29 November 2019

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

Via website: www.aasb.gov.au

Dear Kris

Submission on AASB Exposure Draft 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (ED 297)

As the representatives of over 200,000 professional accountants in Australia, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia thank you for the opportunity to comment on ED 297.

This joint submission has been informed by our previously developed policy positions on reporting framework reform, and by recent member and stakeholder feedback. CA ANZ's policy positions have been further informed by the findings of a survey of 512 professionals (mostly members), conducted between June and August 2019, ahead of the release of ED 297. A copy of the survey report is attached to this submission.

We are appreciative of the AASB's efforts to date in developing proposals to reform Australia's financial reporting framework and refining them to accommodate feedback received during its consultations and outreach. We also note and appreciate that the AASB has taken on board the feedback provided in our earlier submissions on this project and conducted additional research and outreach that resulted in ED 297 containing a narrower and more refined set of proposals.

Accordingly, CA ANZ and CPA Australia are pleased to support the ED 297 proposals that will require only certain for-profit entities to prepare General Purpose Financial Statements (GPFS). However, for the reasons set out in this submission we recommend that a two-year implementation window be made available, making the reforms optional for financial reporting periods that begin before 1 July 2022 and requiring mandatory application only after that date.

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CA ANZ and CPA Australia have also considered these proposals in conjunction with the proposals in Exposure Draft 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-profit Tier 2 Entities* (ED 295). Our joint response to ED 295 also recommends a similar two-year implementation window with respect to the proposals included in that consultation.

The key reasons for recommending a longer implementation period are set out below and referred to, where relevant, in our answers to specific questions included in the **Attachment** to this letter.

Transition timing and due process

These proposals, signalling the first step in removing the ability of entities to prepare Special Purpose Financial Statements (SPFS) where legislative lodgement requirements demand compliance with Australian Accounting Standards (AAS), are a significant change to the Australian financial reporting framework. In our view, there is insufficient justification to support an accelerated implementation date that does not adhere to the AASB's Due Process Framework principles (see below). We do not consider an adoption time window of less than one year is appropriate. It is a considerably shorter period than is usually offered for reforms of this nature, particularly given that the final scope and requirements are unlikely to be issued until mid-2020.

Accelerating the implementation timetable does not provide enough time for many practitioners, their clients and other stakeholders to develop an effective transition timetable and identify the manpower and educational resources needed to make the necessary changes before being required to begin transition. It also does not provide the AASB, relevant regulators, and our two professional organisations, with sufficient time to identify the nature of and develop essential supporting transition resources.

The proposed accelerated implementation timetable is inconsistent with the AASB's recently issued Due Process Framework which states, at paragraph 7.9.2 that "When determining the effective date of Standards, the AASB seeks to ensure that stakeholders have adequate time to prepare for their implementation. Typically, the AASB will issue a Standard with at least 2 years before its effective date (e.g. a year before the beginning of the comparative reporting period) and generally permits entities to apply those requirements early should they wish to do so".

The CA ANZ survey, and other member feedback, also suggests that resourcing these reforms in the proposed timeframe will present a challenge. Many survey respondents identified that they may, or would, need external support, placing pressure on their advisors and auditors who may be managing transition challenges of their own. A longer implementation period helps to mitigate these concerns.

We accept that some entities may wish to transition to the new requirements early and so early adoption should be made available as an option. We also agree that, in the interests of consistency and comparability, there is a need to motivate prompt transition for the remainder of affected entities. Accordingly, we support the transitional exemptions for comparatives proposed by the AASB as a means of incentivising adoption for those who choose to transition to the new requirements from 1 July 2020. Furthermore, we support the sunsetting of these additional exemptions because entities choosing a later adoption will have the ability to manage their transition more effectively and will be able to obtain the appropriate information during this process.

Interaction with other elements of the reform process

The proposals in this ED need to be considered in conjunction with the proposals in ED 295 because the Tier 2 reporting framework it proposes will effectively replace special purpose reporting for those entities within the scope of ED 297. However the scope of ED 295 is much wider, impacting all entities reporting in accordance with AAS, including for-profit and not-for-profit (NFP) private and public sector entities that are already reporting using the Tier 2 requirements.

In developing our response to ED 295, we have identified a number of potential implementation challenges that relate to this wider scope. These issues are discussed further in that joint submission and include:

- “Subsidiaries that are SMEs” project – when completed, this International Accounting Standards Board (IASB) project is likely influence the Tier 2 framework adopted in Australia (as stated in paragraph BC24 of ED 297).
- Trans-Tasman harmonisation – the changes proposed to the Tier 2 framework will impact the reporting of some entities that operate across the Tasman, the requirements for which are currently aligned between the two jurisdictions.
- Disclosures that are either not addressed in IFRS for SMEs (such as those in new standard like IFRS 16) or are additional to IFRS for SMEs.

These challenges could be mitigated if those entities who have already adopted the Tier 2 Reduced Disclosure Regime (RDR) had the choice of adopting immediately or awaiting any potential further refinements. Future changes are likely to come from either the IASB’s current work on IFRS for SMEs, and in the case of the NFP and public sector, from the progress of the AASB’s separate framework reform projects. While it is not possible to predict when these projects might conclude or the outcomes of these reforms, a two-year implementation period for the proposals outlined in ED 297 is likely to allow for more insight into the direction of these other projects and so minimise the need for multiple change by entities who, for various reasons, may not wish to make use of the AASB’s interim Tier 2 disclosure solution.

The AASB is also developing a new definition of the term “not-for-profit” as part of its project to develop a new financial reporting framework for private and public sector NFP entities. We understand that this new definition is unlikely to be in place before 1 July 2020.

We appreciate that the current NFP definition can continue to be used by those entities that meet it, and that they will not be affected by the proposed changes in ED 297. Nevertheless, we are of the view that the revised NFP definition should be in place before the changes proposed in ED 297 come into effect for the private sector. This is because the AASB is considering a different, multi-tiered financial reporting framework for private sector NFPs, and so it is important that all private sector entities have clarity around which reporting framework is applicable to them before any are required to make fundamental changes to their reporting systems and practices.

Education

AAS are referenced in a variety of ways in numerous statutory reporting requirements as evidenced in AASB Research Report 10 *Legislative and Regulatory Financial Reporting Requirements*. Many of these statutory requirements may have been developed and included by Australian lawmakers and regulators based on the extant Australian financial reporting framework that includes the Reporting Entity Concept described in Statement of Accounting Concept 1 *Definition of the Reporting Entity*. While the AASB has sought to clearly identify the intended scope of these reforms based on a particular form of words used in the identified statutory reporting requirements, it is the role of those responsible for such statutory reporting requirements to consider the impact of the proposed changes, make any necessary changes to their own requirements or guidance and provide clarity on the impact of these reforms to their regulated populations.

Many of our members, their clients and others regularly prepare and use SPFS in the for-profit sector and remain concerned about a lack of proportionality of regulation and financial reporting requirements that are not fit for purpose. A clear and well communicated justification of the need for, and benefits of, these reforms will need to accompany their finalisation, especially if practitioners are to be able to justify the additional costs arising from these developments to their clients. We are happy to assist in this regard by providing the AASB with opportunities to communicate directly with our members via articles, conferences and other fora, as needed.

Ongoing education will also be needed for the drafters of reporting requirements in trust deeds and other constitutional documents, to ensure that reporting framework changes are recognised and included in any reporting requirements where they are needed.

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In our view, each of these concerns can be better addressed if there was a two-year implementation window that allowed for sufficient time for thorough consideration of all important issues.

Other matters

We thank the AASB for extending the submission deadline to 30 November 2019. However, we still consider the three-month consultation period too short for proposals of this significance and size, particularly as this consultation needs to be considered in conjunction with equally significant proposals in ED 297.

We have used our best endeavours to reach out to our members and stakeholders to obtain feedback in the time provided in order to develop this submission. We also appreciate the Board's work in hosting roundtables and webinars.

When conducting the NFP and Public Sector framework reform consultations, we recommend that the AASB offers a longer time frame to allow more careful and detailed scrutiny of the proposals, particularly if the timing coincides with the "busy season" for many practitioners within the profession.

If you have any questions about our submission, please contact either Amir Ghandar (CA ANZ) amir.ghandar@charteredaccountantsanz.com or Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au. Questions regarding CA ANZ's survey should be directed to the former.

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

Gary Pflugrath CPA
Executive General Manager, Policy and Advocacy
CPA Australia

Attachment

Specific matters for comment

1. **The proposed amendments identify the for-profit entities required to comply with Australian Accounting Standards (or accounting standards) that would no longer have the ability to prepare SPFS. Do you agree that:**
   a) **the amendments set out in this ED effectively remove the ability to prepare SPFS for the for-profit entities identified in AASB 1057 Application of Australian Accounting Standards as entities for which the reporting entity definition is not relevant (also identified in paragraph Aus1.1 of the Conceptual Framework for Financial Reporting)? If not, please provide your reasons.**
   b) **as an exception, other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with AAS should retain the ability to prepare SPFS, provided that the relevant document was not created or amended on or after 1 July 2020? If not, please provide your reasons (see paragraphs BC73-BC83).**
   c) **for-profit public sector entities should also retain the ability to prepare SPFS as discussions about the public sector reporting framework are continuing? If not, please provide your reasons.**

a) Yes, we agree that the proposed amendments in this ED are effective in removing the ability for those identified for-profit entities to apply SAC 1 *Definition of the Reporting Entity* when preparing financial statements in accordance with AAS.

   However ultimately it is the role of those responsible for the individual statutory reporting requirements that the AASB has interpreted as being included and excluded, to provide the necessary guidance to their regulated populations on the impact of these reforms. Without such guidance it could be difficult for stakeholders to consistently reach the same conclusions around scope as the AASB in AASB Research Report 10 *Legislative and Regulatory Financial Reporting Requirements*. The result may be an inappropriate application of these reforms, something the AASB has sought to avoid via its narrow scope wording.

   For example, the reporting requirements for special disability trusts include the terms “financial statements” and “Australian Accounting Standards” but are noted as being excluded by the AASB on the basis that they also use the term “financial information”.

   To provide the AASB and relevant regulators with the opportunity to liaise, and then to ensure that the necessary clarity is provided to all regulated populations, we recommend a two-year implementation period for the proposed reforms.

b) Yes, we agree with the proposed exception.

c) Whilst we are not aware of any for-profit public sector entities that prepare SPFS, we agree that the AASB should consider all public sector entity reporting requirements as part of that stage of its financial reporting reform project.

2. Have you identified any arguments additional to those addressed in the Basis for Conclusions or unintended consequences that should be considered by the AASB in determining whether the ability to prepare SPFS should be removed from certain for-profit private sector entities as set out in this ED?

We consider that the proposed implementation date of 1 July 2020 is too soon for mandatory adoption of these reforms based on the arguments set out in the cover letter to this submission and in Question 8.

In particular, one potential area of concern is the lack of an adequate definition of the term NFP as a basis on which to develop a new financial reporting framework for private and public sector NFP entities. Given that the proposed NFP framework is likely to be different, and multi-tiered, we believe that it is important to ensure that all private sector entities can definitively determine which reporting framework is applicable to them before any are required to make fundamental changes to their reporting systems and practices.

3. Do you agree that:

a) for-profit private sector entities that are neither required by legislation to prepare financial statements that comply with AAS or accounting standards nor required by a document (created or amended on or after 1 July 2020) to prepare financial statements that comply with AAS; and

b) for-profit public sector entities; should be able to voluntarily prepare GPFS and in doing so apply either the Conceptual Framework for Financial Reporting or the Framework for the Preparation and Presentation of Financial Statements? Please provide your reasons, including whether there are any adverse or unintended consequences that should be considered by the AASB in determining whether the Framework for the Preparation and Presentation of Financial Statements should not be permitted to be applied in these circumstances.

We agree that the for-profit and public sector entities identified above should be allowed to voluntarily prepare GPFS to satisfy their reporting requirements if they choose to do so.

However, making this choice should also require them to adopt the new Conceptual Framework for Financial Reporting as it is the framework that now represents accounting best practice. It is the appropriate point of reference for the preparation of a GPFS that complies with all the accounting standards. We are not aware of any adverse consequences that would come from the removal of the old framework once the NFP reform is complete.

4. Do you agree that entities that are not explicitly required to comply with accounting standards, but are required by legislation or otherwise to provide financial statements or financial information that gives a true and fair view, should not be covered by these proposals? If not, please provide your reasons (see paragraphs BC68-BC69).

Yes, we agree that the current scope of these proposals is appropriate.

As noted in our cover letter and in our response to Question 1, one of the reasons for our recommendation for a two-year implementation window is to allow time for the AASB to engage with regulators to ensure there is clarity and consistency in statutory reporting requirements included in the laws of Australia that reflect the revised financial reporting frameworks developed and published by the AASB.

5. Do you agree with the proposal to amend AASB 1 to provide optional relief from the restatement of comparative information in the year of transition from SPFS to GPFS Tier 2 (see paragraphs BC112-BC122)? If not, please provide reasons. If yes, do you agree with the proposed disclosures in relation to the comparative period (see paragraph AusE8.4 for AASB 1 on page 20)? If not, please provide your reasons. Please consider these matters in conjunction with the AASB's proposals regarding a revised Tier 2 disclosure framework as set out in ED 295.

Yes, we agree that entities that choose to adopt the new reporting framework proposed in this ED from 1 July 2020 should be able to avail themselves of the optional relief.

However, as discussed in our cover letter and in our response to Question 8, we recommend that the reforms are not made mandatory until 1 July 2022. Where entities choose this latter adoption date, we believe the proposed transitional relief should sunset. Such entities will have the time needed to collect and provide the comparative information that is not available to their early adopting counterparts, and so do not need this additional relief.

6. Do you agree that additional transition relief is not required (see paragraphs BC112-BC122)? If not, what transition relief should be provided and what are your reasons?

Yes, we agree.

7. Do you agree with the proposal to amend AASB 1053 requirements for the first-time adoption of Tier 2 reporting requirements relating to whether a parent entity has complied with AASB 10 Consolidated Financial Statements in its previous SPFS (see paragraphs BC123-BC125)? If not, please provide your reasons. If non-compliance with AASB 10 was the only departure from AAS in the previous SPFS, should an entity be permitted to apply AASB 1, which could allow the restatement of amounts under various transition relief options?

We agree that amendments to AASB 1053 are necessary to clarify that consolidation is a recognition and measurement requirement for entities within the proposed scope of the revised Tier 2. We also support amending the wording of AASB 1053 to ensure that, where an entity's non-compliance with AAS on transition from an SPFS only relates to consolidation, then they should not be allowed to use AASB 1.

8. Do you agree with the proposed effective date of annual reporting periods beginning on or after 1 July 2020 (see paragraphs BC126-BC129), with earlier application permitted? If not, please provide your reasons.

As stated in our cover letter we reiterate our recommendation that the board provide a two-year implementation window such that these reforms do not become mandatory until 1 July 2022. However, we do agree with the proposal for early application and support the additional exemptions that are being offered to encourage early adoption.

Our reasons for seeking a two-year implementation window are detailed in our cover letter and are summarised again below:

Transition Timing and Due process

- These proposals represent a significant change to the Australian financial reporting framework and in our view, there is insufficient justification to support an accelerated implementation date of less than 1 year which is considerably less than what is usually available for reforms of this nature. For example, AASB 16 Leases, which introduced a major change to lease accounting, was issued on 23 February 2016 with an implementation date of 1 January 2019; nearly three years later.
- The accelerated implementation date does not adhere to the AASB's Due Process Framework principles where paragraph 7.9.2 indicates the AASB would usually allow a two-year implementation process for reforms of this magnitude.
- The accelerated implementation date does not provide enough time for all stakeholders to develop an effective transition timetable and identify the

manpower and educational resources needed to make the necessary changes before being required to begin transition.

- The accelerated implementation date does not provide the AASB, relevant regulators, and our two professional organisations, with sufficient time to identify the nature of and develop essential supporting transition resources.
- Resourcing concerns have been identified for many of our survey respondents, with respect to the workload associated with transition. 67% of the respondents to the CA ANZ survey indicated that they would (19%) or may (48%) need external assistance to transition (see our response to Question 13).

Interaction with other reforms

- The proposals in this ED need to be considered in conjunction with the proposals in ED 295 because the Tier 2 reporting framework it proposes will effectively replace special purpose reporting for those entities within the scope of ED 297. However, the scope of ED 295 is much wider, impacting all entities reporting in accordance with AAS, including for-profit and not-for-profit (NFP) private and public sector entities that are already reporting using the Tier 2 requirements.
- An extended implementation will allow for progress on the IASB's "Subsidiaries that are SMEs" project and the "Comprehensive review of IFRS for SMEs" so there is clarity on the direction being taken by the IASB on these projects and the potential impact they may have on Tier 2 financial reporting in Australia given the AASB's international harmonisation commitments. It is not appropriate to require entities already using RDR to change and then change again when a longer implementation window could allow needed refinements to be identified and implemented first.
- All private sector entities need an appropriate NFP definition that will clearly distinguish between for-profit and NFP entities and so provide clarity around the appropriate applicable reporting framework (see our response to Question 2).
- The proposals in this ED need to be considered in conjunction with the proposals in ED 295 because entities captured within the scope of the ED 297 proposals will need to apply the Tier 2 reporting framework proposed in ED 295. Our submission on ED 297 recommends a two-year implementation window for the proposals in that ED consistent with the recommendation in this submission.

Education

- There is need for regulators responsible for statutory reporting requirements referencing AAS to understand the ramifications of the change on their requirements, consider any necessary changes to their requirements and guidance and communicate with their regulated populations (see our responses to Questions 1 and 4).
- There is need for a substantive education campaign to ensure practitioners and other stakeholders understand the scope of, need for and benefits of these reforms and can communicate that effectively to their clients and others.

- There will be a need for ongoing education to ensure that the drafters of reporting requirements in trust deeds and other constitutional documents recognise the changes the AASB is making to the reporting framework and respond accordingly.

General matters for comment

9. Whether the AASB's For-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this ED?

Yes, subject to our previous comments about the need to complete the NFP definition project to provide clarity around the applicable reporting framework depending on whether an entity is a for-profit or NFP (see our responses to Questions 2 and 10).

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

As discussed in our responses to Questions 2 and 9, we do not consider that the current definition of NFP is an adequate basis for the development of a new NFP financial reporting framework. Although the AASB has recognised and sought to address this issue via its recent consultation on a new NFP definition (ED 291) our submission in response has identified some issues that could cause challenges with the application of the proposed NFP definition within our legislative framework. These issues will need to be resolved before that new definition can become effective.

In addition, the complexity of the regulatory framework underlying this reform means that we expect that there will be issues, other than those we have identified, that will come to light during the implementation phase (see our response to Question 1).

We also note that the application of the requirements to those required to prepare financial statements means that grandfathered large proprietary companies will be required to comply with these new rules, even though these financial statements do not need to be lodged. We are of the view that, given the underlying objective of the project is to achieve consistency and transparency, the AASB should encourage Treasury to revisit the grandfathered large proprietary company lodging exemptions as an additional means of furthering the quality of information on the public record. Absent removal of the current lodgement exemption provided to grandfathered proprietary companies, we do not believe the proposed objective of consistency, comparability and transparency through the Australian financial reporting framework will be truly achieved.

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

We agree that for most entities now targeted, a new Tier 2 GPFS will provide more useful, consistent and comparable information than can currently be obtained from a SPFS on the public record and thereby benefit all users of this information. However, this is subject to addressing the issues we have identified in our submission.

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

We are pleased to note that as the proposals have been more narrowly targeted and accompanied by suitable disclosure reform (refer to our submission on ED 295), the benefits of consistency and transparency achieved through GPFS on the public record can effectively exceed the costs of the additional reporting burden placed on preparers, especially in the for-profit large private company space. However, this response is subject to our recommendation that a two-year implementation window be available to provide a more managed transition and provide time to address the practical implementation issues identified in our response to Question 8.

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

In July and August 2019 CA ANZ undertook a survey of 512 professionals, (mostly Chartered Accountants) involved in the financial statement supply chain for the for-profit or NFP sector. These respondents were drawn from rural and metropolitan areas in all states and territories, as preparers, directors, auditors or users.

82% of those respondents involved with for profit financial statements used SPFS, providing an indication of the potential impact of these reforms on them. The survey explored in more detail these potential impacts. A copy of the survey results is attached, and CA ANZ staff are happy to discuss them further with the AASB.

Importantly, the survey sought an estimate of the costs to transition for each financial statement as well as the expected ongoing preparation and audit costs. The key cost and transition findings from the survey are that:

- Over 40% of respondents expected their transition costs to be between $500 and $5,000 per financial statement.
- Similarly, around 40% also expected the $500 and $5,000 range per financial statement to be the likely increase incurred in both preparing a new report on an ongoing basis and having it audited.

- Respondents also indicated that key transition challenges were anticipated in the areas of leases, related parties, financial instruments, consolidation, impairment and revenue.

As identified in the response to Question 8, almost 70% of respondents to the survey indicated that additional internal and external resources will or may be required to assist with transition, a possible strain on the profession's resources in the immediate term. A further concern is the ability of practitioners to justify additional costs arising to their clients, making it essential that a clear cost benefit case is articulated and communicated.

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Future of Special Purpose Reporting Survey

November 2019

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Foreword

Australia's financial reporting landscape is currently being significantly reshaped as the AASB progresses plans to reform the place of special purpose reporting within its reporting framework.

CA ANZ has actively engaged with Chartered Accountants to ensure they are informed about the reform project and that their views are then represented to the AASB. Member feedback on the AASB's initial consultation (ITC 39) saw us successfully advocate for the government to change the Corporations Act lodgement thresholds in late 2018. We also encouraged the AASB to consider what entities would be impacted by its reforms in the for-profit space initially and how reporting by these non-public entities could be streamlined and made more proportionate than initial proposals.

We now present feedback from a major survey of Chartered Accountants and other industry professionals designed to help understand their views on the issues surrounding framework reform and on what a workable and effective outcome would look like. We are pleased to report that the AASB's current proposals appear to be heading in a direction that is sympathetic to the feedback shared here, in particular streamlining disclosure requirements for non-publicly accountable entities. However, there is still work to be done in informing and connecting with the profession on the benefits of change, how challenges will be addressed and the nature and impacts of the changes being put forward.

CA ANZ wishes to thank all its members for the time they took to provide us with this valuable feedback.

It will continue to be valuable as CA ANZ looks forward to our further strong advocacy on behalf of members as reforms in the not-for-profit and public sector progress in 2020.

Simon Grant FCA
Group Executive, Advocacy & Professional Standing

Amir Ghandar CA
Reporting & Assurance Leader

Executive summary

This report presents the findings of quantitative research with members from Chartered Accountants Australia and New Zealand (CA ANZ) and other industry professionals, all of whom have a role interacting with financial statements. The final sample contained 512 respondents who completed an online questionnaire between June and August 2019.

Aim of the research

The main objective of the research was to identify the views of respondents on the financial reporting reform proposed by the AASB. Specific topics included the cost vs. benefits of the reform, the potential impact(s) resulting from the reform, capacity to accommodate the changes brought on by the reform and the preferred approach for the direction of reform.

Change in the balance

- 82% of the respondents that work with for profit entities use special purpose financial statements (see page 6).
- Over 60% of respondents thought that the costs of removing SAC 1 would outweigh the benefits while around 30% were convinced that benefits would outweigh costs (see page 7).
- Over 40% of respondents anticipate that, for each financial statement, the proposed reform will cost an additional \$501 – \$5,000 in initial transition, ongoing preparation and ongoing audit costs (see page 9).
- Respondents expect that the key transition challenges lie in the areas of leases, related parties, financial instruments, consolidation, impairment and revenue (see page 12).
- 33% of respondents indicated that they had the resources needed to implement change internally, 48% believed they may, but could need some external support, and 19% believe they will definitely need external support (see page 14).

> "From a regulator's view, special purpose financial statements are a waste of the preparer's resources. They are simply not as robust as general purpose financial reports."
> *User*

The desired direction of reform

- Simplified recognition and measurement is sought by over 60% of respondents for the FP sector and over 80% for the not-for-profit (NFP) sector (see page 15).
- Reducing disclosures to that which is significant and necessary is supported by over 70% of respondents for the FP sector and over 87% for the NFP sector (see page 16).
- Over 65% of respondents agree that there is a role for the IFRS for SMEs standard in our framework (see page 17).

> "The inconsistency in special purpose reports needs to be addressed. The starting point should be those entities lodging with regulatory bodies. It will have a large cost but is needed for accountability."
> *Preparer*

> For the technically minded, this proposal looks simple but from a practitioner's perspective, and for private entities preparing financial statements, it is a significant compliance cost burden."
> *Director*

Survey results

Over **60%** of survey respondents

thought that the costs of **removing SAC 1** would outweigh the benefits

while around 30% were convinced that benefits would outweigh costs (see page 7).

Simplified recognition and **measurement is sought**

by over **60%** of respondents for the FP sector and over **80%** for the NFP sector (see page 15).

Over **40%** of respondents

anticipate that, for each financial statement, the proposed reform will

cost an additional **$501–$5,000**

in initial transition, ongoing preparation and ongoing audit costs (see page 9).

Reducing disclosures to those which are significant and necessary is supported by over **70%** of respondents

for the FP sector and over 87% for the NFP sector (see page 16).

33% of respondents

indicated that they had the resources needed to implement change internally,

48% believed they may, but could need some external support, and 19% believe they will definitely need external support (see page 14).

Over **65%** of respondents

agree that there is a role for IFRS for SMEs in our framework (see page 17).

(figures rounded to the nearest whole percent)

Where to from here?

For-profits

The AASB's plans appear to be heading in the right direction in the for-profit space. The joint CA ANZ/CPA Australia submissions on ED 295 and ED 297 supported their implementation, subject to recommending a two year implementation window that will provide more time for an effective education campaign on the benefits of these reforms and an orderly transition.

For-profit

- Reforms are expected to be applied to companies, financial services licensees, higher education providers and some cooperatives and associations where there is evidence of proven user need (higher Corporations Act thresholds have also been applied).
- All other for-profit entities will be able to continue to use special purpose reporting.
- Disclosures for Tier 2 entities will be reduced and simplified based on IFRS for SMEs.
- AASB is proposing 1 July 2020 application date with early adoption permitted and substantial transition assistance.
- Need for ongoing education on benefits ahead of implementation, especially to facilitate cost recovery from clients.

Not-for-profits

While reform in the NFP space will be more fully consulted on next year, early indications are that the AASB's plans are also consistent with this member feedback. In addition, those NFPs already reporting as Tier 2 entities will benefit from the new for-profit "simplified disclosure package" that will be extended to them in the interim.

Not-for-profit

- Current NFP Tier 2 entities will be able to use the new simplified disclosure package.
- NFP project is expected to consider three or more tiers (based on consistent thresholds) and be based on a more robust definition of "not-for-profit".
- Reduced recognition and measurement is expected for the middle tier and cash for the lowest tier.
- Audit and review requirements will also be revised.
- Consultation paper due in early 2020 based on ongoing AASB research.

> "Having been to the roundtables and heard the AASB staff present on this I believe that removing special purpose financial statements will enhance comparability for users."
> *Auditor*

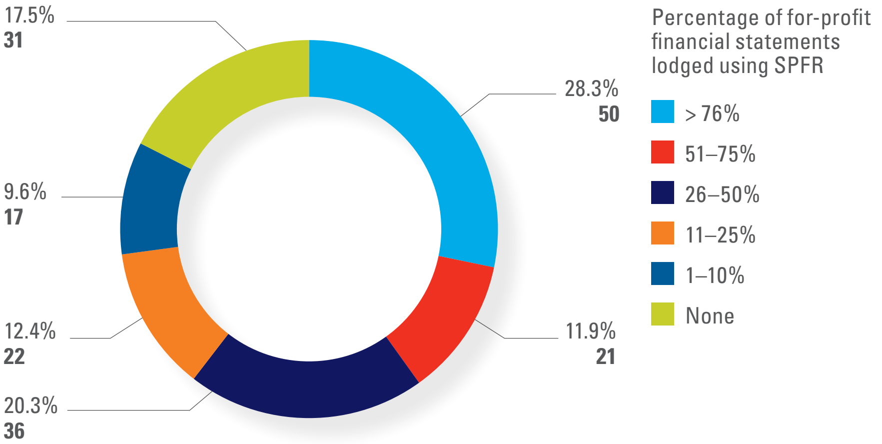
> "Enforcement of change by regulators will be critical for success to ensure comparability."
> *Auditor*

Change in the balance

Usage of special purpose financial statements in the for-profit sector.

82% of the respondents that work with for profit entity financial statements use special purpose

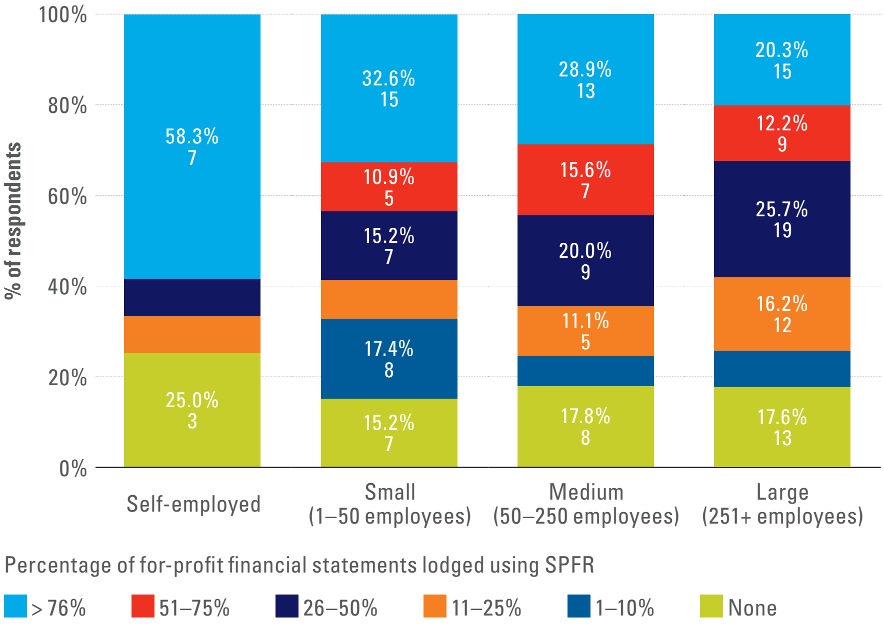
Q. What percentage of lodged financial statements for for-profit entities were also special purpose financial statements?



"The changes add unnecessary cost and complexity which is not useful nor wanted by the users of financial statements."
Director

"Aligning all entities would provide users with a true like to like comparison, and also allow better decision making."
Preparer

Views split by organisation size



"The costs privately held businesses will incur to comply with standards that their users do not understand nor care about will outweigh the benefits."
Auditor

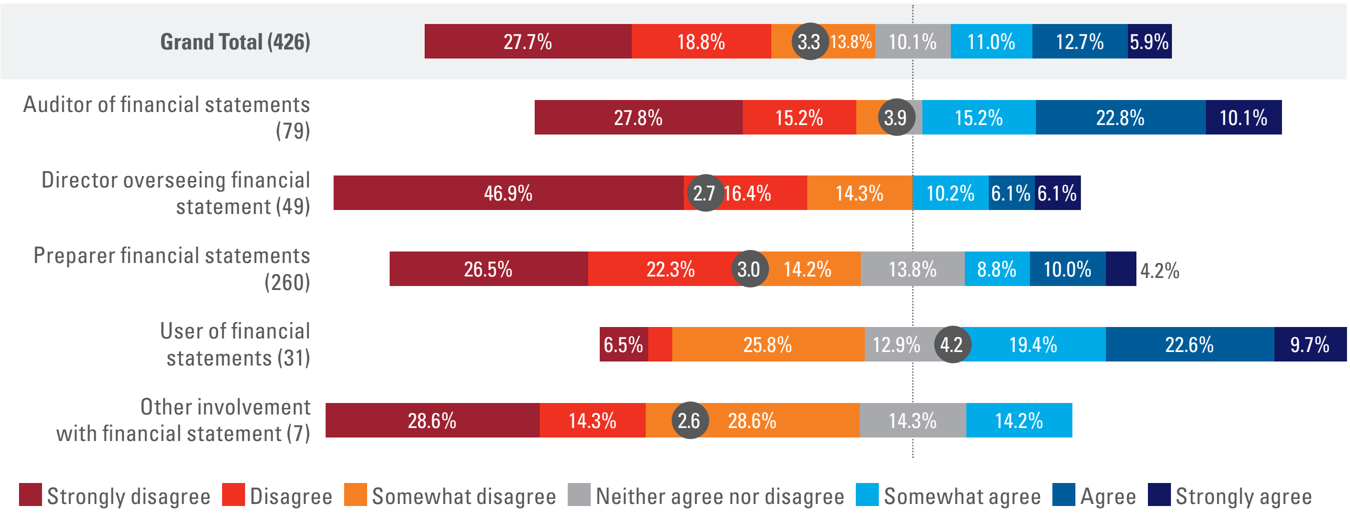
n=177, Q8.1 – What percentage of these lodged financial statements for for-profit entities are also special purpose financial statements?
Sample size for sub-group 'self-employed' is relatively small. Results for this sub-group should be treated with due caution.

Change in the balance

Assessing the costs and benefits of changes

Over 60% of respondents thought that the costs of removing the option to prepare special purpose financial statements would outweigh the benefits

Q. Do the benefits of removing the option to prepare special purpose financial statements outweigh the costs? Split by financial statement role.



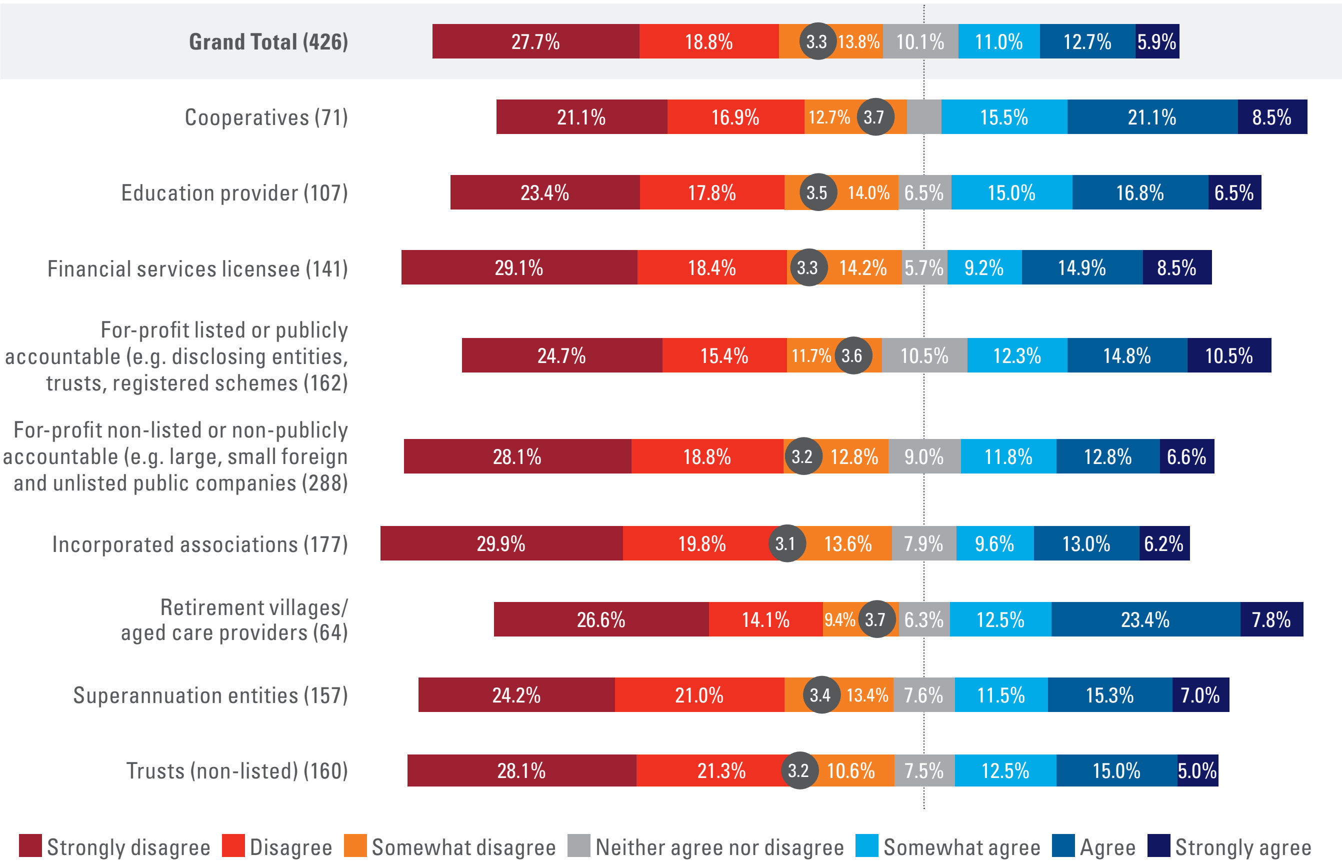
> "The removal of the special purpose option can in fact make the financial statements less user friendly. Their whole point is to create customised financial statements which users find relevant and useful."
> *Preparer*

> "Requiring extensive changes to existing financial statements isn't going to improve the interpretation and understanding of the current primary users of the financial statements if they do not understand or care about the changes."
> *Preparer*

n=426, Q15 – Do the benefits of removing the option to prepare special purpose financial statements, outweigh the costs associated with this transition? Split by financial statement role.
Sample size for sub-groups 'other involvement with financial statements' and 'users of financial statements' are relatively small. Results for these sub-groups should be treated with due caution.
Percentages may not add to 100% due to rounding.

Concerns about costs outweighing benefits exist for financial statements of all entity types that respondents are involved in

Q. Do the benefits of removing the option to prepare special purpose financial statements outweigh the costs? Split by entity type associated with financial statement.



> "It is extremely costly to prepare general purpose financial statements and some companies cannot afford such a cost"
> *Preparer*

> "Those who need to understand the position of a company can do so in a more timely way by doing their own due diligence."
> *Preparer*

n=426, Q15 – Do the benefits of removing the option to prepare special purpose financial statements, outweigh the costs associated with this transition? Split by client type associated with financial statement

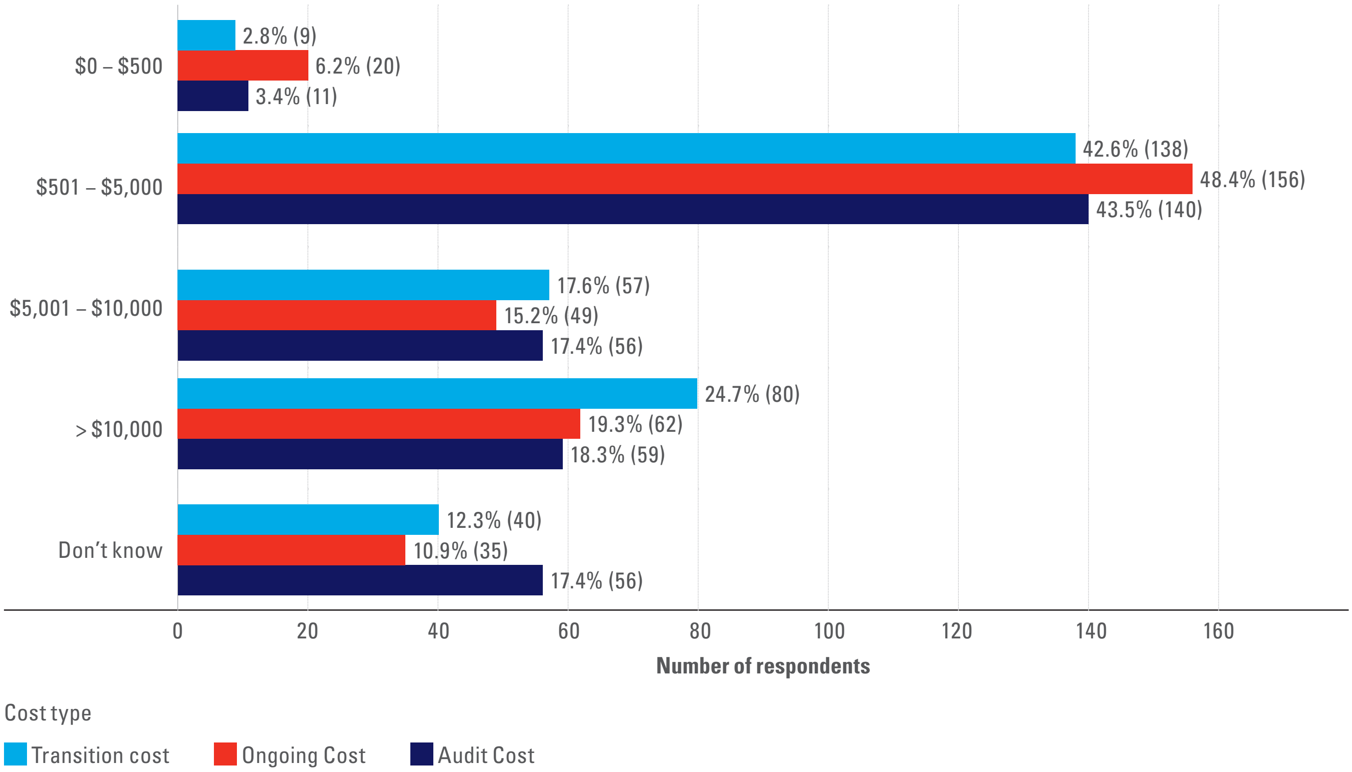
Percentages may not add to 100% due to rounding.

Change in the balance

Estimates of the costs of change

Over 40% of respondents anticipate transitional, ongoing and additional audit costs of $501-$5,000 per financial statement

Q. What are the expected cost implications of adopting general purpose financial statements as compared to special purpose financial statements prepared now?

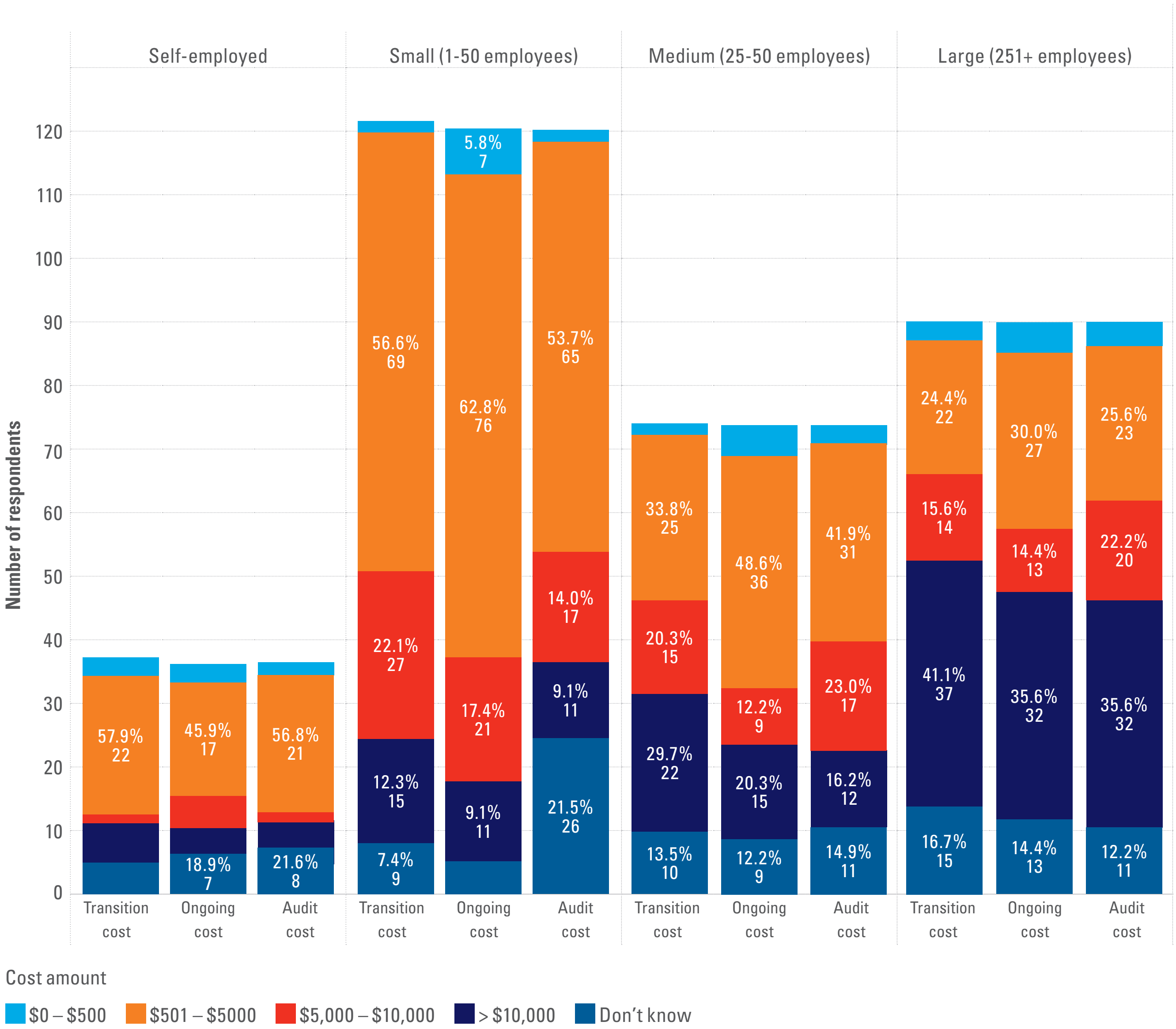


> "The debate this issue is causing is an indication of the significant amount of education about financial statement preparation that these changes will require."
> *Auditor*

n=324, Q11 – What do you estimate would be the likely extra cost per financial statement of transitioning to a general purpose financial report (GPFR) that adopted the AASB's full recognition and measurement proposal?
n=322, Q12 – Once full recognition and measurement (including consolidation if appropriate) has been applied, what do you estimate will be the likely additional ongoing cost per financial statement of preparing/ auditing GPFRs for these entities (as compared to the SPFRs prepared now)?
n=322, Q13 – What do you think will be the average increase in the audit fee for these GPFRs as compared to SPFRs you do now?

Most respondents expect a minimum increase in transition, ongoing and audit costs of $501-$5,000 regardless of organisation size

Q. What are the expected cost implications of adopting general purpose financial statements as compared to special purpose financial statements prepared now? Split by organisation size and cost type.



> "This change will add to the cost of doing business in an already overregulated country."
> *Preparer*

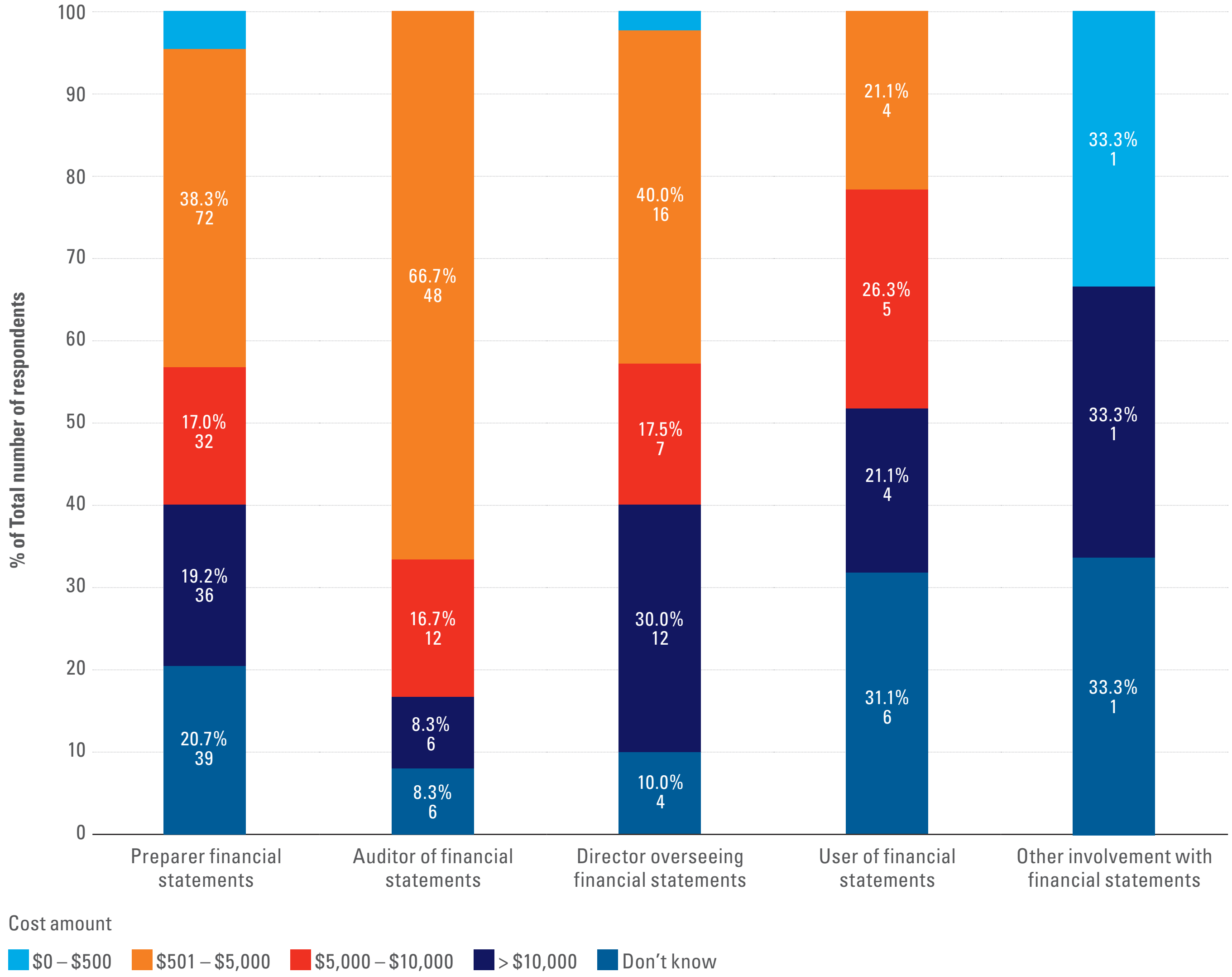
n=324, Q11 – What do you estimate would be the likely extra cost per financial statement of transitioning to a general purpose financial report (GPFR) that adopted the AASB's full recognition and measurement proposal? Split by organisation size.

n=322, Q12 – Once full recognition and measurement (including consolidation if appropriate) has been applied, what do you estimate will be the likely additional ongoing cost per financial statement of preparing/ auditing GPFRs for these entities (as compared to the SPFRs prepared now)? Split by organisation size.

n=322, Q13 – What do you think will be the average increase in the audit fee for these GPFRs as compared to SPFRs you do now? Split by organisation size.

Most respondents, regardless of their role with financial statements, expect a minimum increase in audit fees of at least $501-$5,000

Q. What are the expected cost implications for auditing financial statements following the adoption of general purpose financial statements as compared to special purpose financial statements prepared now? Split by financial statement role.



> "Clients might simply refuse to accept the additional costs."
> *Auditor*

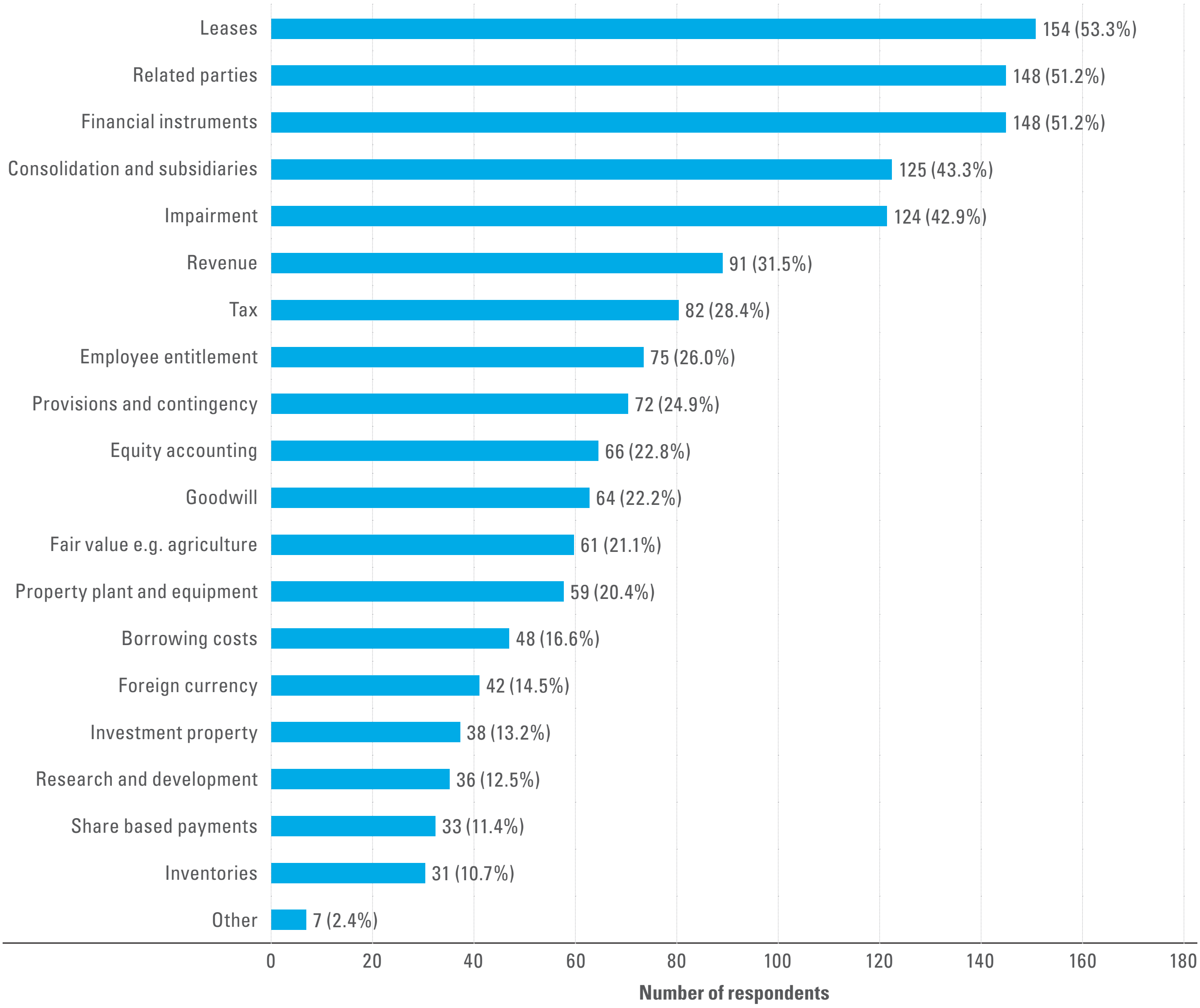
n=322, Q13 – What do you think will be the average increase in the audit fee for these GPFRs as compared to SPFRs you do now? Split by financial statement role.
Sample size for sub-groups 'other involvement with financial statements' and 'users of financial statements' are relatively small. Results for these sub-groups should be treated with due caution.

Change in the balance

Main areas of implementation challenge

Respondents identified the key transition challenges as leases, related parties, financial instruments, consolidation, impairment and revenue

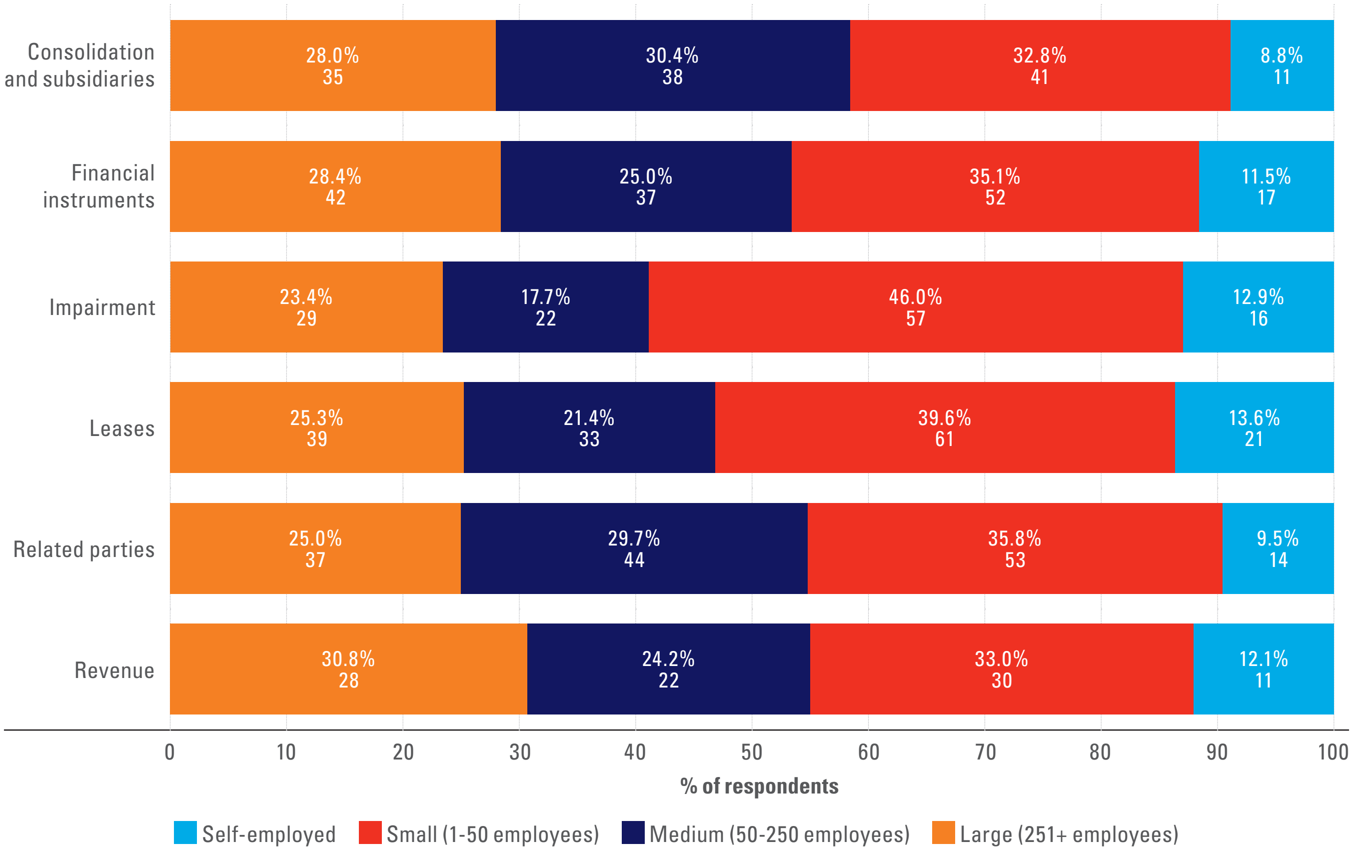
Q. Which areas are likely to cause the greatest challenges when preparing/auditing financial statements if the AASB removed the option to prepare special purpose financial statement?



> "I expect a lot of people might whinge but I like the fact there will now be enhanced enforcement to apply recognition and measurement."
> *Auditor*

n=289, Q10 – If the Australian Accounting Standards Board (AASB) removes the option to prepare special purpose financial statements, and requires adoption of all the recognition and measurements of its standards, which area(s) are likely to cause the greatest challenges when preparing/auditing revised financial statements that will meet these new requirements?

Top 6 challenges associated with the removal of the option to prepare special purpose financial statements split by organisation size



> "Consolidation should not be considered as part of recognition and measurement."
> *Auditor*

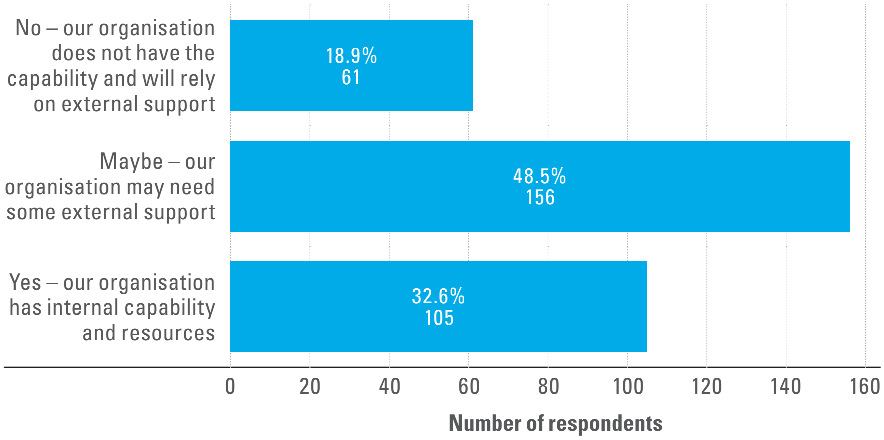
n=289, Q10 – If the Australian Accounting Standards Board (AASB) removes the option to prepare special purpose financial statements, and requires adoption of all the recognition and measurements of its standards, which area(s) are likely to cause the greatest challenges when preparing/auditing revised financial statements that will meet these new requirements?

Change in the balance

Resourcing the change

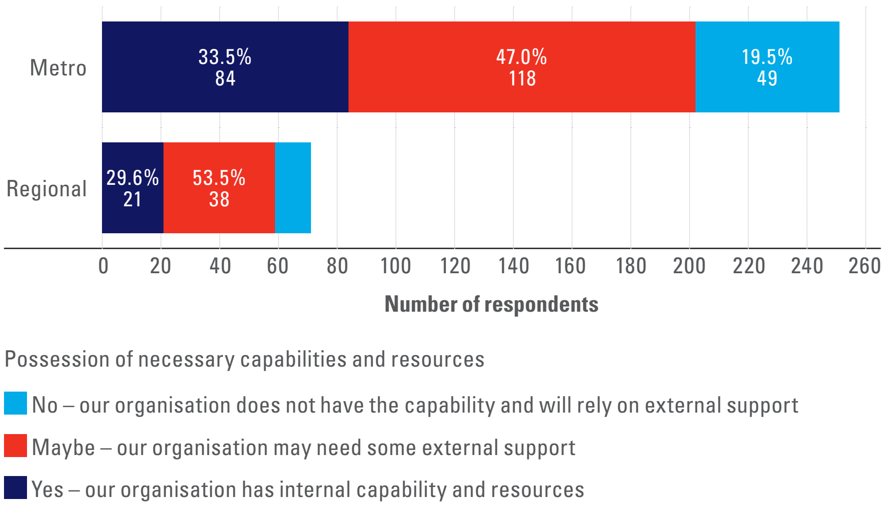
33% of respondents indicated that they had the resources needed to implement change, over 48% that they may need help and 19% that they will need external support

Q. If the AASB implements these changes to reporting standards, does your organisation have the internal capability and resources to meet these new requirements?



> "Our firm has mostly non-reporting entities and so retraining will be required which may be very extensive and very costly."
> *Preparer in practice*

Views on resourcing split by location



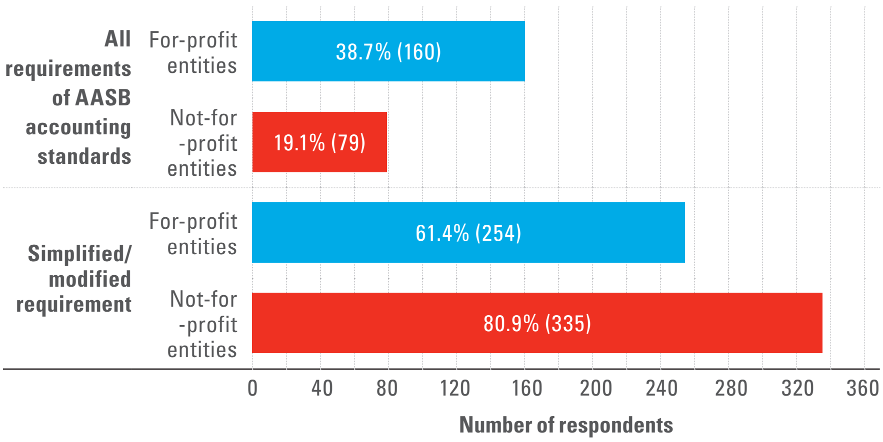
> "Where groups are simple and have pragmatic auditors impacts should be able to be managed."
> *Director*

n=322, Q14 – If the AASB implement these changes, does your organisation have the internal capability and resources to meet these new requirements?

Desired direction for the proposed reform

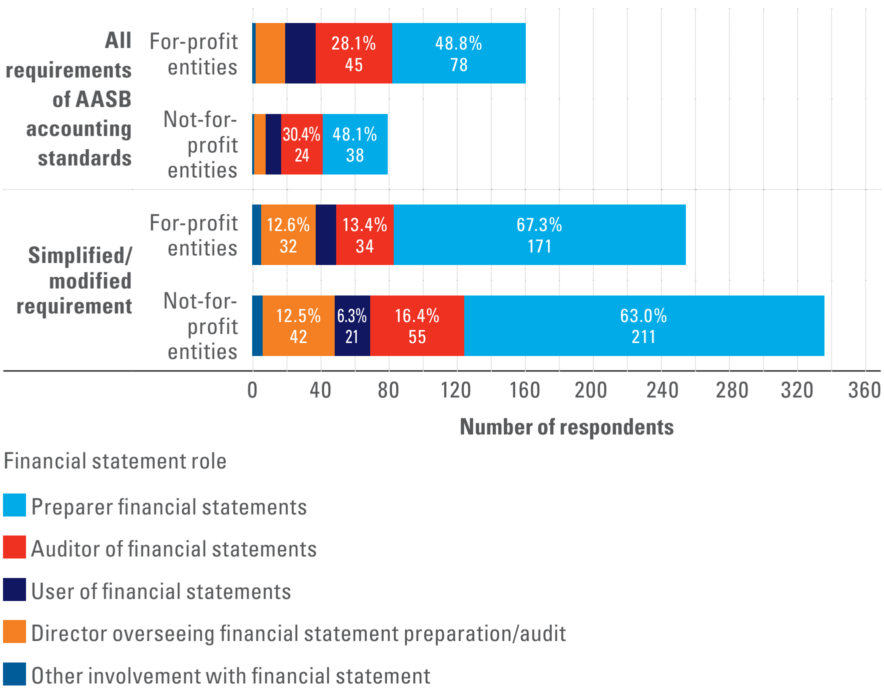
Simplified recognition and measurement is sought by over 60% of respondents for the FP sector and over 80% for the NFP sector

Q. "If SAC 1 is removed, what is your preferred basis for mandating recognition and measurement?



"The trend in accounting standards is toward an overly academic approach. The preservation of simpler accounting standards for SMEs is essential for the survival of these businesses."
User

Views split by financial statement role

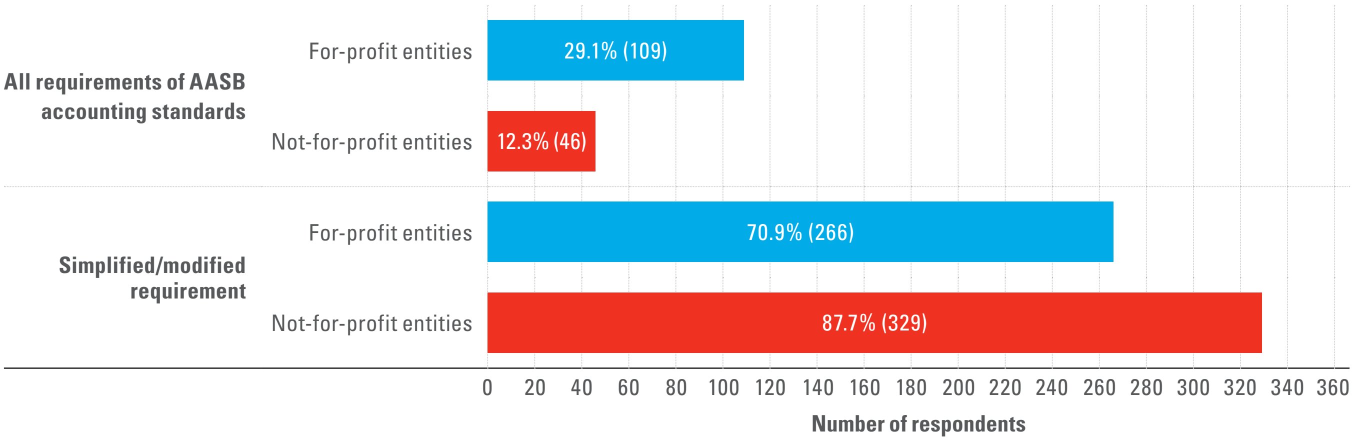


"SME owners (even the larger ones), as well as their banks/creditors, do not perceive much value in certain IFRS recognition and measurement requirements."
Preparer

n=414, Q16 – If SAC 1 is removed, what is your preferred basis for mandating recognition/measurement for both 'for profit' and 'not for profit' lodging entities that currently prepare special purpose financial statements?
Sample size for sub-groups 'other involvement with financial statements' and 'users of financial statements' are relatively small. Results for these sub-groups should be treated with due caution.

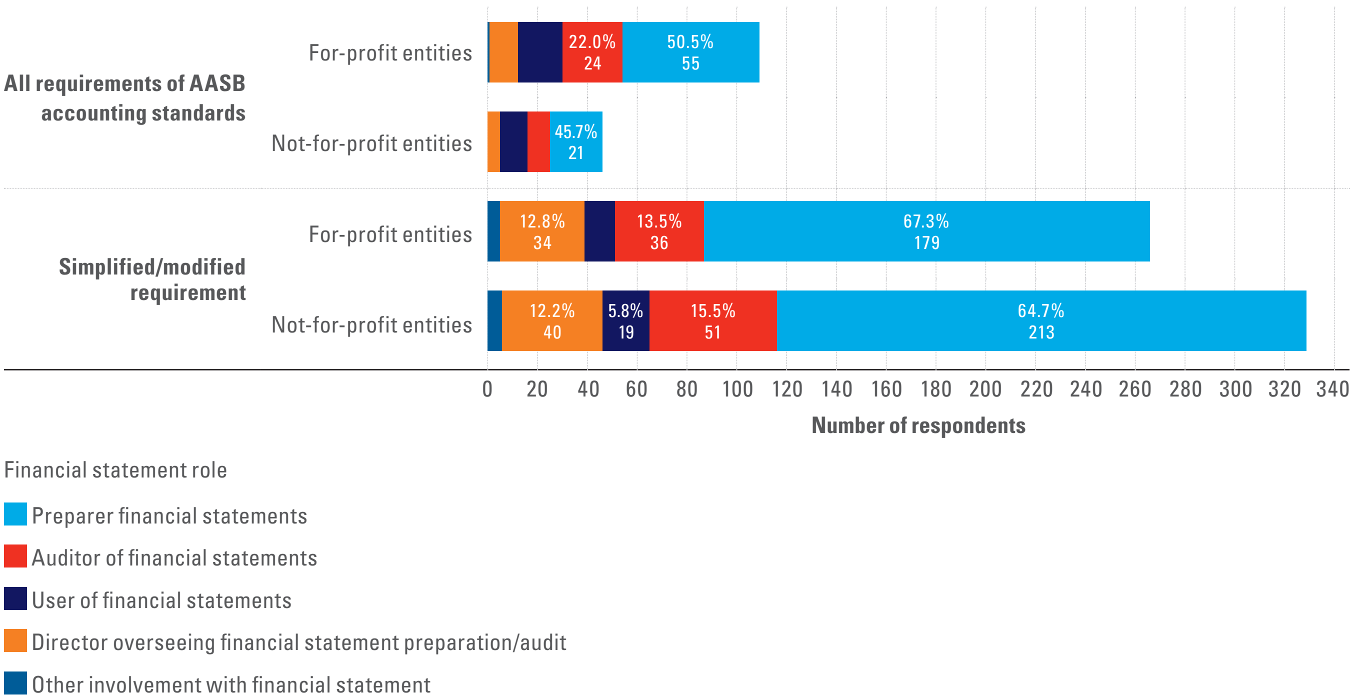
Reduced disclosure is supported by over 70% of respondents for the FP sector and over 87% for the NFP sector

Q. If SAC 1 is removed, what is your preferred basis for mandating disclosure?



> "I believe that most users of financial statements don't need or understand the excessive disclosures required in general purpose financial reports."
> *Preparer*

Views split by financial statement role

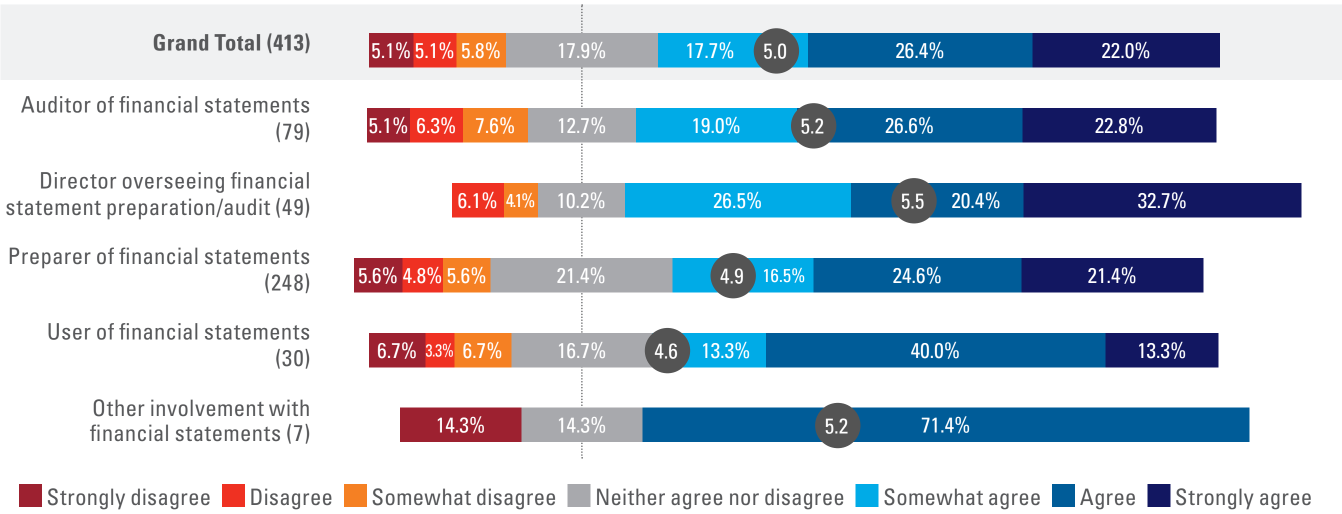


n=375, Q16.1- If SAC 1 is removed, what is your preferred basis for mandating disclosure for both 'for profit' and 'not for profit' lodging entities that currently prepare special purpose financial statements?

Sample size for sub-groups 'other involvement with financial statements' and 'users of financial statements' are relatively small. Results for these sub-groups should be treated with due caution.

Over 65% of respondents agreed that there should be a role for IFRS for SMEs in our framework

Q. To what extent do you agree that the AASB should reconsider the inclusion of IFRS for SMEs in the Australian reporting framework?



> "The simplified recognition and measurement in IFRS for SMEs makes things worse, as it creates differences that are completely unnecessary."
> *Preparer*

> "While IFRS for SMEs is not perfect, it is better that we comply with a universal standard than create Australian specific ones."
> *Auditor*

n=413, Q17 – To what extent do you agree or disagree with the following statement? The AASB should reconsider the inclusion of the IASB's International Financial Reporting Standards for SME's (IFRS for SME's into the Australian reporting framework). Split by financial statement role.

Sample size for sub-groups 'other involvement with financial statements' and 'users of financial statements' are relatively small. Results for these sub-groups should be treated with due caution.

Percentages may not add to 100% due to rounding

Details of the approach

When was the research conducted

12th June – 22nd August 2019

Length of the survey

10 minute online survey

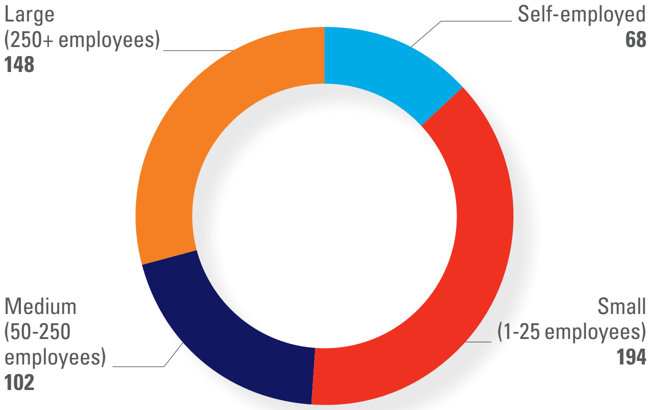
Respondents

- 512 Australians who are mostly members of Chartered Accountants Australia and New Zealand.
- They work in practice, corporate, education, government and NFP sectors from regional and metropolitan areas across all Australian states.

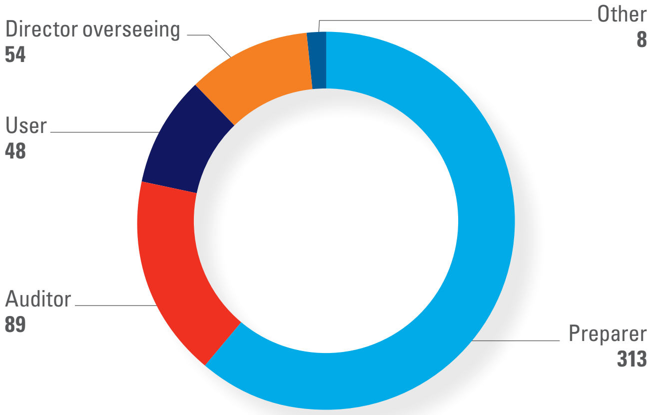
Who was included in the research

- Respondents had some level of involvement with financial statements either as a user, preparer, auditor, director overseeing preparation or other e.g. academic or advisor
- This involvement covered financial statements prepared for at least one of the following entity types (cooperatives, education providers, financial services licensees, for profit listed or publicly accountable, for profit non-listed or non-publicly accountable, incorporated associations, retirement villages/aged care providers, superannuation entities and trusts (non-listed)).

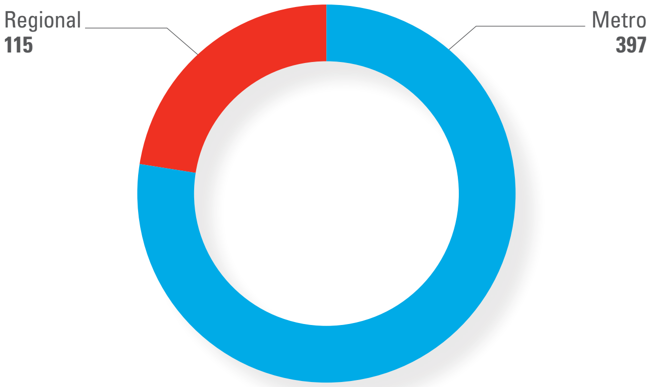
Organisation size



Financial statement role



Metro vs. regional



Client type associated with statement

Respondents could select multiple choices