

FROM: Trevor Beckingham FCPA
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 SUBJECT: Differential Financial Reporting – Reducing Disclosure Requirements

COMMENTS:

I would like to acknowledge the fact that the AASB has recognised that it needs to significantly reduce the burden of accumulated disclosure requirements on Australian reporting entities. The biggest issue that I have with any of these papers released for comment is the fact that you have to wade through so much diatribe to try and firstly ascertain what the intent of the paper is and secondly who it applies to. This paper is no different and the whole issue, from my perspective, revolves around the interpretation of what is a “reporting entity”. Even after 50 pages there is still no clear enunciation of who it actually applies to in plain English that business operators can understand. There is I grant a definition at 2.2 but that is hedged in such techno-babble terms that it can be interpreted as including ANY entity. It then goes on to enunciate that it needs to apply to entities that have “public accountability” and similarly defines that at 3.3. It is identified at 4.2 that ...”A commonly voiced concern is that the existing framework does not allow entities that have limited external users a set of requirements that are less burdensome.... and in 4.3”that entities are ‘abusing’ the reporting entity concept by claiming to be non-reporting entities”..... Finally it is acknowledged at 4.4”that many of the regulators requiring the preparation and lodgement of financial statements may not have given sufficient consideration to the nature of the information they require and the needs of any external users of that information.”..... This, I believe is the crux of the whole issue. At 9.6 this enunciated”financial statements prepared under a legal mandate in accordance with Accounting Standards and lodged on a public register, such as that of the ASIC would be regarded as GPFs.”..... And here in lies the problem. By default ANY company that lodges with ASIC is caught up in the regime. Whether by design, or default, this includes the powerhouse of the Australian economy, small business. 80% of private sector businesses in Australia are small businesses, most are closely held proprietary companies and they by definition have to comply. I accept the argument that for publically accountable and economically significant businesses there is a case for increased reporting requirements, but, these account for, I would suggest less than 20% of the businesses affected. To then go on and say that, at page 7”it is anticipated that the disclosure regime in this paper would substantially reduce the burden of the great majority of preparers of GPFs.”..... is both misleading and wrong. The paper then goes on”However, it is acknowledged that it may also indirectly lead to an increase in the reporting burden of entities currently lodging on public registers financial statements that are not GPFs.”..... I would contend that the increased reporting would be on the majority and hence have the most impact with 80% being the adversely affected and 20% receiving some relief, NOT the other way around as contended in the paper.

As previously stated the whole issue revolves around the concept of who is a “reporting entity”. It must be remembered also that it is a requirement of regulators and not of companies to lodge returns. At 9.9 it states that ..”application of Australian Accounting Standards would move from ‘reporting entity’ to GPFs”..... this being the case and ASIC requiring the preparation of GPFs means that all companies are caught and required to report under a system is ill-conceived, unwarranted, unjust, unnecessary, not understood and not wanted by those to whom it applies.

The fact that the paper states at 6.1”There is no universally accepted methodology for quantitatively measuring costs and benefits of information presented in financial statements.”.....to me speaks volumes and to simply add another complex layer of reporting requirements where there is NO demonstrated benefit either in this paper or the previous IFRS for SME’s makes one wonder whose existence are we really justifying here and for whose benefit is it being pressed.

At the outset the paper states that it is to address the accumulated reporting burden of reporting entities. By definition we are broadening the scope of those companies who will be caught under the regime. So by default we are imposing a requirement on an unsuspecting group who have neither the time, inclination nor understanding to notice what is happening to them. It therefore falls to people like myself who have a passion for what happens to small

business to try and make a stand against the mindless not thought plethora of regulation that is drafted because those preparing the proposals have no experience of the unintended consequences of their "good ideas". They have neither the practical experience or knowledge and sadly do not want to know. For all the "good intentions" of the paper to reduce the reporting burden they fail to see that all they are doing is instead of using a 12lb sledge hammer to crack the nut they are saying let's use a 10lb and that will soften the impact, in any case it is still overkill and they end result is still the same, they end up with a crumpled mess that is no use to anyone. There has been little heed paid to the majority whose reporting burden will be increased, the focus has been (in order to make the proposal more palatable) on the minority whose burden has been reduced. The situation is further compounded by the fact that the regulators seek "expert advice" when drafting regulation and blindly follow and impose a fatally flawed regime which they then pursue with fervour and gusto further compounding the plight of the unsuspecting small business operator.

The proposal, I believe, is almost an admission by the AASB that it "got it wrong" in the first instance and is now in damage minimisation and the paper is a means of big noting themselves by holding out that they are very generous in reducing a regime that should have never been imposed in the first place and I cite the closing paragraph to the introduction of the paper..."The AASB has been concerned for some time that some entities are being required to apply full IFRS as adopted in Australia in circumstances in which it is doubtful that a reporting entity, as envisaged in the financial reporting framework, exists. The additional concern now is that regulators may not act to adjust their requirements."..... In plain English, the blind leading the blind, got it wrong and the AASB now understands that the regulators really don't know what they are doing but blindly follow what they pronounce. The remedial action that needs to be taken that can rectify the whole situation is a clear enunciation of those that are required to report specifically spelling out in plain English so that everyone can understand and not hedged in a techno-babble that is indecipherable to any other than those who concocted it. Though not the province of this paper I still have significant reservations as to the efficacy and benefit of IFRS to any other than large listed corporations. Most businesses and more importantly most small businesses are not in the slightest bit interested in global financial markets as a source of finance for their operations yet are being required to report on a basis predicated on the premise that they are. The proposal cites at 5.10(d)"possible benefits that might result from comparability with overseas entities"..... They are not even in the slightest bit interested in international comparisons, especially for the reasons cited, as the operating environments are so significantly different, they can see this, WHY can't the regulators.

In 2007 I provided comment on the paper IFRS for SMEs and I was severely and publicly rebuked for claims of elitism. I stand by the comments I made then and reiterate them now..... It is the big firms that benefit the most because they are the only ones with the resources to unravel the complexities of the regulation and they not only advise their clients , for a tidy sum, but sell their expertise to the next tier accounting firms so that they can benefit also. Is it any wonder the public and other members of the profession (bearing in mind they make up 80% of the accounting profession) have become cynical.

It is time that some common sense prevailed and there was proper consultation, not the high level consultants who wouldn't know an SME if they fell over it. Some objectivity bought back into the discussion, why is the AASB so afraid of having someone actually from SME in their midst, are they so elitist that they think they are the font of all wisdom. And why is the discussion so closeted, in order to find out anything about any of this one really has to dig and really know what you are looking for then after all that you have to wade through countless amounts of academic diatribe and legalistic writhing that any pit of vipers would be proud of. Relevance and benefit have NOT been demonstrated and as for economic importance the only impact will be to destroy a thriving sector that is not in the slightest bit interested in the accounting relevance of some academic standard set in London by an even more removed and remote group of boffins".....

These comments are still as relevant now as they were when I made them 3 years ago. The tragedy is nothing has changed. I am certain that I will receive another public rebuke for the comments that I have made, but, if no one else will make them and take a stand for small business then I am prepared to, bring it on I say. The difference this time is that I stand alone and have not involved others who I inadvertently did last time.

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