ED192 sub 23

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Mr Kevin Stevenson
The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007
Email: standard@aasb.com.au

Dear Mr Stevenson

ED 192 – Revised Differential Reporting Framework

RSM Bird Cameron appreciates the opportunity to make this submission in response to the Exposure Draft ED 192 *Revised Differential Reporting Framework* and the Consultation Paper *Differential Financial Reporting – Reducing Disclosure Requirements*.

We have considered the exposure draft and attach our detailed comments. Whilst we support the concept of a revised differential reporting framework and believe this to be a positive move for financial reporting in Australia, we would believe the framework should include an option for Tier 2 entities to adopt IFRS for SMEs.

The main reason for this view is that we believe the Australian framework should allow the same options as are available under International Financial Reporting Standards. In addition, we believe that the recognition and measurement simplifications provided by IFRS for SMEs would assist in reducing complexity for private entities as well as the regulatory burden. We recommend that this should be available as an option in the short term rather than in the long term.

If you have any questions regarding this submission please do not hesitate to contact me.

Yours sincerely

Jane Meade
National Technical Director.

Specific Matters for Comment

(a) *Whether you agree with the introduction of a second tier of reporting requirements for preparing GPFSs for:*
   - *i* *For-profit private sector entities that do not have public accountability*
   - *ii* *Not-for-profit private sector entities*
   - *iii* *Public sector entities other than those required by the AASB to apply tier 1*

We support the proposal to introduce a second tier of reporting requirements for preparing GPFSs. It is agreed that there is the need for a regime where the regulatory reporting burden of selected unlisted companies is reduced. Tier 1 captures the entities which we believe require full IFRS compliant GPFSs, therefore agree with those categories of entities which will fall within tier 2 and a reduced disclosure regime for general purpose reporting.

(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 IFRS or would prefer another approach (eg 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 IFRS?*

We support the proposal to allow tier 2 entities to apply the reduced disclosure regime (RDR). Transition should not have a large impact for our client base falling into tier 2 as they already apply full recognition and measurement in the preparation of special purpose financial reports. However entities within our client base would benefit further if IFRS for SMEs was available for adoption, as explained further below. In addition, where entities currently prepare full IFRS compliant GPFSs (particularly large private entities) there would be a significant benefit in both reduced disclosures and simplified recognition and measurement requirements.

Our preference would be to allow IFRS for SMEs as an additional Tier 2 option, rather than as a replacement for the proposed RDR. Some of the specific advantages we can see of allowing this option are:

- IFRS for SMEs is tailored to the needs and capabilities of smaller businesses. The simplified recognition and measurement requirements would significantly reduce complexity for such entities and the self-contained nature of the standard would assist in ensuring thorough application of relevant requirements, including those contained in relevant interpretations where these have been written into the standard.

- Australia will have a consistent suite of standards as those available for adoption Internationally

- Simplified recognition and measurement principles will not compromise the usefulness of the information to the user, specifically:
  - Amortisation of indefinite life intangible assets - the requirement to conduct annual impairment testing for these assets under full IFRS is a complex and costly exercise for smaller entities. We do not believe that reliability of information will be compromised given that there will still be a requirement for entities to consider whether there are indicators of impairment each period for these assets and, if so, conduct impairment testing
  - Financial instruments – application of the cost model for the majority of instruments typically held by SMEs will reduce complexity and costs, particularly for instruments which are currently classified as available for sale.
  - Expensing of borrowing costs - simplifies requirements under full IFRS to capitalise and then often have to impair such costs
  - Introduction of the concept of undue cost or effort will also be beneficial to SMEs as it will allow them to adopt simplified requirements rather than incurring unreasonable costs

We believe that the simplified recognition and measurement principles of IFRS for SMEs will reduce the reporting burden for preparers and would be more likely to meet the needs of users who may not be experienced in the application of complex accounting standards. This is a key consideration as meeting the needs of the user is the cornerstone of financial reporting. We do not believe that the simplifications will reduce usefulness for more sophisticated users as the disclosure requirements of IFRS for SMEs will provide them with more useful information than what they may currently receive in a SPFR,

(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;*

We support the definition of publicly accountability. We believe this will reduce the judgement required when making the distinction as to what level of reporting is required. We believe it is clear which tier entities will be required to report under. We support the views of the AASB that in many cases the reporting concept is currently inconsistently applied and application of the revised framework will enhance compliance.

(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;*

Under the definition of 'public accountability' most government/public entities, would fall into tier 1. This is consistent with the current Federal and State Treasury requirements for all material public sector entities to prepare GPFS and consolidate into the 'whole of government report' which is a full IFRS compliant GPFS. However we believe that for-profit subsidiaries/enterprises of public sector entities should also be required to prepare GPFR under tier 1 as to omit them is to make an exception to the definition of public accountability.

Another key consideration of the entities required to report under tier 1 and 2 will be the impact of the reporting requirements of *The Public Finance and Accountability Bill 2009* which is yet to be approved by Government. Under the current proposed bill public sector entities are split into four categories, dependant on asset and expenses thresh-holds. Under the proposed changes some entities may not be required to have their financial reports audited which may cause exceptions and disparities to the reporting requirements outlined in the RDR. .

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

We support the proposal as it takes away the judgement which created the inconsistencies in application of the 'reporting entity concept', particularly the identification of whether dependent users exist. In addition it provides a more logical structured approach where the starting point is now the GPFS definition which then broken down into two tiers via the public accountability definition.

(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 GPFSs;*

We support the proposed Tier 2 disclosure framework. For entities currently preparing GPFSs, the disclosure burden will be reduced. For entities preparing SPFRs at the moment, there may be increased disclosures, however we would argue that the disclosures that will be required for items such as financial instruments and related parties are disclosures that are important to users and there will only be a significantly increased burden if these transactions are significant or complex. In such cases, it is likely that these entities should have been providing such disclosures under the existing framework.

(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;

We agree with the proposals overall.

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

We support the proposal.

However some sources suggest that approximately 30% of companies lodging accounts with the Australian Securities and Investments Commission (ASIC) are not complying with the recognition and measurement requirements of IFRS. We recommend that further investigation is conducted into the quantum of non compliance and also in particular the standards for which such requirements are not applied. At this point in time the introduction of the RDR may significantly increase the cost of financial reporting for this group of entities if they are required to apply recognition and measurement requirements of the accounting standards for the first time.

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

As discussed in (d) above the implementation of the proposed *Public Finance and Accountability Bill 2009*. This will have a direct impact on which public sector entities that will have to report and have their financial statement audited.

We also recommend that the Exposure Draft *Conceptual Framework for Financial Reporting: The Reporting Entity* issued March 2010 by the Financial Accounting Standards Board be considered for possible effects on ED 192.

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

We support the notion that entities that are currently preparing full IFRS financial statements that would be reporting under tier 2 requirements would have reduced costs of preparation under the proposals in ED 192. We also believe there is substantial uncertainty as to the additional compliance, reporting and transition costs for those entities lodging their accounts with ASIC that are not complying with the recognition and measurement requirements of accounting standards.

We believe that financial statements prepared under the tier 2 proposed frameworks will still meet the needs of the users. Generally the users of tier 2 accounts are limited in number and also do not require the level of detail and complexity that users of capital market participants financial statements require. Per our comments in (b) above we also believe that the AASB has the opportunity to further reduce the reporting burden and cost of financial statement preparation through an additional option allowing tier 2 entities to apply IFRS for SME's.

(k) whether the proposals are in the best interest of the Australian economy.

We agree the proposal overall is in the best interest of the Australian economy.