

2 December 2019

The Chair  
Australian Accounting Standards Board  
PO Box 204  
COLLINS STREET WEST VIC 8007

via email: [standard@asb.gov.au](mailto:standard@asb.gov.au)

Dear Kris

AASB Exposure Draft ED 295 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities and ED 297 Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities

Deloitte is pleased to respond to the proposals in the Australian Accounting Standards Board ('AASB' or 'Board') Exposure Drafts ED 295 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities (ED 295) and ED 297 Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities (ED 297) (together the 'Exposure Drafts').

Overall, we support the Board's proposals in the Exposure Drafts.

We suggest the proposals could be improved by:

- Deferring the mandatory application date of the proposals by 12 months to provide entities with sufficient time to prepare, whilst permitting early adoption for those entities for whom the proposals would be favourable
- More closely aligning the presentation and disclosure of discontinued operations and assets held for sale with existing Australian Accounting Standards
- Consideration of various other disclosures, particularly around liquidity
- Reassessment of the transitional provisions and associated disclosures
- More clearly identifying the disclosures that have been replaced by Australian-specific requirements.

We also recommend the Board carefully consider how it can help to achieve the broadest level of compliance with the new requirements, particularly by smaller entities.

Our detailed responses to the specific and general matters for comment are included in the Appendices. Please contact me at +61 2 9322 7177 if you wish to discuss any of our comments.

Yours sincerely



Anna Crawford  
Partner

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities. DTTL (also referred to as "Deloitte Global") and each of its member firms and their affiliated entities are legally separate and independent entities. DTTL does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our network of member firms in more than 150 countries and territories serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 286,000 people make an impact that matters at [www.deloitte.com](http://www.deloitte.com).

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte Network.

© 2019 Deloitte Touche Tohmatsu

## APPENDIX A: RESPONSE TO SPECIFIC QUESTIONS IN ED 295

### Specific matters for comment

1. Do you agree with the overarching principles on which the proposed Simplified Disclosure Standard is based and the methodology described in paragraphs BC33-BC43 to [ED 295]? If you disagree, please explain why.

We agree with the overarching principles on which the proposed Simplified Disclosure Standard is based and the methodology adopted. Consistent with the AASB's Policies and Processes, we believe that a single set of recognition and measurement requirements is appropriate for for-profit entities in Australia. Furthermore, following the International Financial Reporting Standard for Small- and Medium-sized Entities (IFRS for SMEs) is appropriate, as it aligns Australian financial reporting requirements with international pronouncements.

While we have some reservation about the AASB proceeding with a separate project on 'Tier 2' reporting in light of the International Accounting Standards Board (IASB) project on subsidiaries that are SMEs, we appreciate that the IASB has not yet made a decision in relation to going ahead with this project and the project may take a substantial time period. Therefore we believe that it is appropriate for the AASB to proceed with its project at the current time, but recommend:

- The AASB fully explain its rationale for proceeding with its project in light of the IASB's project in the finalised Basis for Conclusions on any finalised Standard arising from ED 295
- The AASB closely monitor the IASB's project and align the Australian 'Tier 2' standard with the disclosures with those ultimately adopted by the IASB for for-profit entities, so that those entities can simultaneously be in compliance with the AASB and IASB standards.

2. Do you agree that these proposals should replace the current RDR framework? If you disagree, please explain why.

We agree that the proposals should replace the current 'Reduced Disclosure Requirements' framework. In practice, the determination of the disclosures required has in many cases been unclear or difficult to determine.

In addition, we support the aggregation of the requirements into a separate disclosure standard. In particular, we believe this is a better solution than the separate disclosure section in each existing Standard as previously considered by the Board.

3. Do you agree with the following key decisions made and judgements exercised by the AASB in drafting the proposed Simplified Disclosure Standard in relation to:

- (a) the replacement of AASB 7 Financial Instruments: Disclosures, AASB 12 Disclosure of Interests in Other Entities, AASB 101 Presentation of Financial Statements, AASB 107 Statement of Cash Flows and AASB 124 Related Party Disclosures and in their entirety as explained in BC46?

In general, we support this proposal. However, we recommend that further modifications to the base requirements of the IFRS for SMEs be made to eliminate some of the presentation and disclosure differences between that Standard and these Standards.

In particular, we recommend that the presentation requirements for discontinued operations and assets held for sale be aligned with existing Australian Accounting Standards, including the separate disclosure of assets held for sale or for distribution on the face of the statement of financial position, along with the alignment of the proposed disclosures in the proposed paragraph 4.14 with equivalent disclosures from AASB 5 Non-current Assets Held for Sale and Discontinued Operations. This will ensure comparability between financial statements prepared under 'Tier 1' and 'Tier 2' requirements and ensure consistency of treatment between the statement of financial position and statement of comprehensive income.

- (b) adding, removing or amending disclosures, for example the disclosures for lessees, revenue, borrowing costs, revalued property, plant and equipment (PPE) and intangible assets as explained in BC46-BC62?

We agree with these proposals.

In particular, we agree with the AASB's departure from the IFRS for SMEs in relation to revalued property, plant and equipment as discussed in paragraph BC61 of the Basis for Conclusions, even though the recognition and measurement requirements are the same between IFRS and the IFRS for SMEs. However, should the IASB retain this disclosure in any IFRS Standard arising from the IASB's subsidiaries that are SMEs project, we recommend that the AASB align the disclosures with those adopted by the IASB for for-profit entities so that those entities can simultaneously be in compliance with the AASB and IASB standards.

- (c) the inclusion of the audit fees disclosures from AASB 1054 Australian Additional Disclosures for the reasons set out in BC62?

We agree with these proposals. In addition, we believe that it would be an opportune time to enhance the audit fee disclosures that are required by AASB 1054, including better definition of services (such as audit, audit related services, assurance services and non-audit services). This would allow investors, shareholders and regulators to better evaluate the independence of the auditor.

We also believe consideration should be given to including the disclosure about imputation credits from AASB 1054. This information is highly relevant to the owners of the entity, as the primary users of the financial statements, and is consistent with the inclusion of significant other information about income tax related matters in ED 295.

- (d) not including certain Australian Accounting Standards and Interpretations in this Simplified Disclosure Standard as explained in BC63-BC65?

We generally agree with the omitted disclosures outlined in the Basis for Conclusions, with the following exceptions:

- We recommend the Board consider the proposed disclosures in relation to discontinued operations and assets held for sale or distribution (as noted above). The current proposals effectively require note disclosure of assets held for sale where the entity has a binding sale agreement, rather than when they have been identified as held for sale or distributions to owners. Accordingly, this presentation difference may confuse users of financial statements when the underlying basis of accounting using AASB 5 generally requires such assets are required to be measured at the lower of carrying amount and fair value less costs to sell or distribute, without depreciation
- It may also be useful to users of financial statements to include general disclosure where the entity is the head entity or a member of a tax-consolidated group, e.g. the existence of the group, the name of the head entity and where the head entity is not consolidated into the financial statements, a summary of how tax allocation is performed within the group. This will permit users to understand the impacts of tax consolidation on the financial statements.

- (e) retaining the [disclosures specified in the ED 'Specific matters for comment'] from the IFRS for SMEs Standard that are not currently required under RDR framework or full AAS (see BC59 for explanations)?

We support these proposals, as they more closely align the proposed Standard with those of the IFRS for SMEs.

- 4. Do you agree with providing Tier 2 entities with an option of not having to prepare a separate statement of changes in equity as per paragraph 3.18 of AASB 10XX? If you disagree, or are concerned that this option could have unintended consequences, please explain why.

We agree with providing Tier 2 entities with the option of preparing a single statement of income and retained earnings in place of a statement of comprehensive income and statement of changes in equity, as permitted by the proposed paragraph 3.18 of AASB 10XX.

Whilst this option is not currently permitted in financial statements prepared in accordance with AASB 101 Presentation of Financial Statements, we believe that this option achieves a reasonable balance between comparability and convenience. We expect that the option will not be available in many cases due to limited circumstances in which it is proposed to be permitted, but will be welcomed by smaller, less complex entities, as it provides equivalent information in an easily understood manner. It also retains close alignment with the IFRS for SMEs.

- 5. Do you agree with the other disclosures for Tier 2 entities as set out in Sections 3 to 35 of the proposed new Simplified Disclosure Standard that have been identified by applying the proposed methodology and principles? If you disagree with the outcome, please identify, with reasons:
  - (a) which of the disclosures proposed should not be required for Tier 2 entities; and
  - (b) which disclosures not proposed in this ED should be required for Tier 2 entities.

We generally agree with the disclosures as set out in Sections 3 to 35 of the proposed new Simplified Disclosure Standard, subject to the comments below and elsewhere in this letter.

#### Drafting of changes from the 'IFRS for SMEs'

We recommend that the Board reconsider its drafting principles in finalising the new Standard. In particular, we believe that where substantial amendments to the underlying IFRS for SMEs requirements are made, that the revised paragraph instead be numbered using the "Aus" prefix, so that constituents can clearly determine the differences between the Simplified Disclosure Standard and the IFRS for SMEs. For instance, the proposed paragraphs 8.4, 20.16, 23.30, 23.31 and 23.32 should be renumbered to Aus8.4.1 (with existing Aus8.4.1 renumbered to Aus8.4.2), Aus20.16.1, Aus23.30.1, Aus23.31.1 and Aus23.3.1 respectively as they contain substantially different requirements to the IFRS for SMEs paragraphs they replace.

#### Combined financial statements

We note that the Board has proposed removing the disclosures from the IFRS for SMEs dealing with the disclosures in combined financial statements. The reporting entity concept in the Conceptual Framework for Financial Reporting explicitly contemplates 'combined financial statements'. Accordingly, we recommend the Board consider whether equivalent or similar disclosures for combined financial statements should be included in the proposed Standard.

## Suggested modifications to proposed disclosures not discussed elsewhere

We recommend the Board consider:

- Expansion of the required disclosures dealing with liquidity, including whether to include disclosure requirements equivalent to paragraph 39 of AASB 7 Financial Instruments: Disclosures (maturity analyses). We believe these disclosures will assist users to understand an entity's liquidity profile and how the entity manages liquidity
- Inclusion of a general reference to the disclosure requirements of other Australian Accounting Standards where relevant when making additional disclosures to achieve a fair presentation as required by the proposed paragraph 3.2(a). This would be consistent with the approach proposed for operating segments, earnings per share and interim financial reports in paragraph 3.25 of the proposed Standard
- Inclusion of disclosures equivalent to paragraphs 24 and Aus24.1 of AASB 6 Exploration for and Evaluation of Mineral Resources in any finalised Standard
- The proposed paragraph 9.27 should be restricted in scope to exclude entities that are investment entities as they are unable to comply with 9.27(b) to "identify the consolidated financial statements or other primary financial statements to which they relate". Instead, the Board should consider introducing an 'Aus' paragraph with disclosures equivalent to paragraphs 19A and 19B of AASB 12 Disclosure of Interests in Other Entities
- The replacement of paragraph 32.11(f) which a requirement more closely mirroring paragraph 22(f) of AASB 110 Events after the Reporting Period.

6. Do you agree that the proposed Simplified Disclosure Standard should also be made available to NFP private sector entities and all public sector entities that can apply Tier 2 reporting requirements as set out in AASB 1053? If you disagree, please explain why.

We agree that the proposed Simplified Disclosure Standard should also be made available to NFP private sector entities and all public sector entities that can apply Tier 2 reporting requirements. However, we are mindful of other projects either currently ongoing within the AASB or planned by the AASB that may interact with the financial reporting of such entities. Therefore the AASB should take into consideration any further developments of these projects, the timeline of these projects and whether this will give rise to multiple changes to financial reporting obligations of these entities.

7. Do you agree:

- (a) with the principles applied to identify the additional disclosures for NFP private sector and public sector Tier 2 entities (as explained in paragraph BC45)? If you disagree, please explain why.

We agree with the principles applied to identify the additional disclosures for NFP private sector and public sector Tier 2 entities.

- (b) that previous decisions made under the RDR Framework in relation to the cost vs the benefits of these disclosures do not need to be revisited (as explained in BC68.) If you disagree, please explain why.

We agree that the cost vs the benefits of disclosures does not need to be revisited. We do however note the impact this will have on public sector reporters that need to communicate their financial reporting information for whole of government reporting purposes and the possible requirement to submit supplementary financial information and the audit impact associated with this.

8. Do you agree with the disclosures identified for NFP private sector and public sector Tier 2 entities in this Simplified Disclosure Standard? If you disagree, please identify, with reasons:
- (a) which of the disclosures proposed should not be required for NFP private sector and public sector Tier 2 entities; and
  - (b) which disclosures not proposed in the ED should be required for NFP private sector and public sector Tier 2 entities.

We agree with the proposed disclosures identified for NFP private sector and public sector Tier 2 entities.

9. Do you agree with using the proposed title of AASB 10XX Simplified Disclosures for Tier 2 Entities? If you disagree, please explain why.

We agree with the proposed title of the Standard, as it clearly differentiates the new 'Tier 2' disclosures from the previous 'Reduced Disclosure Requirements' (RDR) framework.

10. Do you agree with the approach taken in this ED to include all the disclosure requirements for Tier 2 entities in one stand-alone standard (as explained in BC41)? If you disagree, please explain why.

We agree with this proposal. We believe it will assist constituents in understanding and applying the requirements.

11. Do you agree that, once approved, the amended Tier 2 disclosure requirements should be effective for annual periods beginning on or after 1 July 2020 with early application permitted (as explained in BC78-BC80)?

As outlined in our earlier response, we do not agree with this proposal. The proposals in ED 295 and ED 297 are inexorably linked and accordingly, in setting the application date for both proposals, the proposals need to be considered together.

We believe the timeline for constituents to understand and apply the requirements are very short, particularly for those entities that are currently preparing special purpose financial statements.

For example, there are many Australian entities that have complex group arrangements, including foreign subsidiaries and associates. These entities may prepare stand-alone special purpose financial statements, or take advantage of the consolidation exemption in paragraph 4(a) of AASB 10 Consolidated Financial Statements in their general purpose financial statements due to a foreign parent preparing consolidated financial statements in accordance with IFRS and the entity not being considered a reporting entity (so not triggering the requirement in paragraph Aus4.2 of AASB 10 to nonetheless prepare consolidated financial statements).

There may be significant information gathering and systems requirements to address before these entities will be able to comply with the new requirements. This may make compliance with the proposed application of the new Standard to annual periods beginning on or after 1 July 2020 difficult in many cases. These entities would be less negatively impacted if the requirements of paragraph Aus4.2 of AASB 10 (as proposed in ED 297) were restricted in some manner by deferring the changes to a later reporting period.

Conversely, in some cases, entities may have already adopted 'Reduced Disclosure Requirements' (RDR), particularly as a result of section 3CA of the Tax Administration Act 1953 where consolidated financial statements are already being prepared, and these entity may wish to early adopt the new Simplified Disclosure Requirements as soon as any new Standard is made.

Accordingly, we recommend:

- Deferring the mandatory application of any new Standard to at least 1 July 2021
- Issuing any new Standard as soon as possible, and permit early adoption, so that it may be adopted as soon as possible.

12. Do you agree with the transitional requirements proposed in this ED (as explained in BC72-BC77)? If you disagree, please explain why.

We agree with the proposed transitional requirements, but note that it would be useful for the Board to explicitly consider and include the consideration in the Basis for Conclusions the following situations:

- Where an entity prepares separate special purpose financial statements (without consolidation and equity accounting) in a prior period and moves to consolidated general purpose financial statements (with or without equity accounting) under Tier 2 in the current period:
  - The use of paragraph C4(j) of AASB 1 where AASB 1 is applied on transition
  - The existing transitional provisions in Appendix C of AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors is applied on transition

We recommend the Board also consider whether any additional disclosures are required in relation to the above matters, e.g. a general requirement to explain the use of optional or mandatory exemptions from full retrospective restatement applied in transition to the entity's first financial statements prepared using the proposed Standard (including the use of the practical exemption in paragraph C4(j) of AASB 1, other exemptions in AASB 1, and the transitional provisions of AASB 10 if applicable).

General matters for comment

13. Whether The AASB's For-Profit Entity Standard-Setting Framework and The AASB's Not-for-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft?

In relation to for-profit entities, please refer to our comments in relation to Question 9 in Appendix B.

14. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Financial Statistics (GFS) implications??

We have not identified any issues in addition to those outlined elsewhere in this letter.

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

We agree that the proposals would result in financial statements that are useful to users.

16. Whether the proposals are in the best interests of the Australian economy?

We believe that the proposals are in the best interests of the Australian economy. The benefits will however be maximised if any Standard issued is subsequently rapidly aligned with any IASB Standard arising from its subsidiaries that are SMEs project.

17. 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.

Please see our comments on Question 13 in Appendix B.



## APPENDIX B: RESPONSE TO SPECIFIC QUESTIONS IN ED 297

### Specific matters for comment

1. The proposed amendments identify the for-profit entities required to comply with Australian Accounting Standards (or accounting standards) that would no longer have the ability to prepare SPFS. Do you agree that:
  - (a) the amendments set out in this ED effectively remove the ability to prepare SPFS for the for-profit entities identified in AASB 1057 Application of Australian Accounting Standards as entities for which the reporting entity definition is not relevant (also identified in paragraph Aus1.1 of the Conceptual Framework for Financial Reporting)? If not, please provide your reasons.

Yes, we agree with this proposal.

However, we recommend clarifications in respect of requiring the preparation of general purpose financial statements when financial statements are required by legislation to be prepared in accordance with 'accounting standards'.

In particular, the term 'accounting standards', or similar terms, may be used in many legislative contexts. For example, the requirement for the lodgement of a 'general purpose financial statement' (GPFS) under section 3CA of the Tax Administration Act 1953 refers to the GPFS being prepared in accordance with either "accounting principles" (which is defined to reference "accounting standards" under the Corporations Act 2001) and "commercially accepted principles relating to accounting" (which is not further defined). It is unclear whether this reference to 'commercially accepted accounting principles' should be read as meeting the 'accounting standards' proposals in ED 297.

Additionally, there may be other legislation that may be inadvertently captured by the proposals in ED 297 where preparation of financial statements in accordance with Australian Accounting Standards may not satisfy the requirements of that legislation. For instance, some constituents may believe that notified foreign passport funds and registered foreign companies with reporting obligations under the Corporations Act 2001 may be captured by the requirements (even though these requirements explicitly permit the use of accounting frameworks other than Australian Accounting Standards).

Accordingly, we recommend the Board consider providing clarity in this regard to avoid unintended consequences.

- (b) as an exception, other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with AAS should retain the ability to prepare SPFS, provided that the relevant document was not created or amended on or after 1 July 2020? If not, please provide your reasons (see paragraphs BC73-BC83).

We agree with this proposal. Furthermore, it would be useful for the board to retain the concept of special purpose financial statements and special purpose financial reports more broadly. This would permit preparers, auditors and users of special purpose financial statements to have a common understanding of the framework under which those financial statements might be prepared.

To this end, the possibility of retaining the existing requirements for the special purpose financial statements prepared in accordance with Australian Accounting Standards should be considered. This could take the form of a short section in AASB 1057 Application of Australian Accounting Standards which suggests certain Standards be applied in the preparation of special purpose financial statements (perhaps based on equivalent requirements to the existing paragraph 7).

- (c) for-profit public sector entities should also retain the ability to prepare SPFS as discussions about the public sector reporting framework are continuing? If not, please provide your reasons.

We agree with this proposal. We see no reason to impose a change on these entities and then potentially change their reporting framework again in a relatively short period of time.

2. Have you identified any arguments additional to those addressed in the Basis for Conclusions or unintended consequences that should be considered by the AASB in determining whether the ability to prepare SPFS should be removed from certain for-profit private sector entities as set out in [ED 297]?

Consistent with our response to Question 11 on ED 295, the proposals in ED 295 and ED 297 are inexorably linked and accordingly, in considering arguments and unintended consequences, the proposals need to be considered together.

As we also note in our response to Question 11 on ED 295, there will be significant impacts from the interaction of the proposed removal of special purpose financial statements and the proposed amendments of the Australian-specific requirements in paragraph Aus4.2 of AASB 10 Consolidated Financial Statements. This will result in many entities preparing consolidated general purpose financial statements instead of separate financial statements (either because the entity previously prepared special purpose financial statements, or general purpose financial statements but the consolidation exemption in paragraph 4(a) was considered to be available and applied because the entity was not considered a reporting entity).

There will be substantial time, cost and systems design considerations for many of these affected entities. We also note that AASB Research Report 12 Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements does not address the number of financial reports which were presented on a consolidated or separate basis. Also, the introduction to ED 297 notes "it was difficult to tell whether the entity should be preparing consolidated financial statements or applying the equity method of accounting". Accordingly, the number of entities that will be significantly affected by the requirement to consolidate are not readily determinable, however anecdotally we are aware of many entities that will be impacted.

Consistent with our earlier recommendations, the mandatory application of any new requirements should therefore be deferred to at least 1 July 2021.

3. Do you agree that:

(a) for-profit private sector entities that are neither required by legislation to prepare financial statements that comply with AAS or accounting standards nor required by a document (created or amended on or after 1 July 2020) to prepare financial statements that comply with AAS; and

(b) for-profit public sector entities;

should be able to voluntarily prepare GPFS and in doing so apply either the Conceptual Framework for Financial Reporting or the Framework for the Preparation and Presentation of Financial Statements? Please provide your reasons, including whether there are any adverse or unintended consequences that should be considered by the AASB in determining whether the Framework for the Preparation and Presentation of Financial Statements should not be permitted to be applied in these circumstances.

We disagree with this proposal, in our view if an entity voluntarily elects to prepare GPFS it should adopt the latest framework i.e. the Conceptual Framework for Financial Reporting to ensure comparability.

4. Do you agree that entities that are not explicitly required to comply with accounting standards, but are required by legislation or otherwise to provide financial statements or financial information that gives a true and fair view, should not be covered by these proposals? If not, please provide your reasons (see paragraphs BC68-BC69).

We agree with this proposal. We do not support the introduction of the concept of "true and fair view" into Accounting Standards, even in terms of scope. The Conceptual Framework for Financial Reporting refers to "faithful representation" and AASB 101 Presentation of Financial Statements and the proposals in ED 295 refer to "fair presentation", and these pronouncements provide further announcement of these concepts. To introduce the "true and fair view" concept in the context of these requirements could cause confusion or inadvertent consequences.

5. Do you agree with the proposal to amend AASB 1 to provide optional relief from the restatement of comparative information in the year of transition from SPFS to GPFS Tier 2 (see paragraphs BC112-BC122)? If not, please provide reasons. If yes, do you agree with the proposed disclosures in relation to the comparative period (see paragraph AusE8.4 for AASB 1 on page 20 [of the ED])? If not, please provide your reasons. Please consider these matters in conjunction with the AASB's proposals regarding a revised Tier 2 disclosure framework as set out in ED 295.

In the context of the overall proposals, we are somewhat supportive of these proposals as they will be necessary to make the proposals operative in their current form.

However, as noted elsewhere in this document, we remain concerned that the proposed mandatory application date of the proposals in ED 295 and ED 297, namely 1 July 2020, will be too soon after the finalisation of the proposals. We believe the need for the proposed comparative information relief is linked to the early application date, particularly as it is limited in application to a short time period.

We believe an alternative may be to provide a later mandatory application date and modify or remove the optional transitional relief.

In the event the Board decides to proceed with the relief, we make the following recommendations:

- The wording in proposed paragraph AusE8.2(b)(ii) of AASB 1 First-time Application of Australian Accounting Standards could be clarified to make it clearer, particularly in respect of entities previously preparing separate special purpose financial statements, or those preparing separate general purpose financial statements due to the consolidation exemption in paragraph 4(a) of

AASB 10 (particularly where the entity was not considered a reporting entity and therefore was not captured by paragraph Aus4.2 of AASB 1). This might be achieved by amending the wording of the proposed paragraph AusE8.2(b)(ii) to “in the case of a parent entity, were not prepared as consolidated financial statements in accordance with AASB 10 Consolidated Financial Statements because the entity was not a reporting entity”. In our view, this will better delineate the entities that are able to apply the exemption, i.e. those that have previously not applied AASB 10 at all (as they were not considered a reporting entity and chose not to apply AASB 10) and those that have applied AASB 10 but did not prepare consolidated financial statements due to the operation of paragraph Aus4.2 of AASB 10 (and so prepared separate financial statements rather than consolidated financial statements in the prior period)

- The requirements in proposed paragraph AusE8.4(c) of AASB 1 should be modified to permit the presentation of any of the alternatives permitted by paragraphs 3.17(b) and 3.18 of ED 295, i.e.:
  - a single statement of comprehensive income
  - a separate income statement and separate statement of comprehensive income, or
  - a single statement of income and retained earnings
- The disclosures in proposed paragraph AusE8.4(e) appear to contemplate entities which have not previously applied all the recognition and measurement requirements of Australian Accounting Standards in their prior financial statements which so have not been prepared in accordance with Australian Accounting Standards. We believe these requirements should be reconsidered and amended to accommodate entities that have applied all recognition and measurement requirements in their prior period special purpose financial statements, but have not applied consolidation and/or equity accounting principles (due to preparing separate financial statements or separate general purpose financial statements, which nonetheless were in compliance with Australian Accounting Standards in force at the time). For instance, the requirement could be reworded to require the clear identification of comparative information that is not comparable with the current period disclosures and cross reference that information to relevant information about the basis of preparation of the comparative information. This might be achieved by labelling the comparative information as “Not restated”, together with a footnote on the face of the statement and further explanation in the notes to the financial statements providing additional information as to why. This approach would accommodate all types of special purpose financial statements previously prepared.

6. Do you agree that additional transition relief is not required (see paragraphs BC112-BC122)? If not, what transition relief should be provided and what are your reasons?

We believe that additional transition relief is required.

In particular, we believe that the Board should reconsider whether the ‘push down accounting’ option outlined in BC 117 is effectively permitted under the existing paragraph D8 of AASB 1, and if, so, provide additional commentary in the Basis for Conclusions that this is the case. This may require liaison with the International Accounting Standards Board and/or IFRS Interpretations Committee.

7. Do you agree with the proposal to amend AASB 1053 requirements for the first-time adoption of Tier 2 reporting requirements relating to whether a parent entity has complied with AASB 10 Consolidated Financial Statements in its previous SPFS (see paragraphs BC123-BC125)? If not, please provide your reasons. If non-compliance with AASB 10 was the only departure from AAS in the previous SPFS, should an entity be permitted to apply AASB 1, which could allow the restatement of amounts under various transition relief options?

We agree with this proposal, as it is consistent with the approach applied in practice when an entity moves from separate financial statements to consolidated financial statements.

However, we suggest that the wording of proposed changes to paragraph 18A of AASB 1053 could be improved. Effectively, entities currently commonly interpret consolidation and application of the equity method as a recognition and measurement requirement and apply paragraph 18A(a) when transitioning to Tier 2 reporting requirements where the special purpose financial statements were not previously prepared on a consolidated and/or equity accounted basis. The proposed amendments to paragraph 18A suggest that these requirements are in addition to the existing requirements, rather than being consistent with this interpretation.

We suggest that instead of amending the wording within paragraph 18A, that a separate paragraph be inserted similar to the following:

“Paragraph 18A(a) explicitly applies where the entity meets either or both of the following:

- (a) the entity has not previously presented consolidated financial statements in accordance with AASB 10 ‘Consolidated Financial Statements’, where those consolidated financial statements are required in the current period when applying Tier 2 reporting requirements for the first time and would have been required in the previous period if the Tier 2 reporting requirements were applied in the previous period;
- (b) the entity has not previously accounted for its investments in associates or joint ventures using the equity method as required by AASB 128 ‘Investments in Associates and Joint Ventures’, where it is required to do so in the current period and would have been required to do so in the previous period if the Tier 2 reporting requirements were applied in the previous period.”

8. Do you agree with the proposed effective date of annual reporting periods beginning on or after 1 July 2020 (see paragraphs BC126-BC129), with earlier application permitted? If not, please provide your reasons.

As we have noted previously, we do not support the proposed application date. We strongly prefer a later application date for both the proposals in ED 295 and ED 297, whilst retaining the option for entities to early adopt. Consistent with the AASB Policies and Processes, this will allow sufficient time for significantly affected entities to prepare for implementation, particularly those that have not previously applied consolidation or equity accounting principles but will be required to do so under the proposals.

We do not fully agree with the arguments outlined in paragraphs BC126-BC129, specifically:

- Many entities subject to the GPFS for SGE requirements under section 3CA of Tax Administration Act 1953 currently continue to classify themselves as non-reporting entities and avail themselves of the relief available in paragraph 4(a) of AASB 10 (by virtue of paragraph Aus4.2 of AASB 10 only applying to reporting entities). These entities may require significant effort to comply with the proposals in ED 295 and ED 297 over and above those already incurred in meeting the GPFS for SGE requirements and will accordingly require additional time to prepare for transition
- Although the AASB issued the first principal version of AASB 1 in July 2004, in practice the transition to Australian Accounting Standards that were compliant with International Financial Reporting Standards (IFRS) was known by users and preparers of financial statements sooner than that date. The IASB issued IFRS 1 First-time Adoption of International Financial Reporting Standards in July 2003. In addition, the AASB issued ‘Pending’ versions of many pronouncements in advance of the formal making of the Standards, providing entities with a substantial period of time before transition
- Although a large proportion of affected entities are already complying with the recognition and measurement requirements of Australian Accounting Standards, not all of these entities are currently preparing consolidated financial statements or adopting the equity method where they would be required to do so under the proposals in ED 295 and ED 297. Without statistical analysis of how many entities are impacted by a new requirement to consolidate and apply the equity

method, it is difficult to determine whether there is a large population of entities that would be impacted significantly.

## General matters for comment

9. Whether The AASB's For-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft?

Subject to our other comments in this letter, we agree that the The AASB's For-Profit Entity Standard-Setting Framework (FP Framework) has been applied appropriately in developing the proposals in ED 295 and ED 297. In particular, the emphasis of the proposals are on maintaining transaction neutrality for for-profit entities.

We note the following points:

- The FP Framework focuses on the AASB establishing the type and nature of financial statements to be prepared by entities required to report in accordance with Australian Accounting Standards. We believe that the AASB should carefully consider whether financial statements required to be prepared in accordance with 'accounting standards' under legislation should be included within the scope of the proposals (as discussed above)
- The FP Framework does not specifically address 'tiers' of financial reporting from a presentation and disclosure perspective, and we believe it may be timely to consider reviewing the framework to ensure it adequately reflects the financial reporting framework proposed by the Board
- The proposals in ED 295 are based on the IFRS for SMEs which is not explicitly mentioned in the FP Framework. We recommend the Board consider amending the FP Framework to make the full ambit of pronouncements issued by the IASB as the basis for Australian requirements (including the possible standard arising from the IASB's project on subsidiaries that are SMEs).

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

We are not aware of any regulatory or other issues arising in Australian environment, in addition to those mentioned elsewhere in this letter. In particular, we note:

- Possible inadvertent consequences from extending the scope of general purpose financial statements to financial statements required by legislation to be prepared in accordance with 'accounting standards'
- The impacts of the proposed amendments to paragraph Aus4.2 of AASB 10 Consolidated Financial Statements requiring the preparation of consolidated financial statements for the ultimate Australian parent even if a foreign parent prepares consolidated financial statements in accordance with IFRS.

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

We agree that the preparation of general purpose financial statements should provide more relevant and reliable information to users of financial statements.

12. Whether the proposals are in the best interests of the Australian economy?

We agree that simplifying the Australian financial reporting framework will result in significant benefits which may be unquantifiable, e.g. more relevant and reliable information will be provided to users of financial statements, and the information provided will be more consistent and comparable.

However, we acknowledge that further work will be required for the Board to quantify the costs of the proposals in finalising its deliberations.

13. Unless already provided in response to 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.

As noted in our response to Question 12 above, it is difficult to quantify the costs of the proposals.

However, we believe that the most significant costs arising from the proposals in ED 295 and ED 297 will arise from:

- The need for information gathering to compile the additional information required in general purpose financial statements that is not commonly included in special purpose financial statements
- The costs of training or of obtaining additional services to understand and comply with the new requirements, particularly in smaller organisations
- The need to prepare financial statements using consolidation and equity accounting principles where these have not been previously prepared.

In order to assist entities in meeting these costs, we recommend the AASB carefully consider the need to defer the mandatory application date and the proposed transitional requirements to ensure these costs are minimised wherever possible.