

9 August 2018

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

Dear Kris

ITC 39 Consultation Paper - Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems – Phase 1

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on Phase 1 of the Consultation Paper. The views expressed in this submission represent those of all Australian members of ACAG.

ACAG supports Phase 1 of the Consultation Paper, in relation to proposals for publicly accountable entities preparing General Purpose Financial Statements (GPFS) and other entities that voluntarily report compliance with IFRS.

ACAG suggests that the Phase 1 proposals, in relation to Tier 2 and NFP entities, are further clarified and clearly articulated by the AASB in final drafting. This is suggested because ACAG members encountered a variety of interpretations and applicability outcomes based on consideration of the current proposals.

The attachment to this letter addresses the AASB's matters for comment outlined in the Consultation Paper, as well as areas where ACAG suggests the AASB could improve final drafting.

ACAG appreciates the opportunity to respond and trust that you find our comments useful.

Yours sincerely



Andrew Greaves
Chairman
ACAG Financial Reporting and Accounting Committee

AASB Specific Matters for comment**1. Do you agree with the short-term approach to maintain IFRS compliance by introducing the RCF in Australia?**

That is, do you agree that the RCF should be applicable for publicly accountable for-profit entities that are required to prepare Tier 1 GPFS and other entities that are voluntarily reporting compliance with IFRS, and the existing Framework should continue to be applicable to other entities in the short term until the medium-term solution is implemented? Please indicate reasons for your response and if you disagree, please provide suggestions for an alternative approach for the AASB to consider.

ACAG agrees with the short-term approach identified in the Consultation Paper, that the Revised Conceptual Framework (RCF) should be applicable for publicly accountable for-profit (FP) entities that are required to prepare Tier 1 GPFS and other entities that are voluntarily reporting compliance with IFRS, and the existing Framework should continue to be applicable to other entities in the short term. However, ACAG has also identified some concerns with this approach.

ACAG notes that the wording in the drafted proposals goes beyond “other entities that are voluntarily reporting compliance with IFRS” and refers to “other for-profit entities that elect to apply the RCF”.

ACAG interprets the proposals to mean there will be no mandatory changes until financial years beginning on, or after, 1 January 2020 (paragraph 157). At that time, Phase 1 begins, i.e. the RCF, the associated *Amendments to References to the Conceptual Framework in IFRS Standards* (proposed AASB 2018-X) and the amendments proposed in Appendix A would become effective for FP entities that are required to prepare Tier 1 GPFS and other FP entities that elect to apply the RCF. Also, during the period until 1 January 2020, FP entities (private sector and public sector) preparing financial statements in accordance with Australian Accounting Standards, being Tier 1 or Tier 2, will be able to early adopt these amendments.

ACAG understands that the current reporting entity concept including the ability to prepare special purpose financial reports will continue, where applicable, until Phase 2 begins.

During Phase 1, FP entities that are required to prepare Tier 1 GPFS and other FP entities that elect to apply the RCF, will apply the RCF. For other entities (e.g. Tier 2 entities, NFP entities or non-reporting entities), reference to a “Framework” should, through the operation of AASB 1048 (amended as proposed in the ITC), mean the existing Framework.

However, ACAG raises concerns about the likely changes to be made to individual accounting standards by the IASB to reflect and refer to the RCF, and the subsequent adoption of such changes in Australia. For example, inter alia, the reference to a “Framework” in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (paragraph 11) is likely to be amended to refer to the RCF and ACAG expects this to lead to a similar amendment in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* for the selection of accounting policies in the absence of a suitable standard. ACAG suggests that care is taken to ensure the appropriate framework is referred to, to ensure compliance with IFRS (where required) and to avoid confusion for entities not required to comply with the RCF during Phase 1.

While the above means that until Phase 1 ends, both sets of entities will follow the recognition and measurement (R&M) requirements of their respective Framework, these R&M requirements could potentially lead to different outcomes and accounting treatments.

ACAG believes that this is an important implication that the AASB needs to clearly communicate as an acceptable feature of Phase 1. Failure to do so may result in uncertainty by Tier 2 entities (that are FP entities) about whether they should early adopt the RCF to follow the same R&M as Tier 1 entities.

- 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? That is, do you agree that the RCF should be applicable for publicly accountable public sector entities that are required to prepare GPFS in accordance with Tier 1 reporting requirements (who are currently claiming compliance with IFRS) as well? Please indicate reasons for your response and if you disagree please provide suggestions for an alternative approach for the AASB to consider.**

ACAG agrees with the AASB's approach for entities preparing GPFS in accordance with Tier 1 reporting requirements (who are currently claiming compliance with IFRS).

As the AASB is using the definition of public accountability from the updated IFRS for SMEs, ACAG recommends that the guidance accompanying the IFRS for SMEs for interpreting the definition also be included or cross-referenced.

ACAG also notes that the ITC includes an applicability paragraph in some proposed amendments to individual standards that includes "*for-profit entities that have public accountability that are required to comply with Australian Accounting Standards*". ACAG suggests the AASB clearly articulates what the term "required" refers to. Is the "requirement" prescribed by legislation, ASIC regulations, the entity's constitution, a contractual funding agreement or another instrument? This will greatly assist interpretation of the applicability of these amendments.

- 3. Are you aware of publicly accountable for-profit entities currently self-assessing as non-reporting entities and preparing SPFS that would have implications under the AASB's short-term approach? If so please provide specific examples including why these entities are not currently applying AASB 1053 and preparing Tier 1 GPFS although they would otherwise meet the definition of public accountability.**

Yes, some state governments maintain unlisted trust entities that may be considered 'publicly accountable' given the nature of their operations (i.e. lending and fiduciary investment services), but these are not required to report under the *Corporations Act 2001* or have a legislative requirement to lodge financial statements that comply with accounting standards. Some of these entities are currently preparing SPFS and their operations are being consolidated into parent entities preparing GPFS.

- 4. Do you agree with the AASB's amendments to the definition of 'public accountability' in AASB 1053 per IFRS for SMEs Standard (refer to Appendix A)? Please indicate reasons for your response and if you disagree, please provide suggestions for the AASB to consider.**

ACAG agrees with these proposals. As noted above in question 2, ACAG recommends there is a link to the accompanying IFRS for SMEs guidance on public accountability.

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

ACAG agrees with the proposals however, suggests the proposals in relation to NFP entities, are further clarified and articulated by the AASB in final documents. This is suggested as ACAG members encountered a variety of interpretations upon consideration of the proposals and the deferral of applicability of the RCF to NFP entities.

AASB General Matters for comment

6. Whether *The AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities* has been applied appropriately in developing the proposals in Phase 1.

Yes, the *AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities* appears to have been appropriately applied.

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

ACAG does not expect significant issues with the Phase 1 proposals for not-for-profit public sector entities or for-profit public sector entities.

ACAG does expect issues with the Phase 2 proposals. There are numerous entities in the public sector where financial statements are being prepared other than for public lodgement. ACAG notes that there will likely be an impact on current reporting arrangements for such entities where their financial statements are required to be prepared in accordance with Australian Accounting Standards and are currently prepared as SPFS.

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

ACAG is not able to comment on whether the proposals would result in financial statements that would be useful to users.

9. Whether the proposals are in the best interests of the Australian economy.

ACAG is not able to comment on whether these proposals are in the best interests of the Australian economy.

10. Unless already provided in response to specific 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.

ACAG is not able to comment on this issue.

Other comments

ACAG has no further comments on the proposals.