



Australian Government  
Australian Accounting Standards Board

# **AASB Roundtable: Enhancing financial reporting and replacing Special Purpose Financial Statements – Phase 2 proposals**

**AASB Staff**







- Objective of today's session – Phase 2 feedback
- Key issues that need to be resolved
- There are users!
- ASIC regulated entities impacted
- What we are proposing – change of focus to for-profits only
- Why we are not proposing IFRS for SMEs
- What we are not changing
- What we have heard so far – preliminary results from preparers survey
- Roaming brainstorm
- Discussion - Summary
- Next steps





## Objective of today's session – Phase 2 feedback

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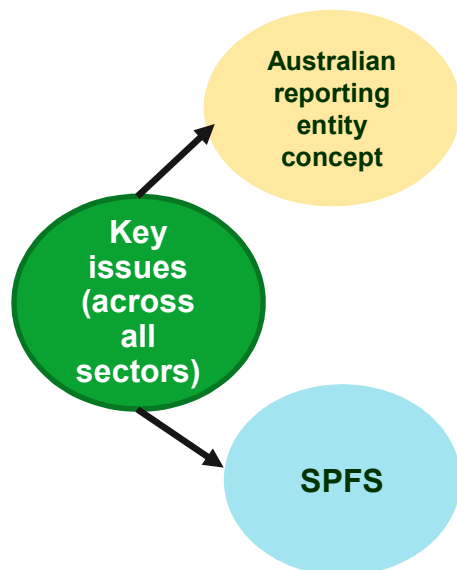
- To briefly recap the:
  - key issues the AASB is trying to solve;
  - Phase 2 proposals; and
  - who will be impacted.
- To brainstorm the Phase 2 proposals
- To gather feedback on the AASB's Phase 2 proposals for sharing at the AASB November Board meeting
- To answer questions and clarify next steps with constituents





# Key issues that need to be resolved

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- Concept is unique to Australia - RCF reporting concept is about the boundary of reporting – group, single entity, branch
- Self-assessment under SAC 1 leads to:
  - Complexity and subjectivity
  - Lack of transparency and comparability - similar companies can prepare vastly different financial statements (i.e. GPFS vs SPFS)
  - Additional **risk for Directors, Preparers and Auditors**

- Entities decide what to report and which AAS to comply with
- Self-selected SPFS may not provide a true and fair view:
  - Non-compliance with self selected recognition and measurement (R&M) requirements
  - Omission of important disclosures (e.g. related parties and what has and hasn't been complied with)
  - Consolidation and equity accounting not provided



## Increased risk for Directors, Preparers and Auditors

- Difficulty explaining how the Australian reporting entity has been applied
- Difficulty understanding the FS given lack of compliance with AAS and omitted disclosures
- Risk that 'safe harbour' defences could be impacted esp. if not applying full R&M
- Non-compliance with ASIC regulatory guidance RG 85



# There are users!

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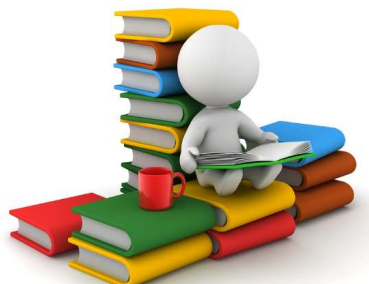
**~98,000 copies of financial statements purchased from ASIC annually (> 29,000 purchased directly)**

- 80% proprietary companies
- 16% unlisted public companies
- 4% disclosing entities
- 0.28% ASX listed companies

**~80k copies purchased (~10k proprietary companies therefore on average each proprietary company's FS are purchased 8 times per year)**

**Financial statements are second most purchased type of document from ASIC**





### Can data aggregators get whatever information they want?



#### **Tailored company information** - Mostly no

- Data on individual companies used by:
  - companies themselves – Yes
  - Third parties - No
- Financial statements are on-sold directly - No



#### **Credit rating information** - No

- Algorithm applied to financial statements of companies to produce relative credit ratings – No

### Who are data aggregator's customers?


Government, investors, competitors, financial institutions, suppliers etc.



## 23 investors and analysts who read SPFS said:

- Comprehensibility, consistency, transparency and comparability are essential feature
- Recognition and measurement are not always met in SPFS (90% stated this)
- Key reasons for dissatisfaction with information presented in SPFS:
  - Lack of related party disclosures
  - No comparability between similar entities
  - Not clear whether recognition and measurement have been met

**PRELIMINARY  
RESULTS:  
AASB'S FOR-  
PROFIT USER  
SURVEY**





# ASIC-regulated for-profit entities

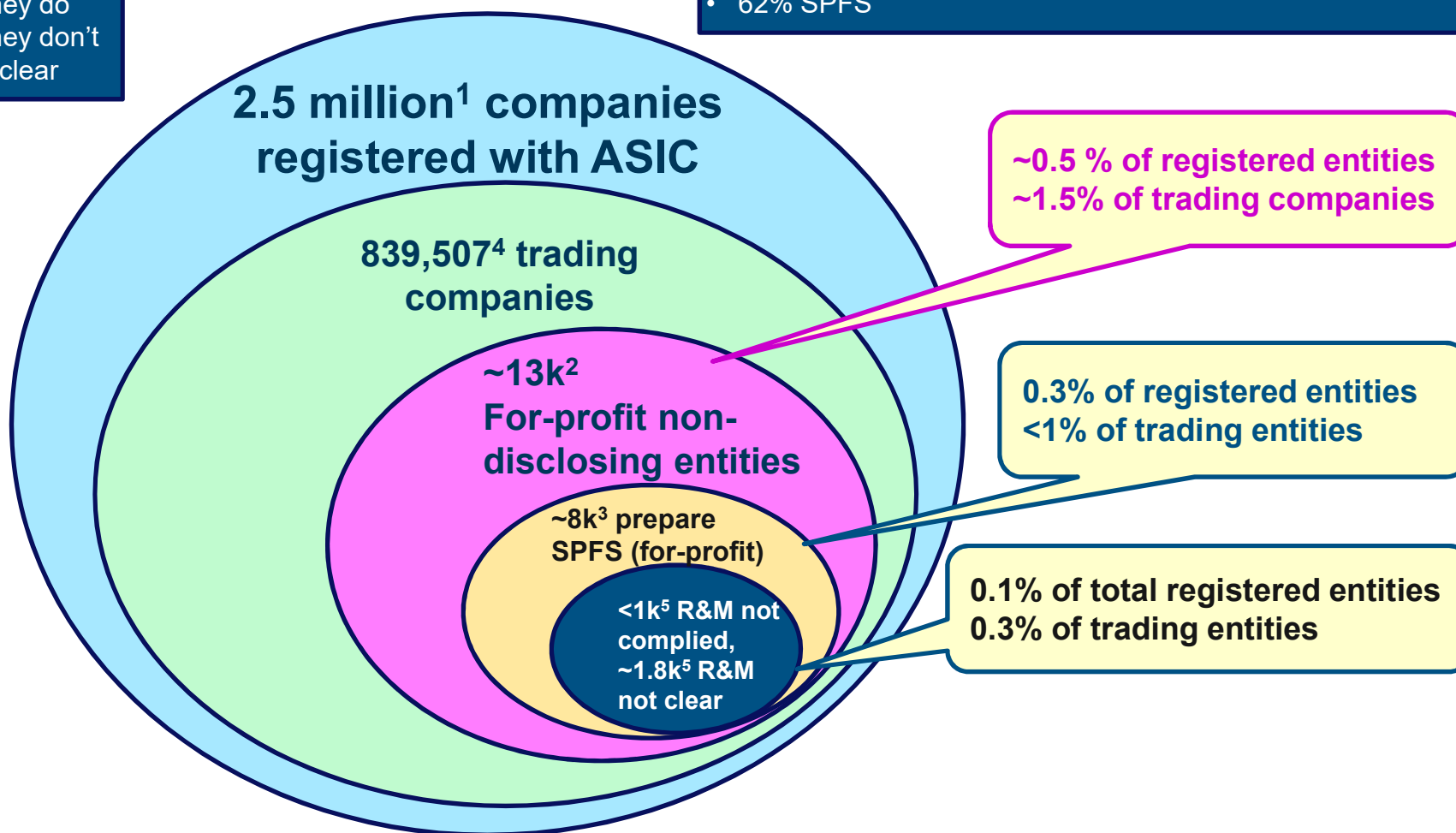
9

## For-profits that lodge SPFS with ASIC – who's doing R&M?<sup>\*5</sup>

- 65% state they do
- 12% state they don't
- 23% it's not clear

## For-profits that lodge with ASIC – who's reporting what? <sup>\*2</sup>

- 26% Tier 1 GPFS
- 12% Tier 2 GPFS - RDR
- 62% SPFS

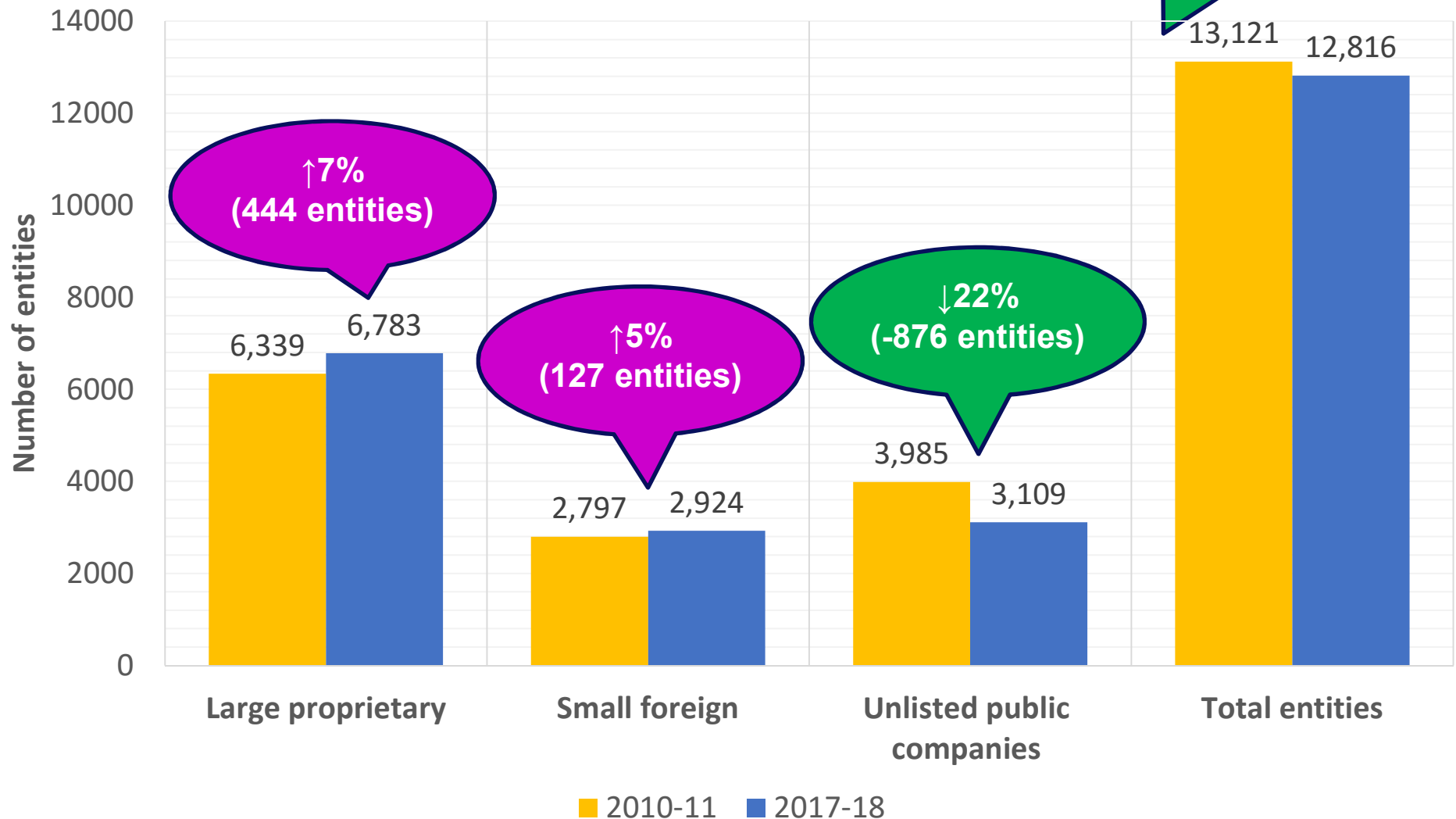


Notes: 1. Based on page 42 ASIC Annual Report 2016-2017, 2 and 3 Based on statistics provided by data aggregator 4. Sourced from Australian Bureau of Statistics website 5. Calculated using proportion of entities (large proprietary, foreign controlled and unlisted public) who state they do not comply with R&M (12%) or where it was not clear whether R&M was applied (23%) - per AASB Research Report No 1 *Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements* which includes analysis of data ranging from 2008-2011



## For-profit non-disclosing entities by type

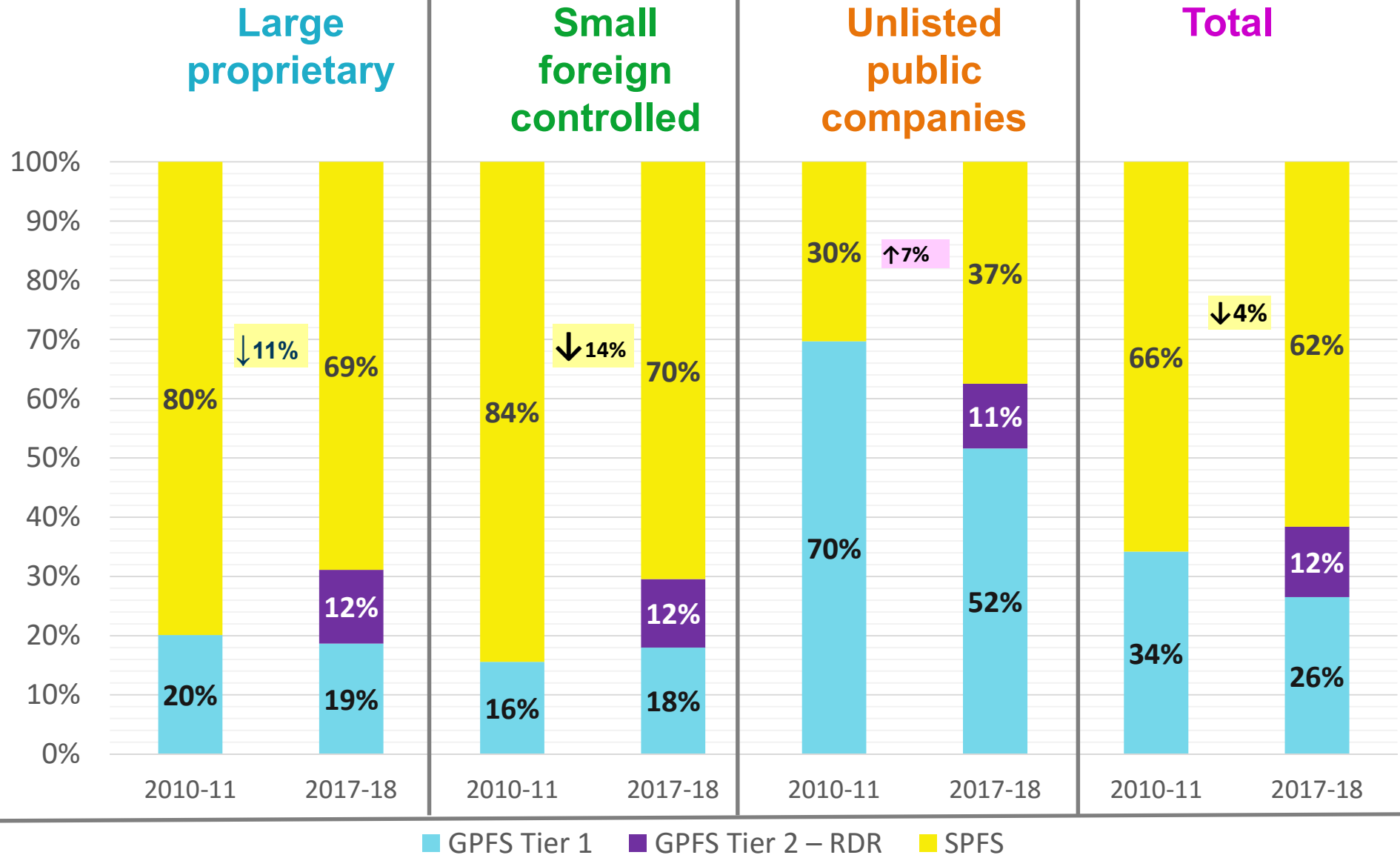
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# For-profit non-disclosing entities – GPFS versus SPFS

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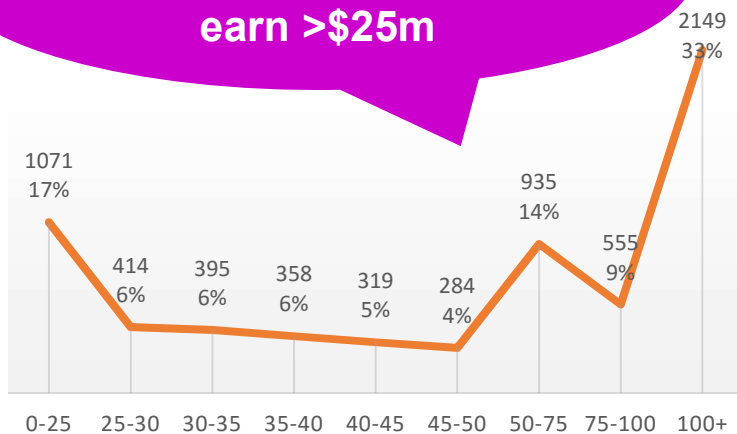




# Large proprietary companies by size

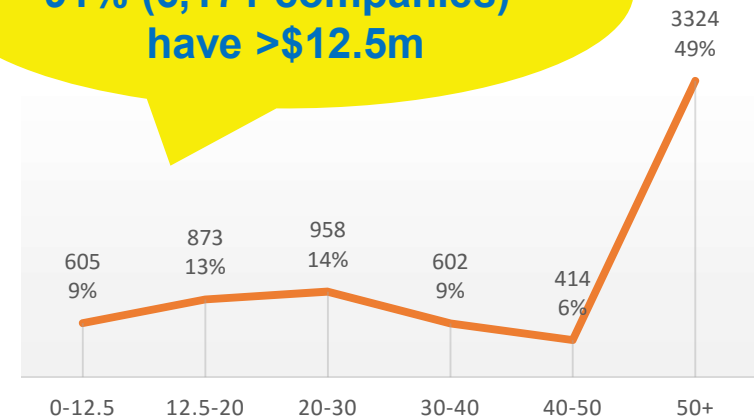
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**Revenue**  
83% (5,409 companies)\*  
earn >\$25m



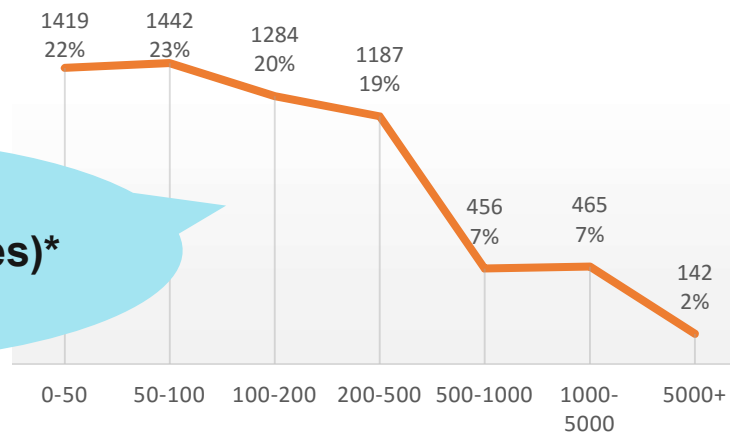
Revenue (\$ million)

**Assets**  
91% (6,171 companies)\*  
have >\$12.5m



Total assets (\$ million)

**Employees**  
78% (4,976 companies)\*  
employ >50



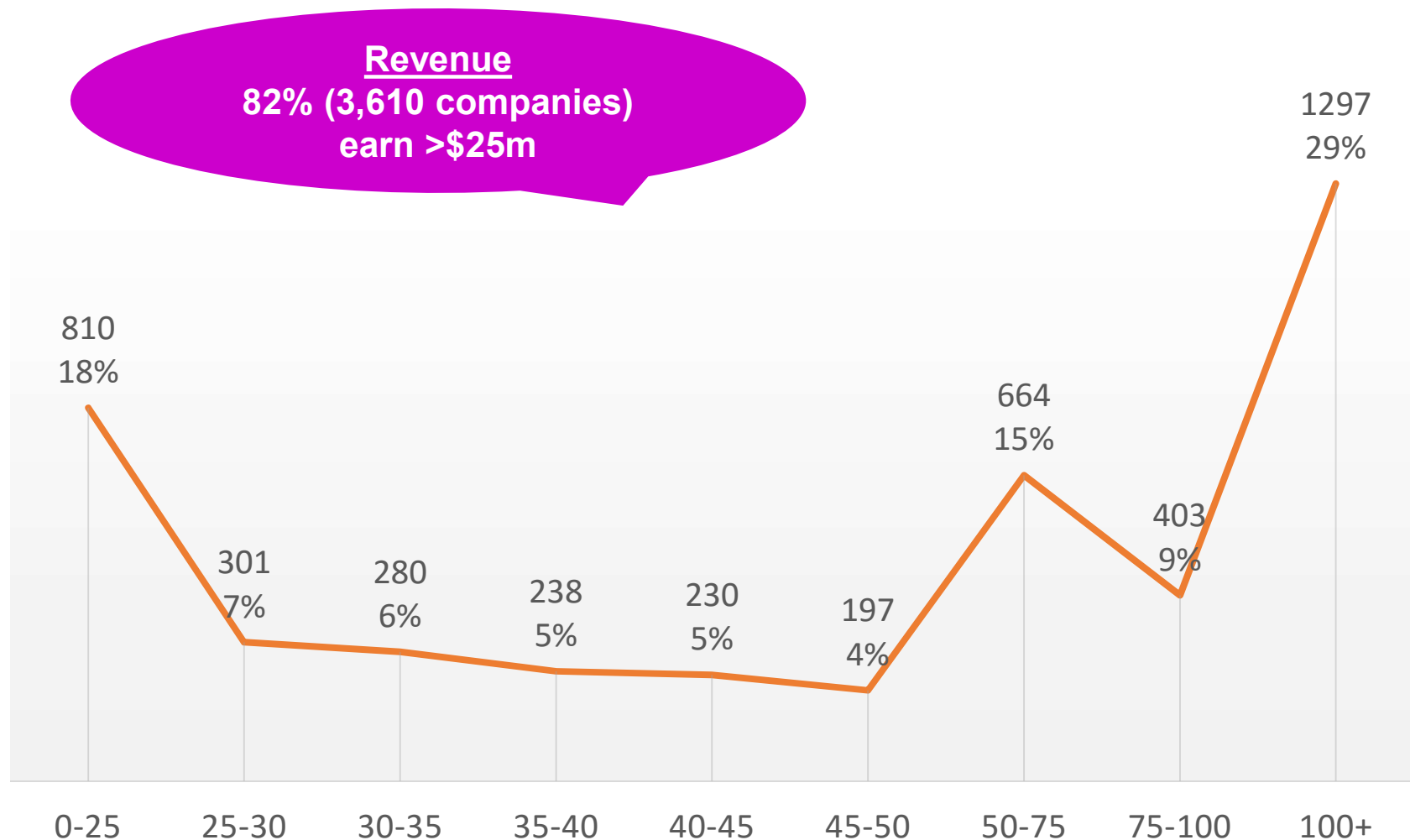
Employees

\* Total population of large proprietary companies is 6,783 companies. However, revenue data for 303 companies, asset data for 7 companies and employee data for 388 companies were not available. Therefore companies with missing data were excluded from each of respective graphs.



## Large proprietary companies preparing SPFS by size

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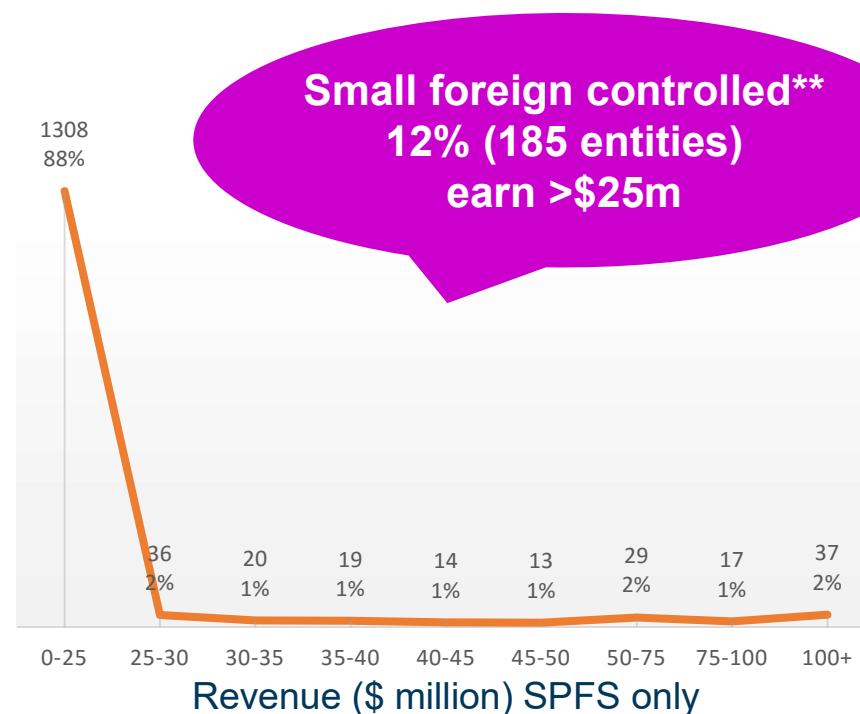
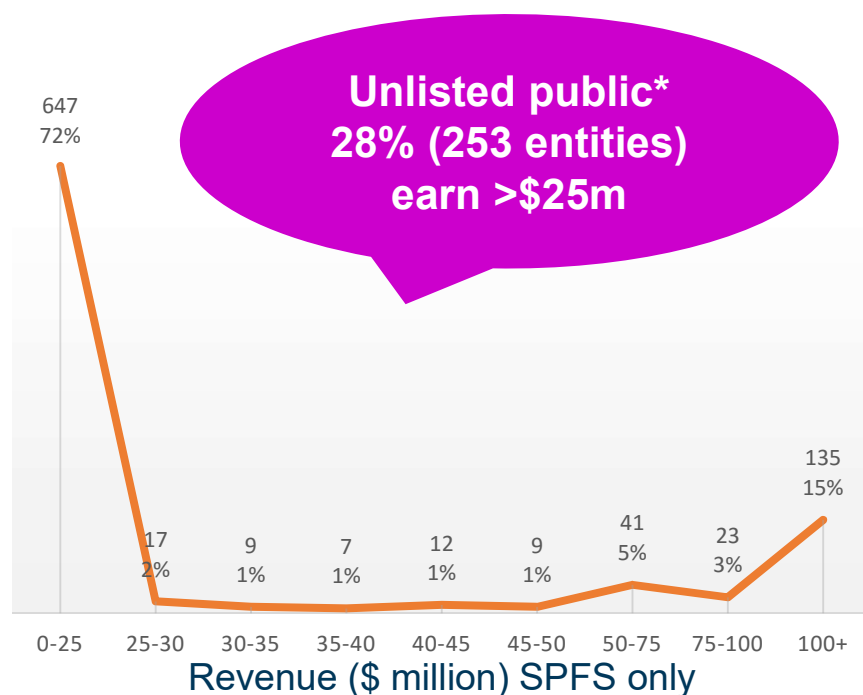


\* Total population of large proprietary companies is 6,783 companies. Of these 4,672 entities prepare SPFS. However, revenue data for 252 companies was not available. Therefore companies with missing data were excluded from this graph.



# Unlisted public and small foreign preparing SPFS by revenue

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\* Total population of unlisted public companies is 3,109 companies. Of these, 1,165 prepare SPFS. However, revenue data for 265 companies was not available. Therefore companies with missing data were excluded from the above graph.

\*\* Total population of small foreign controlled companies is 2,924 companies. Of these, 2,060 prepare SPFS. However, revenue data for 567 companies was not available. Therefore companies with missing data were excluded from the above graph.



# The AASB's preferred solution

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Two-phased approach – applies to **for-profit private sector entities only**



## Phase 1: Short-term approach

- Apply RCF to Publicly accountable for-profit entities and other **for-profit** entities who voluntarily comply with IFRS
- Amend 'public accountability' definition per *IFRS for SMEs*
- Continue to apply existing *Framework* and use Australian reporting entity concept for all other entities

## Phase 2: Medium-term approach

- Apply RCF to all **for-profit** private sector entities required by legislation or otherwise to comply with AAS
- Remove SAC 1 and amend AAS to remove Australian reporting entity concept for all **for-profit** private sector entities
- Replace SPFS with:
  - Alternative 1: Retain existing Tier 2 GPFS – RDR framework; **OR**
  - Alternative 2: Adopt a new Tier 2 GPFS – SDR framework

Working with ACNC and State/Territory Regulators on NFP framework reform –  
NFP entities will continue to apply existing Framework  
and use the Australian reporting entity concept



- # Specified Disclosure Requirements

- 
- IASB Standards Framework**
- AASB 101**  
Presentation of FS
  - AASB 107**  
Statement of Cash Flows
  - AASB 108**  
Acc. Policies, Changes in Acc. Estimates & Errors
  - AASB 1048**  
Interpretations of Standards
  - AASB 1054** Australian Additional Disclosures

- [illegible]



**RELATED  
PARTY  
DISCLOSURES**





# Why not IFRS for SMEs as Tier 2 Alternative?

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- IFRS for SMEs **moves away** from full recognition and measurement
  - if we moved to IFRS for SMEs that would be the Tier 2 GPFS
  - not enough entities to have IFRS for SMEs and RDR, so only ONE TIER 2
- IFRS for SMEs **does require**:
  - Fair value measurement (financial instruments, investment property etc.)
  - Recognition of deferred taxes
  - Consolidation
  - Related party disclosures
- 78% of ASIC-regulated non-disclosing entities already comply with recognition and measurement requirements including 62%<sup>1</sup> of these entities who currently prepare SPFS

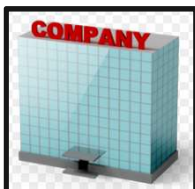
**More costly to move ~10,000<sup>1</sup> entities to IFRS for SMEs rather than moving just <2,800<sup>2</sup> entities to full R&M**

Note 1: Calculated using data from ASIC and per Research Report no 1, Note 10,000 is made up of entities preparing GPFS 1,542 and SPFS 7,971, Note 2: 2,800 is made up of entities preparing SPFS that either state non-compliance with R&M (~1k) or where it's not clear whether R&M has been complied with (~1.8k.) Stats on whether R&M has been complied with have been taken from AASB Research Report No 1 *Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements* which includes analysis of data ranging from 2008-2011.



# Which for-profit entities are impacted by Phase 2?

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- Large proprietary companies



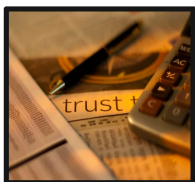
- Small foreign-controlled proprietary companies



- Unlisted public companies



- Public sector for-profit entities



- Trusts and other entities where constituent documents **specifically require** compliance with Australian Accounting Standards



# What are we not changing?

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Change

## No change to:

- **Public lodgement relief** granted to grandfathered proprietary companies
- ASIC's **small/large proprietary test**
- Trusts and other entities **not required** by legislation or otherwise to prepare financial reports in accordance with AAS

**Small proprietary companies** have at least **two** of the following:

a) consolidated revenue for the financial year **< \$25 million**

b) consolidated gross assets at the end of the financial year **< \$12.5 million**

c) **< 50 employees** at the end of the financial year



# Is this the end of SPFS?

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- **Not quite!**

Entities NOT required by legislation or otherwise (e.g. constitutional document) to prepare financial reports **in accordance with AAS** can continue to prepare SPFS for example:

- Trusts (except registered MIS)
- Small associations
- Small companies
- Small APRA funds
- Small Charities
- Self-Managed Super Funds

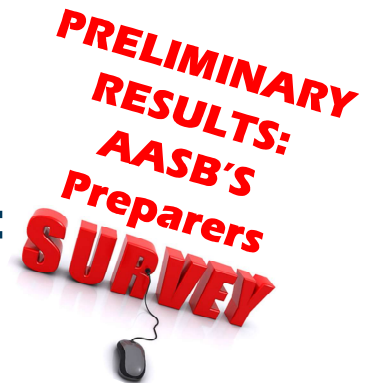
A black square with white text that reads "IS THIS THE END ?". The text is in a serif font, with "IS THIS" on the first line, "THE END" on the second line, and a large question mark on the third line.



### 32 'for-profit' preparers said...

#### Most significant impact of moving from SPFS to GPFS-SDR:

- **71%** - detailed disclosures on specified standards
- **27%** - applying R&M in full
- **29%** - consolidation and equity accounting



**Related party disclosures** are considered useful for users

#### With respect to transitional relief:

- **31%** find transitional relief under AASB 1 helpful
- **Majority** suggest having an exemption from disclosing comparatives and/or restating prior periods





*“ASIC fully supports the consultation to **remove special purpose financial statements** for entities regulated by ASIC and **remove the subjective ‘reporting entity’ test** under SAC1 facilitating a comparable, consistent and transparent framework for preparation of financial statements in Australia.”*



*“The ATO is supportive of the AASB’s proposed approach to consulting on a series of principles or concepts for **enhancing the transparency** of entities currently preparing Special Purpose Financial Statements as part of adopting the revised Conceptual Framework issued by the International Accounting Standards Board and for inclusion in Australian Accounting Standards by 2021.”*



# Roaming brainstorm

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## Questions for discussion – discuss and explain why

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### Group 1:

Do you agree that the SPFS problem needs to be resolved? Do you agree that Tier 2 GPFS should have full R&M consistent with RG85?

### Group 2:

What level of disclosure should be required at a minimum level for Tier 2 GPFS?

### Group 3:

What concerns do you have with applying full R&M as well as consolidation and equity accounting and what transitional relief would be helpful?







## Next steps

- Additional research is being conducted during late **2018**
- Constituents to submit responses to Phase 2 of ITC 39 by **9 Nov 2018**
- AASB Board to discuss Phase 1 of ITC 39 submissions on **13 Nov 2018**
- AASB Board to discuss Phase 2 of ITC 39 submissions **early 2019**
- Further consultation on Phase 2 to be conducted **during 2019** with the framework decided by **1 Jan 2020**
- Phase 1 will be applied for periods beginning **1 Jan 2020** (30 Jun 2021 year ends)





# Engage with the AASB

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AASB Discussion group  
Australian Accounting  
Standards Board



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## Keep in touch with the AASB

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

- (a) its debt or equity instruments are traded in a public market or are in the process of doing so
- (b) it holds assets in a fiduciary capacity



**MUTUAL FUNDS**

