



Mr Kevin Stevenson  
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Dear Mr Stevenson

### **ED 192 Revised Differential Reporting Framework**

We are commenting on ED192 as an interested PhD candidate, and her PhD supervisors. Karen Handley is currently enrolled in a PhD in Accounting at Macquarie University. As part of her PhD research, we conducted an exploratory survey in February and March of this year to examine the current reporting practices of Australian entities. The survey was distributed to the membership of CPA Australia, the Institute of Chartered Accountants in Australia (ICAA) and the National Institute of Accountants (NIA). Our detailed comments on some of the specific matters for comment in ED 192 can be found in the attachment below.

In summary, the survey responses revealed the following interesting findings:

- By February/early March of 2010, a small majority of the respondents were aware of IFRS for SMEs but less than 50% of the respondents were aware of the requirements of the Consultation Paper and the Exposure Draft.
- A high proportion of public practice respondents indicated that they would be prepared to switch from full IFRS to IFRS for SMEs for non-publicly accountable reporting entities.
- There was no uniform selection of Accounting Standards for the GPFs of reporting entities in the sample. Not all reporting entities used full IFRS to prepare their GPFs. Some reporting entities indicated that they did not prepare GPFs at all.
- Non-reporting entities produced SPFs using a variety of standards. Some also reported producing GPFs.
- Our respondents indicated that financial reports have to satisfy the needs of a wide variety of users. This includes a large number of different government bodies. .

The findings of the survey show a diverse application of the current reporting standards. We are concerned that adding an additional tier to this complexity (in the form of either IFRS for SMEs or Reduced Differential Reporting) will require retraining and additional expenses for many stakeholders, although there will be reduced costs as a result having fewer standards. We are also concerned about the additional burden this complexity places on educators. The survey results indicate that there is confusion about the application of IFRS as it currently stands. This confusion might become more widespread with the introduction of an additional standard. We believe that there should be further research on the needs of the potential users of the Tier 2 financial reports in the Australian setting, as their needs are not currently clearly identified. Until we know what information is required by potential users, it is not possible to judge whether those needs will be met under any new standard.

Thank you for this opportunity to comment. If there are any further queries about this research, please direct questions to Karen Handley at [karen.handley@students.mq.edu.au](mailto:karen.handley@students.mq.edu.au).

Yours sincerely,

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## Appendix

There were 241 completed responses for the whole survey. Forty seven of the respondents were not involved in the preparation of financial statements for Australian entities. Of the remaining 194, 117 respondents completed the questions for non-public practice accountants, and therefore commented on the reporting practices of entities in which they were employed. A further 77 respondents completed the questionnaire from the perspective of clients of their public practice accounting firms. For some parts of the survey, most notably the section on awareness of IFRS for SMEs, the Consultation Paper and the draft Exposure Draft, there were 274 completed responses. Whilst the response rate limits the ability to generalise the results, they do provide some insight into current Australian reporting practices.

### Specific Matters for Comment

According to ED192, the AASB particularly wanted comments on the following:

**(a) whether you agree with the introduction of a second tier of reporting requirements for preparing general purpose financial statements (GPFSS) for:**

**(i) for-profit private sector entities that do not have public accountability;**

**(ii) not-for-profit private sector entities; and**

**(iii) public sector entities other than those required by the AASB to apply Tier 1?**

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

In our survey, we asked the public practice and non-public practice respondents questions about their likelihood of using IFRS for SMEs if the AASB were to allow it as an option. Of the 77 public practice respondents, 75.3% indicated that they would use it for reporting entities (other than publicly accountable entities such as listed companies) and 59.7% indicated that they would use it as an alternative to full IFRS or IFRS measurement and recognition with limited AASB disclosures for non-reporting entities. For non-public practice respondents who indicated that their entities were reporting entities, and where the organisation was not a publicly accountable entity, 46.3% of the respondents were prepared to adopt IFRS for SMEs as an alternative to full IFRS.

The following is a tabular representation of the responses from our survey regarding the likelihood of using IFRS for SMEs as an alternative to full IFRS, where allowed.

**Table 11: Likelihood of using IFRS for SMEs as an alternative to full IFRS, if allowed**

Response	Public practice respondents Would you use IFRS for SMEs for applicable reporting entities?		Public practice respondents Would you use IFRS for SMEs for applicable non-reporting entities?		Non-public practice respondents (non-publicly accountable reporting entities only) Would you use IFRS for SMEs for applicable reporting entities?	
	Frequency	%	Frequency	%	Frequency	%
<b>Yes</b>	58	75.3%	46	59.7%	25	46.3%
<b>No</b>	9	11.7%	14	18.2%	16	29.6%
<b>Unsure</b>	10	13.0%	17	22.1%	13	24.1%
<b>Total</b>	77	100.0%	77	100.0%	54	100.0%

We believe that this support for IFRS for SMEs amongst the respondents in our sample is an indication of the desire on their part for a less complex reporting option than full IFRS for some entities.

***(b) whether you agree that entities within the second tier should be able to apply the proposed reduced disclosure regime, which retains the recognition and measurement requirements of full IFRSs or would you prefer another approach (e.g. IFRS for SMEs)? If you prefer the IFRS for SMEs, what do you consider to be the specific advantages of the individual differences of recognition and measurement requirements in the IFRS for SMEs compared with full IFRSs?***

Survey respondents were required to indicate their awareness of the requirements of IFRS for SMEs, the AASB's Consultation Paper and the draft Exposure Draft by selecting from a 5 point Likert-scale with the options "Strongly Disagree", "Disagree", "Neither agree nor disagree", "Agree" and "Strongly Agree". Overall, our respondents declared a higher awareness for IFRS for SMEs than for either the Consultation Paper or the draft Exposure Draft. We found that 61.7% of the 274 respondents selected either "Agree" or "Strongly Agree" for awareness of IFRS for SMEs and that this number dropped to 47.5% for the Consultation Paper and 42.0% for the draft Exposure Draft.

Our survey therefore indicates that by February/March 2010, just under half of the respondents to the survey were familiar with the requirements of the Consultation Paper or draft Exposure Draft and a small majority were aware of the requirements of IFRS for SMEs. Given that those who responded to our survey are more likely to be aware of the issues surrounding reduced differential reporting, we feel that these percentages (47.5% and 42.0%) probably overstate the general level of awareness in the population as a whole.

***(c) the definition of public accountability (which is used to identify those for-profit entities that must apply Tier 1) and whether there are categories of entities in the Australian environment that should be cited as examples of publicly accountable entities other than those already identified in paragraph 26;***

No comment

***(d) whether you would require any other classes of public sector entities, such as Government Departments, Government Business Enterprises or Statutory Authorities, to be always categorised as 'Tier 1' reporting entities and, if so, the basis for your view;***

No comment

***(e) the clarification of the meaning of GPFs and modifying the way the reporting entity concept is used;***

There was inconsistency amongst the Australian entities that were part of our survey when it comes to the application of current AASB Standards for reporting entities and/or entities required to report under the Corporations Act (2001). The findings indicate that some entities may need to change their reporting practices to comply with Para. 30 of ED192: "the phrase 'preparation in accordance with Accounting Standards' means the application of all applicable Accounting Standards in a tier and not a subset of them".

We asked non-public practice respondents to indicate which standards were used for their GPFs. Of the 117 non-public practice respondents, GPFs were produced by 83 (70.9%) entities in the sample. Only 57 (68.7%) of these were prepared using full IFRS. Of the remainder, 10 (12.0%) entities used IFRS measurement and recognition with reduced disclosure (AASB 101 Presentation, AASB 107 Cash Flow, AASB 108 Accounting Policies, AASB 1031 Materiality and AASB 1048 Interpretation and Application) and 7 (8.4%) used simplified measurement and recognition with the same reduced disclosure.

#### Reporting entities

When we asked the 117 non-public practice respondents to indicate whether their entities were reporting entities, 78 indicated that they were. Looking at the reporting standards used for these reporting entities, we discover that 9 (11.5%) do not claim to produce GPFs. Of the 69 (88.5%) that do produce GPFs, 49 (71.0%) claim to use full IFRS, while 8 (11.6%) use full IFRS measurement and recognition with reduced disclosure and 6 (8.7%) use simplified measurement and recognition with reduced disclosure.

Finally, we looked at which of the reporting entities also claimed to report under the Corporations Act (2001) and found that 48 of the 69 reporting entities which claimed to produce GPFs were Corporations Act entities. Of these, 34 (70.8%) use full IFRS, and of the remainder, 5 (10.4%) use full IFRS recognition and measurement with reduced disclosure and 6 (12.5%) use simplified recognition and measurement with reduced disclosure.

Also of interest in the sample were the 9 entities that claimed to be reporting entities but did not produce GPFs. Of these, 7 claimed to produce SPFSs; 3 of which used full IFRS for the SPFSs and 4 of which used full IFRS measurement and recognition with reduced disclosure.

The responses provided by the 77 public practice respondents also show that multiple standards are used in the preparation of GPFs for reporting entities. In particular, we asked private practice respondents to indicate the breakdown of standards used for all their GPFs for unlisted reporting entities, and found that only 29 respondents indicated that 100% of these GPFs were produced using full IFRS. Twelve of the public practice respondents indicated that no standards were used for some of their GPFs (of these, 2 respondents claimed to use no standards for all of their GPFs). Thirty of the respondents indicated that they use full IFRS measurement and recognition with reduced disclosure for some portion of the GPFs for unlisted reporting entities, and 27 of the respondents indicated the same for simplified measurement and recognition.

#### Non-reporting entities

Non-reporting entities are the group in our sample most likely to be impacted by the proposed change to differential reporting. We were unable to isolate those that would be directly impacted by this proposed change. Included in this group of entities are those which will be required to apply standards or to switch from producing SPFs to GPFs, with the possibility of an increased burden. For this reason, we present the findings of the survey for this group looking both at the current standards used for those entities which currently prepare GPFs and those that produce SPFs (there is an overlap).

Thirty nine of the non-public practice survey responses were from non-reporting entities. Fourteen of these responses indicated that they currently prepare GPFs. Again, there was no consistency in the standards used for the preparation of the GPFs, which we further disaggregated by the type of entity (“for profit”, “not-for-profit private”, “not-for-profit public” and “other”) as indicated by the respondents. Nine respondents producing GPFs were from non-reporting for-profit entities, and 4 of these used full IFRS while the others were divided between full IFRS measurement and recognition with reduced disclosure (2) and simplified measurement and recognition with reduced disclosure (1). One of the entities recorded using no standards to prepare GPFs, one respondent was unsure and one reported using “other” standards, while full IFRS was the preferred standard for the remaining not-for-profit private entity and the not-for-profit public entity.

Thirty two of the 39 non-reporting entities in our sample produced SPFs. Most commonly, these SPFs were produced using full IFRS measurement and recognition with reduced disclosure (43.8%) and simplified measurement and recognition with reduced disclosure (37.5%). Only 3 respondents (9.4%) reported using full IFRS for their SPFs.

We also asked the public practice respondents to tell us about the SPFs they produce for their clients that are not required to present under the Corporations Act (2001). Nineteen of the 77 respondents indicated that they prepare 100% of the SPFs for large entities<sup>1</sup> using full IFRS measurement and recognition with reduced disclosure, and 23 of them indicated that they use simplified recognition and measurement for 100% of their SPFs for small entities. 61.0% of the respondents appear to use the same standard across all of their SPFs for small entities.

For the 94.8% of the public practice respondents who reported preparing SPFs for small entities not required to present under the Corporations Act (2001), the most commonly reported standard used was simplified measurement and recognition with reduced disclosures.

#### By size of entity

An analysis of the standards selected by different entities (as reported by non-public practice respondents) to produce GPFs and SPFs is presented in the two tables below. Table 1 splits the sample by consolidated annual revenue, using self-selected categories provided by the respondents. Table 2 splits the sample by average asset value in the same way as Table 1. The detail in these tables shows the wide variety of standards used to prepare reports for different sized entities.

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<sup>1</sup> We defined “large” and “small” using the ASIC criteria i.e. small is two of : consolidated revenue < \$25 million; assets < \$12.5 million; < 51 employees.

**Table 22: Standards used by non-public practice respondents by Consolidated Annual Revenue (n=117)**

Annual revenue	Frequency	%	Reporting Standards Used	GPFS		SPFS	
				Frequency	% <sup>2</sup>	Frequency	%
< \$10 million	41	35.0%	Full IFRS	16	39.0%	3	7.3%
			Reduced Disclosure	3	7.3%	5	12.2%
			Simplified	3	7.3%	8	19.5%
			Unsure	4	9.8%	1	2.4%
			No Standards	0	0.0%	2	4.9%
			Other	2	4.9%	3	7.3%
≥\$10 million and < \$25 million	19	16.2%	Full IFRS	10	52.6%	2	10.5%
			Reduced Disclosure	2	10.5%	2	10.5%
			Simplified	2	10.5%	7	36.8%
			Unsure	1	5.3%		
			No Standards	4	21.1%	0	0.0%
≥\$25 million and < \$100 million	28	23.9%	Full IFRS	15	53.6%	6	21.4%
			Reduced Disclosure	4	14.3%	8	28.6%
			Simplified	2	7.1%	2	7.1%
			Other	1	3.6%		
≥\$100 million and <\$500 million	11	9.4%	Full IFRS	2	18.2%	1	9.1%
			Reduced Disclosure	0	0.0%	7	63.6%
			Simplified	0	0.0%	1	9.1%
> \$500 million	18	15.4%	Full IFRS	14	77.8%	2	11.1%
			Reduced Disclosure	1	5.6%	4	22.2%
			Simplified			2	11.1%
			Other	1	5.6%	2	11.1%
Total	117	100.0%					

<sup>2</sup> Columns do not add to 100% because some respondents do not prepare GPFSs. Similarly, for SPFSs.

**Table 33: Standards used for GPFSS by Average Asset value (non-public practice respondents) n=117**

Average asset value	Frequency	%	Reporting Standards Used	GPFSS		SPFS	
				Frequency	%	Frequency	%
<\$12.5 million	49	41.9%	Full IFRS	18	36.7%	5	10.2%
			Reduced Disclosure	3	6.1%	5	10.2%
			Simplified	5	10.2%	11	22.4%
			No Standards	1	2.0%	1	2.0%
			Unsure	4	8.2%	2	4.1%
			Other	2	4.1%	3	6.1%
≥\$12.5 million and < \$100 million	34	29.1%	Full IFRS	18	52.9%	3	8.8%
			Reduced Disclosure	3	8.8%	8	23.5%
			Simplified	1	2.9%	6	17.6%
			Other	1	2.9%	1	2.9%
≥\$100 million and < \$250 million	10	8.5%	Full IFRS	3	30.0%	3	30.0%
			Reduced Disclosure	3	30.0%	4	40.0%
≥\$250 million	24	20.5%	Full IFRS	18	75.0%	3	12.5%
			Reduced Disclosure	1	4.2%	9	37.5%
			Simplified	1	4.2%	3	12.5%
			Other	1	4.2%	1	4.2%
Total	117	100.0%					

The data presented above from this survey suggests that there is not a uniform application of the reporting entity concept in Australian entities at present, in as much as this translates into the selection of Accounting Standards for GPFSSs.

***(f) the extent and nature of the proposed disclosures under the RDR (Tier 2), including whether the RDR would be effective in reducing sufficiently the disclosure burden on entities in preparing their GPFSSs;***

No comment

***(g) any particular disclosure requirements that:***

***(i) have been retained in the RDR that you consider should be excluded from the RDR, and your reasons for exclusion;***

***(ii) have been excluded from the RDR that you consider should be retained, and your reasons for retention;***

No comment

***(h) transitional provisions for entities applying Tier 1 or Tier 2 for the first time and moving between Tiers;***

No comment

***(i) whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals;***

No comment

***(j) whether, overall, the proposals would result in reducing the costs of preparing GPFs that would remain useful to users***

In the Consultation Paper, the AASB maintains that the IASB has identified the user needs of SMEs in the preparation of IFRS for SMEs (p. 23) and that the disclosure principles of the RDR have been benchmarked to the disclosure principles applied in IFRS for SMEs (p.29). In this survey, we included preliminary questions regarding the users of the financial reports of Australian entities, which were answered by the public practice respondents (n=77) and non-public practice respondents (n=117). Our question was very broad, and did not specify whether the reports in question were SPFSs or GPFs. Respondents most commonly selected management and owners (either in the form of shareholders, equity holders or members) as the users of their reports, followed by the banks and other financial institutions. What was interesting in the responses was the large number of government institutions which were shown as recipients of Australian financial reports. In the survey, we asked respondents to provide us details of these government entities that they were required to report to – other than the ATO and ASIC. There are approximately 46 different government entities that are recipients of the reports of our sample. This number excludes those respondents who used a generalized description of the government entities. It may therefore be important to consider carefully the needs of different government entities and other users when finalising a reduced reporting standard in the Australian setting.