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Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VICTORIA 8007

29 October 2021

## AASB Exposure Draft 314 "Subsidiaries without Public Accountability: Disclosures"

Dear Dr Kendall

Ernst & Young is pleased to comment on the above Exposure Draft. We welcome the opportunity to contribute to the future of financial reporting in Australia.

Whilst we believe there are some benefits for preparers of certain subsidiaries from applying the proposals contained in the Exposure Draft, we also consider additional tiers of reporting should not be introduced into the for-profit reporting framework in Australia. Therefore, if the disclosures in this Exposure Draft are considered preferable to the existing AASB 1060 disclosures, we would recommend replacing AASB 1060 and thereby extend the disclosures to all Tier 2 entities.

Our detailed responses to the questions raised in the Exposure Draft are provided in the appendix to this letter. We would be pleased to discuss our comments further with either yourself or members of your staff. If you wish to do so, please contact Frank Palmer on (02) 9248 5555 or Tony Hanrahan on (03) 9635 4036.

Yours sincerely

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Appendix A: Responses to Australia specific questions

1. **Whether a resulting IFRS Standard should be issued by the AASB as an additional reduced-disclosure Standard for eligible subsidiaries for all Tier 2 entities, or to replace AASB 1060 for all Tier 2 entities.**

Overall, we believe that no additional tiers of reporting should be introduced into the for-profit reporting framework in Australia – additional tiers of reporting would add incremental costs for preparers and users and create inconsistencies between the reporting of entities (a 3rd tier now based on the status of their parent), with little benefit to the Australian economy. Therefore, if the IFRS Standard was adopted in Australia it should replace AASB 1060 for all Tier 2 entities.

We believe there would be a number of benefits in replacing AASB 1060 with the IFRS Standard resulting from this Exposure Draft (ED), including:

- There would only be one standard for which future amendments to IFRS would need to be considered and these would follow that of the IASB, reducing Australian costs of on-going maintenance

- The principles applied in developing the disclosure requirements in the ED are consistent with those in the *IFRS for SMEs*. As a consequence, these are also consistent with the principles the AASB applied in developing AASB 1060 other than disclosures that address matters of public policy or reflect Australian specific issues. For Australia to have two different standards (one for all Tier 2 entities and one for eligible subsidiaries) that are both based off the same principles will be difficult to justify, and

- We believe, like what was done for AASB 1060, any Australian specific disclosure requirements can be addressed by either including them directly into the Australian version of a resulting IFRS Standard, or by amending AASB 1054. We assume the Australian specific requirement for the top Australian company to prepare consolidated financial statements would also need to be separately addressed

However, before any such Standard is adopted, the AASB will need to consider how the Standard is scoped and the potential impact on transition. We do not believe compliance with IFRS is a key requirement for Tier 2 reporters, and so we would suggest that disclosures are aligned without the corresponding statement of compliance with IFRS (in order to prevent complex transition rules within the Australian reporting framework).

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.**

Should AASB 1060 be retained by the AASB, alongside another new standard based on the ED for a third tier of entities, we suggest that the extra disclosures that were inherited from *IFRS for SMEs* for which there is no IFRS equivalent requirement and that are now removed by the ED should also be removed from AASB 1060.

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**

We believe that considerations in relation to financial reporting by NFP's and Public sector entities can continue to be addressed by the AASB through specific standard setting, and therefore do not see issues relating to these sectors being a barrier to adopting any standard resulting from this Exposure Draft.

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

We do not see any audit or assurance challenges arising out of the proposals.

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

Should a comparison of disclosure requirements in the existing AASB 1060 reveal only minor differences to the disclosure requirements in ED 314, we believe the ED will result in financial statements that will be useful to users.

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

Whether the adoption of any standard resulting from ED 314 is in the best interests of the Australian economy will depend on how it affects the current two tiers of reporting of general purpose financial statements (GPFS). We do not believe it is in the interests of the Australian economy to create a third tier of GPFS.

7. **Costs and benefits of the requirements relative to current requirements, whether quantitative (financial or non-financial) or qualitative.**

We do not believe there will be significant additional costs in complying with the disclosures in ED 314 as compared to the existing AASB 1060.