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14 August 2018

Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204, Collins St West
Melbourne, VIC 8007
Australia

By email: standard@asab.gov.au

Dear Kris

Invitation to Comment – ITC 39 Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems (Phase 1)

CPA Australia represents the diverse interests of more than 163,000 members working in 125 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

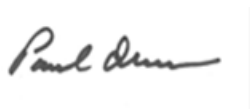
CPA Australia welcomes the opportunity to provide comments in response to the above AASB Consultation. We acknowledge the AASB’s efforts in developing this Consultation and supporting materials, and its ongoing engagement with stakeholders to inform them of the proposals.

CPA Australia notes the AASB’s decision to pursue the two-phased Option 1, following its own consideration of five options. While details have been provided for all five options including the pros and cons for each option, the AASB is only seeking feedback on its preferred Option 1. Accordingly, our organisation’s submission restricts its comments to the proposals relating to that option only, provided in the **Attachment** to this letter.

CPA Australia is also in the process of engaging with and obtaining feedback from our members and stakeholders on these proposals. The initial comments regarding the Phase 2 proposals are based on feedback received to date. We look forward to providing further comments in due course.

If you require further information on our views expressed in this submission, please contact Ram Subramanian, Policy Adviser – Reporting, on +61 3 9606 9755 or at ram.subramanian@cpaaustralia.com.au.

Yours sincerely



Paul Drum
Head of Policy

Introduction

CPA Australia's submission initially provides some general/overall comments in response to the Phase 1 proposals. Comments are also provided in response to the specific questions regarding the Phase 1 proposals.

Since phases 1 and 2 under Option 1 are interlinked, CPA Australia has also given some initial consideration and provided comments relating to the Phase 2 proposals.

General comments

Phase 1 approach

CPA Australia supports the adoption of the IASB Revised Conceptual Framework (RCF) for entities that state compliance with IFRS in their financial statements. The AASB has chosen the revised 'public accountability' definition in the IFRS for Small and Medium-Sized Entities (IFRS for SMEs) as the lever to distinguish entities that state compliance with IFRS from entities that do not state such compliance. Notably, the AASB proposes to adopt the 'public accountability' definition in IFRS for SMEs, but does not consider the IFRS for SMEs as an appropriate solution for further consideration as part of these proposals. Although we do not consider the proposed Phase 1 approach a sustainable way forward in the medium to long-term, we agree that it provides a pragmatic stop-gap solution to incorporating the RCF into the AAS framework.

However, we have received feedback indicating that there is some concern about potential unintended consequences that may arise from the pragmatic approach proposed under Phase 1. For example, we have been made aware of some entities in the financial services sector which are likely to be affected by the Phase 1 proposals. Whilst we are not aware of other examples of entities that may also be affected, it is our view that all entities that are potentially impacted by the Phase 1 proposals should be given an adequate opportunity to consider and comment on the proposals. We note that the AASB does not intend to issue an Exposure Draft on its Phase 1 proposals, but given the gravity of the proposals, we suggest the AASB does follow normal due process in this instance and issue an Exposure Draft.

Phase 2 approach

CPA Australia agrees with the view expressed in the Consultation that the underpinning of Australian Accounting Standards (AAS) by two conceptual frameworks in the medium to long term is neither sustainable nor desirable. Proposals to replace the current differential reporting regime with an IFRS based general purpose financial reporting framework for all entities that prepare financial statements in accordance with AAS will however have far reaching economic implications. To ensure that an appropriate financial reporting framework which meets the needs of all stakeholders is implemented, it is critical the AASB gives careful consideration to numerous factors before further developing its proposals under Phase 2.

The following highlights the key factors that require further attention from the AASB:

- **User needs:** There is insufficient evidence of the needs of users who will rely on IFRS based general purpose financial statements that are prepared in accordance with the proposed requirements. There is need for clear, unequivocal evidence of the existence of such users and their information needs that align with the proposed requirements.
- **Current research needed:** The research referred to in the Consultation relates to 2010 and prior periods, and does not consider the impact of subsequent developments such as AAS Reduced Disclosure Requirements. Empirical evidence based on more up to date research is needed to make a more informed assessment of the current reporting framework.

- Reporting thresholds: Major changes to corporate financial reporting are being proposed by the AASB with no due consideration of the financial reporting thresholds within Corporations Act 2001. It is our view that these proposals are incomplete, and possibly inadequate, without proper consideration of those thresholds. Whilst we appreciate a review of the Corporations Act 2001 is outside the scope of the AASB, we intend to raise this matter with Australian Treasury.
- Flow-on effect: The extent of the impact of the proposals on AAS based financial reporting in Australia for non-statutory purposes is not clear. We recommend the AASB gathers and provides evidence on the potential impact of the proposals on such financial reporting.
- Not-for-profit (NFP) reporting: The further development of financial reporting proposals for private sector NFP entities appear to hinge on the outcome of the legislative review of the Australian Charities and Not-for-profits Commission (ACNC). Statutory reporting by NFPs extend much beyond entities registered with the ACNC. We suggest a more comprehensive consideration of all relevant statutory financial reporting requirements by NFPs is considered in the development of proposals for this sector.
- Cost/ benefit analysis: The Consultation details some of the benefits that may arise from the proposals. Equally, a thorough analysis and clear illustration of the costs that may arise as a result of the proposals is needed. A comprehensive and objective cost/ benefit analysis is recommended before proceeding further with the proposals.
- Reporting entity definition clash: The Consultation paper highlights a 'reporting entity' definition clash as one of the problems that has required the AASB to develop these proposals. In our view, the Consultation does not provide sufficient, clear evidence of a "reporting entity" definition clash.

Specific questions/ comments

1. Do you agree with the short-term approach to maintain IFRS compliance by introducing the RCF in Australia?

As stated previously, CPA Australia agrees with the proposed short-term approach for entities that state IFRS compliance in their financial statements. However, any unintended consequences of maintaining IFRS compliance through the new 'public accountability' definition needs further examination. As suggested in the cover letter, we suggest the development and issue of an Exposure Draft that further explores the proposals and provides affected stakeholders an opportunity to consider and comment on the Phase 1 proposals in isolation.

As stated earlier in this submission we suggest the AASB gives further consideration to the Reporting Entity definition clash that has been highlighted as one of the problems this Consultation seeks to resolve. We note that Chapter 3 of the RCF reproduced in Appendix 3 of the Consultation omits footnotes in the original document. In particular, we believe footnote 7 in the RCF which states that 'throughout the *Conceptual Framework*, the term 'financial statements' refers to general purpose financial statements' is germane to stakeholders considering these proposals. We suggest the AASB considers the impact of this statement on the proposals as part of its further analysis, and also provides stakeholders reviewing the proposals the same opportunity by including the footnotes in further consultations.

2. Do you agree that the short-term approach should be made applicable to both publicly accountable for-profit private sector and public sector entities?

See our above comments in response to Q1.

3. Are you aware of publicly accountable for-profit entities currently self-assessing as nonreporting entities and preparing SPFS that would have implications under the AASB's short-term approach?

As stated earlier in this submission, we have been made aware of some entities in the financial services sector which are likely to be affected by the Phase 1 proposals. Whilst we are not aware of other examples of entities that may also be affected, it is our view that all entities that are potentially impacted by the Phase 1 proposals should be given an adequate opportunity to consider and comment on the proposals. As stated in our response to Q1 above, we suggest the AASB develops and issues an Exposure Draft to allow stakeholders an opportunity to further consider and comment on the proposals.

4. Do you agree with the AASB's amendments to the definition of 'public accountability' in AASB 1053 per IFRS for SMEs Standard?

See our comments above in response to Q1 and Q3, and our comments under General Comments in this submission.

5. Do you agree with the proposed amendments to SAC 1 Definition of the Reporting Entity and the following Australian Accounting Standards set out in Appendix A?

We have expressed some concerns in our responses above and in the General Comments section where we suggest the AASB gives consideration to in further developing its Phase 1 proposals.