29 October 2021

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007
AUSTRALIA

Via website: www.aasb.gov.au

Dear Keith

Exposure Draft (ED) 314, Subsidiaries without Public Accountability: Disclosures

As the representatives of over 300,000 professional accountants, CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) thank you for the opportunity to comment on the above Exposure Draft (ED). This submission focuses on how the International Accounting Standards Board (IASB) ED/2021/7 impacts the AASB's financial reporting framework reform project. We also intend to make a submission directly to the IASB on its ED and we will provide the AASB with a copy once lodged.

We support the work of the IASB to develop a reduced disclosures standard for subsidiaries without public accountability and believe that this is likely to better balance preparer cost with user needs in the preparation of financial statements for such subsidiaries.

The Australian and New Zealand experiences in implementing International Financial Reporting Standards (IFRS) have demonstrated that there is a need for a reduced disclosure regime for entities who wish to, or are required to, comply with full IFRS recognition and measurement requirements but do not have the level of public accountability that warrants full IFRS based disclosures.

In developing this ED, we note that the IASB has broadly adopted the same development approach (incorporating the disclosure principles of the International Financial Reporting Standard for Small and Medium Sized Entities (IFRS for SME)) adopted by the Australian Accounting Standards Board (AASB) in developing its Simplified Disclosure Standard; AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (AASB 1060). We have already expressed our support for this approach (see our response to AASB ED 295 that preceded AASB 1060).

However, the scope of AASB 1060 is much broader than this ED, which is proposed to apply only to subsidiaries without public accountability, and which have an ultimate or intermediate parent producing IFRS compliant financial reports. The ED's Basis for Conclusions paragraphs BC13 to BC16 set out the rationale for this narrower scope, including the potential for the proposed standard to compete with IFRS for SMEs, which has been developed for all entities without public accountability.

In Australia, rather than implement IFRS for SMEs for entities without public accountability, the Tier 2 reporting framework (implemented via AASB 1060) applies full IFRS recognition and measurement and simplified disclosures to this broader group. We therefore foresee that the AASB could face a number of challenges if it were to introduce a standard based on ED 314 into the reporting framework, either as an addition, modification, or replacement of AASB 1060. These potential challenges include:

- Given the narrower scope of the ED, some aspects are not necessarily suitable for entities that are within the much broader scope of AASB 1060 (Australian for-profit, not-for-profit (NFP) and public sector entities without public accountability). Examples include:

    - Conclusions on optional application, which are unlikely to be appropriate under a mandatory reporting regime.
    - Conclusions on initial and subsequent adoption, timing and transition issues which are less onerous than those necessary for a mandatory reporting regime.
    - Inclusion of disclosures on topics such as interim reporting, investment entity reporting, financial instruments and business combinations that reflect the needs of the parent and subsidiary entity, not the wider group of users and preparers that are the stakeholders in Australia's Tier 2 reporting regime.
    - The reference, for presentation issues, to full IFRS, as compared to AASB 1060 which seeks to be a stand-alone disclosure standard. As a result, the requirements of the proposed standard are laid out on a standard-by-standard basis, similar in structure to Australia's Reduced Disclosure Regime (RDR) that AASB 1060 replaced. In contrast, AASB 1060 has disclosures grouped in accordance with the needs of preparers (i.e., structured in accordance with the sequence of information presented in financial statements).
    - The lack of inclusion of Australian specific disclosures such as franking credits and fees payable to the external audit firms that were identified as being necessary during the consultation process to develop AASB 1060.
    - The lack of alignment with specific IFRS for SMEs disclosures that are not included in full IFRS, which were added to AASB 1060 consistent with its development principles.
    - Inclusion of impending changes to IFRS for SMEs disclosures arising from the second post-implementation review of IFRS for SMEs.

- The need to identify those Tier 2 entities that would seek to be able to make a statement of IFRS compliance, in order to justify the creation of an additional, separate set of disclosure requirements that will only apply to Australian subsidiaries without public accountability. In this regard Australia already has jurisdictional specific relief in AASB 10 paragraphs 4.1 and 4.2 that relieves some subsidiaries from the need to prepare full IFRS financial statements where there is an ultimate Australian parent. However, group structures in Australia with foreign parents currently applying Tier 1 may benefit from the disclosure relief offered by the IASB's proposals, if it were available.

- From time to time the AASB amends IFRS for Australian-specific matters. Such amendments generally do not contradict specific requirements or exclusions prescribed by IFRS. If, in this instance, the AASB decides to broaden the scope of the proposed standard arising from this ED to all entities without public accountability, this could directly contradict the IASB's deliberate intention for the proposed standard. This may impact the AASB's permission from the IASB to use IFRS in developing its Australian Accounting Standards.

We also note that there are a number of other issues in regard to the specific content of AASB 1060 that may mean replacement with a standard based on ED 314 would be problematic. These include:

- The implementation of AASB 1060 is only just beginning and we believe it is necessary to provide a period of stability that will allow users and preparers to understand and assess the benefits of the reforms, especially since the AASB chose to issue the standard while being cognisant of the work being done by the IASB on this project (see our response to AASB ED 295).

- The application of the requirements of AASB 1060 to the general purpose financial statements (GPFS) of not-for-profit (NFP) and public sector entities represents an interim step to the development of more targeted reporting frameworks for these entities (including a Tier 3 GPFR). It is vital that these frameworks be progressed as a priority.

- We are already aware of implementation concerns around the structure of AASB 1060 and its effectiveness as a stand-alone disclosure standard. This may make the IASB's proposed approach in ED 314 a more effective reporting solution for these matters. However, the validity and extent of such concerns cannot be clearly identified until implementation of AASB 1060 is complete.

We therefore suggest that the AASB delays any decision to implement the proposed standard arising from this ED until such time as the NFP and public sector framework reform projects are further progressed and AASB 1060 is bedded down. We believe that the work already done by the AASB to develop a revised Tier 2 disclosure framework for all entities within the scope of AASB 1060 offers greater benefits at this point in time than can be potentially achieved by implementing a standard based on this ED.

We expect that the likely timeframe for the issue and implementation of an IASB standard based on this ED will mean that much of the AASB's framework reform work referred to above will be well progressed. This will allow the AASB to undertake a detailed comparison between the proposed standard arising from this ED and AASB 1060 and also allow consideration of stakeholder feedback on AASB 1060's design effectiveness.

This, coupled with the implementation experience from the new reporting framework in the for-profit sector, will allow a decision to be made on whether there is a need for the IASB standard to be included in the Australian reporting framework and if, and how, it should be modified to suit the needs of Tier 2 entities. In making those decisions, we recognise that there is ultimately a need to standardise the approach to a reduced disclosure regime for IFRS, both internationally and in Australia and New Zealand.

CHARTERED ACCOUNTANTS™
AUSTRALIA + NEW ZEALAND

Chartered Accountants Australia and New Zealand
33 Erskine Street, Sydney, NSW 2000
P: +61 2 9290 1344
W: charteredaccountantsanz.com
ABN 50 084 642 571

CPA AUSTRALIA

CPA Australia
Level 20, 28 Freshwater Place,
Southbank Victoria 3006
P: 1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452

If you have any questions about our submission, please contact either Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au or Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com.

Your sincerely

Gary Pflugrath FCPA Executive General Manager, Policy and Advocacy **CPA Australia**	**Simon Grant FCA** Group Executive – Advocacy, Professional Standing and International Development **Chartered Accountants Australia and New Zealand**