

Enhancing financial reporting and replacing SPFS

– Roundtable Summaries

What did we do and why did we do it?

- We ran for-profit entity focussed roundtables in Melbourne, Brisbane, Sydney, Adelaide and Perth to obtain feedback on Phase 2 of the proposals in Invitation to Comment ITC 39 [Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems](#).

Who attended the roundtables?

- 106 stakeholders attended including regulators, professional bodies, users, preparers, auditors and academics across all sectors – predominantly across the for-profit private and public sectors.
- Many entities had more than one representative attend the sessions – which should be considered when considering the feedback.

Who facilitated the roundtables?

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

How were the roundtables structured?

- The structure of the roundtables was designed to facilitate targeted feedback on the AASB's Phase 2 proposals – starting with a high-level [presentation](#) of the proposals followed by a brainstorming session, giving attendees the opportunity to discuss the proposals and provide their feedback.
- To generate discussion in the brainstorming session the following questions were asked:
 - **Question 1:** Do you agree that the SPFS problem needs to be resolved? Do you agree that Tier 2 general purpose financial statements (GPFS) should have full recognition and measurement (R&M) with Australian Accounting Standards (AAS) consistent with ASIC's Regulatory Guide [RG 85 Reporting requirements for non-reporting entities](#)?
 - **Question 2:** What level of disclosure should be required at a minimum level for Tier 2 GPFS?
 - **Question 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?
- To gain a view on how strongly participants felt about the above questions, the following polling questions were asked:
 - **Question 1 Polling Questions**
 - Does the SPFS problem need to be resolved?
 - Should Tier 2 GPFS have full R&M?
 - **Question 2 Polling Question**
 - Which of the following do you prefer for Tier 2 GPFS, Specified Disclosure Requirements (SDR) or Reduced Disclosure Requirements? The following scale was provided:
 - SDR minus¹ (SDR-)
 - SDR
 - SDR plus²(SDR+)
 - RDR minus³ (RDR-)
 - RDR
 - **Question 3 Polling Questions**
 - Is the transitional relief in AASB 1 enough?
 - Should prior year consolidations be grandfathered?
 - Should comparatives be restated for R&M changes?
 - Should trusts be grandfathered (i.e. the requirements only to apply to new / modified trusts post application date)?

1 SDR minus refers to the proposed nine SDR 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*, AASB 1054 *Australian Additional Disclosures* plus related party, revenue, impairment of assets and income tax disclosures) at an 'RDR-level'.

2 SDR plus means the nine SDR disclosures (refer footnote 1) in full plus additional disclosures in full (such as contingent liabilities, subsequent events etc)

3 RDR minus refers to disclosures from all AAS with a further reduction to what is in the current Tier 2 GPFS-RDR

What did we hear at the roundtables?

The SPFS problem needs to be solved and Tier 2 GPFS should comply with R&M!

- Almost all (96%) of the attendees strongly agreed that the SPFS problem needs to be resolved.
- Almost all (96%) of attendees strongly agreed that Tier 2 GPFS should fully comply with R&M requirements in AAS to facilitate transparent, comparable, consistent financial statements.

SDR is too much in some ways but falls short in many other ways

- Ten percent of participants said they liked SDR the way in which it has been drafted.
- However, the vast majority of participants said that whilst the disclosures in SDR are important, requiring full disclosure of those nine disclosures was too much.
- Most participants further suggested that SDR might not be appropriate for all industry sectors and is missing some critical disclosures to help predict the viability of an entity such as: liquidity, contingent liabilities, subsequent events and commitment disclosures.
- Some participants suggested that smaller entities may have issues with related party disclosures because of privacy issues. However, most participants said that related party disclosures – particularly those around related party transactions are fundamentally important for users.
- Overall, most participants prefer more disclosures than what was proposed in SDR but at an 'RDR-level' of disclosure.
- Some participants preferred SDR or SDR+ whereby it would have more disclosures than what is covered by SDR but at a reduced disclosure level.

A more user-friendly RDR, with further disclosure reductions a clear preference

- Almost half (45%) of participants preferred RDR with further reductions in disclosures and improvements to the usability of the framework.
- Supporters of RDR said that the framework has been working well and has been accepted by the market. These participants felt that it provides a much more useful set of disclosures suitable for any industry in the sector.
- Many fans of RDR particularly liked the proposed RDR suggested in Exposure Draft [ED 277 Reduced Disclosure Requirements for Tier 2 Entities](#) [January 2017], specifically the principles for disclosure and focus on disclosures that are "significant and material".
- Opponents to RDR suggested that RDR is hard work to apply – going through every standard is onerous – so urged the AASB to look at innovative ways to make the framework more user-friendly (noting that many participants still wanted the disclosure requirements within the Standards for context, even if it was also separately located for ease of application).

Uncertainty on whether AASB 1 is enough for transitional relief

- More than 80 percent of participants said that the transitional relief in AASB was either not enough or they were unsure whether or not it was enough.
- However, most participants suggested that even if the AASB are offering more transitional relief to what is in AASB 1, that AASB 1 should be provided as an alternative.
- Participants suggested that consolidation is the biggest hurdle. Therefore, specific transitional relief to help with consolidation would be very helpful.

Split view on grandfathering of prior consolidations

- Most participants (54%) disagreed with providing grandfathering relief from consolidation for existing subsidiaries (i.e. suggested all subsidiaries controlled at transition date should be consolidated).

Most want comparatives for R&M changes

- 74% of attendees said that comparatives should be required for R&M changes in order to understand the financial statements. However more than a quarter of attendees said comparatives are not necessary.

Uncertainty on whether or not trusts should be grandfathered

Background

- At the Melbourne roundtable, one participant raised a point suggesting that trusts and other entities required by constitutional documents may be inadvertently impacted by the AASB's proposals. The participant highlighted that many trust deeds have "template" wording in them requiring compliance with AAS without necessarily an intention by the trustees or beneficiaries that the financial statements be general purpose financial statements (GPFS). The participant suggested that whilst changing constitutional documents is possible, it can also be onerous and if not done correctly could result in tax consequences for the entity. The participant suggested that the AASB grandfather the disclosure requirements in Tier 2 GPFS for existing trusts and other entities governed by constitutional documents (i.e. these entities should already be complying with R&M and this requirements should continue) so that only new and/or modified trusts/entities after the application date of the AASB's Phase 2 proposals would be required to prepare Tier 2 GPFS including the disclosure requirements contained within the framework.
- Based on the above, AASB Staff asked a separate polling question at all of the roundtables. Specifically, AASB Staff asked whether existing trusts and other entities only governed by constitutional documents (i.e. not those where there are financial reporting legislative requirements in place) should be grandfathered, such that the AASB's Phase 2 proposals only apply to new and/or modified trusts/entities after the application date of those Phase 2 proposals.

Responses

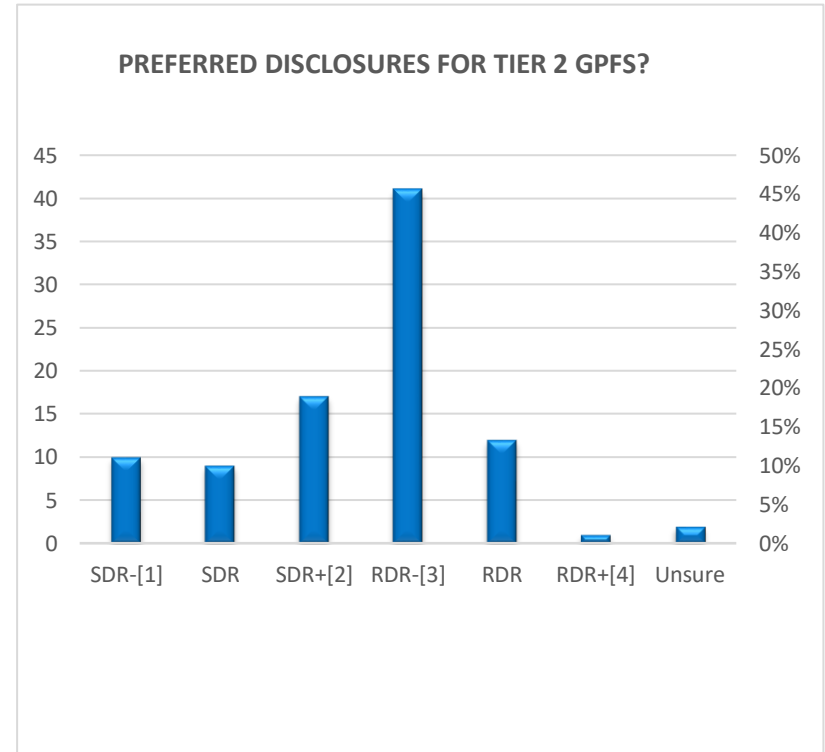
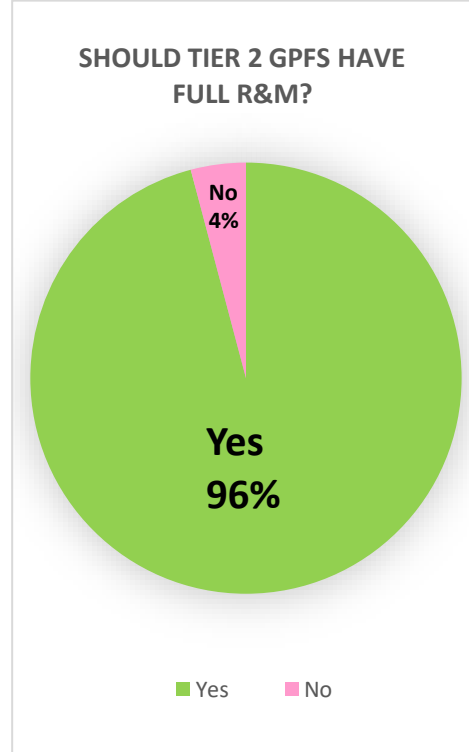
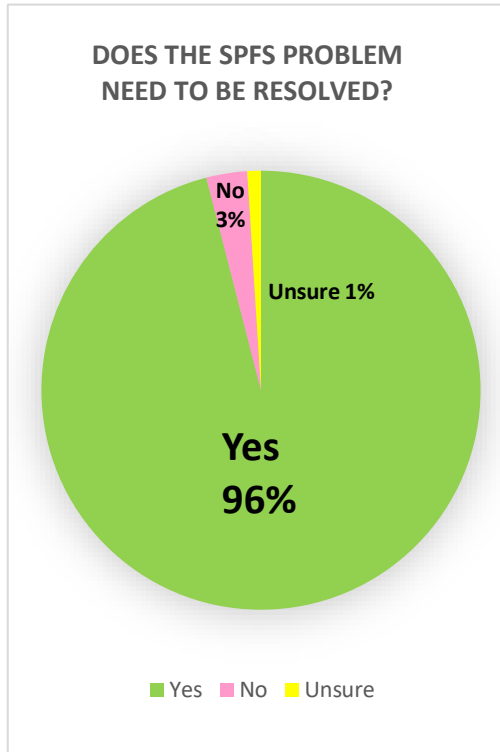
- Most participants (41%) said yes, trusts should be grandfathered.
- One-third of participants (33%) said no, trusts should not be grandfathered – stating that this just leads to messiness (not knowing who is in or who is out) and entities structuring transactions through trusts (prior to application date) to avoid reporting responsibilities. One participant suggested it was already unfair that some large proprietary companies have public lodgement relief under the Corporations Act, so why would the AASB consider providing relief within the AAS – stating there should be a level playing field.
- The remaining 26% of participants were unsure on whether trusts should be grandfathered, suggesting that the AASB could explore this option.

What's next?

- Additional research is being conducted during late 2018
- Constituents to submit responses to Phase 2 of ITC 39 by 9 November 2018
- AASB Board to discuss Phase 1 of ITC 39 submissions on 13 November 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 January 2020
- Phase 1 will be applied for periods beginning 1 January 2020 (30 June 2021 year ends)

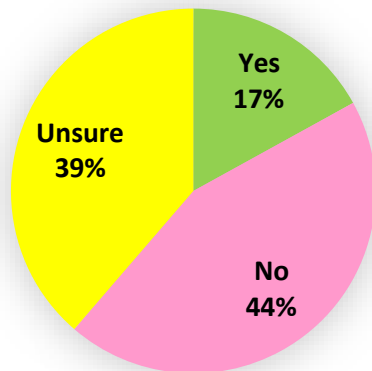
Appendix A: Poll feedback

What should Tier 2 GPFS look like?

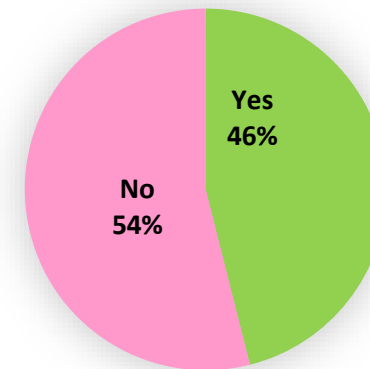


What transitional relief would be most helpful?

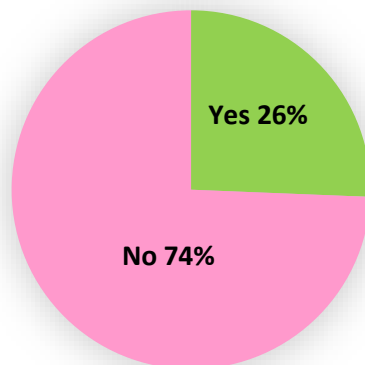
IS THE TRANSITIONAL RELIEF IN AASB 1 ENOUGH?



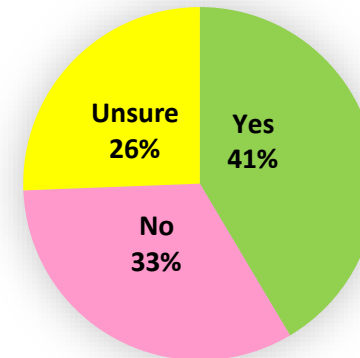
SHOULD PRIOR CONSOLIDATIONS BE GRANDFATHERED?



SHOULD COMPARATIVES BE RESTATED FOR RECOGNITION AND MEASUREMENT CHANGES?



SHOULD REQUIREMENTS ONLY APPLY TO NEW/MODIFIED TRUSTS POST-APPLICATION DATE)?



Appendix B: Summary of feedback by location

Total attendees: 106

Composition of attendees: 9 Regulators, 46 Auditors/Firms, 30 Preparers, 6 Academics, 9 Professional Bodies, 5 Users and 1 representative from Treasury across all sectors but predominantly across the for-profit private and public sector.

	Melbourne	Brisbane	Sydney	Adelaide	Perth
Do you agree the SPFS issue needs to be resolved?	100% Yes	100% Yes	84% Yes 12% No 4% Unsure	100% Yes	96% Yes 3% No, 1% Unsure
Should Tier 2 GPFS have full R&M?	92% Yes 8% No	100% Yes	95% Yes 5% No	100% Yes	100% Yes
Preferred disclosures for Tier 2 GPFS?	Most preferred SDR+ (35%) or RDR- (31%)	Most preferred RDR- (33%) or RDR (22%)	Most preferred RDR- (64%) or RDR (20%)	Most preferred RDR- (82%) or RDR (18%)	Most preferred SDR (27%), SDR+ (27%) or RDR- (20%)
Is the transitional relief in AASB 1 enough?	28% Yes 28% No 44% Unsure	11% yes 89% No	10% Yes 45% No 45% Unsure	9% Yes 91% Unsure	13% Yes 88% No
Should prior consolidations be grandfathered?	50% Yes 50% No	100% No	97% Yes 3% No	100% No	100% No
Should comparatives be restated for R&M changes?	47% Yes 53% No	44% Yes 56% No	7% Yes 93% No	44% Yes 56% No	13% Yes 88% No
Should trusts be grandfathered ⁴	38% Yes 63% Unsure	100% No	26% Yes 74% No	82% Yes 9% No 9% Unsure	67% Yes 33% Unsure
Number of attendees	39	9	31	11	16
Composition of attendees	6 Regulators (including ASIC, ATO, ACNC (briefly at the start of the session) and the FRC), 17 Auditors/Firms, 7 Preparers, 1 Academic, 5 Professional Bodies and 3 Users	3 Regulators (including Office of Fair Trading, ATO), 4 Auditors/Firms, and 2 Preparers.	12 Auditors/Firms, 10 Preparers, 2 Academics, 4 Professional Bodies, 2 Users and 1 representative from Treasury.	6 Auditors/Firms, 3 Preparers, and 2 Academics.	7 Auditors/Firms, 8 Preparers, and 1 Academic.

⁴ This means - should the new requirements only apply for new/modified trusts after application date?

Appendix C: What we heard in each location

Melbourne – Monday 10 September 2018

Number of attendees: 39

Composition of attendees: 6 Regulators (including ASIC, ATO, ACNC (briefly at the start of the session) and the FRC), 17 Auditors/Firms, 7 Preparers, 1 Academic, 5 Professional Bodies and 3 Users

Question 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 ASIC's RG 85?

- All participants strongly agreed the SPFS problem needs to be resolved.
- There were mixed views on whether entities required by legislation or constitutional document to prepare financial statements, should comply with recognition and measurement requirements in Australian Accounting Standards (AAS).
- Most participants said 'yes' that entities should comply with recognition and measurement requirements in AAS and given most entities are already complying, the AASB's proposals should not be a problem from this perspective.
- Some participants suggested the biggest hurdle is consolidation and equity accounting.
- Others said complying with AASB 9 *Financial Instruments* may be a problem for small entities (for example valuing unlisted investments at fair value could be an issue).
- One participant said that they are not convinced that complying with recognition and measurement requirements in AAS is necessary (i.e. even if entities can do it this participant wasn't sure why they should need to).
- One participant said that if the AASB wants to make this change, they should be clear what the change is and not try to offset it with changes to Tier 2.
- Most participants said it would be hard to improve comparability and usefulness without requiring entities to comply with recognition and measurement requirements in AAS.

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

- Many participants suggested the disclosures in SDR were important but requiring full disclosure in those nine disclosures was too much and unnecessary (i.e. would be better if the nine were at the reduced disclosure requirement level as the extra bits aren't particularly helpful).
- These same participants also suggested that SDR may not be appropriate for all industries or parts of the sector. There are many disclosures missing from SDR such as liquidity, contingent liabilities, subsequent events and commitment disclosures). They questioned how SDR would provide true and fair view when certain disclosures required by other Standards are significant to the entity => for that reason SDR at an 'RDR level' **plus** other disclosures would be better.
- Many other participants suggested starting with RDR and make further enhancements to it to make it more user-friendly and potentially reduce the disclosures further. Specifically some participants suggested RDR is messy to use and some constituents find it confusing and onerous.
- Other participants suggested that RDR has been accepted by the market so why not just keep it the way it is and continue to use it as the Tier 2 framework.
- One participant suggested that the AASB could just have Tier 1 GPFS and use materiality to determine disclosures. Others had concerns with this approach as they felt the auditors would want more in there if that was the case.
- One participant suggested that smaller entities may have issues with related party disclosures because of privacy issues (for example where they may have just one KMP).
- Several other participants said that users of financial statements do want related party disclosures, so suggested that related party disclosures are fundamentally important.

Question 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?

- Participants in Melbourne has mixed views on transitional relief.
- Some participants couldn't understand why AASB 1 *First-time Adoption of Australian Accounting Standards* was not enough in terms of transitional relief, stating that this entities impacted by the ATO's Significant Global Entity (SGE) requirements were not given additional relief. Similarly AASB 1 was applied when entities in Australia first transitioned to IFRS, therefore it is unclear why additional transitional relief is required for this project.
- On the other hand many participants preferred to make the transition prospectively only (no comparatives), stating that restatement is the biggest hurdle, therefore transition relief from restatement for all significant balances would be very helpful.
- Other participants suggested consolidation was the biggest hurdle. Therefore, if there was specific transitional relief to help with consolidation, AASB 1 could be used for everything else.
- One participant suggested the easiest way to manage the consolidation transition would be to simple line up all the entities, consolidate and then do intercompany eliminations, without requiring comparatives.
- Another participant suggested that the transitional relief in AASB 3 *Business Combinations* and AASB 10 *Consolidated Financial Statements* should also help with transition.
- One participant suggested that the AASB should consider how to deal with historical impairment when considering initial consolidation requirements and another participant suggested that deemed cost may be an issue worth considering.
- Another participant said that there are some cases where the underlying subsidiaries aren't complying with recognition and measurement in AAS, therefore consolidation would be difficult until those subsidiaries are complying. The AASB could consider what transitional relief could be given for these circumstances.
- Other specific areas that participants suggested could be an issue with transition included moving to recognition and measurement requirements in AASB 112 *Income Taxes* and AASB 9 *Financial Instruments*.

Other comments

- One participant raised a point suggesting that trusts and other entities required by constitutional documents may be inadvertently impacted by the AASB's proposals. The participant highlighted that many trust deeds have "template" wording in them requiring compliance with AAS without necessarily an intention by the trustees or beneficiaries that the financial statements be general purpose financial statements (GPFS). The participant suggested that whilst changing constitutional documents is possible, it can also be onerous and if not done correctly could result in tax consequences for the entity. The participant suggested that the AASB grandfather the disclosure requirements in Tier 2 GPFS for existing trusts and other entities governed by constitutional documents (i.e. these entities should already be complying with R&M and this requirements should continue) so that only new and/or modified trusts/entities after the application date of the AASB's Phase 2 proposals would be required to prepare Tier 2 GPFS including the disclosure requirements contained within the framework.
 - ⇒ AASB Staff mentioned that we have been working with lawyers in relation to trusts (i.e. to understand key features of different types of trusts, standard/templates wording in trust deeds and the process/cost to change trust deeds etc).
 - ⇒ AASB Staff asked participants if they supported the suggestion to grandfather existing trusts/other entities - a number of participants shared support for that suggestion, whilst other participants were unsure.

Brisbane – Thursday 13 September 2018

Number of attendees: 9

Composition of attendees: 3 Regulators (including Office of Fair Trading, ATO), 4 Auditors/Firms, and 2 Preparers.

Question 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 ASIC's RG 85?

- All participants agreed the SPFS problem needs to be resolved.
- All participants agreed that if required by legislation or constitutional document to prepare financial statements, those financial statements should comply with recognition and measurement requirements in AAS.

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

- Some participants said that SDR is very “vanilla” – different sectors/industries may have different needs => for that reason RDR may be better
- Some participants suggested that smaller entities may have issues with related party disclosures because of privacy issues (for example where they may have just one KMP). Those same participants also noted that ultimately regulators and users of financial statements do want related party disclosures, so suggested that related party disclosures are fundamentally important.
- Other participants suggested there may be a misunderstanding of what related party disclosures are required under AASB 124 *Related Party Disclosures* – suggesting that some people may be under the impression that the detailed and individual key management personnel (KMP) remuneration requirements for listed entities are also required by the Standard. On this point, some participants suggested remuneration disclosures at an individual KMP level would be helpful
 - ⇒ AASB Staff mentioned that this is beyond the scope of this project
- Participants in the room who represented for-profit non-ASIC regulated entities said that complying with full recognition and measurement requirements in AAS and related party disclosures are important for users of for-profit cooperatives too.
- One participant suggested that the cash flow standard could be optional – the view was not shared by others in the room
 - ⇒ AASB Staff said that making the cash flow optional was not being considered (noting it is already a minimum requirement in ASIC's Regulatory Guide RG 85 *Reporting requirements for non-reporting entities*).
- One participant suggested that since many small companies are not complying with full disclosure requirements that instead of setting minimum disclosure requirements for these entities, these entities could just include a statement of “non-compliance” to help users understand what disclosures they have omitted.
 - ⇒ AASB Staff said that if the disclosures omitted are not material then that would be appropriate but if the disclosures are material then that would not be appropriate.
- Some participants suggested that many companies voluntarily consolidate and provide disclosures on deferred taxes and cash flows, therefore moving to SDR or RDR may not be too onerous.

Question 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?

- Some participants were concerned about the proposals as they felt that there would be an increase in costs resulting from hiring external accountants and/or training existing accountants to meet the requirements under the proposals. Therefore, they suggested the more relief the AASB provided, the more constituents would support the proposals.
- Participants representing firms with smaller-sized clients said the biggest concern was consolidation and their clients would find it very difficult to back-date prior business combinations (i.e. preference is to consolidate going forward from date of transition). These participants also explained that many of these clients are referrals from tax and their accounts are not in good shape.
- With respect to comparatives – some participants felt that these were important to understand the financial statements. On the other hand a participant with a Swedish background said that Sweden made a significant change one time and did it prospectively and everyone understood that is what had happened and so the comparatives looked funny for that one year and then things went on as normal from there.

- A question was asked whether changing to full recognition and measurement with AAS with transitional adjustment would have an impact from the view of the ATO. An ATO representative said that would depend on facts and circumstances. However, given the tax return should have been prepared in accordance with tax legislation in any case, there shouldn't be an impact.

Other comments

- When discussing the impact of the AASB's proposals on trusts - a representative from the ATO mentioned a case [FC of T v THOMAS & ORS](#) (Thomas case), which may be relevant when considering transition requirements / grandfathering options for trusts.
 - ⇒ AASB Staff mentioned that we have been working with lawyers in relation to trusts (i.e. to understand key features of different types of trusts, standard/templates wording in trust deeds and the process/cost to change trust deeds etc). AASB Staff will mention the Thomas case to the lawyers.
- Based on a suggestion made at the Melbourne roundtable, AASB Staff asked a separate polling question - whether the AASB should grandfather existing trusts so that only new and/or modified trusts after the application date of the AASB's Phase 2 proposals should be impacted? The Brisbane participants said no they would not be in favour of such a proposal. One reason for saying no to this proposal was that this could lead to transactions being structured through trusts (prior to the application date) to avoid reporting obligations. Another reason was that it could lead to further confusion (i.e. who is in versus out) and lack of comparability.

Sydney – Friday 14 September 2018

Number of attendees: 31

Composition of attendees: 12 Auditors/Firms, 10 Preparers, 2 Academics, 4 Professional Bodies, 2 Users and 1 representative from Treasury.

Question 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 ASIC's RG 85?

- There were mixed views on whether the SPFS problem needs to be resolved and whether entities required by legislation or constitutional document to prepare financial statements, should comply with recognition and measurement requirements in AAS.
- 28 participants strongly agreed the SPFS problem needs to be resolved. However, three participants disagreed that there was a problem with SPFS and one participant was unsure whether there was a problem to be solved.
- All but one participant said 'yes' that entities should comply with recognition and measurement requirements in AAS.
- One participant suggested that private companies shouldn't need to report at all, irrespective of size.
- Another participant suggested that the AASB have a third tier for 'smaller' for-profit entities which does not require compliance with recognition and measurement requirements in AAS.
- A key concern for those who did not agree with the SPFS problem was the requirement to consolidate and equity account under GPFS.

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

- One participant representing a large firm said when they polled constituents on this question they found:
 - 60% of those polled said RDR was too much
 - 40% of those polled said SDR was not enough
- Many of the other participants agreed with the above findings.
- With respect to SDR, participants noted the following concerns:
 - SDR may not be very relevant to some parts of the sector i.e. different industries may have different needs which would not be explicitly covered by the SDR disclosures.
 - SDR lacks many of the key disclosures necessary to understand the viability of the entity into the future (i.e. missing solvency, contingent liabilities, impairment of financial instruments and commitment disclosures) => for that reason RDR may be better.
 - SDR has too much in those nine disclosures (i.e. would be better if the nine were at the reduced disclosure requirement level as the extra bits aren't particularly helpful).
 - One participant wasn't convinced that there was a need for related party disclosures or income tax disclosures. Other participants agreed with the comment on income tax disclosures particularly for including them in full (i.e. income tax disclosures at an 'RDR-level' would be sufficient). Most participants said they understood the importance of related party disclosures, however questioned whether they would be required in full (again suggested that the 'RDR-level' would be sufficient). One participant noting that whilst the related party transaction disclosures are particularly useful, they question whether the key management personnel disclosures at an aggregated level were helpful for users.
 - ⇒ AASB Staff mentioned that exploring AASB 124 is beyond the scope of this project
- On the other hand supporters of SDR said that it is far more convenient just referring to nine Standards rather than all at a reduced level such is the case with RDR.

- With respect to RDR, participants noted the following concerns:
 - RDR is hard work to apply – having to go through every Standard and understand the shading is onerous. It would be helpful if all the disclosures were contained in a separate book.
 - RDR is still too onerous – certain disclosures such as the detailed disclosures required to describe the impact of new Standards are difficult to prepare and participants questioned their value to users.
- On the other hand supporters of RDR said that the framework is working well now and has been accepted by the market. The participants felt that it provides a much more useful set of disclosures suitable for any industry in the sector.
- Supporters of RDR also noted that they liked the proposed RDR suggested in Exposure Draft [ED 277 Reduced Disclosure Requirements for Tier 2 Entities](#) [January 2017], specifically the principles for disclosure and focus on disclosures that are “significant and material”.
- One participant queried whether there could be a third tier of disclosures (i.e. full R&M for all) but have Tier 1 disclosures for publicly accountable entities, RDR for the larger-sized entities and SDR for the smaller-sized entities. These participants said that this would help with managing costs including the cost to have the financial statements audited.
 - ⇒ AASB Staff responded with the fact that there would need to be objective criteria to separate between the larger-sized entities and the smaller-sized entities - the AASB does not have the remit to determine that objective criteria (i.e. who should report at what level)
 - ⇒ AASB Staff also pointed out that there aren't enough entities to warrant three tiers of reporting in the for-profit sector.

Question 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?

- Participants who supported AASB 1 said that if the AASB provide extra transitional relief for entities moving from SPFS to Tier 2 GPFS as part of this project, then if those entities decided at a later date to move to Tier 1 GPFS, they would need to apply AASB 1 again and make another set of adjustments. Therefore it is better to just apply AASB 1 for this project.
- Other participants suggested AASB 1 was definitely not enough, with the biggest issue being the consolidation relief is not significant enough. These participants suggested that in 2005 when AASB 1 was used in the transition to IFRS there were far more entities already consolidating, compared to now where there are far fewer entities preparing consolidated SPFS. As such these participants suggested simple rules for consolidation be applied on transition, mentioning merger accounting as an example.
- Other participants said they would need to test whether AASB 1 was sufficient relief – therefore were unsure at this stage whether AASB 1 was enough.
- Some participants strongly disagreed with providing grandfathering relief from consolidation for existing subsidiaries (i.e. suggested all subsidiaries controlled at transition date should be consolidated).
- Participants had mixed views on whether or not to have comparatives, those that wanted comparatives suggested having at least one year of comparatives. Those that don't want comparatives emphasised that three years of comparatives is simply too much.

Other comments

- Some participants enquired whether legislators would consider redefining the small/large proprietary thresholds.
 - ⇒ AASB Staff responded reminding participants there are <7,000 large proprietary companies required to lodge with ASIC, representing less than 1% of the ~840,000 trading entities. Furthermore, the thresholds would need to move significantly as the graphs shown on slide 12 of the AASB's [presentation](#) demonstrate that most of the large proprietary companies have annual revenue in excess of \$50m, more than \$30m in assets and more than 100 employees.
 - ⇒ AASB Staff also reminded participants that the AASB does not have the remit to determine the thresholds (i.e. who should report at what level)

- One participant queried whether the proposals would impact Australian financial services licence (AFSL) holder reporting requirements.
 - ⇒ AASB Staff responded saying the proposals would only AFSL holders if there are legislative requirements for AFSL holders to prepare financial statements in accordance with AAS.
 - ⇒ AASB Staff explained that they are in the process of performing detailed research on Australian legislation and regulations to identify which of these requirements specify that a financial report must be prepared in accordance with AAS. The AASB plans to publish this research and it will also feed into the cost/benefit analysis the AASB is required to perform when preparing the Regulation Impact Statement for the Phase 2 proposals.
- One participant queried whether debt covenants would be impacted by the AASB's proposals
 - ⇒ AASB Staff responded stating that debt covenants between lenders and borrowers are determined by the arrangements between those two parties. The AASB's proposals only impact situations where legislation or a constitutional document (such as a trust deed) requires the preparation of a **financial report** in accordance with AAS (not merely a component of a financial report or various line items from a balance sheet or profit and loss as would be the case for a debt covenant).
- One participant suggested the AASB should try to remove the public lodgement relief granted to grandfathered proprietary companies as it gives some very large Australian companies an unfair competitive advantage.
 - ⇒ AASB Staff reminded participants that the AASB does not have the remit to remove or change the public lodgement relief under s1408 of the Corporations Act.
- Based on a suggestion made at the Melbourne roundtable, AASB Staff asked a separate polling question - whether the AASB should grandfather existing trusts so that only new and/or modified trusts after the application date of the AASB's Phase 2 proposals should be impacted? Most participants said no, with only a handful of participants saying they would be in favour of such a proposal. Reasons for opposing the proposal were that some participants already thought it was unfair that some large proprietary companies have public lodgement relief under the Corporations Act, so why would the AASB consider providing relief within the AAS – there should be a level playing field.

Adelaide – Monday 24 September 2018

Number of attendees: 11

Composition of attendees: 6 Auditors/Firms, 3 Preparers, and 2 Academics.

Question 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 ASIC's RG 85?

- All participants agreed the SPFS problem needs to be resolved.
- All participants agreed that if required by legislation or constitutional document to prepare financial statements, those financial statements should comply with recognition and measurement requirements in AAS.

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

- Some participants said that SDR is very "vanilla" – different sectors/industries may have different needs => for that reason RDR may be better.
- Others said that SDR lacked many of the key disclosures necessary to understand the viability of the entity into the future (i.e. missing liquidity, contingent liabilities and commitment disclosures) => for that reason RDR may be better.
- Many participants noted that SDR has too much in those nine disclosures (i.e. would be better if the nine were at the reduced disclosure requirement level as the extra bits aren't particularly helpful) but also there are many disclosures missing from SDR such as liquidity, contingent liabilities and commitment disclosures) => for that reason SDR at an 'RDR level' plus other disclosures would be better.
- Many participants liked the proposed RDR suggested in Exposure Draft [ED 277 Reduced Disclosure Requirements for Tier 2 Entities](#) [January 2017], specifically the principles for disclosure and focus on disclosures that are "significant and material".
- Some participants highlighted that their clients have moved from Tier 1 GPFS to Tier 2 GPFS-RDR and didn't notice a notable difference as they had already applied materiality appropriately.
- Others said that RDR is better than SDR as it would be easier to transition to Tier 1 from RDR compared to SDR.
- Some liked the idea of just having one tier (Tier 1) and using materiality and "true and fair view" to guide disclosures but concerned that this may cause issues from an audit perspective (i.e. auditors will want to see too much to cover off on their risk).

Question 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?

- Participants suggested that even if the AASB are offering more transitional relief to what is in AASB 1, that AASB 1 should be provided as an alternative option.
- Other participants said they would need to test whether AASB 1 was sufficient relief – therefore were unsure at this stage whether AASB 1 was enough.
- Participants strongly disagreed with providing grandfathering relief from consolidation for existing subsidiaries (i.e. suggested all subsidiaries controlled at transition date should be consolidated).
- Participants had mixed views on whether or not to have comparatives, those that wanted comparatives suggested having at least one year of comparatives.
- Some participants suggested transitional relief on accounting for income tax requirements could be helpful

Other comments

- One participant said they are not clear what the AASB mean by reference to a constitutional document and suggested the AASB make this clearer.
- Based on a suggestion made at the Melbourne roundtable, AASB Staff asked a separate polling question - whether the AASB should grandfather existing trusts so that only new and/or modified trusts after the application date of the AASB's Phase 2 proposals should be impacted? Most participants said yes, with only one participant saying no and another one participant saying they are unsure.

Perth – Wednesday 26 September 2018

Number of attendees: 16

Composition of attendees: 7 Auditors/Firms, 8 Preparers, and 1 Academic

Question 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 ASIC's RG 85?

- All participants agreed the SPFS problem needs to be resolved.
- All participants agreed that if required by legislation or constitutional document to prepare financial statements, those financial statements should comply with recognition and measurement requirements in AAS.

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

- A couple of participants queried whether there could be a third tier of disclosures (i.e. full R&M for all) but have Tier 1 disclosures for publicly accountable entities, RDR for the larger-sized entities and SDR for the smaller-sized entities. These participants said that this would help with managing costs including the cost to have the financial statements audited.
 - ⇒ AASB Staff responded with the fact that there would need objective criteria to separate between the larger-sized entities and the smaller-sized entities - the AASB does not have the remit to determine that objective criteria (i.e. who should report at what level)
 - ⇒ AASB Staff also pointed out that there aren't enough entities to warrant three tiers of reporting in the for-profit sector.
- Most participants preferred SDR or SDR+ whereby it would have more disclosures than what is covered by SDR but at a reduced disclosure level. These participants felt that RDR was still too onerous and not a very easy framework to apply.
- Public sector participants said that their preference was RDR and were hoping the public sector would move to RDR
- Overall participants said the chosen framework should apply a "layered approach". By this they mean that R&M should be the same in each tier and the disclosures should just be simplified in Tier 2 so that there are no issues with consolidation of subsidiaries.
- One participant observed that the standard of accountants in Australia appears to be poor at times, this may be attributable to SPFS. Therefore, it will be an advantage for Australians to move to a single set of accounting requirements R&M but this needs to be coupled with better education.
- Another participant noted that the AASB could just have full Tier 1 GPFS and entities could apply materiality appropriately to determine R&M and disclosures. Others disagreed saying that auditors would find this difficult as their clients don't always fully apply the concepts of materiality appropriately.

Question 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?

- Participants suggested that even if the AASB are offering more transitional relief to what is in AASB 1, that AASB 1 should be provided as an alternative option.
- Other participants said they would need to test whether AASB 1 was sufficient relief especially with respect to business combinations.
- Some participants did not think it was appropriate providing grandfathering relief from consolidation for existing subsidiaries.

Other comments

- Based on a suggestion made at the Melbourne roundtable, AASB Staff asked a separate polling question - whether the AASB should grandfather existing trusts so that only new and/or modified trusts after the application date of the AASB's Phase 2 proposals should be impacted? Most participants said yes, with only a handful of participants saying they unsure about whether they would support such a proposal.

Appendix D: Breakdown of poll results

Question 1 Polling Question

Does the SPFS problem need to be resolved?						
	Melbourne	Brisbane	Sydney	Adelaide	Perth	Total
Responses for question	(39)	(9)	(25)	(11)	(16)	(100)
Yes	100%	100%	84%	100%	100%	96%
No	0%	0%	12%	0%	0%	3%
Unsure	0%	0%	4%	0%	0%	1%

Should Tier 2 GPFS have full R&M?						
	Melbourne	Brisbane	Sydney	Adelaide	Perth	Total
Responses for question	(39)	(9)	(22)	(11)	(16)	(97)
Yes	92%	100%	95%	100%	100%	96%
No	8%	0%	5%	0%	0%	4%

Question 2 Polling Question

Which of the following do you prefer for Tier 2 GPFS?						
	Melbourne	Brisbane	Sydney	Adelaide	Perth	Total
Responses for question	(32)	(9)	(25)	(11)	(15)	(92)
SDR ⁻⁵	16%	11%	8%	0%	13%	11%
SDR	9%	11%	4%	0%	27%	10%
SDR+ ⁶	35%	11%	4%	0%	27%	18%
RDR ⁻⁷	31%	33%	64%	82%	20%	45%
RDR	9%	22%	20%	18%	0%	13%
RDR+	0%	12%	0%	0%	0%	1%
Unsure	0%	0%	0%	0%	13%	2%

5 SDR minus refers to the proposed nine SDR 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*, AASB 1054 *Australian Additional Disclosures* plus related party, revenue, impairment of assets and income tax disclosures) at an 'RDR-level'.

6 SDR plus means the nine SDR disclosures (refer footnote 5) in full plus additional disclosures in full (such as contingent liabilities, subsequent events etc)

7 RDR minus refers to disclosures from all AAS with a further reduction to what is in the current Tier 2 GPFS-RDR

Question 3 Polling Questions

Is the transitional relief in AASB 1 enough?						
	Melbourne	Brisbane	Sydney	Adelaide	Perth	Total
Responses for question	(39)	(9)	(31)	(11)	(16)	(106)
Yes	28%	11%	10%	9%	12%	17%
No	28%	89%	45%	0%	88%	44%
Unsure	44%	0%	45%	91%	0%	39%

Should prior year consolidations be grandfathered?						
	Melbourne	Brisbane	Sydney	Adelaide	Perth	Total
Responses for question	(22)	(9)	(31)	(11)	(16)	(89)
Yes	50%	0%	97%	0%	0%	46%
No	50%	100%	3%	100%	100%	54%

Should comparatives be restated for R&M changes?						
	Melbourne	Brisbane	Sydney	Adelaide	Perth	Total
Responses for question	(17)	(9)	(27)	(9)	(16)	(78)
Yes	47%	44%	7%	44%	12.5%	26%
No	53%	56%	93%	56%	87.5%	74%

Should trusts be grandfathered (i.e. the requirements only to apply to new / modified trusts post application date)?						
	Melbourne	Brisbane	Sydney	Adelaide	Perth	Total
Responses for question	(24)	(9)	(23)	(11)	(15)	(82)
Yes	38%	0%	26%	82%	67%	41%
No	0%	100%	74%	9%	0%	33%
Unsure	62%	0%	0%	9%	33%	26%