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Kris Peach
Chair
Australian Accounting Standards Board
Podium Level, Level 14, 530 Collins Street
Melbourne, VIC 3000
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Online submission: www.aasb.gov.au

Dear Kris

Exposure Draft 277: Reduced Disclosure Requirements for Tier 2 Entities

CPA Australia welcomes the opportunity to respond to the above Consultation. CPA Australia represents the diverse interests of more than 160,000 members in 118 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

CPA Australia commends the Australian Accounting Standards Board (AASB) and the New Zealand Accounting Standards Board (NZASB) for their efforts to develop the proposals in the Consultation. We highlight below some key issues for consideration and provide our detailed responses to the specific questions in the attachment to this letter. Our detailed responses are subject to the general comments made below.

This project forms part of the AASB's larger project to simplify and improve the financial reporting framework in Australia. Two primary issues to be addressed as part of the Australian financial reporting framework project are:

- the misapplication of the Reporting Entity concept
- the excessive burden faced by small not-for-profit entities in complying with statutory financial reporting requirements

In our view, the proposals in the Consultation are not sufficiently far-reaching to address these primary issues. Pilot testing the proposed RDR framework with entities that may be considering adopting it and with entities that are already applying the existing RDR framework may assist the AASB in assessing whether the project's objectives are likely to be fulfilled.

Large proprietary companies

The section "why we are making these proposals" highlights the current levels of RDR adoption amongst different types of entities. It is noted that there is reasonably widespread adoption of RDR among companies limited by guarantee and subsidiaries of entities adopting the Tier 1 framework, however, the adoption of RDR amongst large proprietary companies is very low.

When the RDR framework was initially developed and issued, it was expected that it would reduce the burden for large proprietary companies that are reporting entities. However, as identified in the Consultation the uptake of RDR amongst large proprietary companies has been low. Further, the AASB funded research published in 2014 highlighted that the Reporting Entity Concept was not being applied as intended, with many Reporting Entities incorrectly preparing Special Purpose Financial Statements (SPFS). It is our view that these proposals are unlikely to change the status quo and improve the uptake of the RDR framework by large proprietary companies that are eligible to adopt it. Whilst the establishment of principles will provide the AASB a framework for developing RDR standards, there is no apparent incentive within these proposals that suggests an increase in RDR adoption by large proprietary companies. This consultation sets out the proposals for what should be reported under the RDR framework but does not address who should be reporting under the RDR framework.

It is our view that this issue could be addressed effectively by clarifying the Reporting Entity Concept and its application, as part of the Australian Financial Reporting Framework project. We acknowledge that the resolution of this issue cannot be achieved by the AASB alone and will require a concerted effort from a number of different stakeholders. We urge the AASB to continue its efforts to spearhead the project to its successful conclusion.

Public Sector Entities

It is generally accepted that the adoption of the RDR framework amongst public sector entities has been low. Although public sector entities other than the Australian Government, State, Territory and Local Governments can adopt the RDR framework, as highlighted in the proposals many eligible entities are continuing to adopt the Tier 1 framework.

As with large proprietary companies, we do not believe these proposals provide any apparent incentive that will improve the adoption of the RDR framework amongst eligible public sector entities.

We understand that there has been some increase in the adoption of RDR amongst public sector entities at the State/Territory level, however the adoption does not appear to be uniform or consistent across the sector. For example, the Accounting Policy Framework of the South Australia Department of Treasury and Finance establishes criteria that now exempt certain public sector entities from adopting the Tier 1 framework. It includes entities that meet certain size criteria, are not entities of a particular type and do not satisfy the public interest test. In comparison, Queensland Treasury has issued financial reporting requirements for 2016-17 that exempt statutory bodies that are not consolidated into Whole of Government financial statements from the Tier 1 framework.

A lack of comparability in financial reporting is likely to arise from an inconsistent approach to RDR adoption across public sector entities. Whilst we appreciate that AASB 1053 *Application of Tiers of Australian Accounting Standards* is not subject to a review at this stage, we suggest the AASB considers the application of tiers of reporting by public sector entities in its work program.

International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)

We note the reservations stated in the proposals about using the IFRS for SMEs Standard as the basis for RDR standard-setting going forward. Although the IFRS for SMEs has not been updated since the issue of some new accounting standards, it provides for simplified disclosure requirements, as well as simplified recognition and measurement requirements. We suggest the AASB and the NZASB reconsider their stance regarding using the IFRS for SMEs as a basis for reporting requirements for Tier 2 entities. It is notable that despite its limitations, the United Kingdom has successfully adopted and modified the IFRS for SMEs in developing Financial Reporting Standard 102 that is applicable to qualifying SMEs.

The use of the rebuttable presumption when considering Key Disclosure Areas (KDA)

We note that there are a number of instances throughout the RDR standards when there has been a decision to depart from the KDA on the basis that either costs exceed benefits or vice versa. However, we have been unable to identify any specific evidence that supports the decision to depart from the KDA within the ED or the accompanying Staff Analysis. As the AASB has an evidence based approach to standard-setting we suggest the AASB provides the evidence that formed the basis for the decisions to depart from the KDA.

Disclosure Initiative – Principles of Disclosure Discussion Paper

The International Accounting Standards Board has recently issued a consultation proposing principles for disclosure within International Financial Reporting Standards (IFRS). Whilst we appreciate that the RDR project is "self-contained" we suggest the AASB considers the IASB's proposed principles of disclosure in finalising its revised RDR framework.

If you require further information on any of our views expressed in this submission, please contact Ram Subramanian, Policy Adviser – Reporting, CPA Australia by email at ram.subramanian@cpaaustralia.com.au or 03 9606 9755.

Yours sincerely

Dr Eva Tsahuridu
Manager – Accounting Policy

Attachment

1. **Do you agree with the overarching principles on which the proposed RDR decision-making framework identified in the proposed joint Policy Statement is based (that is, user needs and cost-benefit)? If you disagree, please explain why (see [draft] joint Policy Statement paragraph 6 to this ED).**

   We agree with the overarching principles on which the RDR decision-making process is based. However, we recommend the term "user needs" is further elaborated upon within the framework so it better informs both the AASB and preparers.

2. **Do you agree with the two Key Disclosure Areas identified in the proposed joint Policy Statement as being essential for meeting user needs? If you disagree with either Key Disclosure Area (including any of the specific disclosures about transactions and other events significant or material to understanding the entity's operations as represented by the financial statements), please explain which one(s) you disagree with and why? (see [draft] joint Policy Statement paragraph 8 to this ED).**

   We agree with the two Key Disclosure Areas (KDA) proposed.

3. **Do you agree with the proposed joint Policy Statement as a whole for determining RDR for Tier 2 entities? If you disagree, please explain why (see the [draft] joint Policy Statement to this ED). In relation to the proposed joint Policy Statement, the AASB is particularly seeking to know whether the disclosures required of not-for-profit entities are appropriate relative to the disclosures required of for-profit entities.**

   We are broadly supportive of the joint Policy Statement as a whole. However, we have highlighted some significant concerns in our cover letter, which primarily relate to the Australian financial reporting environment. Whilst we appreciate that this project has progressed jointly between the AASB and NZASB, changes to the New Zealand financial reporting framework have given rise to significant differences compared to the Australian financial reporting framework. Given the possibility that there could be changes to the Australian financial reporting framework in the future, we suggest the AASB considers the issues that affect the Australian financial reporting environment to ensure a reporting solution that addresses these issues.

4. **Do you agree with the approach in the proposed joint Policy Statement taken by the AASB regarding disclosures about accounting policies? If you disagree, please explain why (see [draft] joint Policy Statement paragraph Aus12.1 to this ED).**

   We are supportive of the approach proposed regarding disclosures of accounting policies. However, our response to question 8 might have an impact on the approach the AASB may wish to take in respect of accounting policies disclosures in the final RDR accounting standards.

5. **Do you agree with the approach in the proposed joint Policy Statement taken by the AASB regarding guidance for disclosure requirements? If you disagree, please explain why (see [draft] joint Policy Statement paragraph Aus25.1 to this ED).**

   We are not supportive of the approach proposed regarding the removal of guidance for disclosure requirements. The removal of the guidance as proposed by the AASB will not in itself increase or reduce the disclosure requirements arising from the RDR framework. Instead, such guidance provides more assistance to the preparers when considering specific disclosures. Accordingly, we recommend retaining all disclosures related guidance.

6. **Do you agree with the approach in the proposed joint Policy Statement taken by the AASB regarding cross-references to other standards that are general rather than specific? If you disagree, please explain why (see [draft] joint Policy Statement paragraph Aus29.1 to this ED).**

We are supportive of the approach proposed regarding cross-references to other standards that are general rather than specific. However, please see our response to question 8 as this might have an impact on the approach the AASB may wish to take in respect of accounting policies disclosures in the final RDR accounting standards.

7. **Do you agree with the outcome of the application of the proposed joint Policy Statement to the disclosure requirements in Australian Accounting Standards to determine the disclosures that Tier 2 entities should be required to provide? (see Proposed Tier 2 Disclosures) If you disagree with the outcome, please identify, with reasons:**

   (a) which disclosures that are identified as requirements that you believe Tier 2 entities should not be required to provide; and

   (b) which disclosures that are identified as concessions that you believe Tier 2 entities should be required to provide.

   We have identified some inconsistencies in the application of the proposed joint Policy Statement, which we highlight for your attention:

   - AASB 124 *Related Party Disclosures* paragraph Aus13.1 has been removed on the basis that it is not a KDA. As the disclosures relate to identifying parent entities and/or ultimate controlling parties, they appear to meet the KDA criteria for related parties.
   - The proposed Tier 2 disclosures for AASB 1 *First-time Adoption of Australian Accounting Standards* paragraph AusF3 states that the RDRs do not affect the face of the financial statements. However, paragraph RDR21.1 is an RDR specific amendment that does affect the face of the financial statements. We, therefore, suggest paragraph AusF3 is amended to reflect the presentation considerations in paragraph RDR21.1.
   - AASB 1054 *Australian Additional Disclosures* paragraph 16/10 requires a reconciliation of Net Operating Cash Flow to Profit (Loss) when an entity uses the direct method to present the statement of cash flows. This paragraph has been removed on the basis that this is a reconciliation requirement. Given “current liquidity and solvency” is a KDA and constituent feedback has indicated that common information needs of users includes “cash balances and cash flows”, we suggest the AASB reconsiders its decision in respect to this disclosure.

8. **Which approach do you prefer for identifying RDR for Tier 2 entities:**

   (a) the approach taken in this ED with the Proposed Tier 2 Disclosures to include an Australian Appendix in each Australian Accounting Standard that identifies the disclosures that Tier 2 entities are required to provide; or

   (b) use the approach taken in the New Zealand ED to use an asterisk (*) for disclosures that are not required and explaining partial concessions by means of an RDR paragraph? The approach taken in the New Zealand ED is illustrated in the Appendix A to this ED.

   Feedback we have received suggests that the retention of the asterisk approach in New Zealand has been largely because no problems have been identified with this approach. Feedback also suggests that the current shading approach provides financial report preparers with better context and a more meaningful consideration of the accounting standard as a whole. It also enables preparers to obtain a better understanding of the intent and requirement of the accounting standard, including when and where professional judgement needs to be applied. Unless the AASB has identified significant problems with its previous shading approach to RDR disclosures, we support its retention. If however, the AASB has obtained evidence that indicates that the proposed appendix approach is likely to improve the usage of the RDR framework we suggest such evidence is published in support of its appendix approach.

   If the AASB decides to revert back to the shading approach, it may need to reconsider the decisions it has made in respect of disclosures relating to accounting policies and cross-references to other standards that are general rather than specific. Under the shading approach, the removal of disclosures relating to accounting policies and cross-references to other standards will be displayed as shaded paragraphs. This could create confusion amongst preparers who may incorrectly conclude that these disclosures are not required under the RDR framework. We, therefore, recommend the AASB reconsiders its approach in the joint Policy Statement on disclosures relating accounting policies and cross-references to other standards, if it decides to revert back to the shading approach.

9. Do you agree that when an Australian Accounting Standard does not have separate sections for disclosure and presentation requirements, both presentation and disclosure requirements are included in the Australian Appendix to each Australian Accounting Standard that identifies the disclosures that Tier 2 entities are required to provide? If you disagree, please explain why.

We agree with the proposed approach, subject to our comments in response to question 7.

10. Do you agree that, once approved, the amended Tier 2 disclosure requirements should be effective for annual periods beginning on or after 1 January 2019 with early application permitted? Early application is permitted for periods beginning on or after 1 January 2018 (with early adoption of the amended Tier 2 disclosures in AASB 140 Investment Property permitted when an entity first applies AASB 16 Leases), with AASB 101 Presentation of Financial Statements, AASB 107 Statement of Cash Flows and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors as revised by this [draft] Standard applied at the same time an entity first applies a Standard that is revised by this [draft] Standard.

We support the effective date of 1 January 2019 and early application as proposed.

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11. The Exposure Draft does not propose any specific transition requirements. Do any issues warrant transitional provisions and, if so, what transitional provisions do you suggest?

We have not identified any issues that warrant specific transitional provisions.

12. Do you think that when approved, the amended Tier 2 disclosures would encourage eligible entities that currently:

- **(a) prepare Special Purpose Financial Statements to prepare Tier 2 General Purpose Financial Statements; and**
- **(b) prepare Tier 1 General Purpose Financial Statements to prepare Tier 2 General Purpose Financial Statements.**

We refer you to our comments in the cover letter.