



Mr Kevin Stevenson  
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cc: [chairman@frc.gov.au](mailto:chairman@frc.gov.au)

23 December 2009

Dear Kevin

### **Consultation Paper: Differential Financial Reporting – Reducing Disclosure Requirements**

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board (AASB) with its comments on AASB Consultation Paper: Differential Financial Reporting – Reducing Disclosure Requirements (CP).

Whilst the AASB has not provided at this time a submission deadline date, Grant Thornton believes that it is important that the AASB and the Financial Reporting Council (FRC) are both aware of our significant concerns over the AASB's stance on differential reporting, so that more appropriate reforms which include allowing non-publicly accountable entities (i.e. generally other than listed companies) the option to adopt the International Accounting Standards Board's (IASB) IFRS for SMEs accounting standard for 30 June 2010 balancers, can be implemented.

Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies and businesses, and this submission has benefited with input from our clients, a submission made to the AASB on ITC 12 in 2007, and discussions with key constituents.

### **AASB's Differential Reporting Proposals not supported, IFRS for SMEs is supported for early 30 June 2010 adoption**

We do not support the AASB's proposals for reducing the disclosure requirements of full International Financial Reporting Standards (IFRS) on which our Australian Accounting Standards (AASB's) are based, without a simplification of the recognition and measurement rules of full IFRS. Instead we support allowing the IASB's IFRS for SMEs accounting standard which does provide significant simplification of full IFRS accounting standards (10% of full IFRS disclosures and 10% of the size of full IFRS).

Grant Thornton also believes that the AASB should be able to issue an Australian equivalent to IFRS for SMEs in time for 30 June 2010 balancers, given the process that the AASB currently follows with automatic issue of IASB accounting standards. However we

have copied this submission to the Chairman of the Financial Reporting Council (FRC) given the comments made in the AASB's 12 December 2009 Action Alert that state:

*"In releasing this Consultation Paper, the AASB is taking the approach of exposing a proposed reduced disclosure regime for comment and, as soon as possible afterwards, a forthcoming Exposure Draft showing how the regime is intended to apply. If the proposed regime is adopted, the AASB would hope to be able to issue a final pronouncement before the end of June 2010 and to allow early adoption. It is the prospect of early application that is driving this consultation approach. However, it must be stressed that the AASB is open to alternative views. If the consultation process leads to an alternative approach, it may be that more due process will be needed and a different time scale adopted."*

### **No Change to Corporations Act Non-Reporting Entities**

We do not support the AASB's proposals to 'clarify' that non-reporting Corporations Act entities be deemed as reporting entities who would be required to produce general purpose financial reports. Instead we question the AASB's motives for such change and reject the assertion that this is a 'clarification'. The reporting entity concept was introduced by the former AASB in 1991 (AASB 1025) as a way of relieving smaller entities from what was then seen as increasingly complex accounting requirements that were designed for listed companies.

When Australia first debated the adoption of IFRS in the 1990's it was never intended that IFRS would apply to non-listed entities, and when Australia adopted IFRS in 2005 the AASB accounting standards specifically scoped out non-reporting entities apart from the 3 disclosure accounting standards, as stated in the Consultation Paper. We note reference in the CP (9.6) to the ASIC view that Corporations Act entities preparing financial statements should adopt all of the IFRS measurement and recognition requirements of IFRS and also note that the CP (11.3) refers to the increased burden that non-reporting entities will face where they do not adopt all of the IFRS provisions and instead just follow the mandated AASB disclosure requirements.

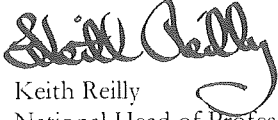
The IASB has acknowledged that full IFRS is only intended for generally listed companies (publicly accountable) and instead has issued the IFRS for SMEs accounting standard as a more suitable accounting standard for non-publicly accountable reporting entities. The IASB has not designed the IFRS for SMEs accounting standard for non-reporting entities.

We believe that IFRS for SMEs should also be an option for non-reporting entities, and following a 2 year period of implementation of IFRS for SMEs along with the IASB's review of its implementation world wide, it then seems appropriate to consider what if any changes should be made to non-reporting entities financial statements requirements. We further see some benefit in allowing non-reporting entities to, at their option, adopt the relevant IFRS for SMEs disclosure requirements rather than the existing applicable full IFRS disclosure accounting standards (e.g. accounting policies, cash flow and presentation of financial statements).

Our responses to the questions in the Consultation Paper are attached in Appendix 1.

If you require any further information or comment, please contact me.

Yours sincerely  
GRANT THORNTON AUSTRALIA LIMITED

A handwritten signature in black ink, appearing to read "Keith Reilly". The signature is stylized with a large, sweeping flourish at the end.

Keith Reilly  
National Head of Professional Standards

## APPENDIX

### Specific AASB Questions

**1. Do you agree with the introduction of a second tier of reporting requirements for preparing general purpose financial statements for:**

- (a) non-publicly accountable for-profit private sector entities
- (b) not-for-profit private sector entities, unless a relevant regulator requires otherwise
- (c) public sector entities other than those required by the AASB to apply the first tier (see paragraph 10.4) , being full IFRSs as adopted in Australia, unless a relevant public sector entity regulator requires otherwise?

**If not, and you do support differential reporting, what other classifications of entities do you think would be more appropriate for differential reporting and why?**

Response

Yes and No. We agree with the principle of reducing the regulatory burden on non-publicly accountable entities that are reporting entities by simplifying the accounting standards requirements that currently apply to them. However we do not believe that the AASB's proposals give sufficient simplification by just reducing some of the disclosure requirements. Instead we support the option of applying the IFRS for SMEs accounting standard as this will provide significantly less costly and complex recognition, measurement and disclosures compared to the AASB's proposals.

For non-reporting entities we believe that for those entities that do not currently adopt full IFRS recognition and measurement requirements, there will be significantly increased costs in following the AASB's proposals, compared to the current mandated AASB disclosure accounting standards.

**2. Do you agree that entities within the second tier should be able to apply the proposed reduced disclosure regime or would you prefer another approach (e.g. IFRS for SMEs)?**

**What is the basis for your views?**

Response

No, we do not support the AASB's proposals for a second tier and instead support allowing IFRS for SMEs as an option to current requirements for both reporting (full IFRS) and non-reporting entities. Adoption of such an option would lead to far greater cost savings than the AASB's proposals.

**3. Would you require any other classes of public sector entities, such as Government Departments, Government Business Enterprises (GBEs) or Statutory Authorities, to be always categorised as 'tier 1' reporting entities? If so, on what basis?**

Response

Perhaps, however we suggest that this be left to the Commonwealth, State and Local Governments for agreement between those respective bodies.

**4. Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals in this Consultation Paper?**

Response

Yes, we believe that there is a regulatory issue that will impact implementation of the AASB's proposals. Unless Australia adopts IFRS for SMEs as an option for non-publicly accountable entities, Australia will be out of step with the Corporations Act requirements to be in compliance with the IFRS framework. In addition non-reporting entities are not part of the IFRS framework and therefore they should not be reclassified as reporting entities.

**5. Overall, do you agree that the proposals would decrease the costs of preparing financial statements whilst not materially reducing the usefulness of the those statements to users?**

Response

No, whilst we acknowledge that the AASB's proposals may lead to some reduction of costs for reporting entities with decreased disclosures, the adoption of IFRS for SMEs as an option would lead to a far greater reduction in costs given simplified recognition and measurement requirements, and IFRS for SMEs only disclosures, and no reduction in usefulness. For non-reporting entities, we believe that the AASB's proposals will generally considerably increase the cost of preparing and having audited financial statements without any increase in usefulness to readers.

**6. Are the proposals in the best interests of the Australian economy?**

Response

No, we do not believe that the AASB's proposals are in the best interests of the Australian economy as this:

- would put Australia out of step with the IASB framework;
- would not lead to the significant reduction in the costs of preparing and having audited non-publicly accountable reporting entities financial statements whereas the option of having IFRS for SMEs as an option would, and;

- would significantly increase the cost for many non-reporting entities that would either have to maintain or step up to full IFRS recognition and measurement when the IASB has stated that full IFRS is not suitable for such entities.