11 September 2020

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

Submission on Exposure Draft ED 302: Amendments to Australian Accounting Standards - Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities

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 the above Exposure Draft (ED).

Overall comments

CA ANZ and CPA Australia are of the view that the proposals in this ED add an additional unnecessary, and costly, layer of complexity to the effective achievement of financial reporting framework reform in the for-profit sector. Therefore, we do not support the proposals described in this ED.

Rather than pursuing the implementation of these proposals, we believe the resources of the Australian Accounting Standards Board (AASB) can be better utilised in:

- educating key stakeholders about the requirements and impacts of the new for-profit (FP) financial reporting framework being introduced by AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (AASB 2020-2), and providing resources and other educational material that will support its effective adoption; and
- continuing to consult with, and prepare, not-for-profit (NFP) entities for the financial reporting framework changes anticipated from that phase of the wider reform project.

As stated in our earlier submissions to the AASB in response to Exposure Draft 295 and Exposure Draft 297, we support framework reform that seeks to bring about improvements in the consistency and comparability of financial statements on the public record. However, we do not agree that the proposals in this ED will cost effectively achieve this important objective and may, in fact, undermine the successful implementation of the changes being introduced by AASB 2020-2.

Reasons for our view on the proposals in the ED

Our reasons for the views expressed above are outlined below and explained in more detail in the **Attachment** to this letter, which contains our responses to the specific questions posed in the ED.

- ***Effective framework reform implementation needs careful management***

  The release of AASB 2020-2 in March 2020 means the AASB and its stakeholders are now in the implementation phase of some of the most significant reforms to Australia's financial reporting framework since the adoption of International Financial Reporting Standards (IFRS) in 2005. The reforms have widespread impacts on financial reporting requirements and will result in significant and costly changes to current practice for many entities, their professional advisors and auditors. It will also produce significant changes to the information available to users. Therefore, it is essential that the change be carefully managed if it is to cost effectively achieve the desired outcome.

  As noted in our submission on Exposure Draft 297 (the forerunner of AASB 2020-2), we expressed a view that a two year transition period, ending in June 2023, would be necessary for stakeholders to understand and evaluate the impact of the changes introduced through AASB 2020-2 and develop an appropriate transition strategy that is consistent with the resources they have available. These resources include the time and skills of those implementing the changes, primarily our members, which are already in short supply.

  However, a one year transition period, ending on 30 June 2022, was determined by the AASB to be sufficient time in which to implement AASB 2020-2's changes in the for-profit sector. The additional modifications being proposed in this ED have an even shorter implementation timeframe, applying to annual reporting periods ending on or after 30 June 2021. This will only increase the strain on implementation resources.

  Neither the implementation date of AASB 2020-2, nor the even shorter transition period associated with the proposals in this ED, are consistent with the AASB's Standard-setting Due Process Framework. This Framework 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".

  It is our view that the shortened timeline in this proposal will only serve to make effective transition to the new framework more resource intensive and challenging for stakeholders than if they were only required to prepare for, and implement, the reforms already been enacted via AASB 2020-2.

- ***Additional burden on 'for-profit' entities transitioning to AASB 2020-2***

  We are of the view that these proposals will impose an unnecessary and additional burden on affected for-profit entities who already need to devote significant resources to transitioning to AASB 2020-2. The proposed requirements are intended for Special Purpose Financial Statements (SPFS) which are prepared on the basis that users can demand and obtain the information they need within such SPFS. This is the reason why paragraph 12 of both the AASB's FP and NFP standard-setting frameworks note that *"the AASB does not currently set standards for special purpose financial statements."* The proposed disclosures have not been justified by research-based evidence that clearly demonstrates a need for this information earlier than the implementation date of AASB 2020-2. Therefore, the introduction of these proposed disclosures will see entities incur costs and divert resources that we believe would be better spent ensuring the successful implementation of the changes being brought about by AASB 2020-2.

- ***Additional burden on entities not required to transition to AASB 2020-2***

  We also have significant concerns with the aspects of the proposals in the ED that impose additional disclosure requirements on entities with constitutional reporting requirements that reference Australian Accounting Standards (AAS). The Board excluded these entities from the scope of AASB 2020-2, a decision we supported. Attempting to "reinclude" them in the reforms through the proposed disclosure requirements simply adds an unnecessary layer of red tape upon these entities for which the AASB does not directly set standards, nor any regulator has direct oversight. The AASB's proposals have also not provided clear research-based evidence of the existence of significant user needs for this information that would justify the proposed disclosure requirements.

Impact of COVID -19 – and the need to revisit the implementation date of AASB 2020-2

Existing challenges associated with the effective implementation of AASB 2020-2, and the additional challenges that would be created by adopting these proposals, have now been intensified by the onset of the global COVID -19 pandemic that has severely disrupted many aspects of Australian society, including economic activities.

In addition to not pursuing the proposed disclosures in ED 302, we recommend that, in the current uncertain environment, the AASB revisits its decision on the mandatory implementation date of AASB 2020-2. A more appropriate implementation date would be periods commencing on or after 1 July 2022 (i.e. 30 June 2023 year ends). In making this deferral, the option to early adopt and the incentives to do so that are already in AASB 2020-2 should be maintained.

While this matter is not part of this current Consultation, the proposals in this ED are part of the effective implementation of the AASB's broader financial reporting reform project. Therefore, it is a matter that we believe should be considered by the AASB.

Supporting information

The views expressed in this submission have been informed by our previously developed policy positions on the reporting framework reform project, and by 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. A copy of this survey previously provided to the AASB as part of our submission on ED 297, is also available on CA ANZ's website.

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. Question regarding CA ANZ's survey should be directed to the former.

Yours sincerely

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

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

Attachment

Specific matters for comment

1. Do you agree that an amendment to Australian Accounting Standards to require entities to disclose information about their special purpose financial statements – including the material accounting policies applied in the special purpose financial statements, changes in those policies, and whether or not the entity has complied with all the recognition and measurement requirements in Australian Accounting Standards – is needed to provide more transparency to users of special purpose financial statements and improve the comparability of special purpose financial statements? If not, please provide your reasons.

We do not agree with this proposed amendment. The long-standing conceptual basis enabling the preparation of SPFS that state compliance with Australian Accounting Standards (AAS) is the premise that users can demand the inclusion of any information they require. In our view, this explains why the AASB's FP and NFP standard-setting frameworks both note that *"the AASB does not currently set standards for special purpose financial statements"* (Paragraph 12 in both documents). To require additional disclosures within SPFS contradicts this underlying standard-setting approach.

In addition, we are not aware of research-based evidence that demonstrates that the proposed additional disclosures will assist user understanding of SPFS, the focus of these proposals. This includes users of financial statements of entities with constitutional reporting requirements that cite the requirement to comply with AAS, which the AASB scoped out of the reforms being implemented through AASB 2020-2.

From a cost-benefit perspective, implementing these additional disclosure requirements is likely to be costly and time consuming for these entities, while there is no evidence that users will benefit from this additional information. We are also not aware of regulators being in a position to enforce these requirements.

The AASB's decision to scope these entities out of AASB 2020-2 acknowledged these concerns and so scoping them back in via these proposals will fail to reflect the cost/ benefit concerns stakeholders had about the proposals that predated the release of AASB 2020-2.

2. Do you agree that the proposed new disclosures should apply only to those entities preparing special purpose financial statements that are: (a) for-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and (b) other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards. If not, please provide your reasons.

We do not agree with the introduction of these additional disclosures for either of the groups identified in (a) and (b) above.

In respect of the entities identified in (a) the implementation of AASB 2020-2 has introduced a general purpose financial statements (GPFS) based financial reporting framework for FP entities that will result in these entities being unable to prepare SPFS that state compliance with AAS for statutory and other purposes. Therefore, the proposed disclosures will potentially apply to affected FP entities for only one year (or a maximum of two years if the AASB extends the effective date by one year as per our recommendation in our cover letter).

We believe that preparers, their advisors and auditors would be better served by an education process supporting the transition process that will allow them to utilise scarce resources to effectively implement the AASB 2020-2 reforms, rather than be required to produce interim disclosures whose utility is questionable. While we acknowledge that obtaining the information required for the proposed disclosures is a part of the transition process, mandating the publication of this information ahead of transition will impose an unnecessary additional burden during the transition phase for these entities. This burden is not only limited to preparing the disclosures but will also involve educating financial statement users on the nature of, and rationale for, these interim changes.

As previously noted in our submission on ED 297, results of a CA ANZ survey showed that 67% of respondents thought they would, or could, need external support to implement the reforms. These limited resources will now be further stretched by the impact of the global pandemic, which adds further weight to our call for a delay of the implementation date of AASB 2020-2 to 1 July 2022 (see our cover letter).

We also do not support the inclusion of the entities identified in (b) within the scope of these proposals. The AASB does not have direct standard setting responsibility for these entities and the proposal seems to be recommending additional disclosures based on a desire to standardise the interpretation of wording that historically has been interpreted far less prescriptively.

The AASB's decision to scope these entities out of AASB 2020-2 acknowledged this concern and so scoping them back in via these proposals will fail to reflect the cost/ benefit concerns these stakeholders had about the proposals that predated the release of AASB 2020-2.

3. Do you agree with the proposed amendments to AASB 1054 requiring disclosure of:
- **(a) the basis for the preparation of the special purpose financial statements (see proposed new paragraph 9C(a));**
- **(b) the material accounting policies applied in the special purpose financial statements, including information about changes in those policies (see proposed new paragraphs 9C(b) and 9C(c));**
- **(c) information about the consolidation or non-consolidation of subsidiaries and accounting for associates and joint ventures (see proposed new paragraph 9C(d));**

(d) an explicit statement as to whether or not the accounting policies applied in the financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards (including the requirement to disclose an indication of how they do not comply) (see proposed new paragraph 9C(e)); and
(e) an explicit statement as to whether or not the financial statements overall comply with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) (see proposed new paragraph 9C(f))?
(f) If you disagree with any aspect of the proposed disclosures, please provide your reasons.

No. As per our response to Questions 1 and 2, we consider these disclosures to be unnecessary and complex. They are also not supported by evidence that benefits will exceed costs during and after the transition to the AASB's new for-profit financial reporting framework established through AASB 2020-2.

4. The proposed Standard includes implementation guidance and illustrative examples illustrating the application of the proposed disclosure requirements. Do you agree it provides appropriate illustration of the application of the disclosure requirements? If not, please provide your reasons.

No. As per our response to Questions 1 and 2, we consider these disclosures to be unnecessary and complex. They are also not supported by evidence that benefits will exceed costs during and after the transition to the AASB's new for-profit financial reporting framework established through AASB 2020-2.

5. Do you agree with the proposed effective date of annual periods ending on or after 30 June 2021 (with early adoption permitted)? If not, please explain why.

No. As per our responses to Questions 1 and 2, we consider these disclosures are unnecessary and complex. They are also not supported by evidence that benefits will exceed costs during and after the transition to the AASB's new for-profit financial reporting framework established through AASB 2020-2.

In addition, should the AASB proceed with issuing an amending standard as proposed, it will apply in most cases to a reporting period that has already commenced (i.e., reporting periods commencing on or after 1 July 2020). This significantly reduces the time needed for the preparers and auditors of the financial reports of affected entities to consider, understand and adapt to the changes. Our concerns are further amplified by the current COVID-19 pandemic.

The proposed effective date is also not consistent with the AASB's Standard-setting 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".

6. Do you agree that an entity that has no subsidiaries, investments in associates or investments in joint ventures should not be required to make an explicit statement to this effect? If not, please provide your reasons.

No. As per our response to Questions 1 and 2, we consider these disclosures are unnecessary and complex. They are also not supported by evidence that benefits will exceed costs during and after the transition to the AASB's new for-profit financial reporting framework established through AASB 2020-2.

7. Do you have any other comments on the proposals?

No

General matters for comment

8. Has the AASB's For-Profit Entity Standard-Setting Framework been applied appropriately in developing the proposals in this Exposure Draft?

No – as per our response to Question 1, the AASB's FP and NFP standard-setting frameworks both note that *"the AASB does not currently set standards for special purpose financial statements"* (Paragraph 12 in both documents). To require additional disclosures within SPFS contradicts this underlying standard-setting approach and is not supported by research-based evidence of user needs.

9. Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?

No

10. Do the proposals create any auditing or assurance challenges?

Yes – these disclosures will be an additional burden for auditors already facing reporting reform and COVID-19 challenges. The CA ANZ survey (referred to in our cover letter and discussed in Question 2) indicates that a substantial number of our members could potentially struggle to find the resources to implement the AASB's broader framework reforms. These proposed additional disclosures will be an unnecessary interim burden on the path to this transition.

11. Will, overall, the proposals would result in special purpose financial statements that would be more useful to users?

No, we do not believe so for the reasons stated previously.

12. Are the proposals in the best interests of the Australian economy?

No, we do not believe so for the reasons stated previously.

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

13. Unless already provided in response to specific matters for comment above, whether 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.

As noted in our cover letter, in 2019 CA ANZ conducted a survey to obtain views on the removal of SAC 1 as the basis of Australia's differential reporting regime. The results of this survey were provided to the AASB as part of our submissions on the AASB's for-profit framework reform proposals, issued as ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*.

A key message from that survey was that the AASB's broader framework reform in the for-profit sector needed to be carefully targeted if it is to avoid the costs of implementation exceeding the benefits. Therefore, we welcomed the AASB's decision to narrowly focus the resulting amending standard AASB 2020-2 to those entities where there was greatest identified user need.

Of specific relevance to this consultation, and in particular Questions 1 and 2, is the feedback received from 160 stakeholders involved with the financial statements of non-listed trusts and 157 involved with superannuation entities (see page 8 of the survey). Participants were asked to respond to the question *"Do the benefits of removing the option to prepare special purpose financial statements outweigh the costs for these types of entities?"* For non-listed trusts, 32% of those stakeholders indicated that they agreed with that statement while 60% disagreed (with 8% undecided). For superannuation entities the equivalent percentages were 34% agreed and 58% disagreed (with 8% undecided).

In addition, the survey also revealed that there was an ongoing need for education on the benefits of reform ahead of its implementation, especially to assist cost recovery from clients. We consider that the proposals in this ED will only serve to undermine the timely and effective educational effort, planning and completion of this important transition work.