

29 October 2021

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

via email: standard@asb.gov.au

Dear Keith

AASB Exposure Draft ED 314 *Subsidiaries without Public Accountability: Disclosures*

Deloitte is pleased to respond to the proposals in the Australian Accounting Standards Board ('AASB' or 'Board') Exposure Draft ED 314 *Subsidiaries without Public Accountability: Disclosures* (ED 314).

Overall, we support the adoption of an Australian Accounting Standard that is equivalent to any Standard issued by the International Accounting Standard Board (IASB®) as the result of ED/2021/7 *Subsidiaries without Public Accountability: Disclosures* (ED/2021/7). We believe that this will result in the most benefit to the Australian economy through adopting all relevant Standards issued by the IASB, particularly if the IASB ultimately decides to expand the possible application of any new IFRS® Standard beyond certain subsidiaries.

We recommend the AASB requires entities that are able to make a statement of compliance with International Financial Reporting Standards (IFRS) to do so (in the same way as private-sector for-profit entities applying Tier 1 reporting requirements).

As the AASB has already issued AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*, we suggest AASB 1060 is replaced or withdrawn when an Australian equivalent to any IFRS® Standard is made by the AASB. However, we believe that affected entities should be provided with substantial lead time to transition to the new requirements.

We note that there are significantly more disclosures proposed in ED/2021/7 than in AASB 1060, many of which the AASB has previously concluded are not necessary for the preparation of financial statements in Australia by entities without public accountability. We recommend the AASB communicate its decision making process in deciding on the disclosure requirements and the rationale for excluding full IFRS disclosures in respect of the various disclosures which are included in ED/2021/7 but which are not included in AASB 1060 or the previous Reduced Disclosure Requirements framework. This may assist the IASB in finalising its disclosure requirements.

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We also recommend that until such time as any IFRS Standard is issued by the IASB as a result of ED/2021/7 and the AASB has issued an equivalent pronouncement and considered its broader application to other than for-profit entities, we recommend that not-for-profit and other entities currently preparing special purpose financial statements are not required to transition to general purpose financial statements.

In this letter, we have focused our responses on the AASB Specific Matters for Comment in ED 314. Due to the later submission deadline in relation to ED/2021/7, the global firm of Deloitte Touche Tohmatsu has not finalised its views in relation to the matters raised in the IASB's exposure draft. Furthermore, in this letter we have highlighted issues and concerns in the Australian context that may not have the same degree of relevance internationally or which may not be considered of sufficient significance to warrant separate comment by the global firm of Deloitte in its submission. Therefore, the views presented in this document in relation to ED/2021/7 should be read in this context and may not necessarily represent the view of the global firm of Deloitte.

Our detailed responses to the AASB Specific Matters for Comment in ED 314 are outlined in the Appendix.

Please contact me at +61 3 9671 7871 or moverton@deloitte.com.au if you wish to discuss any of our comments.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M Overton', with a horizontal line underneath.

Moana Overton
Partner

APPENDIX – DETAILED RESPONSES TO THE AASB SPECIFIC MATTERS FOR COMMENT IN ED 314**1. Whether a resulting IFRS Standard should be issued by the AASB as an additional reduced-disclosure Standard for eligible subsidiaries or for all Tier 2 entities, or to replace AASB 1060 for all Tier 2 entities.**

We believe any IFRS Standard resulting from ED/2021/7 should be made by the AASB as a replacement for AASB 1060. We do not support the retention of two differential Australian Accounting Standards dealing with disclosures for Tier 2 entities.

We appreciate requesting Tier 2 entities to effectively transition twice, once from special purpose financial statements (or Reduced Disclosure Requirements) to AASB 1060 and then secondly to a new Standard equivalent to any Standard resulting from ED/2021/7 could be confusing and challenging for preparers, users and auditors. However, we believe that having a single disclosure standard that applies to all Tier 2 entities will be preferable and more workable in the long run, eliminating confusion and minimising compliance and maintenance costs.

2. If AASB 1060 is retained by the AASB, whether amendments to AASB 1060 are warranted and, if so, the amendments that you would suggest.

As noted above, we would strongly prefer that AASB 1060 is replaced by an IFRS Standard resulting from ED/2021/7. In the event that AASB 1060 is retained by the AASB, we recommend that it is amended to conform with the IFRS Standard:

- To ensure consistency, the wording in AASB 1060 should be completely aligned with the IFRS Standard, even if the paragraph numbering and ordering is different. This will avoid interpretational differences going forward (particularly if the IFRS Interpretations Committee or others provide global interpretative guidance), and avoid questions of whether the AASB intends different disclosures to the IFRS Standard
- Additional Australian disclosures, including those applicable to not-for-profit and public sector entities, should be clearly differentiated from those arising under the IFRS Standard, by being numbered differently or being included in a separate appendix to the Standard.

We also note that the proposals in ED/2021/7 are focused on disclosure requirements only and do not consider presentation requirements included in AASB 1060. Therefore, entities would not be permitted to prepare a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity as they are able to under AASB 1060, and similarly would not be able to take advantage of other simplifications provided in AASB 1060.

Additionally, the proposals in ED/2021/7 would require significantly more, or different, disclosures, to those currently included in AASB 1060 (which are also based on *IFRS for SMEs*). The AASB has undertaken a similar process to the IASB in developing both the Simplified Disclosures and Reduced Disclosure Requirements frameworks, in that the starting point was the *IFRS for SMEs* with consideration of overall disclosure objectives and differences in recognition and measurement. We recommend that the AASB communicate its decision making process in deciding on the disclosure requirements and the rationale for excluding full IFRS disclosures in respect of the various disclosures which are included in ED/2021/7 but which are not included in AASB 1060 or the previous Reduced Disclosure Requirements framework. This may assist the IASB in finalising its disclosure requirements.

In this regard, we note in particular that Reduced Disclosure Requirements excluded some or all disclosures proposed in respect of many of the additional disclosures included in ED/2021/7 that are not included in AASB 1060, including (but not limited to) disclosures in relation to:

- Impairment of assets
- Revenue from contracts from customers
- Fair value measurement
- Financial instruments (including expected credit losses, hedge accounting and credit risk disclosure)
- Effect of Standards on issue that are not yet effective.

In our experience, the limited number of entities that adopted Reduced Disclosure Requirements (prior to the adoption of AASB 1060) frequently found significant unexpected effort was required in complying with some of the disclosures required by even Reduced Disclosure Requirements in these areas. Many such entities did not necessarily have the systems and information gathering in place to prepare the disclosures as they often prepared special purpose financial statements in the past (e.g. entities newly required to prepare general purpose financial statements as a result of s.3CA of the *Tax Administration Act 1953*). We are also seeing similar outcomes with some entities that have elected to apply AASB 1060 prior to its mandatory application date in respect of the core AASB 1060 disclosures.

We acknowledge the AASB staff have prepared a summary of the differences between AASB 1060 and the proposals in IASB ED/2021/7¹. We recommend that the AASB updates this comparison to be a detailed analysis and it be added as non-authoritative guidance to a revised AASB 1060 or new Australian Accounting Standard equivalent to the IFRS Standard. It will be crucially important that preparers, users and auditors have time to prepare for the additional disclosures and the AASB comparison together with significant lead time to transition to the new disclosures should be provided.

In the event the IASB issues an IFRS Standard as a result of ED/2021/7 without significantly reducing disclosures, an alternative approach could be considered whereby the AASB:

- Issues the IFRS Standard as an equivalent Australian Accounting Standard
- Evaluates which new disclosures it does not consider necessary for the preparation of financial statements in Australia, and makes compliance with those disclosures optional.

This approach would allow Tier 2 entities with a choice to either:

- Comply with all the disclosures and be able to claim compliance with *both* IFRS (subject to scope differences between the IFRS Standard and equivalent Australian Accounting Standard) and Australian Accounting Standards – Simplified Disclosures, or
- Exclude the disclosures identified by the AASB and only claim compliance with Australian Accounting Standards – Simplified Disclosures.

Whilst this alternate approach is not our preferred approach and would require maintenance effort by the AASB on a go forward basis, it may be worthwhile considering the amount of change that has been experienced in the Australian reporting frameworks in recent years. Such an approach might also be considered as a transitional approach for a number of years, or applied to a segregated group of entities (e.g. of a particular size or for not-for-profit entities).

¹ As included in Agenda Paper 4.1 for the AASB's meeting to be held on 10-11 November 2021.

3. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

- a. not-for-profit entities; and**
- b. public sector entities, including GAAP/GFS implications.**

The AASB should not proceed with any proposal to remove the ability of not-for-profit entities to prepare special purpose financial statements until such time as the IASB issues any Standard as a result of ED/2021/7 and the AASB has issued its equivalent pronouncement and considered its broader application to other than for-profit entities. Forcing these entities to adopt Tier 2 reporting requirements (or potentially Tier 1 reporting requirements) whilst the final form of these requirements is being determined would be unhelpful and is unnecessary at this time. This will minimise the transition costs for these entities.

We also recommend that the Australian-specific disclosure requirements included in AASB 1060, including those applicable to not-for-profit and public sector entities, be retained in any replacement Standard issued as a result of any IFRS Standards. However, as noted above, these disclosures should be clearly differentiated from those arising under the IFRS Standard, by being numbered differently or being included in a separate appendix to the Standard.

4. Whether the proposals would create any auditing or assurance challenges.

We are not aware of any specific auditing or assurance challenges arising from the proposals.

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

We believe the proposals will result in financial statements that are useful to users.

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

Subject to the matters noted elsewhere in this letter, we believe the proposals in ED 314 are in the best interests of the Australian economy. In particular, the potential for at least some Tier 2 entities to make a statement of compliance with IFRS will assist in reducing the cost of capital and maintaining investor confidence in the Australian economy, in much the same way as Australia move to IFRS for for-profit Tier 1 entities.

It would be helpful for the AASB to explain the application of Tier 2 requirements in Australia to the IASB, including that many entities outside the scope of ED/2021/7 would currently be required to comply with the full recognition and measurement requirements of IFRS (through the application of Australian Accounting Standards), but would be required to provide lesser disclosures under the existing Tier 2 framework. As a result, these entities are effectively placed in the same situation as subsidiaries within the scope of ED/2021/7. Consistent with the dissenting opinion in the basis for conclusions in ED/2021/7, it seems better for individual jurisdictions to determine who should apply any resultant IFRS Standard in a particular jurisdiction (so long as those entities do not have public accountability).

Once any IFRS Standard resulting from ED/2021/7 is made by the IASB, the AASB should ensure that for-profit private sector entities that are able to make a statement of compliance with IFRS are required to make that statement in their financial statements (unless an alternate approach similar to that discussed in our response to Question 2 is adopted). Such entities reporting under Part 2M.3 of the *Corporations Act 2001* would also include a statement about compliance with IFRS in the directors' declaration in accordance with s.295(4)(ca) of that Act.

- 7. Unless already provided in response to specific matters for comment 1 – 6 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.**

We have no further observations on this matter in addition to those already outlined elsewhere in this letter.