Conceptual Framework Briefing Sessions Summary

What did we do and why did we do it?

- In May 2018 we ran sessions in Melbourne, Sydney, Brisbane, Adelaide and Perth to brief stakeholders on the AASB's proposed two-phased approach described in Consultation Paper ITC 39[1] to apply the IASB's revised Conceptual Framework (RCF) in Australia; and to resolve two problems:

  1. The reporting entity concept clash between what is in the RCF versus the current Australian definition; and
  2. Australia's unique and problematic special purpose financial statement (SPFS) issues.

Who attended these sessions?

- 157 stakeholders across all sectors attended the sessions including academics, users, preparers, auditors, professional bodies and regulators.

Who presented these sessions?

- Kris Peach (AASB Chair), Kala Kandiah (AASB Technical Director) and Justine Keenan (AASB Senior Project Manager)

How were the sessions structured?

- The structure of the sessions was designed to open the consultation process – starting with a high-level overview of the Consultation Paper followed by an opportunity for attendees to provide their initial thoughts.
- To generate discussion the AASB asked the following questions:

  1. What SPFS are currently being prepared by those required by legislation or otherwise to prepare financial statements in accordance with Australian Accounting Standards (AAS)? Specifically, do the SPFS:
     (a) Comply with AAS recognition and measurement requirements?
     (b) Include consolidation and equity accounting where applicable?
     (c) Comply with minimum disclosure requirements required by the Australian Securities and Investment Commission's (ASIC's) Regulatory Guide RG 85[2] and the Australian Charities and Not-for-profits Commission's (ACNC's) regulations[3]?
  2. What transitional relief would be helpful if moving from SPFS to Tier 2 general purpose financial statements (GPFS)?
  3. Do constituents prefer the existing Tier 2 GPFS – Reduced Disclosure Requirements (RDR)[4] or the proposed alternative Tier 2 GPFS – Specified Disclosure Requirements (SDR)[5]
  4. What other initial concerns do constituents have?

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1 Refer to Invitation to Comment ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*

2 ASIC's Regulatory Guide RG 85 *Reporting requirements for non-reporting entities* is for entities currently lodging SPFS with ASIC. It requires full recognition and measurement with AAS and the following disclosures: AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 1048 *Interpretation of Standards* and AASB 1054 *Australian Additional Disclosures*.

3 ACNC regulations require the same minimum disclosures as RG 85 (AASB 101, AASB 101, AASB 108, AASB 1048 and AASB 1054)

4 Existing Tier 2 GPFS – RDR comprises of full recognition and measurement with AAS, consolidation and equity accounting plus disclosures from all AAS at a reduced level (as specified within AAS).

5 Proposed Alternative Tier 2 GPFS – SDR comprises of full recognition and measurement with AAS, consolidation and equity accounting plus specified disclosures in full from: AASB 101, AASB 101, AASB 108, AASB 1048, AASB 1054 plus related party, revenue, impairment of assets and income tax disclosures (the AASB is consulting on these specified disclosures as part of the consultation process to ascertain whether they best meet users' needs).

What we heard – what was supported?

The AASB's Short-term approach supported

- Attendees were supportive of the AASB's proposal to apply the RCF to publicly accountable for-profit entities and those that voluntarily comply with IFRS in the short term to maintain IFRS compliance.

It's time to start the conversation!

- Attendees also appeared to understand the AASB's rationale for applying the RCF to all entities in the medium term to maintain IFRS as a base, and why the AASB was starting this conversation to drive improvements in the comparability, consistency and transparency of financial reporting.
- Attendees appreciated the fact that the AASB is not doing this project alone and is instead working with Regulators such as ASIC, the ACNC, the ATO and State Regulators to improve the financial reporting environment in Australia.

What we learnt – the top concerns

1. Increased regulatory burden – consolidation and equity accounting a key concern

- The most significant concern raised by constituents related to increased regulatory burden (preparation and auditing costs) resulting from consolidation and equity accounting requirements. Specifically, attendees were concerned about increased costs of compliance arising from:
  - the application of the concept of 'control' as per the accounting standards in the NFP sector;
  - consolidation of overseas subsidiaries by large proprietary companies; and
  - the requirements to prepare separate financial statements as well as consolidated financial statements for entities who have obtained grants. These entities would not be able to take advantage of the exemption from preparing individual financial statements that is available when there is a group deed of cross guarantee and the entity prepares consolidated financial statements. This is because the providers of the grant would still want the grant recipient to prepare individual financial statements.
    - ⇨ We said we would raise this matter with the relevant grant providers to help alleviate the burden.
- Other concerns raised included the cost to prepare and have audited financial statements which had:
  - recognition and measurement compliant with the AAS;
  - related party, revenue and tax disclosures (if the Tier 2 GPFS-SDR alternative was chosen); and
  - related party, revenue, tax and employee benefits disclosures (if the Tier 2 GPFS-RDR alternative was chosen).
- We also heard that transitional relief would be helpful especially for consolidation and equity accounting. Attendees told us that the relief available in AASB 1 *First-time Adoption of Australian Accounting Standards* is complex and does not result in significant cost savings.
  - ⇨ We responded saying we will be undertaking extensive research to better understand the impact of the proposals as part of the Regulation Impact Statement (RIS) process, which includes detailed cost-benefit analysis. We're asking constituents to facilitate this process by providing:

- redacted examples of entities impacted by consolidation and equity accounting to demonstrate the impact of the changes and trial transitional relief to alleviate the burden;
- statistics to help us better understand the extent of the impact (i.e. firms could provide estimates of the number of their clients who would be moving from SPFS to Tier 2 GPFS including those that would be required to consolidate and/or equity account);
- estimates of the costs incurred by clients who have moved from SPFS to Tier 2 GPFS as a result of the ATO's Significant Global Entity (SGE) requirements; and
- suggestions on the types of transitional relief and ongoing support (such as guidance and education) to alleviate the reporting burden.

2. Need to better understand user needs

- Some attendees (particularly those in the NFP charity sector) were unconvinced that the information provided in GPFS would satisfy user needs beyond the information that is provided in SPFS.
- Other attendees (in the for-profit sector) were concerned about the minimum disclosure requirements proposed in Tier 2 GPFS-SDR, suggesting that private companies should be entitled to keep their information private as there are no users. We heard that related party transaction disclosures were of particular concern.
  - ⇨ We explained who some of the users of financial statements are in both the NFP and for-profit sectors as detailed in ITC 39.
  - ⇨ AASB Staff have also prepared a FAQ document to provide further clarification to constituents on the key concerns raised at these briefing sessions. All documents relating to the AASB's Conceptual Framework project can be accessed via the Conceptual Framework Hot Topics *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*

3. Need to understand impact on entities not regulated by ASIC or the ACNC

- The Briefing sessions included preliminary details to explain the impact of the AASB's proposals on entities regulated by ASIC and the ACNC. However attendees asked for more clarity on the impact of entities not regulated by these regulators (such as incorporate associations, trusts, ASX listed entities acquiring a non-listed entity caught by ASX listing rules etc.).
  - ⇨ We explained that extensive research will be undertaken by the AASB as part of the RIS process to understand:
    - **who may be impacted by the proposals** – the AASB is currently undertaking legislative/regulatory research to determine who must prepare financial reports in accordance with AAS;
    - **how many entities may be impacted** – the AASB is liaising with regulators (other than just ASIC and the ACNC, such as State regulators) to understand the number of entities caught by each of the legislative/regulatory requirements; and
    - **the extent of the impact** – the AASB will conduct research via academics to review financial statements prepared by each type of entity to help estimate the extent of the uplift that may be required (i.e. how many entities will be moving from SPFS to GPFS and/or need to uplift the financial statements to meet AAS recognition and measurement requirements).

4. More clarity on what's happening with NFPs

- A key concern expressed by attendees at each of the briefing sessions was how these proposals were going to impact the NFP sector.

- Most attendees explained that entities in the NFP sector want to do the right thing and prepare consistent, comparable and transparent financial statements, but have limited resources. Therefore, they would find it helpful if there was a simpler framework coupled with better education and tools to simplify the preparation process.
  - ⇨ We explained the AASB's plans to wait for recommendations from the ACNC Legislative Review Recommendations before determining how to proceed with the NFP sector, as detailed in ITC 39.
  - ⇨ AASB Staff have also prepared a FAQ document to provide further clarification to constituents on the key concerns raised at these briefing sessions. All documents relating to the AASB's Conceptual Framework project can be accessed via the Conceptual Framework Hot Topics *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*

What else did we hear?

What is the AASB doing to help the public sector?

- There was some concern that public sector entities are potentially 'over-reporting'. We heard that many States/Territories do not permit government departments to apply Tier 2 GPFS and are therefore preparing Tier 1 GPFS across all levels of government including government departments and this reporting may not meet users' needs.
  - ⇨ We responded by referring attendees to recently published research[6] undertaken by the AASB to improve the financial reporting framework for public sector entities. That research supports the need to simplify and tailor the reporting requirements for public sector entities to reduce costs and ensure reporting better suits users' needs.

SDR – an early favourite for some sectors

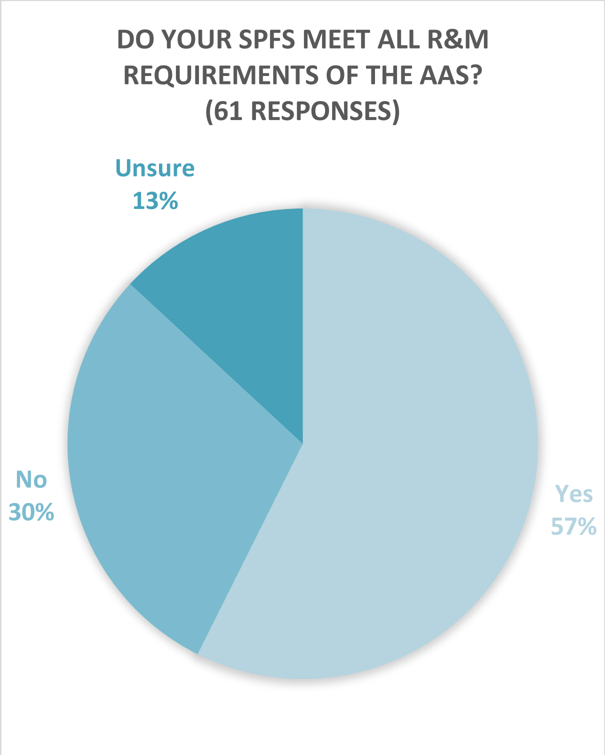
- Overall, attendees preferred Tier 2 GPFS-SDR, although results in Sydney were more balanced with just as many attendees preferring Tier 2 GPFS-RDR.
- Some attendees expressed concern that neither Tier 2 alternatives were sufficient. A few suggested that all entities should prepare Tier 1 GPFS and include all material disclosures. To this point, we noted that Tier 2 alternatives provide minimum rather than absolute requirements – materiality would still apply and additional disclosures could be included where necessary to give true and fair financial statements.

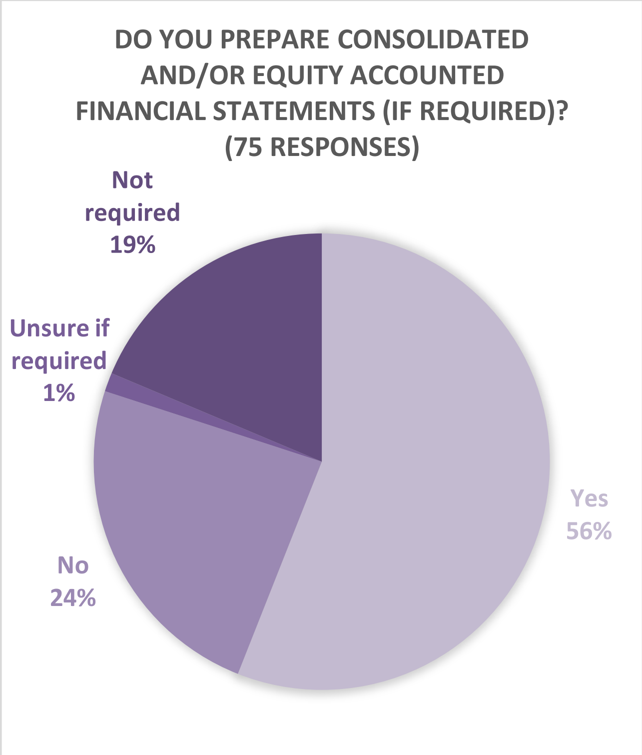
What's next?

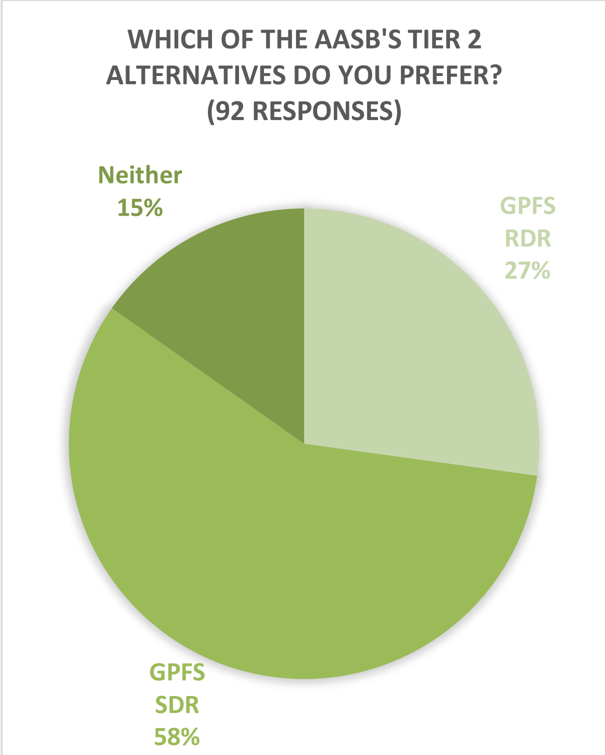
- A webinar will be held on Thursday 21 June to provide an overview of the Conceptual Framework Consultation Paper. Refer: AASB Webinar: Replacing the reporting entity concept and removing the option for Special Purpose Financial Statements.
- Targeted meetings with stakeholders who may be impacted by the AASB's Short-term phase will be held during June and July 2018.
- Face-to-face outreach sessions will be held in Melbourne, Sydney, Brisbane, Adelaide and Perth September 2018.

[6] Refer to AASB Research Report No 6 *Financial Reporting Requirements Applicable to Public Sector Entities*

Appendix A: Poll feedback







Appendix B: Summary of feedback by location

Total attendees: 157

Composition of attendees: Regulators, Professional Bodies, Users, Preparers, Auditors and Academics across all sectors.

	Melbourne	Sydney	Brisbane	Adelaide	Perth
Top 3 concerns	1. Increased regulatory burden – consolidation and equity accounting 2. Perception that there are no users 3. More clarity on what's happening with NFPs	1. Increased regulatory burden – consolidation 2. Perception that there are no users 3. Need to understand impact on entities not regulated by ACNC and ASIC	1. Increased regulatory burden – consolidation and equity accounting 2. Need to understand impact on entities not regulated by ACNC and ASIC 3. More clarity on what's happening with NFPs	1. Increased regulatory burden – consolidation and equity accounting 2. Need to understand impact on entities not regulated by ACNC and ASIC 3. More clarity on what's happening with NFPs	1. Increased regulatory burden – consolidation and equity accounting 2. Perception that there are no users 3. More clarity on what's happening with NFPs
Do SPFS comply with R&M[7]	83% yes, 11% no, 6% unsure	75% yes, 25% no	34% yes, 50% no, 16% unsure	33% yes, 22% no, 45% unsure	40% yes, 50% no, 10% unsure
Which AAS do SPFS not comply with?	Income taxes, related party disclosures, segment reporting consolidation and equity account	Leases, employee benefits, income taxes and related party disclosures.	AASB 1054, AASB 1048, cash flows, related party and employee benefit disclosures	Consolidation and equity accounting and related party transactions.	Consolidation and equity accounting, leases, employee benefits, financial instruments, property, plant & equipment, impairment and related party transactions.

[7] R&M = SPFS comply with AAS recognition and measurement requirements

	Melbourne	Sydney	Brisbane	Adelaide	Perth
Preferred Tier 2 GPFS Alternative	Tier 2 GPFS-SDR (67%)	Even split Tier 2 GPFS-RDR and Tier 2 GPFS-SDR	Tier 2 GPFS-SDR (64%)	Tier 2 GPFS-SDR (54%)	Tier 2 GPFS-SDR (91%)
Composition of attendees	Regulators, Professional Bodies, Users, Preparers, Auditors from for-profit and NFP private and public sectors. There were also several academics who attended the session.	Regulators, Professional Bodies, Users, Preparers, Auditors from for-profit and NFP private and public sectors. There were also several academics who attended the session.	Regulators, Professional Bodies, Users, Preparers, Auditors from for-profit and NFP private and public sectors	Regulators, Professional Bodies, Users, Preparers, Auditors from for-profit and NFP private and public sectors. There was also an academic who attended the session	Regulators, Professional Bodies, Users, Preparers, Auditors from for-profit and NFP private and public sectors
Number of attendees	**46**	**49**	**27**	**16**	**19**

Appendix C: What we heard in each location

Melbourne – Monday 14 May 2018

The AASB's Short-term approach supported

- Most attendees (apart from one) were supportive of the AASB's proposal to apply the RCF to publicly accountable for-profit entities and those that voluntarily comply with IFRS in the short term to maintain IFRS compliance.

It's time to start the conversation

- Attendees appeared to understand the AASB's rationale for applying the RCF to all entities in the medium term to maintain IFRS as a base, and why the AASB was starting this conversation to drive improvements in the comparability, consistency and transparency of financial reporting.
- Representatives from the FRC and the ACNC strongly supported the proposals.
- Attendees also appreciated the fact that the AASB is not doing this project alone and is instead working with Regulators such as ASIC, the ACNC, the ATO and State Regulators to improve the financial reporting environment in Australia.
- Attendees said they liked the two-phased approach as it provides time for the AASB to perform research and consult constituents to better understand the extent of the impact, benefits and costs of the proposals.

Increased regulatory burden – consolidation and equity accounting a key concern

- Most attendees (83%) who responded to the poll question on SPFS said their SPFS complied with AAS recognition and measurement requirements. However, many attendees raised concerns about the increased regulatory burden, with the costs to prepare and have audited consolidated financial statements a key concern. Examples of specific concerns raised included:
    - One attendee representing NFP organisations was told by their auditor that the audit fees would increase from $8k per year to $24k per year if they chose to move from SPFS to Tier 1 GPFS. We responded by explaining that the proposed Tier 2 GPFS-SDR only requires an additional four disclosures onto those already imposed by ACNC requirements (so the audit costs may not be as significant when moving from SPFS to Tier 2 GPFS-SDR compared to moving from SPFS to Tier 1 GPFS). We also explained (as detailed in ITC 39) that the AASB will be working with the ACNC to provide other alternatives for the NFP private sector entities based on the recommendations from the ACNC Legislative Review.
    - Another attendee representing an organisation that applies for grants said that their organisation is required to prepare separate financial statements in accordance with AAS as part of the grant acquittal process. The attendee explained that these proposals would result in them needing to prepare Tier 2 GPFS for that organisation even though the organisation's ultimate parent prepares consolidated Tier 1 GPFS. We suggested that in this case, the organisation could take advantage of a deed of cross guarantee. The attendee responded saying that the grant acquittal process did not accept consolidated financial statements of the parent even if a deed of cross guarantee was in place. We said we'd look into this matter more closely to try to solve this issue.

Need to better understand user needs

- Several attendees asked why entities with no users should prepare GPFS. For example:
    - One attendee said that some entities could meet the definition of public accountability, but have no users that need Tier 1 GPFS. We responded by explaining that publicly accountable entities (e.g. listed entities and those with fiduciary responsibilities such as banks and insurance companies) do have users and would also be considered economically significant, therefore would already be considered reporting entities under

SAC 1. This project is not looking to change the requirements for publicly accountable entities who should already be preparing Tier 1 GPFS.

- Another attendee said that private companies should be entitled to keep things private, for example a large proprietary company which is family-owned has no users of GPFS. As detailed in ITC 39, we explained that users should be considered more broadly than just investors. Users include potential investors and others such as employees, credit analysts and the ATO.

Need to understand impact on entities not regulated by ASIC or the ACNC

- Many attendees queried the impact on entities not regulated by ASIC or the ACNC such as incorporated associations and trusts. We reminded attendees that these proposals will only impact trusts where the trust deed specifically required financial reports to be prepared in accordance with AAS. We also explained to attendees that we have embarked on extensive research to better understand the impact on entities not regulated by ASIC and the ACNC in addition to the research we're undertaking on entities that are regulated by ASIC and the ACNC. This will be included in our RIS process.
- We also explained that the AASB's proposals would not impact small proprietary entities that are not currently required to publicly lodge their financial statements with ASIC and small charities that are currently not required to prepare financial statements by ACNC (as detailed in ITC 39).

More clarity on what's happening with NFPs

- Several attendees raised concerns on with respect to NFP entities:
  - One attendee was unsure why there is a need to consolidate charities, arguing that all charities in New Zealand are separate tax deductible entities. An ACNC representative who attended the session explained that the ACNC are working on reform in this area which will include red-tape reduction.
  - Another attendee asked whether we could consider adding a cash standard for small charities. We said that we are awaiting the ACNC Legislative Review Recommendations before determining how to proceed with the NFP sector. We explained that outreach conducted in 2017 indicated there is a need for three tiers of reporting for charities; potentially with some very simplified accounting to provide proportionate financial reporting that balances costs to preparers and user needs.

What is the AASB doing to help the public sector?

- Some attendees asked what we're doing within in public sector. We said we're currently undertaking research to better understand public sector reporting to support simplifying and tailoring the reporting requirements for public sector entities to reduce costs and ensure reporting better suits users' needs.

Preferred alternative for Tier 2 GPFS

- When asked whether attendees preferred Tier 2 GPFS-RDR versus Tier 2 GPFS-SDR, more than two-thirds (67%) of Melbourne respondents preferred Tier 2 GPFS-SDR over Tier 2 GPFS-RDR.

Other feedback

- One attendee objected to accounting standards in general, arguing that one size does not fit all and other attendees informed us that they prepared SPFS to avoid disclosing income taxes, related party disclosures, segment reporting and because they didn't want to consolidate or equity account. As detailed in ITC 39, we reminded attendees that these proposals have been put in place to promote a level playing field and improve consistency, comparability and transparency in financial reporting when entities are required by legislation or otherwise to prepare financial statements in accordance with AAS.

- Another attendee suggested GPFS do not meet users' needs for publicly accountable entities and the cost to preparing such statements could impact investment decisions. Specifically, the example given was that a decision on whether a $2,000,000,000 deal goes ahead or not for bank that securitises its assets could come down to $5,000 compliance costs of moving from SPFS to Tier 1 GPFS. We responded saying that these proposals are not changing the requirements for publically accountable entities (who are already required to prepare Tier 1 GPFS). However, there is an opportunity to provide feedback on these proposals as part of the Short-term approach, which will be considered prior to finalising the amendments relating to that phase of the project.

Sydney – Thursday 17 May 2018

The AASB's Short-term approach supported

- Attendees were supportive of the AASB's proposal to apply the RCF to publicly accountable for-profit entities and those that voluntarily comply with IFRS in the short term to maintain IFRS compliance.

It's time to start the conversation

- Attendees appeared to understand the AASB's rationale for applying the RCF to all entities in the medium term to maintain IFRS as a base, and why the AASB was starting this conversation to drive improvements in the comparability, consistency and transparency of financial reporting.
- A representative from the State Regulator strongly supported the AASB's proposals.
- Attendees also appreciated the fact that the AASB is not doing this project alone and is instead working with Regulators such as ASIC, the ACNC, the ATO and State Regulators to improve the financial reporting environment in Australia.
- Attendees said they liked the two-phased approach as it provides time for the AASB to perform research and consult constituents to better understand the extent of the impact, benefits and costs of the proposals.
- Some attendees supported the inclusion of related party transactions including audit fee disclosures

Increased regulatory burden – consolidation and equity accounting a key concern

- Most attendees (75%) who responded to the poll question on SPFS said their SPFS complied with AAS recognition and measurement requirements. However, many attendees raised concerns about the increased regulatory burden, with the costs to prepare and have audited consolidated financial statements a key concern. An examples of a specific concern raised included:
    - One attendee explained that there are many non-commercial transactions in NFPs and complex relationships between parties, which could make consolidation very difficult especially given the scarce resources to prepare financial statements. We asked the attendee for specific examples (which could be redacted for confidentiality) so that we could work through as case studies to better understand the complexity and to develop transitional relief to alleviate the burden.

Need to better understand user needs

- Several attendees asked what research are we doing with regard to users, especially in the charity sector. They were suggestions that donors and other stakeholders of charities did not find financial statements useful. An academic, specialising in this area, who was attending the Briefing session, commented based on research that has been performed – users of a charity's financial statements include: people donating to the charity; people volunteering in the charity; and people receiving benefits from the charity.

Need to understand impact on entities not regulated by ASIC or the ACNC

- Many attendees queried the impact on entities not regulated by ASIC or the ACNC such as incorporated associations and NFPs that are not charities. We explained to attendees that we have embarked on extensive research to better understand the impact on entities not regulated by ASIC and the ACNC in addition to the research we're undertaking on entities that are regulated by ASIC and the ACNC. This will be included in our RIS process.

More clarity on what's happening with NFPs

- One attendee asked what would happen if the ACNC decided not to support GPFS Tier 2-SDR and another attendee asked whether the AASB would consider providing a cash accounting template for small charities. We said we are working with the ACNC throughout this process. As detailed in ITC 39, we explained that we are awaiting the ACNC Legislative Review Recommendations before determining how to proceed with the NFP sector. We also explained that outreach conducted in 2017 indicated there is a need for three tiers of reporting for charities; potentially with some very simplified accounting to provide proportionate financial reporting that balances costs to preparers and user needs. This framework for NFPs could include a cash accounting template for the third tier of reporting.

What is the AASB doing to help the public sector?

- Attendees asked what we're doing within in public sector space, especially where it is hard to argue economic significance of the entity. We said we're currently undertaking research to better understand public sector reporting to support simplifying and tailoring the reporting requirements for public sector entities to reduce costs and ensure reporting better suits users' needs.

Preferred alternative for Tier 2 GPFS

- When asked whether attendees preferred Tier 2 GPFS-RDR versus Tier 2 GPFS-SDR, Sydney respondents were split down the middle.
- One attendees raised whether *IFRS for SMEs* should be used instead the proposed Tier 2 alternatives. As detailed in ITC 39, we explained that based on our research[8], this would be a step backwards for most Australian entities that are already complying with AAS recognition and measurement requirements.
- Other attendees asked whether a third tier should be provided, considering New Zealand has four tiers for public benefit entities. We explained that if recommendations from the ACNC's Legislative Review provided objective criteria to base three tiers on, we would work with the ACNC to develop a third tier in the NFP charity space. This was also explained in ITC 39.

Other feedback

- One attendee had concerns with the relevance and value of adopting international standards, supporting the Australian Conceptual Framework. Other attendees informed us that they prepared SPFS to avoid complying with the leases and employee benefits Standards and disclosing income taxes and related party disclosures. We reminded attendees, as detailed in ITC 39, that these proposals have been put in place to promote a level playing field and improve consistency, comparability and transparency in financial reporting when entities are required by legislation or otherwise to prepare financial statements in accordance with AAS. We also explained that whilst we would be adopting the IASB's RCF, we will also be performing an exercise to compare it to our existing *Conceptual Framework* as well as other Conceptual Frameworks such as the International Public Sector Accounting Standards Board (IPSASB)'s *Conceptual Framework* to understand whether we need to put through any amendments for the NFP private and public sectors (which will be done in accordance with our NFP Standard-setting framework)
- One attendee suggested that these proposals should be accompanied with technological solutions to alleviate the reporting burden. We agreed that technological solutions would be beneficial and could certainly reduce the reporting burden.
- One attendee encouraged us to open up webinars to put forward the discussions to reach a broader audience. We agreed, explaining that we will organise a webinar (which has subsequently been planned for 21 June 2018) and another round of outreach later in consultation period (this has subsequently been planned for September 2018).

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8 Refer to AASB Staff Paper *Comparison of Standards for Smaller Entities*

Brisbane – Friday 18 May 2018

The AASB's Short-term approach supported

- Attendees were supportive of the AASB's proposal to apply the RCF to publicly accountable for-profit entities and those that voluntarily comply with IFRS in the short term to maintain IFRS compliance.

It's time to start the conversation

- Attendees appeared to understand the AASB's rationale for applying the RCF to all entities in the medium term to maintain IFRS as a base, and why the AASB was starting this conversation to drive improvements in the comparability, consistency and transparency of financial reporting.
- Attendees also appreciated the fact that the AASB is not doing this project alone and is instead working with Regulators such as ASIC, the ACNC, the ATO and State Regulators to improve the financial reporting environment in Australia.
- Attendees said they liked the two-phased approach as it provides time for the AASB to perform research and consult constituents to better understand the extent of the impact, benefits and costs of the proposals.
- Some attendees said that the new framework would avoid unnecessary battles between auditors and clients over whether or not they are reporting entities or not and whether or not they needed to comply with RG 85. Other attendees stated that these proposals could make financial statements more meaningful, especially if preparers used this opportunity to prepare targeted rather than boilerplate disclosures.
- Several attendees encouraged the AASB to push for better education and awareness around the proposals to ensure they are adopted in a way which would uplift the quality of financial reporting.

Increased regulatory burden – consolidation and equity accounting a key concern

- Most attendees (66%) who responded to the poll question on SPFS said their SPFS either did not comply with AAS recognition and measurement requirements (50%) or they were unsure of whether or not their SPFS complied with AAS recognition and measurement requirements (16%). Therefore many of these attendees (who mostly represented NFPs) raised concerns about the increased regulatory burden and the cost to prepare and have audited consolidated financial statements compliant with AAS. Examples of specific concerns raised included:
  - One attendee representing NFP organisations said their clients do not even realise at times that they aren't complying with AAS. We explained and detailed in ITC 39, this is one of the key reasons why we're recommending these proposals – it is not ideal that users of financial statements cannot have confidence on the basis of preparation meaning they would not be able to compare financial statements between similar entities. We also explained that the AASB will be working with the ACNC to provide other alternatives for the NFP private sector entities based on the recommendations from the ACNC Legislative Review (as detailed in ITC 39).
  - Another attendee explained that the consolidation requirements were going to be problematic for dealerships that are currently preparing SPFS and not consolidating. We asked the attendee to provide us with specific examples (which could be redacted for confidentiality) so that we could work through as case studies to better understand the complexity and to develop transitional relief to alleviate the burden.
  - Another attendee was concerned that the proposed changes to SPFS coincided with the timing of the mandatory application of AASB 15 and AASB 16 in the NFP, which increased the reporting burden for these entities. We explained that we have not yet determined when these proposals will be implemented for the NFP sector. We're

proposing to implement the changes to the for-profit sector first prior to implementing the changes to the NFP sector (as noted in ITC 39).

Need to understand impact on entities not regulated by ASIC or the ACNC

- Many attendees queried the impact on entities not regulated by ASIC or the ACNC such as clubs, associations and trusts (unregistered funds). We reminded attendees that these proposals will only impact entities where legislation or a constitutional document (such as a trust deed) specifically requires financial reports to be prepared in accordance with AAS. We also explained to attendees that we have embarked on extensive research to better understand the impact on entities not regulated by ASIC and the ACNC in addition to the research we're undertaking on entities that are regulated by ASIC and the ACNC. This will be included in our RIS process.

More clarity on what's happening with NFPs

- Several attendees asked for clarity with respect to NFP entities, stating the diversity in the size of these entities and their current financial reporting varies extensively. One attendee also mentioned that schools had moved to Tier 2 GPFS-RDR a year ago. As detailed in ITC 39, we explained that we are awaiting the ACNC Legislative Review Recommendations before determining how to proceed with the NFP sector. We highlighted that outreach conducted in 2017 indicated there is a need for three tiers of reporting for charities; potentially with some very simplified accounting to provide proportionate financial reporting that balances costs to preparers and user needs.

Preferred alternative for Tier 2 GPFS

- When asked whether attendees preferred Tier 2 GPFS-RDR versus Tier 2 GPFS-SDR, nearly two-thirds (64%) of Brisbane respondents preferred Tier 2 GPFS-SDR over Tier 2 GPFS-RDR.
- Interestingly, many attendees stated that they didn't like the name of Tier 2 GPFS-RDR because their Directors of their clients perceived the use of the words 'reduced disclosure' to be interpreted as reduced trust and transparency so are not motivated to adopt this framework.

Other feedback

- Several attendees pointed out that whilst there could be the perception that these requirements are onerous, the reality is – if the transactions are straightforward, the disclosures should be straightforward. They said that most entities want to do the right thing and produce financial statements that are consistent, comparable and transparent. They suggested the missing link is education and awareness. We agreed that this could be contributing to constituents concerns and are keen to hear from constituents how we can help to bridge the gap.
- Other attendees asked if the proposed requirements were coordinated with the changes to the Corporations Act in relation to the holding companies. We explained that we have embarked on a legislative/regulatory research project to better understand who must prepare financial reports in accordance with AAS. We will certainly bear this in mind when working through that project.

Adelaide – Monday 21 May 2018

The AASB's Short-term approach supported

- Attendees were supportive of the AASB's proposal to apply the RCF to publicly accountable for-profit entities and those that voluntarily comply with IFRS in the short term to maintain IFRS compliance.

It's time to start the conversation

- Attendees appeared to understand the AASB's rationale for applying the RCF to all entities in the medium term to maintain IFRS as a base, and why the AASB was starting this conversation to drive improvements in the comparability, consistency and transparency of financial reporting.
- Attendees also appreciated the fact that the AASB is not doing this project alone and is instead working with Regulators such as ASIC, the ACNC, the ATO and State Regulators to improve the financial reporting environment in Australia.
- Attendees said they liked the two-phased approach as it provides time for the AASB to perform research and consult constituents to better understand the extent of the impact, benefits and costs of the proposals.
- Attendees encouraged the AASB to push for better education and awareness around the proposals to ensure they are adopted in a way which would uplift the quality of financial reporting.

Increased regulatory burden – consolidation and equity accounting a key concern

- Most attendees (67%) who responded to the poll question on SPFS said their SPFS either did not comply with AAS recognition and measurement requirements (22%) or they were unsure of whether or not their SPFS complied with AAS recognition and measurement requirements (45%). Therefore many of these attendees raised concerns about the increased regulatory burden and the cost to prepare and have audited consolidated financial statements compliant with AAS. An examples of a specific concern raised included:
    - One attendee who had clients which were family-owned large proprietary companies with overseas subsidiaries (that are currently not being consolidated) suggested that if we weighted the costs versus benefits of these proposals, the costs of consolidation would be much higher. As detailed in ITC 39, we reminded attendees that these proposals have been put in place to promote a level playing field and improve consistency, comparability and transparency in financial reporting when entities are required by legislation or otherwise to prepare financial statements in accordance with AAS. We also reminded attendees that SAC 1 currently has more than one criteria which should be assessed when determining whether an entity is a reporting entity or not. In addition to assessing whether there are users of the financial statements, there should also be an assessment of whether the entity has economic significance (as detailed in ITC 39). It's hard to argue that a large proprietary company that has overseas subsidiaries does not have economic significance. That being said, we're encouraging constituents to provide us with specific examples (which could be redacted for confidentiality) so that we could work through them as case studies to better understand the complexity and to develop transitional relief to alleviate the burden.

Need to understand impact on entities not regulated by ASIC or the ACNC

- Many attendees queried the impact on entities not regulated by ASIC or the ACNC such as incorporated associations and trusts. We reminded attendees that these proposals will only impact trusts where the trust deed specifically required financial reports to be prepared in accordance with AAS. We also explained to attendees that we have embarked on extensive research to better understand the impact on entities not regulated by ASIC and the ACNC in addition to the research we're undertaking on entities that are regulated by ASIC and the ACNC. This will be included in our RIS process.

More clarity on what's happening with NFPs

- Several attendees asked for clarity with respect to NFP entities, stating the diversity in the size of these entities and their current financial reporting varies extensively. As detailed in ITC 39, we explained that we are awaiting the ACNC Legislative Review Recommendations before determining how to proceed with the NFP sector. We highlighted that outreach conducted in 2017 indicated there is a need for three tiers of reporting for charities; potentially with some very simplified accounting to provide proportionate financial reporting that balances costs to preparers and user needs.
- One attendee also mentioned that many NFP entities (such as clubs and associations) just adopt template constitutional documents require financial statements in accordance with AAS without necessarily understanding the ramifications. We asked for more information with respect to this so that that we could find ways to better educate and build awareness to avoid unnecessary reporting burden.

What is the AASB doing to help the public sector?

- Attendees asked what we're doing within in public sector space, pointing out that they had moved to Tier 2 GPFS- RDR. We said we're currently undertaking research to better understand public sector reporting to support simplifying and tailoring the reporting requirements for public sector entities to reduce costs and ensure reporting better suits users' needs.

Preferred alternative for Tier 2 GPFS

- When asked whether attendees preferred Tier 2 GPFS-RDR versus Tier 2 GPFS-SDR, more than half (54%) of Adelaide respondents preferred Tier 2 GPFS-SDR over Tier 2 GPFS-RDR.
- Most attendees said they preferred SDR over RDR due to definitiveness and simplicity in application.
- Public sector attendees were concerned about moving below Tier 2 GPFS-RDR, which is currently applied in South Australia.

Other feedback

- Some attendees informed us that they prepared SPFS to avoid consolidation and equity accounting and because they did not wish to disclose related party transactions. As detailed in ITC 39. we reminded attendees that these proposals have been put in place to promote a level playing field and improve consistency, comparability and transparency in financial reporting when entities are required by legislation or otherwise to prepare financial statements in accordance with AAS.
- Attendees were unsure of how the AASB's proposed medium term changes would actually be incorporated in the standards. We explained that the purpose of ITC 39 is to get constituents view on the chosen two-phased option proposed by the AASB as well as to obtain a view on which of the Tier 2 alternatives to pursue. There will be further consultative documents (i.e. Exposure Drafts), which will include the details of amendments to the AAS to implement the proposals.
- One attendee asked how these proposals fitted in with member requirements of the Accounting Professional & Ethics Standards Board (APESB). We explained that we have been engaging with the APESB throughout this process and will continue to work with the APESB to ensure there are no unintended consequences of our proposals for members.
- One attendee, representing a financial institution mentioned that they had some securitised vehicles (that would not meet the definition of public accountability) that are currently preparing SPFS that would need to move to Tier 2 GPFS as a result of these proposals. However, they were not too concerned about the additional cost to move to a Tier 2

framework as they are already complying with AAS recognition and measurement requirements, being consolidated into parent entity Tier 1 GPFS and preparing detailed reporting for users (in the form of management accounts).

Perth – Tuesday 22 May 2018

The AASB's Short-term approach supported

- Attendees were supportive of the AASB's proposal to apply the RCF to publicly accountable for-profit entities and those that voluntarily comply with IFRS in the short term to maintain IFRS compliance.

It's time to start the conversation

- Attendees appeared to understand the AASB's rationale for applying the RCF to all entities in the medium term to maintain IFRS as a base, and why the AASB was starting this conversation to drive improvements in the comparability, consistency and transparency of financial reporting.
- A representative from the ACNC strongly supported the AASB's proposals.
- Attendees also appreciated the fact that the AASB is not doing this project alone and is instead working with Regulators such as ASIC, the ACNC, the ATO and State Regulators to improve the financial reporting environment in Australia.
- Attendees said they liked the two-phased approach as it provides time for the AASB to perform research and consult constituents to better understand the extent of the impact, benefits and costs of the proposals.

Increased regulatory burden – consolidation and equity accounting a key concern

- Most attendees (60%) who responded to the poll question on SPFS said their SPFS either did not comply with AAS recognition and measurement requirements (50%) or they were unsure of whether or not their SPFS complied with AAS recognition and measurement requirements (10%). Therefore many of these attendees (who mostly represented NFPs) raised concerns about the increased regulatory burden and the cost to prepare and have audited consolidated financial statements compliant with AAS. Examples of specific concerns raised included:
    - One attendee representing NFP organisations said their clients do not have the resources to prepare GPFS. They suggested technological solutions would be helpful (i.e. reporting packages that correlate with AAS reporting requirements. We explained that the AASB will be working with the ACNC to provide other alternatives for the NFP private sector entities based on the recommendations from the ACNC Legislative Review (as noted in ITC 39). We also agreed that technological improvements could certainly help alleviate the burden and will be exploring options as part of our research.
    - Another attendee explained that transitional relief in AASB 1 First-time Adoption of Australian Accounting Standards is complicated, onerous and does not result in substantial benefits. We explained that we've asked a question around this very matter in the ITC 39. We are keen to provide transitional relief that would be helpful, so we're asking constituents for specific examples (which could be redacted for confidentiality) so that we could work through them as case studies to better understand the complexity and to develop transitional relief to alleviate the burden.

Need to better understand user needs

- Several attendees asked what research are we doing with regard to users, especially in the charity sector, suggesting that there were no users of financial statements. We explained that we will be performing research on this. However, based on what we have already heard from academics including an academic at the Sydney Briefing session, there are users. Users of a charity's financial statements include: people donating to the charity; people volunteering in the charity; and people receiving benefits from the charity.
- An attendee representing family-owned large proprietary companies also queried the existence of users. As detailed in ITC 39, we explained that users should be considered

more broadly than just investors to include potential investors and others such as employees, credit analysts and the ATO.

Need to understand impact on entities not regulated by ASIC or the ACNC

- Many attendees queried the impact on entities not regulated by ASIC or the ACNC such as incorporated associations and trusts. As detailed in ITC 39, we reminded attendees that these proposals will only impact trusts where the trust deed specifically required financial reports to be prepared in accordance with AAS. We also explained to attendees that we have embarked on extensive research to better understand the impact on entities not regulated by ASIC and the ACNC in addition to the research we're undertaking on entities that are regulated by ASIC and the ACNC. This will be included in our RIS process.

More clarity on what's happening with NFPs

- Several attendees asked for clarity with respect to NFP entities, stating the diversity in the size of these entities and their current financial reporting varies extensively. They also emphasised the lack of resources in the sector to perform the accounting functions, but also suggested that most NFP entities are keen to do the right thing and produce consistent, comparable, transparent financial statements. An ACNC representative who attended the session explained that the ACNC are working on reform which will include red-tape reduction. As detailed in ITC 39, we explained that we are awaiting the ACNC Legislative Review Recommendations before determining how to proceed with the NFP sector. We explained that outreach conducted in 2017 indicated there is a need for three tiers of reporting for charities; potentially with some very simplified accounting to provide proportionate financial reporting that balances costs to preparers and user needs.

What is the AASB doing to help the public sector?

- Attendees asked what we're doing within in public sector space, especially given Western Australian Treasury disallows Tier 2 GPFS-RDR. We said we're currently undertaking research to better understand public sector reporting to support simplifying and tailoring the reporting requirements for public sector entities to reduce costs and ensure reporting better suits users' needs.

Preferred alternative for Tier 2 GPFS

- When asked whether attendees preferred Tier 2 GPFS-RDR versus Tier 2 GPFS-SDR, Perth respondents showed an overwhelming preference (91%) towards Tier 2 GPFS-SDR over Tier 2 GPFS-RDR.
- Most attendees said they preferred SDR over RDR due to definitiveness and simplicity in application.
- Public sector attendees encouraged the AASB to work with Treasury in Western Australia to permit public sector entities to prepare Tier 2 GPFS as they are currently all required to prepare Tier 1 GPFS.

Other feedback

- Some attendees informed us that they prepared SPFS to avoid consolidation and equity accounting, to avoid complying with leases, employee benefits, financial instruments and property, plant & equipment and because they did not wish to disclose related party transactions. As detailed in ITC 39, we reminded attendees that these proposals have been put in place to promote a level playing field and improve consistency, comparability and transparency in financial reporting when entities are required by legislation or otherwise to prepare financial statements in accordance with AAS.
- One attendee suggested that these proposals should be accompanied with technological solutions to alleviate the reporting burden. We agreed that technological solutions would be beneficial and could certainly reduce the reporting burden.

Appendix D: Breakdown of poll results

1. Does your SPFS meet all recognition and measurement requirements of the AAS?

Response (votes)	Melbourne (25)	Sydney (17)	Brisbane (13)	Adelaide (13)	Perth (11)	Total (79)
Yes	60%	53%	31%	23%	36%	44%
No	8%	18%	46%	15%	45%	23%
Unsure	4%	0%	15%	31%	9%	10%
Do not prepare SPFS	28%	29%	8%	31%	9%	23%

1A. Of those that prepared SPFS, does the SPFS meet all recognition and measurement requirements of the AAS? (Calculated based on the above table)

	Melbourne (18)	Sydney (12)	Brisbane (12)	Adelaide (9)	Perth (4)	Total (61)
Yes	83%	75%	34%	33%	40%	57%
No	11%	25%	50%	22%	50%	30%
Unsure	6%	0%	16%	45%	10%	13%

2. Do you prepare consolidated and/or equity accounted financial statements (if required)?

Response (votes)	Melbourne (24)	Sydney (19)	Brisbane (13)	Adelaide (8)	Perth (11)	Total (75)
Yes	46%	63%	77%	50%	45%	56%
No	25%	16%	15%	38%	36%	24%
Unsure if required	0%	0%	0%	0%	9%	1%
Not required	29%	21%	8%	13%	9%	19%

3. Which of the AASB's Tier 2 alternatives do you prefer?

Response (votes)	Melbourne (21)	Sydney (33)	Brisbane (14)	Adelaide (13)	Perth (11)	Total (92)
GPFS – RDR	14%	39%	29%	31%	9%	27%
GPFS – SDR	67%	39%	64%	54%	91%	58%
Neither	19%	21%	7%	15%	0%	15%