**

I have no comment.

## Appendix B

### Other comments

The AASB has used public accountability as the dividing line between those reporting entities that should adopt full IFRS and others that can adopt IFRS RDR.

I note it is the intention of the AASB to continue to use public accountability as the dividing line – full IFRS and Tier 2 GPFS.

### Public accountability and equity crowdfunding

I believe the recent amendments to 2017's equity crowdfunding legislation to allow small proprietary limited companies to raise money from retail investors without needing to convert to an unlisted public structure raises some issues about what is meant by public accountability.

Currently, there is no secondary market for selling shares bought through an equity crowdfund raising. Investors can only really dispose of their investment if the company does an Initial Prospectus Offering, or the company is acquired.

In the absence of a secondary market, do these companies have public accountability? What does traded in a public market mean? Does the fact that they are initially sold with a disclosure document through a licenced platform constitute "traded in a public market"?

The SME Implementation Group publications Q&A 2011/02 *Entities that typically have public accountability* and Q&A 2011/03 *Interpretation of 'traded in a public market' in applying the IFRS for SMEs* appear to be relevant. However, they are no longer publicly available and no longer seem to be part of the IFRS for SMEs literature.

I recommend the AASB undertake further research as to the meaning of public accountability, notwithstanding its earlier concern about interpreting IASB terms and expressions (see paragraph BC 26 to AASB 1053).

### Appendix B to AASB 1053

Appendix B to AASB 1053 *Application of Tiers of Australian Accounting Standards* deems certain entities to have public accountability, that is, the AASB has supplemented the IASB definition. ITC 39 does not propose amendments to paragraph B2.

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.

I think it problematic that AASB 1053 deems certain entities to apply full IFRS; an approach that is not found in IFRS.

Paragraph BC26 to AASB 1053 states:

The Board acknowledged constituents' comments about some aspects of the definition of public accountability that the application of the definition in some cases may involve interpretation or judgement. Some respondents to ED 192 noted it would be helpful for the Board to clarify certain terms used in the definition. These include the term 'public market' referred to in the first leg of the definition and the terms 'fiduciary', 'broad', 'outsiders' and 'primary business' referred to in the second leg of the definition. However, the Board noted it is not a policy of the Board to further interpret the IASB's terms and definitions. Accordingly, the Board decided that, instead of interpreting the terms in the definition, AASB 1053 should identify entities that the Board deems to be publicly accountable in the Australian context, to supplement the IASB's definition of public accountability (see Appendix B of AASB 1053).

I recommend the AASB delete paragraph B2 of AASB 1053, the AASB's supplement to the IASB definition of public accountability (that deems some for-profit entities to have public accountability).





## 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 2: Medium-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

Scott Tobutt

Audit Partner

PKF(NS) Audit & Assurance

12<sup>th</sup> November 2018

[stobutt@pkf.com.au](mailto:stobutt@pkf.com.au)

(02) 8346 6046

PKF(NS) Audit & Assurance Limited  
Partnership  
ABN 91 850 861 839

Liability limited by a scheme  
approved under Professional  
Standards Legislation

Sydney  
Level 8, 1 O'Connell Street  
Sydney NSW 2000 Australia  
GPO Box 5446 Sydney NSW 2001

p +61 2 8346 6000  
f +61 2 8346 6099

Newcastle  
755 Hunter Street  
Newcastle West NSW 2302 Australia  
PO Box 2368 Dangar NSW 2309

p +61 2 4962 2688  
f +61 2 4962 3245

# Revising the Australian reporting framework PwC views

9 November 2018



# *Tiered reporting - For-profit*

*PwC's view is a three-tiered reporting framework is needed for corporates, as follows:*

## IFRS

### **Tier 1: Publicly accountable entities (eg. listed entities)**

PwC supports the AASB's view that publicly accountable entities should continue to prepare accounts that are fully IFRS compliant.

## RDR

### **Tier 2: Large private companies >\$100m revenue**

With reference to the threshold identified for increased accountability in recent Tax Transparency and Modern Slavery legislation, our view is entities with greater than \$100m in revenue would prepare accounts that comply with the existing RDR regime.

## SDR

### **Tier 3: Medium private companies \$25-\$100m revenue**

To reflect the differing needs of users of medium private company financial statements, PwC propose a third reporting tier is introduced for those entities with revenue of between \$25m and \$100m. This reporting tier could follow the proposed SDR.

# Tiered reporting - Not-for-profits

*PwC's view is a three-tier reporting framework for not-for-profits is needed, as done in the UK and NZ.*

*The focus on not-for profit reporting needs to shift to improving trust and transparency, and reducing the regulatory burden nationally. NFPs need to tell their story: explain their purpose, achievements and funds used directly for that purpose, and detail more transparently their fundraising and organisational costs. The ACNC together with the AASB are best placed to create the change needed for NFPs.*

*Not-for-profit reporting on purpose, fundraising, administration*

## RDR

## SDR

## Simplified

### **Tier 1: Large not-for-profits >\$5m**

For large not-for-profit entities, accounts could be prepared using the existing RDR. We support the ACNC review proposal of >\$5m ( top 5% of charities). This might be based on annual receipts/funds under management as some donations with specific obligations on their use are no longer accounted for as revenue.

### **Tier 2: Medium not-for-profits**

For medium-sized not-for-profit entities, accounts could be prepared using SDR or a NZ-NFP equivalent, SFR. We support the ACNC review proposal of \$5m-\$1m revenue averaged over 3 years.

### **Tier 3: Small not-for-profits <\$1m**

PwC supports a third tier for 80% of NFPs, these are small not-for-profits <\$1m. A simplified GAAP could be introduced, perhaps with a cash accounting basis (eg. based on NZ SFR-C).

# Revising the Australian reporting framework

## *Tiered approach and removal of SPFS*

The AASB is proposing to remove the ability of entities to lodge Special Purpose Financial Statements (SPFS) with ASIC, which we support. It will align us with global practice and community expectations. While the AASB proposes to continue with a two-tiered reporting framework, entities will no longer be able to opt out of disclosures by self-assessing as non-reporting entities. Tier 1 of the reporting framework will continue to be fully IFRS compliant. The AASB is looking for feedback on the form of Tier 2. They propose to keep the current Reduced Disclosure Regime (RDR) or introduce a revised Special Disclosure Regime (SDR) that requires a base level of disclosures and then allows choice on additional disclosures.

## *PwC Views*

- PwC's view is a three-tiered rather than two-tiered system may better align to other government legislation where more reporting is being required for large private companies of \$100m or more, reducing the risk of two reports being required for different regulators. SDR is a great idea for medium-sized corporates where the focus is on liquidity, solvency and creditors reporting.
- PwC's view is not-for-profits need different tiers of reporting for large, medium and small entities, and simpler reporting coupled with better transparency on the use of funds. Donors want to know the split of fundraising and administration costs versus funds spent directly on purpose.





# Revising the Australian reporting framework

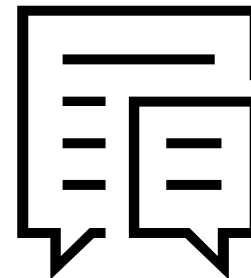
## *Other relevant considerations*

PwC view the following as key matters to be considered in conjunction with any revision to the Australian reporting framework:

- In revising the reporting frameworks available for not-for-profits, the ACNC and AASB should work together to improve the relevance and transparency of NFP reporting to donors/grantors. Donors want to understand the NFPs' actions during the year, the funds used for purpose, fundraising costs and administration costs.
- Any new reporting framework should clarify when consolidation and equity accounting are required.
- Private companies often seek fairness in regulation of reporting between them and their peers. The most common feedback we hear is:
  - 1) whether revenue reported to the ATO is cross checked with those entities self-determined as small proprietary to ASIC, and
  - 2) the inconsistency in reporting requirements for private companies versus other structures.

## *For further information contact*

regina.fikkers@pwc.com





PO Box Q133  
Queen Victoria Building  
Sydney NSW 1230  
+ 61 2 9943 0201

9 November 2018

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

By email to: [standard@aad.gov.au](mailto:standard@aad.gov.au)  
Copy to: [kjohn@aad.gov.au](mailto:kjohn@aad.gov.au)

**AASB Consultation Paper *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* ('ITC 39')**  
**Phase 2: Medium-term approach**

Dear Ms Peach

We refer to the AASB round table discussion held in Sydney on 14 September 2018 in connection ITC 39 and welcome the opportunity to provide our comments on phase 2 of ITC 39.

Whilst we applaud the AASB on taking on this project, we do not believe that there is an "urgent problem" to fix. Your own presentations suggest that only 0.1% of entities that prepare special purpose financial statements ('SPFS') do not fully comply with the recognition and measurement requirements of Australian Accounting Standards ('AAS'). This could be resolved by education and mandating entities of a certain size (e.g. turnover over \$25 million) and type (e.g. Corporations Act entities) comply fully with the recognition and measurement, rather than an overhaul of the current framework.

By ensuring full recognition and measurement, the IFRS Revised Conceptual Framework ('RCF') could be adopted in Australia, notwithstanding the fact that SAC 1 and 'reporting entity' as currently used in Australia would require rewording to avoid confusion with RCF.

That said, we have no issue in removing SPFS as a reporting option and replacing it with the streamlined version of the current reduced disclosure requirements ('RDR') on the basis that Australia is the only country in the world that has a self-assessing (reporting entity or not) and self-selecting disclosures (pick and choose disclosures to suit) and bringing Australia in line with the reporting requirements of other IFRS adopting countries is seen as conceptually favourable.

Rather than having an entirely new Simplified Disclosure Requirements ('SDR') framework, we suggest a streamlined version of RDR, as currently, on a cost-benefit analysis, there are a number of disclosures that seem unnecessary and add time and cost to financial report preparation. Such disclosures include aggregated key management personnel, fair value levels 1, 2, and 3, and financing arrangements within financial instruments disclosures.

In our experience, when moving from SPFR to RDR, excluding issues of consolidation, the additional disclosures represent approximately a 15% increase in the volume of the report, which translates to an increase in compilation costs of 15-30%. This does not include the additional costs of auditing such disclosures.

The table below shows some of the changes when moving from SPFS to RDR:

Deletion from accounts SPFR to RDR	Addition to accounts SPRS to RDR
Registered office and principal place of business	Income tax breakdown (income tax expense reconciliation, deferred tax break-down and reconciliation)
Remuneration of auditors	Receivables impairment movement
Indirect cash-flow statement reconciliation	Current year reconciliations of property, plant and equipment, intangibles and provisions
New Accounting Standards and Interpretations not yet mandatory or early adopted	Related party transactions
Franking credit balance	Contingent assets and liabilities
	Commitments
	Business combinations
	Interests in subsidiaries and associates
	Aggregate key management personnel disclosure *
	Fair value hierarchy – levels 1,2 and 3 *
	Information on borrowings such as total secured liabilities, assets pledged as security and any financing arrangements *

\* Consider removing under streamlined RDR

The most significant burden is for entities moving from standalone SPFR to consolidated RDR and any additional relief provided in addition to AASB 1 *First-time Adoption of Australian Accounting Standards* would be welcomed.

The appendix attached contains our responses to your specific matters.

Should you wish to discuss any aspects of our submission, kindly contact Vik Bhandari on 02 9943 0201 or by email on [vik.bhandari@frsgroup.com.au](mailto:vik.bhandari@frsgroup.com.au)

Yours faithfully

*Financial Reporting Specialists*

### ***Financial Reporting Standards ('FRS')***

FRS are specialists in preparing financial statements, both directly to our clients and indirectly via auditor outsourcing arrangements. We have wealth of experience in the compiling Tier 1 general purpose financial statements, Tier 2 general purpose reduced disclosure requirements financial statements and special purpose financial statements.

## Appendix

### Specific matters for comments

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

Refer to covering letter.

The rest of our answers assumes SPFS will no longer be an option.

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

We do not support SDR for two reasons:

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

In our experience there is enough confusion between GPRS and RDR without introducing a new SDR.

***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?***

Yes. We agree that there only needs to be one Tier 2 GPRS alternative. However, we believe that SPFS should be available for those entities that are below a certain threshold.

***Q14 - Do you agree with the AASB's decision that GPFS - IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not-for-profit sectors.***

Yes.

We are not in favour of using *IFRS for SMEs* as a basis of preparation for Tier 2 entities, for the same reasons that we provided in our submission in *AASB Consultation Paper, Exposure Draft 192 (ED 192)* being:

- Having more than one recognition and measurement basis for all Australian entities would remove the fundamental reason for adopting IFRS in the first place, being comparability between entities;
- Maintaining two sets of recognition and measurement standards would involve additional ongoing costs;
- Training and education costs of accounting professionals would increase – there is already enough confusion between disclosures of full general purpose and RDR; and
- Mobility of accounting professions would decrease.

**Q15 - If the AASB implements one of the two proposed alternatives (described in paragraphs 167-170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.**

Additional relief would be welcome, particularly when considering the application of AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures*.

For example, Appendix C of AASB 1 states that "This Appendix should only be applied to business combinations within the scope of AASB 3 *Business Combinations*" – where an entity previously accounted for a transaction as a business combination which would otherwise not have been in the scope of AASB 3, such as common control transactions, the transitional relief of Appendix C is not available and full business combination accounting is required for such transactions.

Additional research should be undertaken by the AASB to establish which additional transitional reliefs would be beneficial.

**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.**

Refer to our Q15 response.

**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.**

No. Refer to our Q12 response.

**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).**

No.

**Q19 – Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).**

N/A due to AASB deferral as detailed in Q21.

**Q20 – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.**

## General matters for comments

**Q21 – Whether The AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).**

We do not believe the proposals satisfies the AASB's Standard-Setting Framework.

On 4 September 2018, the AASB decided to exclude not-for-profit entities from the proposals in ITC 39 and has effectively departed from its sector-neutral approach to applying accounting standards.



We suggest the AASB should wait for the ACNC legislative review to be completed prior to any amendments being made from the ITC 39 project.

***Q22 – Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.***

We are concerned that the proposals will add significant costs and regulatory burden to entities far greater than outlined by the AASB. Additional research should be undertaken to identify all classes of entities that would be impacted by the proposed change.

For example, propriety companies that are 'grandfathered' under s1408 of the Corporations Act would be affected by the proposals. As these entities are privately held and accounts not publicly available, the accounts are usually SPFS. These entities would have additional burden of preparing GPFS and having them audited for no benefit.

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

Yes. However, the regulatory cost burden may outweigh the benefits especially where consolidated financial statements are prepared when previously standalone financial statements were prepared.

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

Yes - to an extent.

Various entities are required to prepare financial statements in accordance with accounting standards due to contract terms or trust deeds, e.g. those with banking covenants and SPFS are currently acceptable. The AASB at the round table suggested that such entities could renegotiate/change the terms of the contract/covenants/constitution which in practise is difficult/expensive to do.

We would prefer the framework to allow for the continuation of SPFS at least for entities less than a certain size such as small proprietary companies, charities, associations and trusts. This would reduce the regulatory cost burden on these entities and fully acknowledge in doing so comparability may be lost between similar entities.

***Q25 – 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.***

No.



PITCHER PARTNERS

Level 13, 664 Collins Street  
Docklands, Victoria 3008

Postal Address  
GPO Box 5193  
Melbourne, Victoria 3001

Level 1, 80 Monash Drive  
Dandenong South, Victoria 3175

Tel +61 3 8610 5000  
Fax +61 3 8610 5999  
[www.pitcher.com.au](http://www.pitcher.com.au)

Ref: KLB/dr

13 November 2018

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

Dear Kris

# **SUBMISSION – INVITATION TO COMMENT (ITC) 39, PHASE 2: MEDIUM-TERM APPROACH**

We appreciate the opportunity to provide comment to the Australian Accounting Standards Board (the AASB) on the AASB's 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.

Overall, we support the proposal to apply the IASB's Revised Conceptual Framework (RCF) to all "other for-profit entities" (that are required by legislation or otherwise to prepare financial statements in accordance with Australian Accounting Standards) in the medium term and to replace the 'Reduced Disclosure Requirements' framework (that would otherwise apply to such for-profit entities) with an alternative 'Specified Disclosure Requirements' framework.

However, in our opinion, the disclosure requirements of each specified accounting standard, under an alternative 'Specified Disclosure Requirements' framework, should not exceed the level of disclosure currently required under the existing 'Reduced Disclosure Requirements' framework. Imposing disclosure requirements of any specified accounting standard that exceed the level of disclosure currently required under the existing 'Reduced Disclosure Requirements' framework goes beyond what is necessary to satisfy the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting.



We believe that preparing Tier 2 general purpose financial statements in accordance with the full recognition and measurement requirements of Australian Accounting Standards and the 'RDR equivalent' disclosure requirements of specified accounting standards will achieve an appropriate balance between the cost of preparation and benefits to users, and satisfy the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting.

We note that the AASB is currently not seeking comments on the application of the RCF to not-for-profit entities, and that a separate consultation paper will be issued by the AASB in due course with targeted proposals for not-for-profit entities. Accordingly, we provide no comments on the application of the RCF to not-for-profit entities at this time.

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](mailto: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 11

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

#### Response:

As stated in our submission to the AASB on the proposed Phase 1: Short-term approach, 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.

In contrast to entities that prepare Tier 1 general purpose financial statements (to which the RCF will apply under the proposed Phase 1: Short-term approach), "other for-profit entities" that currently prepare Tier 2 general purpose financial statements or special purpose financial statements, as appropriate, do not (and cannot) claim compliance with IFRS.

Accordingly, in our opinion, it is not essential from the perspective of either financial statement preparers or users that the RCF apply to all "other for-profit entities" under the proposed Phase 2: Medium-term approach.

However, after considering the discussion and analysis contained in ITC 39, subject to the comments made in response to the other questions (see below), we support the application of the RCF to all "other for-profit entities" (that are required by legislation or otherwise to prepare financial statements in accordance with Australian Accounting Standards) in the medium term (under the proposed Phase 2: Medium-term approach).

Question 12
-------------

<p><b>Which of the AASB's two GPFS Tier 2 alternatives (described in paragraphs 167-170) do you prefer?</b> Please provide reasons for your preference.</p>
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*Response:*

Applying the RCF to all "other for-profit entities" (that are required by legislation or otherwise to prepare financial statements in accordance with Australian Accounting Standards) in the medium term (under the proposed Phase 2: Medium-term approach) will result in a significantly greater number of Australian entities that do not have public accountability being required to prepare Tier 2 general purpose financial statements.

It is important to consider that those entities affected by the proposals will include a significant number of for-profit entities that have solely a 'non-legislative' requirement to prepare financial statements in accordance with Australian Accounting Standards. Such a requirement commonly arises under trust deeds, constitutional documents, financing facility agreements, other funding agreements or grant acquittal requirements, business sale and purchase agreements, and other similar contractual arrangements.

To mitigate the increased financial reporting burden on many affected entities, in our opinion, a significant reduction in the current level of mandatory disclosure for Tier 2 general purpose financial statements is justified on cost-benefit grounds.

We believe that limiting the mandatory disclosure requirements for Tier 2 general purpose financial statements to the disclosure requirements specified by some, but not all, Australian Accounting Standards is an effective and pragmatic approach to achieve an appropriate balance between the cost of preparation and benefits to users.

In this regard, we note that the AASB is proposing to introduce a new 'Specified Disclosure Requirements' framework (to replace the existing 'Reduced Disclosure Requirements' framework) that will require Tier 2 general purpose financial statements to comply with the full recognition and measurement requirements of Australian Accounting Standards, and the disclosure requirements of the following specified accounting standards:

- AASB 15 *Revenue from Contracts with Customers* (AASB 15)
- AASB 101 *Presentation of Financial Statements* (AASB 101)
- AASB 107 *Statement of Cash Flows* (AASB 107)
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (AASB 108)
- AASB 112 *Income Taxes* (AASB 112)
- AASB 124 *Related Party Disclosures* (AASB 124)
- AASB 136 *Impairment of Assets* (AASB 136)
- AASB 1048 *Interpretation of Standards* (AASB 1048)
- AASB 1054 *Australian Additional Disclosures* (AASB 1054)

Although we support the proposed reduction in the level of mandatory disclosure for Tier 2 general purpose financial statements, we have a fundamental concern with the AASB's proposal.



Other than referring to the Australian Securities and Investments Commission (ASIC) Regulatory Guide 85 *Reporting Requirements for Non-reporting Entities*, there is little information in ITC 39 as to the basis on which the AASB concluded that compliance with the disclosure requirements of the above specified accounting standards is necessary to satisfy the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting.

Notwithstanding the limited information in ITC 39, we agree that Tier 2 general purpose financial statements should at least comply (subject to materiality) with those Australian Accounting Standards that address the general presentation of financial statements, or include Australian specific disclosure requirements (i.e., AASB 101, AASB 107, AASB 108 and AASB 1054). We would also support expanding the specified accounting standards to also include compliance with AASB 110 *Events after the Reporting Period* and AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, as we believe that such disclosure requirements are an important element of general purpose financial reporting.

However, in the absence of sufficient discussion and analysis within ITC 39, we question the basis on which the AASB concluded that it is necessary for Tier 2 general purpose financial statements to comply with the disclosure requirements of the specified 'specific topic' standards (i.e., AASB 15, AASB 112, AASB 124 and AASB 136). In the event that the AASB proceeds with the development of an accounting exposure draft on the proposed Phase 2: Medium-term approach, we encourage the AASB to provide further information about the basis of its conclusions in this regard.

We also note that a central aspect of the proposed 'Specified Disclosure Requirements' framework is that all the disclosure requirements of the specified accounting standards will mandatorily apply to Tier 2 general purpose financial statements. We disagree with this aspect of the proposal.

In our opinion, the disclosure requirements of each specified accounting standard, under a new 'Specified Disclosure Requirements' framework, should not exceed the level of disclosure currently required by Australian Accounting Standards – Reduced Disclosure Requirements (in relation to each specified accounting standard).

Imposing disclosure requirements of any specified accounting standard that exceed the level of disclosure currently required under the existing 'Reduced Disclosure Requirements' framework goes beyond what is necessary to satisfy the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting.

As explained in the Basis for Conclusions of AASB 1053 *Application of Tiers of Australian Accounting Standards*, in determining the 'Reduced Disclosure Requirements' framework, the AASB sought to balance the need to reduce disclosures with the need to satisfy the objectives of general purpose financial statements. From amongst a number of possible approaches to determining disclosure requirements under the 'Reduced Disclosure Requirements' framework, the AASB decided to adopt an approach that:

- (a) draws on the *IFRS for SMEs* to identify disclosures in cases where the recognition and measurement accounting policy options available or requirements under the 'Reduced Disclosure Requirements' framework align with those under the *IFRS for SMEs*; and
- (b) applies 'user need' and 'cost-benefit' principles (that is, the same basic principles used by the IASB in determining disclosures under the *IFRS for SMEs*) to arrive at reduced disclosure requirements in cases where the recognition and measurement accounting policy options or requirements under the 'Reduced Disclosure Requirements' framework differ from those under the *IFRS for SMEs*.

To establish the level of disclosure under the existing 'Reduced Disclosure Requirements' framework, the AASB applied this approach to each disclosure requirement in each Australian Accounting Standard.

On this basis, the reduced disclosure requirements of each Australian Accounting Standard, on a standard-by-standard basis, satisfies the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting.

Having previously determined the level of disclosure, on a standard-by-standard basis, that satisfies the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting (at the time of developing Australian Accounting Standards – Reduced Disclosure Requirements), in our opinion, it is now difficult to justify raising the level of disclosure for any specified accounting standard above the level currently required under the existing ‘Reduced Disclosure Requirements’ framework.

We believe that preparing Tier 2 general purpose financial statements in accordance with the full recognition and measurement requirements of Australian Accounting Standards, and the ‘RDR equivalent’ disclosure requirements of specified accounting standards will achieve an appropriate balance between the cost of preparation and benefits to users, and satisfy the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting.

In addition, if the disclosure requirements of each specified accounting standard did align, on a standard-by-standard basis, with the level of disclosure currently required under the existing ‘Reduced Disclosure Requirements’ framework, it would largely alleviate the concerns expressed above regarding the proposal for Tier 2 general purpose financial statements to comply with the disclosure requirements of AASB 15, AASB 112, AASB 124 and AASB 136, as the level of disclosure under each of these specified accounting standards would be significantly reduced.

Our comments on consolidating subsidiaries and equity accounting associates and joint ventures are outlined in our response to Question 16.

#### Question 13

**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?**

#### *Response:*

We support the retention of a single Tier 2 general purpose reporting framework that requires compliance with the full recognition and measurement requirements, and some ‘reduced’ or ‘specified’ disclosure requirements, of Australian Accounting Standards.

In our opinion, a single Tier 2 general purpose reporting framework would promote consistency, transparency and comparability in financial reporting (for those for-profit entities preparing Tier 2 general purpose financial statements). A single framework would also provide certainty to governing bodies, preparers, auditors and regulators.

**Question 14**

**Do you agree with the AASB's decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply?** Please give reasons to support your response, including applicability for the for-profit and not-for-profit sectors.

**Response:**

We support the AASB's decision that *IFRS for SMEs* should not be made available in Australia as an alternative Tier 2 general purpose reporting framework.

As a country that has adopted full IFRS recognition and measurement, in our opinion, the adoption of *IFRS for SMEs* would be a significant step backwards for Australian financial reporting.

In addition, in our opinion, the simplified recognition and measurement requirements of *IFRS for SMEs* would provide little real benefit to Australian entities that do not have public accountability and would potentially increase the complexity and cost of moving from one tier of general purpose reporting to another.

**Question 15**

**If the AASB implements one of the two proposed alternatives (described in paragraphs 167-170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1) Should AASB 1 be applied, or simpler relief provided?** Please provide specific examples and information.

**Response:**

We note that AASB 1053 *Application of Tiers of Australian Accounting Standards* is accompanied by *Appendix D – Transition Scenarios*, which summarises the application of AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* in common scenarios. This includes scenarios involving an entity moving from the preparation of special purpose financial statements in a previous reporting period to the preparation of 'Tier 1' or 'Tier 2' general purpose financial statements in the current reporting period.

In our opinion, the guidance contained in Appendix D of AASB 1053, and the existing requirements of AASB 1 and AASB 108, are sufficient to enable the 'first-time' preparation of general purpose financial statements following the removal of the Australian 'reporting entity concept' from Australian Accounting Standards.

**Question 16**

**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.

**Response:**

As outlined in ITC 39, the preparation of Tier 2 general purpose financial statements will include consolidating subsidiaries and equity accounting associates and joint ventures where applicable.

In our opinion, this may have a significant impact on many for-profit entities, as it is currently common practice for non-reporting entities with subsidiaries, associates and/or joint ventures to prepare special purpose 'parent entity' (i.e., 'separate') financial statements, rather than consolidated financial statements or equity accounted financial statements.

Although this aspect of the proposed Phase 2: Medium-term approach will give rise to increased costs to preparers, we accept that consolidating subsidiaries and equity accounting associates and joint ventures are necessary to satisfy the objectives of general purpose financial statements.

In relation to transitional relief for consolidating subsidiaries and equity accounting associates and joint ventures, further to our response to Question 15, we note that AASB 1 *First-time Adoption of Australian Accounting Standards* permits an entity to elect not to apply the requirements of Australian Accounting Standards retrospectively to past business combinations, and past acquisitions of investments in associates, interests in joint ventures and interests in joint operations in which the activity of the joint operation constitutes a business, as defined in AASB 3 *Business Combinations* and, instead, to apply a simplified approach to the measurement of assets and liabilities arising from such transactions. This includes, for example, the situation in which a parent entity did not previously prepare consolidated financial statements.

In our opinion, the exemptions currently available in AASB 1 are sufficient to enable the consolidation of subsidiaries and equity accounting of associates and joint ventures in the 'first-time' preparation of general purpose financial statements following the removal of the Australian 'reporting entity concept' from Australian Accounting Standards.

#### Question 17

**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.

#### Response:

As outlined in our response to Question 12, having previously determined the level of disclosure, on a standard-by-standard basis, that satisfies the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting (at the time of developing Australian Accounting Standards – Reduced Disclosure Requirements), in our opinion, it is now difficult to justify raising the level of disclosure for any specified accounting standard above the level currently required under the existing 'Reduced Disclosure Requirements' framework.

In our opinion, imposing disclosure requirements of any specified accounting standard that exceed the level of disclosure currently required under the existing 'Reduced Disclosure Requirements' framework goes beyond what is necessary to satisfy the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting.

We believe that preparing Tier 2 general purpose financial statements in accordance with the full recognition and measurement requirements of Australian Accounting Standards, and the 'RDR equivalent' disclosure requirements of specified accounting standards will achieve an appropriate balance between the cost of preparation and benefits to users, and satisfy the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting.

**Question 18**

**Do you have any other suggested alternatives 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).**

*Response:*

As outlined in our response to Question 12, having previously determined the level of disclosure, on a standard-by-standard basis, that satisfies the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting (at the time of developing Australian Accounting Standards – Reduced Disclosure Requirements), in our opinion, it is now difficult to justify raising the level of disclosure for any specified accounting standard above the level currently required under the existing ‘Reduced Disclosure Requirements’ framework.

In our opinion, imposing disclosure requirements of any specified accounting standard that exceed the level of disclosure currently required under the existing ‘Reduced Disclosure Requirements’ framework goes beyond what is necessary to satisfy the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting.

We believe that preparing Tier 2 general purpose financial statements in accordance with the full recognition and measurement requirements of specified accounting standards will achieve an appropriate balance between the cost of preparation and benefits to users, and satisfy the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting.

We note that the AASB is currently not seeking comments on the application of the RCF to not-for-profit entities, and that a separate consultation paper will be issued by the AASB in due course with targeted proposals for not-for-profit entities. Accordingly, we provide no comments on the application of the RCF to not-for-profit entities at this time.

**Question 19**

**Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).**

*Response:*

We note that the AASB is currently not seeking comments on the application of the RCF to not-for-profit entities, and that a separate consultation paper will be issued by the AASB in due course with targeted proposals for not-for-profit entities. Accordingly, we provide no comments on the application of the RCF to not-for-profit entities at this time.

**Question 20**

**Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.**

*Response:*

We are not aware of legislation that refers to special purpose financial statements that might be impacted by the proposed Phase 2: Medium-term approach.



## General matters for comment:

### Question 21

Whether the AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).

#### *Response:*

In our opinion, the AASB's Standard-Setting Framework for For-Profit Entities has been appropriately applied in developing the Phase 2 proposal to apply the RCF to all "other for-profit entities" in the medium term.

We note that the AASB is currently not seeking comments on the application of the RCF to not-for-profit entities, and that a separate consultation paper will be issued by the AASB in due course with targeted proposals for not-for-profit entities. Accordingly, we provide no comments on the application of the RCF to not-for-profit entities at this time.

### Question 22

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, as such, arising in the Australian environment that may affect the implementation of the Phase 2 proposal to apply the RCF to all "other for-profit entities" in the medium term.

However, as outlined in our response to Question 12, those entities affected by the proposals will include a significant number of for-profit entities that have solely a 'non-legislative' requirement to prepare financial statements in accordance with Australian Accounting Standards. Such a requirement commonly arises under trust deeds, constitutional documents, financing facility agreements, other funding agreements or grant acquittal requirements, business sale and purchase agreements, and other similar contractual arrangements.

Such entities must be given sufficient time to review and assess, and seek to amend where necessary, existing 'non-legislative' financial reporting requirements following the finalisation of amendments to Australian Accounting Standards.

In this regard, we understand that it is the current tentative position of the AASB that the amendments to Australian Accounting Standards arising from the proposed Phase 2: Medium-term approach will mandatorily apply to annual reporting periods beginning on or after 1 January 2020 (which aligns with the date on which the RCF will take effect internationally and the proposed mandatory application date of the amendments to Australian Accounting Standards arising from the proposed Phase 1: Short-term approach).

We are concerned that a mandatory application date of 1 January 2020 (for the application of the RCF to “other for-profit entities”) will not enable sufficient time for affected entities to review and assess, and seek to amend where necessary, existing ‘non-legislative’ financial reporting requirements following the finalisation of amendments to Australian Accounting Standards.

Entities that prepare Tier 2 general purpose financial statements under the proposed Phase 2: Medium-term approach will not (and cannot) claim compliance with IFRS. Accordingly, in our opinion, it is not essential from the perspective of either financial statement preparers or users that the RCF mandatorily apply to “other for-profit entities” at 1 January 2020. In our opinion, this is especially the case for those for-profit entities that have solely a ‘non-legislative’ requirement to prepare financial statements in accordance with Australian Accounting Standards

In our opinion, there is sufficient justification to defer the mandatory application date of the RCF to “other for-profit entities” (under the proposed Phase 2: Medium-term approach), especially for those for-profit entities that have solely a ‘non-legislative’ requirement to prepare financial statements in accordance with Australian Accounting Standards.

This could be effectively achieved by, for example:

- (a) deferring the mandatory application date beyond 1 January 2020 for all “other for-profit entities” that are required by legislation or otherwise to prepare financial statements in accordance with Australian Accounting Standards;
- (b) adopting a mandatory application date of 1 January 2020 for those “other for-profit entities” that have a legislative requirement to prepare financial statements in accordance with Australian Accounting Standards and deferring the mandatory application date beyond 1 January 2020 for those “other for-profit entities” that have solely a ‘non-legislative’ requirement to prepare financial statements in accordance with Australian Accounting Standards; or
- (c) adopting a mandatory application date of 1 January 2020 for those “other for-profit entities” that have a legislative requirement to prepare financial statements in accordance with Australian Accounting Standards and exempting/grandfathering those “other for-profit entities” that have solely a ‘non-legislative’ requirement to prepare financial statements in accordance with Australian Accounting Standards from applying the RCF (so long as the ‘non-legislative’ requirement continues to apply and is not otherwise amended).

For simplicity, and for ease of understandability by preparers and auditors, we favour approach (a) in preference to approach (b).

To enable sufficient time to review and assess, and seek to amend where necessary, existing ‘non-legislative’ financial reporting requirements following the finalisation of amendments to Australian Accounting Standards, we believe that the effective date should be deferred to at least 2 years after the issue date of such amendments. Based on the AASB’s current work programme, this would most likely result in a mandatory application date of 1 January 2022, with early application permitted.

We do not support approach (c). In our opinion, such approach would perpetuate the preparation of special purpose financial statements and result in the operation of two conceptual frameworks for a single set of Australian accounting pronouncements in the medium term (so long as the ‘non-legislative’ requirement continues to apply and is not otherwise amended). The creation of a quasi ‘dual’ financial reporting framework for “other for-profit entities” would, in our opinion, undermine consistency, transparency and comparability in financial reporting.

<b>Question 23</b>
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Whether, overall, the proposals would result in financial statements that would be useful to users.
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*Response:*

As outlined in our response to Question 12, having previously determined the level of disclosure, on a standard-by-standard basis, that satisfies the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting (at the time of developing Australian Accounting Standards – Reduced Disclosure Requirements), in our opinion, it is now difficult to justify raising the level of disclosure for any specified accounting standard above the level currently required under the existing ‘Reduced Disclosure Requirements’ framework.

In our opinion, imposing disclosure requirements of any specified accounting standard that exceed the level of disclosure currently required under the existing ‘Reduced Disclosure Requirements’ framework goes beyond what is necessary to satisfy the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting.

We believe that preparing Tier 2 general purpose financial statements in accordance with the full recognition and measurement requirements of Australian Accounting Standards, and the ‘RDR equivalent’ disclosure requirements of specified accounting standards will achieve an appropriate balance between the cost of preparation and benefits to users, and satisfy the objectives of general purpose financial statements in the context of Tier 2 general purpose reporting.

<b>Question 24</b>
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Whether the proposals are in the best interests of the Australian economy.
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*Response:*

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

<b>Question 25</b>
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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 have no additional comments in relation to the costs and benefits of the proposals relative to the current requirements.



Ernst & Young  
8 Exhibition Street  
Melbourne VIC 3000 Australia  
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000  
Fax: +61 3 8650 7777  
ey.com/au

ITC 39

13 November 2018

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

Dear Kris,

**Request for Comment on Phase 2 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 Consultation Paper. We welcome the opportunity to contribute to the future of financial reporting in Australia. The focus of our response is from the for-profit sector point of view, given the decisions reached at the AASB's September 2018 Board meeting.

We believe the issuance of the Revised Conceptual Framework ("RCF") creates an opportunity for the AASB to consider Australian specific amendments in its adoption in Australia, including the maintenance or removal of the Australian concept of the "reporting entity". Determining whether an entity is a reporting entity can result in varying interpretations and inconsistent application of the concept. We believe the AASB is considering appropriate options for resolving this matter. We consider it necessary for the RCF to be implemented in Australia by 1 January 2020.

We support the maintenance of two tiers of reporting within the General Purpose Financial Statements ("GPFS") framework. This assists the AASB strike a balance between the costs of financial statement preparation and the benefits users derive. We think in general the Policy Framework outlined in ED 277 provides a robust approach for determining reduced disclosure requirements for Tier 2 entities and we would support the completion of this project.

As we stated in our Phase 1 submission, we largely support the same recognition and measurement principles for all entities preparing financial statements.

Our detailed responses to the questions raised in Phase 2 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*  
Ernst & Young

## Specific matters for comment on Phase 2

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

Consistent with *The AASB’s For-Profit Entity Standard-Setting Framework*, we believe the issuance of the revised Conceptual Framework (RCF) creates a need for the AASB to consider Australia-specific amendments in its adoption in Australia, specifically the maintenance or removing of the existing Australian concept of ‘reporting entity’. Determining whether an entity is a reporting entity has resulted in varying interpretations and sometimes inconsistent application of the concept. Additionally, giving preparers the judgement for determining the applicable accounting standards is unique compared to international jurisdictions. We believe the AASB is considering appropriate options for resolving this matter.

We believe that the benefits to the Australian economy of a single set of accounting recognition and measurement rules across the for-profit sector and all entities outweighs potential benefits that may flow from adopting differing recognition and measurement rules for different entities. As a result we do not support option 2 (to operate two conceptual frameworks) of the Consultation Paper as this could, over time, lead to inconsistent accounting policies. Also, we do not support option 4 (do nothing and lose IFRS compliance) as outlined in the Consultation Paper as this would result in non-compliance with IFRS.

We support the maintenance of 2 tiers of differential reporting within the GPFS framework as this assists the AASB strike an appropriate balance between the costs of financial reporting and the benefits that users derive. For the Tier 2 reporting, we think there is merit in considering a cost /benefit analysis for consolidation as there may be circumstances where users of these reports may not be interested in consolidated results due to their interests held.

***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.***

As we indicated in our response to ED 277 *Reduced Disclosure Requirements for Tier 2 Entities* (ED 277), overall we support the AASB’s efforts to enhance Tier 2 reporting requirements. We think in general the Policy Framework outlined in ED 277 provides a robust approach for determining reduced disclosure requirements (RDR) for Tier 2 entities, and therefore this work should continue.

Under ED 277 the key disclosure areas were identified as (1) current liquidity and solvency of the entity and (2) transactions and other events that are significant or material to an understanding of the entity’s operations as represented by the financial statements. We believe the proposed Specified Disclosure Requirements (SDR) will mean some disclosures of ED 277 in relation to the liquidity and solvency of the entity will be missed, such as:

- details of breaches of covenants during the year which triggered accelerated repayment which were remedied before year end; and
- qualitative disclosures of liquidity risk arising from financial instruments.

In addition, we disagree with requiring full disclosure of the four significant matter areas identified, unless these areas were all considered material to the entity. In other words, the



extent of an entity's activities / circumstances would be a better indicator of the extent of disclosure for any particular matter.

***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?***

We agree that one Tier 2 GPFS alternative is ideal in Australia. We do not see the merits of further differential reporting unless clear principles could be articulated that differentiate the disclosures. We note the Board's current challenges in establishing a robust approach for determining one set of disclosures for Tier 2 entities.

***Q14 – Do you agree with the AASB's decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit.***

We agree. The reasons for this are outlined in our response to ITC 12 and ED 192 and are consistent with the reasons set out by the AASB in the Consultation Paper.

The IASB has added a feasibility study to its research pipeline regarding SMEs that are subsidiaries. The project's objective will be to assess whether to permit subsidiaries that meet the definition of a SME to use the recognition and measurement requirements in IFRS and the disclosure requirements in the *IFRS for SMEs*. The AASB should monitor this project as it may provide a path for Australia.

***Q15 – If the AASB implements one of the two proposed alternatives (described in paragraphs 167-170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.***

We believe the principles in AASB 1053 *Application of Tiers of Australian Accounting Standards* should be maintained. That is, no additional transitional relief is needed because we consider the application of AASB 1 *First-time Adoption of Australian Accounting Standards* is sufficient. We are not aware of any significant issues that have arisen in the application of AASB 1.

***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.***

No amendments have been proposed to AASB 10.Aus4.2. Since this paragraph was initially created with reference to a 'reporting entity' in the context of Australia's current SAC1 (ie the existence of users), we think this paragraph needs consideration:

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

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

***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.***

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

***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 per our response to question 12 above, we favour the GPFS – RDR approach as further developed by the AASB to enhance Tier 2 reporting requirements in its finalisation of ED 277.

***Q19 – ~~Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).~~***

***Q20 – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.***

We are not aware of any such legislation.

#### General matters for comment

***Q21 – Whether The AASB’s Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).***

We believe the AASB’s standard-setting frameworks have been appropriately applied in developing the proposals in Phase 2, subject to clarifying the AASB 10 matter discussed in Q16.

***Q22 – 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 regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals. We strongly encourage those who set the requirements to prepare financial reports for different sectors and types of entities in Australia to consider the needs of users of financial information in their determination as to ‘who’ should prepare financial statements in accordance with AAS.

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

We believe the issuance of the RCF creates a need for the AASB to consider Australia-specific amendments in its adoption in Australia, specifically the maintenance or removing of the existing Australian concept of 'reporting entity'. To the extent Tier 2 GPFS are prepared we believe the ED277 project should be finalised.

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

We believe the issuance of the RCF creates a need for the AASB to consider Australia-specific amendments in its adoption in Australia, including the question of maintenance or removing the existing Australian concept of 'reporting entity'. We consider it the standard setter's responsibility to provide a framework for the preparation of financial statements in accordance with Australian Accounting Standards (AAS). We encourage others determining the need for preparing financial reports - across all sectors and types of entities in Australia - to consider the needs of users for entities to prepare financial reports in accordance with AAS.

**Q25 – 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.**

Please refer comments above.

## **Other comments**

Appendix B comments:

- Throughout Appendix B we note that the application paragraphs continue to refer to entities required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act. Given the Corporations Act requires compliance with Australian Accounting Standards, we cannot see the need for distinction between paragraphs (a) and (b) in these application sections.



**ACT**  
Government

Chief Minister, Treasury and  
Economic Development

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

Dear Ms Peach <sup>KMS</sup>

**Invitation to Comment (ITC) 39 – Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems [Phase 2]**

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to the ITC 39 - *Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems [Phase 2]*.

HoTARAC broadly agrees with the AASB’s Phase 2 approach, but strongly recommends the AASB be mindful of unintended potential impacts on public sector bodies being regarded as reporting entities.

The attachment to this letter sets out HoTARAC’s response to the specific matters for comment. If you have any queries regarding HoTARAC’s comments, please contact Vincent Padgham from the Australian Government Department of Finance on (02) 6215 1927 or by email to [vincent.padgham@finance.gov.au](mailto:vincent.padgham@finance.gov.au).

Yours sincerely

David Nicol  
Chair

Heads of Treasuries Accounting and Reporting Advisory Committee  
15 November 2018

## Specific Matters for Comment on Phase 2

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

HoTARAC members rarely use Special Purpose Finance Statements, but broadly agree with the AASB’s Phase 2 approach.

More details on the transitional relief provided for entities moving from SPFS to GPFS and from one tier to another will be required for HoTARAC to express a view.

**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.

HoTARAC strongly favours the current approach of jurisdictions being able to designate reporting entities Tier 2.

HoTARAC notes that Alternative 1 has the advantage that relevant disclosures can be selected from relevant standards and will be more flexible as new standards are published. This approach is currently favoured by HoTARAC members.

HoTARAC notes that Alternative 2 simplifies the overall approach and would suggest the AASB continue to canvass views on this topic as preparers and users work on assessing the impact of the alternatives.

**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?

HoTARAC does not agree. In HoTARAC’s view a third tier is needed for very small entities.

**Q14** – Do you agree with the AASB’s decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not-for-profit sectors.

HoTARAC members are unlikely to voluntarily adopt IFRS for SMEs, noting that differing recognition and measurement requirements results in considerable additional effort for consolidating economic entities under AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

HoTARAC members would not favour IFRS for SMEs being available to public sector preparers.

**Q15** – If the AASB implements one of the two proposed alternatives (described in paragraphs 167- 170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.

HoTARAC has no comment.

**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.

HoTARAC has no comment.

**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.

HoTARAC notes that limiting disclosures to specified standards may not always meet users’ needs as these standards will not be equally relevant to all types of entities. Again, HoTARAC recommends the AASB continue to seek views on this topic as they progress with this project.



**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).

HoTARAC recommends the AASB compile a separate standard for Tier 2 RDR disclosures to make them more user friendly.

As noted above, HoTARAC would favour the introduction of a third reporting tier for very small entities, similar to the approach taken by New Zealand. Introduction of a third tier would minimise the reporting burden on small entities and better balance the costs and benefits of financial reporting.

**Q19** – Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages). **Q20** – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.

HoTARAC has no comment.

**Q20** – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.

There is no such legislation that HoTARAC is aware of.

## General Matters for Comment on Phase 2

**Q21** – Whether The AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).

HoTARAC agrees that the standard setting framework has been appropriately applied.

HoTARAC appreciates that there will be further consultation on NFP amendments.

**Q22** – 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, for a number of jurisdictions, the application of Australian Accounting Standards (AAS) is mandated by legislation. Accordingly, any revision to the application of tiered reporting and the definition of the reporting entity should consider specific public sector circumstances.

Many public sector entities lack a separate legal identity. HoTARAC notes that in some of their jurisdictions a number of ministerial body corporates are established by legislation and deemed to be part of the service delivery of the relevant entity. As a practical matter, nuances in legislation passed at differing times can result in a subset of ministerial body corporates being viewed as reporting entities that are consequently exposed to compliance with Australian Accounting Standards. The consequence of this view is a significant increase in preparation and audit costs with negligible benefit to the public from individual reporting.

There are also other public sector circumstances that the AASB should consider. HoTARAC notes there are publicly accountable for profit entities in the public sector that will need to adopt the RCF in phase 1; it is unclear if this was intended by the AASB.

Some jurisdictions have discretion on designating the tier of reporting that entities apply and HoTARAC strongly recommends that AAS ensure that flexibility is not restricted.

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

More focused and simplified financial reports are expected to benefit users. HoTARAC acknowledges groups of users will be better placed to respond on this *Matter for Comment*.

HoTARAC observes that the information provided under the application of accounting standards may be of limited use to users, noting the research conducted in 2014 by Brown, Call, Clement, and Sharp (2014) *Inside the “Black Box” of Sell-Side Financial Analysts*, Journal of Accounting Research, <https://doi.org/10.1111/1475-679X.12067>, observed:

*“users of financial accounting information (analysts) are likely to have more informative views on financial reporting issues than preparers (CFOs).”*

*“Most analysts have contact with the CEO or CFO of the typical company they follow more than once per quarter, and they rate their private communication with management as a very useful input to both their earnings forecasts and stock recommendations”*

Whilst the quotes above relate to the private sector analyst activity, HoTARAC observes that the public sector is exposed to processes that mimic or imitate the information gathering undertaken by the surveyed analysts.

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

Simpler tiered reporting is anticipated to reduce the costs of preparing and auditing financial reports. These compliance overheads bring questionable benefits to the users of financial reports and consume scarce resources that could be better allocated to alternate purposes.

**Q25** – 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.

Simpler tiered reporting will reduce the costs of financial reporting. Literature suggests that users suffer information overload from financial reports, yet solicit additional information from alternate sources. Therefore, it is reasonable to infer that users will benefit from more focused financial reports.

Your ref:  
Our ref: 12056

19 November 2018

Ms K Peach  
Chair  
Australian Accounting Standards Board  
PO Box 204  
COLLINS STREET WEST VIC 8007

Dear Ms Peach

**ITC 39 Consultation Paper — Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems – Phase 2**

The Queensland Audit Office (QAO) thanks you for the opportunity to comment on Phase 2 of the Consultation Paper. QAO agrees that the financial reporting framework would benefit from simplification and clarification.

The role of an auditor is to provide assurance against the reporting framework adopted by our clients. Generally, we do not comment on the appropriateness of the adopted reporting framework, provided it complies with applicable regulations. What is reported is determined by legislators, regulators and policy makers.

We provide these comments only as it goes towards strengthening the efficiency and effectiveness of public sector reporting. The public sector is affected by these proposals as:

- agencies request financial information from entities that do not lodge financial statements with ASIC, for example entities that are not companies, or are small proprietary companies
- the varied and unique user needs surrounding public accountability
- some public sector entities are not consolidated into whole of government financial statements and therefore are not bound by those accounting principles.

We support the AASB researching a simplified measurement and disclosure framework in Australia, consistent with the approaches adopted globally. A simplified framework would increase the comparability of financial statement prepared by small to medium sized entities, without the cost of full IFRS. However we do not support the options proposed in the consultation paper.

We urge the AASB to involve not-for-profit and public sector entities in its deliberations on the for-profit Phase 2 of this project to ensure that there are no unintended consequences.

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

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

Yours sincerely

A handwritten signature in blue ink, appearing to read 'B.P. Worrall'.

Brendan Worrall  
Auditor-General

Enc.

## AASB specific matters for comment

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

Under Phase 2, the special purpose financial reporting regime is proposed to be removed, and the Tier 2 Reduced Disclosure Requirements regime updated for ED277 proposals or changed to the Specified Disclosure Regime.

QAO does not agree with the proposals for two main reasons:

- the impact on existing reporting arrangements
- there is a need for a simplified measurement and disclosure framework.

#### *The impact on existing reporting arrangements*

As per our response to the Phase 1 proposals, included in the Australasian Council of Auditors-General submission, QAO expects issues with the Phase 2 proposals as there are numerous entities that are preparing financial statements for use in the public sector that are being prepared other than for public lodgement.

QAO is currently trying to assist other Queensland agencies to understand and identify the effect of the proposals and determine the consequences.

QAO expects that there are many situations where legislation, relevant contracts and agreements have been drafted with reference to financial statements being prepared in accordance with Australian Accounting Standards (AAS).

Currently, the requirement to prepare financial statements in accordance with AAS, and the requirement to prepare financial statements with no reference to a framework, are largely interchangeable. This is because both requirements permit special purpose financial statements, such that that not all primary financial statements, nor all accounting standards must be complied with. QAO expects additional costs to be incurred to identify the consequences of the AASB restricting the reference to AAS meaning a defined framework, and in particular, a framework based on all IFRS measurement and recognition requirements.

An example is the NHMRC (National Health and Medical Research Council) template agreement<sup>1</sup> with Administering Institutions. Under that agreement, an Administering Institution must, if requested by the NHMRC, prepare an audited financial statement in accordance with AAS. While the context of the requirement appears to be just income and expenditure, it is arguable that the reference to AAS (under the AASB proposals) would require at least a Tier 2 set of financial statements, including Balance Sheet, Cash Flow Statement and all notes.

Other situations arise when legislation is drafted to refer to "accounting standards". Such references are usually considered under the applicable Acts Interpretation Act to mean Australian accounting standards. Consequently, any entities required to report, whether lodging with ASIC or not, would be required under the AASB's proposals to apply IFRS recognition and measurement requirements.

<sup>1</sup> <https://nhmrc.gov.au/about-us/publications/funding-agreement-between-nhmrc-and-administering-institutions>



QAO expects considerable time and effort will be needed to identify where agencies may be affected. Our limited research to date has identified that references to the requirements for financial statement preparation are often not in the legislation (acts and regulations), but in other documents that cannot be identified by searches of legislation. For example, the NHMRC template agreement noted above. Another example is a guideline issued by the Queensland Industrial Relations Commission under subsection 765(1) of the Industrial Relations Act 2016<sup>2</sup>.

QAO believes that the AASB should provide suitable transitional arrangements to cater for the implementation of the significant changes under the proposed Phase 2 approach. Without such transitional arrangements, many regulators and agencies will incur costs as they need to identify where they are affected and change the relevant legislation or legal agreements to cater for the new approach.

*There is a need for a simplified measurement and disclosure framework*

QAO notes that each of the seven jurisdictions that the AASB researched in relation to private sector reporting<sup>3</sup> had a simplified measurement and disclosure framework<sup>4</sup>. QAO notes that over 80 countries<sup>5</sup> have adopted a simplified reporting system based on IFRS for SMEs.

QAO also notes that there are over 2 million businesses in Australia, and that there are over 50,000 businesses with 20 or more employees<sup>6</sup>. Therefore, there are tens of thousands of businesses that use financial information that could benefit from a simplified measurement and disclosure framework.

As such, QAO believes that Australia should be consistent with the approaches adopted globally and introduce a simplified measurement and disclosure framework. We include some suggestions under question 14 below.

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

QAO does not support either option and believes that the level of disclosures for Alternative 2 GPFS – SDR, particularly if used as a basis for not-for-profit reporting, are expected to be insufficient for the accountability purposes of the public sector. This is because the disclosures of over 20 standards will no longer be required. We note that under the RDR, and proposed SDR regime, there is no requirement to include material information, that would otherwise be required to be disclosed under the accounting standards, but has been removed from the mandatory disclosures.

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<sup>2</sup> [http://qirc.qld.gov.au/qirc/resources/pdf/ind\\_org/reporting\\_guidelines\\_3\\_120918.pdf](http://qirc.qld.gov.au/qirc/resources/pdf/ind_org/reporting_guidelines_3_120918.pdf)

<sup>3</sup> *Financial Reporting Requirements Applicable to For-Profit Private Sector Companies*, AASB Research Report No. 7 (May 2018)

[http://www.aasb.gov.au/admin/file/content102/c3/AASB\\_RR\\_07\\_05-18.pdf](http://www.aasb.gov.au/admin/file/content102/c3/AASB_RR_07_05-18.pdf)

and *Comparison of Standards for Smaller Entities*, AASB Staff Paper (April 2018)

[http://www.aasb.gov.au/admin/file/content102/c3/AASB\\_Staff\\_Paper\\_Comparison\\_of\\_Standards\\_for\\_Smaller\\_Entities.pdf](http://www.aasb.gov.au/admin/file/content102/c3/AASB_Staff_Paper_Comparison_of_Standards_for_Smaller_Entities.pdf)

<sup>4</sup> United Kingdom – <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/united-kingdom/#application>

Singapore – <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/singapore/#application>

South Africa – <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/south-africa/#application>

Hong Kong – <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/hong-kong-sar/#application>

Canada – <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/canada/#application>

United States – <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/united-states/#application>

New Zealand – <https://www.charteredaccountantsnz.com/member-services/technical/reporting/special-purpose-financial-reporting>

<sup>5</sup> <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#analysis>, updated as at January 2018. 86 jurisdictions were noted as allowing IFRS for SMEs

<sup>6</sup> ABS 8165.0 Counts of Australian Businesses, including Entries and Exits, Jun 2013 to Jun 2017, Table 10 <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8165.0Jun+2013+to+Jun+2017>

For public sector preparers, QAO expects that each jurisdiction will need to spend time and effort to determine which of the omitted disclosures needs to be included in its statutory reporting, resulting in a reduction in comparability across jurisdictions.

Given the reduction in disclosures, QAO expects that public sector organisations using financial statements (whether for-profit or not-for-profit) will not be able to rely on Tier 2 financial statements as general purpose and will have to undertake a similar evaluation of what disclosures are missing. While organisations need to determine whether additional disclosures are required under the current framework, a lot more effort will be required under the proposed approach.

The costs and effort for the review will also need to be undertaken for each new accounting standard, that does not become one of the minimum standards.

**13. 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?**

QAO believes that only one Tier 2 GPFS is needed in Australia, together with the simplified measurement and disclosure framework recommended above.

**14. Do you agree with the AASB’s decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not-for-profit sectors.**

QAO would support a simplified measurement and disclosure framework such as the United Kingdom approach, that used IFRS for SMEs as a base.

The UK approach addresses many of the AASB’s concerns about IFRS for SMEs as expressed in AASB 1053 *Application of Tiers of Australian Accounting Standards* paragraph BC73, such as including asset revaluations (subsequently included by the IASB) and including not-for-profit modifications.

The benefit of the UK approach is that the simplified measurement framework is the default framework, with IFRS as the exception.

Simplifications in measurement that QAO recommends include:

- Remaining with the current AASB 117 accounting for finance and operating leases.
- Not requiring peppercorn leases to be fair valued for not-for-profit entities. This requirement is causing a great deal of angst for not-for-profit entities in relation to valuation issues and the effect on their results. Many not-for-profit entities are unable to determine the fair value of the right-to-use assets given the diversity of views as to determining a fair value without a market, and without incurring additional costs of external advice and valuations.

**15. If the AASB implements one of the two proposed alternatives (described in paragraphs 167-170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.**

QAO expects that moving from special purpose financial statements to Tier 2 by public sector preparers for public lodgement will not involve a significant number of entities with measurement changes. Instead, changes will involve additional disclosures, and related comparatives.

QAO believes that having an appropriate transition period for entities changing to Tier 2 will mean that additional relief is not needed when comparatives are required in the first set of Tier 2 financial statements.

**16. 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.**

QAO does not expect public sector entity preparers to be significantly impacted by these proposals.

The impact on entities supplying information to public sector agencies is unknown.

**17. 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 noted in question 12, QAO does not support this as a reporting option. We consider the proposed disclosures are likely to be insufficient for the accountability purposes of the public sector, given that the disclosures of over 20 standards will be eliminated.

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

QAO is concerned that the proposed Tier 2 disclosures (RDR and SDR) may result in material information not being disclosed in the financial statements, based on the argument that the accounting standards do not require its disclosure. There is no requirement to include material information, that would otherwise be required to be disclosed under the accounting standards, but has been removed from the mandatory disclosures.

QAO believes that further focus on applying materiality concepts to disclosures should be adopted, rather than having a minimum list of disclosures that may omit material items.

**19. Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).**

In relation to service performance reporting QAO continues to support<sup>7</sup> the mandatory application of a principles-based approach to NFP entities in the public sector to ensure a minimum level of reporting of this type of information is provided to users.

While there are already several frameworks in place in the public sector across Australia, the frameworks differ, and some are more advanced than others. QAO also expects additional costs of implementing service performance reporting, from the impact on auditing procedures per ASA 720 (responsibilities relating to other information contained in an audited financial report) and the need to implement internal processes to capture this information.

In relation to fundraising and administration cost disclosures, QAO notes that while many users request information on these disclosures, there are difficulties in having consistent and relevant information. For example, there is no IFRS or Australian accounting standard definition of fundraising or administration costs. All charities are expected to incur these costs. However, a lower level of costs does not mean better performing, as lower fundraising costs may mean that the charity should have put more effort into raising funds.

QAO believes that the IASB's projects on alternative profit measures, defining EBIT, and wider corporate reporting may assist the AASB in these projects. The IASB projects have some similarities to defining non-IFRS terms and providing non-financial information on activities.

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<sup>7</sup> ACAG submission on ED270 Reporting Service Performance Information, 29 April 2016

**20. Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.**

QAO is still undertaking research to identify situations that specifically refer to SPFS.

QAO expects that a significant issue is identifying where the requirements have been drafted with reference to Australian Accounting Standards, with SPFS being acceptable. Refer to our response to question 11 above outlining a specific example.

As noted under question 11, our limited research to date has identified that references to the requirements for financial statement preparation are often not in the legislation (acts and regulations), but in other documents that cannot be identified by searches of legislation.

**AASB General Matters for comment**

**21. 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 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).**

No, QAO does not believe that the *AASB's Standard-Setting Frameworks* have been appropriately applied. The AASB should consider the adoption of a simplified framework, based on IFRS for SMEs, to replace the SPFS regime.

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

QAO expects issues with the Phase 2 proposals. There are numerous entities preparing financial statements for public sector agencies, where financial statements are being prepared other than for public lodgement. QAO 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.

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

QAO does not believe that the financial statements would be useful to users. Neither the RDR nor the SDR frameworks have a requirement to include material information, that would otherwise be required to be disclosed under the accounting standards, but has been removed from the mandatory disclosures.

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

QAO does not believe that proposals evidence they are in the best interests of the Australian economy. There are tens of thousands of Australian businesses that will be left without an appropriate framework. Collaborative reform is required. Consistency with the approaches adopted globally is supported.

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

Benefits are inadequately demonstrated compared to the compliance burden that may occur.

QAO has noted above situations where additional costs will be incurred. These include:

- Imposing the IFRS measurement and recognition framework on entities that currently apply a simplified framework under SPFS, without providing a simplified framework. This has the potential to affect tens of thousands of businesses that do not currently lodge with ASIC.
- Public sector agencies, and other users, identifying the consequences of the changes, and the costs of changing their existing reporting requirements.
- If the SDR approach is adopted, requiring the above users to update their requirements when each new accounting standard is issued.

#### **Other comments**

Overall we believe that the proposals do not demonstrate sufficient research into an understanding of user needs.



Hi Kris

Thank you for your time recently we enjoyed getting an understanding of the issues regarding financial statement information released through ASIC & apologies for the delay in giving you further feedback.

As discussed, we are an active buyer of the financial statements lodged by various companies with ASIC, as a direct user for inclusion of financial highlights into our commercial bureau credit reports, for analytical purposes as detailed below and also as a reseller as an authorised ASIC broker.

As Australia's leading commercial credit bureau we receive several million credit enquiries each year on commercial entities within Australia. Where ASIC financial information is available we include summary data in our credit report & as these reports are system generated we are reliant on the integrity of the data provided. As a result we fully endorse any move to ensure financial statements provided to ASIC comply with accounting standards which would enhance the consistency of this data & therefore improve the reliability of decisions being made by businesses in Australia.

Using our linking methodology, for the financial statements that ASIC receives from approximately 20,000 Australian companies, we are able extend to this to approximately 70,000 related entities, giving quite a significant level of coverage of commercially active entities within Australia.

Also, for our licenced ratings business which trades under the name of Corporate Scorecard, the requirement for an additional layer of investigation by our analysts to adjust financial statements to comply with accounting standards adds to both the cost & timeframe of delivering our analyst prepared credit reports.

We also undertake quite extensive market analytics using this financial statement data, an example of which is the Mid-Market Risk Index a copy of which is attached. Again the provision of data which complies with accounting standards would significantly improve the veracity of this analysis & further improve the decision making capacity of Australian businesses.

I hope this feedback assists with your enquiries.

Regards,

**Neil Shilbury**

General Manager, Commercial & Property Products  
Equifax

Level 15, 100 Arthur Street North Sydney, NSW 2060, Australia  
P +61 2 9278 7396  
M +61 472 821 864  
[neil.shilbury@equifax.com](mailto:neil.shilbury@equifax.com)

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I attended the webinar, thank you

One concern I had was why AASB isn't doing what the rest of the world has done and introduce general purpose for SMEs.

Reason given is that it would mean a big change from what many are doing now. It probably would... But so will the changes you are proposing for those preparing SPFR at present in going to GPFR RDR or similar. (e.g. need to consolidate etc)

So if either way there is a big compliance cost in changing from the present, why not make that change more worthwhile by bringing Aust into line with rest of the world, not just for full GPFR (IFRS), but for smaller company accounts too?

International borders are greatly reduced and there is a need to compare fin stats from here to other country fin stats. I would have thought that is just as relevant to SMEs as it is for listed cos.

Regards

**Ed Psaltis**

B Comm FCA MAICD

**Psaltis Advisory**



**GPO Box 3173 Sydney NSW 2001**

**ABN : 48 296 621 549**

**Phone : 0410 519338**

**Email : [ed@psaltisadvisory.com](mailto:ed@psaltisadvisory.com)**

**[www.psaltisadvisory.com](http://www.psaltisadvisory.com)**

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disclosure or copying of this material is unauthorised and prohibited.

1. For which of the following types of entities do you read, analyse or use information contained in their financial statements or extracted from those financial statements?

- a) Large proprietary companies ☒ Yes ☐ No
- b) Unlisted public companies ☒ Yes ☐ No
- c) Small foreign controlled companies ☐ Yes ☒ No
- d) Limited partnerships ☒ Yes ☐ No
- e) Others: please specify (including Incorporated Associations, Trusts) trusts/listed public companies

If you do not read, analyse or use information contained in an entity's financial statements or information extracted from those financial statements, for these types of entities, you are not required to answer the remaining questions.

2. What decisions do you make based on these financial statements or information extracted from these financial statements?

- a) Pre IPO investment decisions ☒ Yes ☐ No
- b) Private equity investment decisions ☐ Yes ☒ No
- c) Competitor analysis ☒ Yes ☐ No
- d) Accountability / stewardship decisions ☒ Yes ☐ No
- e) Credit rating decisions ☐ Yes ☒ No
- f) Lending decisions ☐ Yes ☒ No
- g) Other (please tell us) \_\_\_\_\_

3. Which of the following best describes the extent to which you use financial statements:

Please select one response.

- a) I only use information extracted from the financial statements for me by a third party, I never go back to the financial statements themselves ☐
- b) I use information extracted from the financial statements for me by a third party, and I go back to the financial statements for more information occasionally ☐
- c) I use information extracted from the financial statements for me by a third party and I go back to the financial statements for more information frequently ☒
- d) I obtain the information I need directly from the financial statements ☐

4. Please rate the importance of each of the following for the decisions you commonly make.

Please rate each on a scale of 1-5, where 1 is not important and 5 is very important.

	1	2	3	4	5
a) The profit and loss statement (statement of financial performance)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
b) The balance sheet (statement of financial position)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
c) The cash flow statement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
d) The note disclosures to the financial statements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
e) The auditor's report	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
f) The directors' report and declaration	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
g) Other (please explain):					

5. How important are each of the following to you?

Please rate each on a scale of 1-5, where 1 is not important and 5 is very important.

	1	2	3	4	5
a) Consistent recognition and measurement requirements for assets, liabilities, revenues and expenses from year to year for a particular entity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
b) Comparability of recognition and measurement requirements for assets, liabilities, revenues and expenses with other entities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
c) Comparability of note disclosures (e.g. whether the related parties disclosures of an entity are comparable with those disclosed by other entities)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
d) That the financial information has been audited or reviewed by external auditors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>

6. There are currently three primary types of financial statements being prepared by these entities. Which do you most commonly see in your role?

a) General purpose – Tier 1 with full recognition, measurement and disclosure requirements in accordance with Australian Accounting Standards	<input type="radio"/> Yes <input type="radio"/> No
b) General purpose – Tier 2 reduced disclosure regime, with full recognition and measurement but less disclosure than Tier 1 in accordance with specified Australian Accounting Standards	<input type="radio"/> Yes <input type="radio"/> No
c) Special purpose – minimum disclosures specified (prepare a balance sheet, profit and loss, cash flow statement and disclose accounting policies). Recognition and measurement requirements determined by management	<input type="radio"/> Yes <input type="radio"/> No
d) You weren't aware that there are different types of financial statements being prepared	<input type="radio"/> Yes <input type="radio"/> No
e) I commonly see a mixture of General purpose – Tier 1, General purpose – Tier 2 and Special purpose	<input checked="" type="radio"/> Yes <input type="radio"/> No

7. If not all entities preparing special purpose financial statements are consistently applying the recognition and measurement requirements of Australian Accounting Standards, does this affect the:
- usefulness of the information contained in those special purpose financial statements and / or
  - your ability to make decisions based on this information?
- Please also explain: *In extreme cases special purpose financial statements are of limited use particularly in situations where users of statements have a low level of familiarity with the business/entity.*
- 
8. Which note disclosures do you need for your decisions?
- a) None ☐ Yes ☐ No
  - b) Related party transaction details, including total key management personnel remuneration disclosures ☒ Yes ☐ No
  - c) Disclosures which explain whether and how the entity can continue paying its debts (liquidity and / or the solvency of the entity) ☒ Yes ☐ No
  - d) Commitments and contingencies ☒ Yes ☐ No
  - e) Revenue ☒ Yes ☐ No
  - f) Tax ☒ Yes ☐ No
  - g) Impairment ☒ Yes ☐ No
  - h) Details of material transactions and risks ☒ Yes ☐ No
  - i) Other (please specify)
- 
9. Should there be comparable note disclosure requirements for these types of entities? ☒ Yes ☐ No
10. If an entity is a parent, and has subsidiaries that it controls what information do you need for your decisions?
- a) Consolidated financial statements including note disclosures (which include all assets, liabilities, revenues and expenses of the parent and all subsidiaries) ☒ Yes ☐ No
  - b) Parent only financial statements including note disclosures (which include an 'investment in subsidiaries' asset but no details of the subsidiary's assets, liabilities, revenues or expenses) ☐ Yes ☐ No
  - c) Consolidated financial statements including note disclosures plus some parent entity information to understand their dividend paying capacity ☐ Yes ☐ No
  - d) Parent financial statements including note disclosures and subsidiary financial statements including note disclosures ☐ Yes ☐ No
  - e) other (please specify) - *It really depends on the materiality of the subsidiaries in question.*
-



1. For which of the following types of entities do you read, analyse or use information contained in their financial statements or extracted from those financial statements?

- a) Large proprietary companies ☒ Yes ☐ No
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- e) Others: please specify (including Incorporated Associations, Trusts) \_\_\_\_\_

If you do not read, analyse or use information contained in an entity's financial statements or information extracted from those financial statements, for these types of entities, you are not required to answer the remaining questions.

2. What decisions do you make based on these financial statements or information extracted from these financial statements?

- a) Pre IPO investment decisions ☐ Yes ☒ No
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- g) Other (please tell us) \_\_\_\_\_

3. Which of the following best describes the extent to which you use financial statements:

Please select one response.

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d) The note disclosures to the financial statements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
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- d) Limited partnerships ☒ Yes ☐ No
- e) Others: please specify (including Incorporated Associations, Trusts) Trusts

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a) Consistent recognition and measurement requirements for assets, liabilities, revenues and expenses from year to year for a particular entity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
b) Comparability of recognition and measurement requirements for assets, liabilities, revenues and expenses with other entities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
c) Comparability of note disclosures (e.g. whether the related parties disclosures of an entity are comparable with those disclosed by other entities)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
d) That the financial information has been audited or reviewed by external auditors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>

6. There are currently three primary types of financial statements being prepared by these entities. Which do you most commonly see in your role?

a) General purpose – Tier 1 with full recognition, measurement and disclosure requirements in accordance with Australian Accounting Standards	<input type="radio"/> Yes <input checked="" type="radio"/> No
b) General purpose – Tier 2 reduced disclosure regime, with full recognition and measurement but less disclosure than Tier 1 in accordance with specified Australian Accounting Standards	<input type="radio"/> Yes <input checked="" type="radio"/> No
c) Special purpose – minimum disclosures specified (prepare a balance sheet, profit and loss, cash flow statement and disclose accounting policies). Recognition and measurement requirements determined by management	<input checked="" type="radio"/> Yes <input type="radio"/> No
d) You weren't aware that there are different types of financial statements being prepared	<input checked="" type="radio"/> Yes <input type="radio"/> No
e) I commonly see a mixture of General purpose – Tier 1, General purpose – Tier 2 and Special purpose	<input type="radio"/> Yes <input checked="" type="radio"/> No

7. If not all entities preparing special purpose financial statements are consistently applying the recognition and measurement requirements of Australian Accounting Standards, does this affect the:
- usefulness of the information contained in those special purpose financial statements and / or
  - your ability to make decisions based on this information?
- Please also explain: \_\_\_\_\_
8. Which note disclosures do you need for your decisions?
- a) None ☐ Yes ☒ No
  - b) Related party transaction details, including total key management personnel remuneration disclosures ☒ Yes ☐ No
  - c) Disclosures which explain whether and how the entity can continue paying its debts (liquidity and / or the solvency of the entity) ☒ Yes ☐ No
  - d) Commitments and contingencies ☒ Yes ☐ No
  - e) Revenue ☒ Yes ☐ No
  - f) Tax ☒ Yes ☐ No
  - g) Impairment ☒ Yes ☐ No
  - h) Details of material transactions and risks ☒ Yes ☐ No
  - i) Other (please specify) \_\_\_\_\_
9. Should there be comparable note disclosure requirements for these types of entities? ☒ Yes ☐ No
10. If an entity is a parent, and has subsidiaries that it controls what information do you need for your decisions?
- a) Consolidated financial statements including note disclosures (which include all assets, liabilities, revenues and expenses of the parent and all subsidiaries) ☒ Yes ☐ No
  - b) Parent only financial statements including note disclosures (which include an 'investment in subsidiaries' asset but no details of the subsidiary's assets, liabilities, revenues or expenses) ☐ Yes ☒ No
  - c) Consolidated financial statements including note disclosures plus some parent entity information to understand their dividend paying capacity ☒ Yes ☐ No
  - d) Parent financial statements including note disclosures and subsidiary financial statements including note disclosures ☐ Yes ☒ No
  - e) other (please specify) \_\_\_\_\_