Australian Financial Reporting Solution

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The Chairman
Australian Accounting Standards
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By email: standard@aasb.gov.au

23 April 2010

Dear Mr Stevenson

Thank you for the opportunity to comment on AASB Exposure Draft ED 192 *Revised Differential Reporting Framework.*

We are broadly supportive of the proposals included in ED 192 and welcome the AASB project to simplify and tighten up the differential reporting framework.

General comments have been included below and Appendix One contains our detailed responses to your specific matters for comment.

General comments:
We strongly support your approach of transaction-neutrality within the Australian reporting framework and your endeavours to require the application of all recognition and measurement criteria in the Accounting Standards.

In addition, we recognise the urgent need to reduce disclosure in the financial statements of non-publicly accountable entities and would encourage the AASB to try to work to their 30 June 2010 early adoption date.

We believe that the disclosures required for these entities should be based on the principles included in the IFRS for SME standard.

We do not support the introduction of IFRS for SME's as a standard within Australia for the reasons stated under Question b in Appendix One.

We encourage the AASB to continue to work with the other Australian Regulatory Bodies with involvements in the preparation and lodgement of financial statements to ensure all entities are preparing and lodging relevant appropriate and sufficient information based on their relevant tiers; i.e. clarification of the use of the term "Australian Accounting Standards" in legislation.

We would recommend the introduction of a 2 year review period to assess the success of the Reduced Disclosure Regime (RDR) and other alternatives.

If you would like to discuss any aspect of this submission further, please do not hesitate to contact me on cridley@afrs.com.au

Yours sincerely

Carmen Ridley
Principal

APPENDIX ONE –Specific Matters for Comment

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**
   iii. **Public sector entities other than those required by the AASB to apply Tier 1?**

   We agree where the Tier 2 requirements involve reduced disclosures only.

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)?**

   We support the proposed reduced disclosure regime which requires consistent recognition and measurement and reduced disclosures.

   We do not support the introduction of IFRS for SME in Australia for the following reasons:

   - Australia is in a unique reporting framework situation where all reporting entities have been applying the requirement of IFRS standards rather than the 'listed entities' only which is in place in many overseas countries.
   - Whilst there are a number of entities preparing special purpose financial reports which are not in compliance with all recognition and measurement criteria, many of these are not complying with only one or two elements of the accounting standards and therefore the additional burden should not be too significant.
   - The final IFRS for SME standard did not produce the results which were expected, i.e. the simplifications were not sufficient to support veering from the consistent recognition and measurement path and the differences are not going to result in significant cost savings.
   - The addition of the IFRS for SME standard will complicate the Australian Reporting Framework rather than simplifying it.
   - The training requirements for the accounting profession with this additional standard will be complex and confusing. This will be compounded by the two year period before IFRS for SME's is updated for new IASB pronouncements.
   - Many entities who would be in Tier 2 rely heavily on their advisors and IFRS for SME would introduce a choice which would be likely to be in the hand of practitioners which would result in different choices of standard depending on the advisor used which would not be a desired outcome.

c. **The definition of public accountability 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 agree with the definition of public accountability and are not aware of any other examples of publicly accountable entities in the Australian context.

d. **Whether you would require any other classes of public sector entities to be always categorised as Tier 1 reporting entities and, if so, the basis for your view.**

We believe that there would be sufficient disclosure at an individual entity level under the Tier 2 disclosures.

e. **The clarification of the meaning of GPFSs and modifying the way the reporting entity concept is used.**

We believe that more explicit guidance should be included in the standard in relation to the requirements for grandfathered companies; otherwise the definition and clarification relating to GPFS is appropriate.

f. **The extent and nature of the proposed disclosures under the RDR, including whether the RDR would be effective in reducing sufficiently the disclosure burden on entities in preparing their GPFRs.**

We have provided detailed comments below on additional disclosures which we believe can be removed without impacting the usefulness of information provided to the users of Tier 2 financial statements.

We acknowledge that additional burden would be imposed on entities who currently prepare special purpose financial statements; but believe that the additional information and consistency would be in the best interest of the users of the financial statements.

g. **Changes to proposed disclosure requirements:**

The tables in Appendix 2 highlight disclosures which we believe:

- Are additional disclosures which could be removed without adversely affecting users – Table 1
- Are disclosures which are proposed to be removed which we believe should be retained – Table 2

h. **Transitional provisions for entities applying Tier 1 or Tier 2 for the first time and moving between Tiers.**

We agree with the proposed transitional requirements on initial adoption and moving between Tiers.

i. **Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals**

We believe that the Department of Treasury proposals in respect of reporting requirements for parent entities and a size test for public companies would be complementary to these AASB proposals.

j. **Whether, overall, the proposals would result in reducing the cost of preparing GPFSs that would remain useful to users.**

Whilst there will be cost savings for Tier 2 entities who currently prepare general purpose financial statements or currently comply with all recognition and measurement requirements, we understand that entities who do not comply with all recognition and measurement requirements in Tier 2 will be subject to an increased burden.

We believe that this additional burden is not significant enough to alter the transaction neutral objective.

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

We believe that given the proposals will reduce the complexity of the financial reporting framework by removing special purpose financial statements and the reporting entity concept and will improve consistency between financial statements, the implementation of the RDR would be in the best interest of the Australian economy.

APPENDIX TWO – Detailed comments on disclosures

TABLE ONE – ADDITIONAL DISCLOSURES WHICH MAY BE REMOVED

We believe that the disclosures included in the table below may be removed since they do not add particular value to the users compared to the time and effort to prepare them.

Australian Accounting Standard and Paragraph Reference	Requirement
AASB 3.B67(d)	Reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period.
AASB 5.34	Representing the discontinued operations disclosures for the prior year.
AASB 5.41	Additional disclosures relating to description of non-current assets held for sale and the circumstances leading to the sale.
AASB 7.8	Carrying amount of financial assets and financial liabilities into the categories required by AASB 7.
AASB 7.20	Net gains or losses on financial instruments separated into the financial asset and liabilities categories.
AASB 9.20	Net gains or losses on financial instruments separated into the financial asset and liabilities categories.
AASB 9.44I	Detailed disclosures on transition to AASB 9 for each class of financial asset at the date of initial application.
AASB 9.44J	Qualitative disclosures on initial adoption of AASB 9.
AASB 101.79 a(i – iii)	Information about the number of authorised shares, shares issued and fully paid and the par value of shares.
AASB 102.36d	The amount of inventories recognised as an expense during the period.
AASB 110.17	Date of authorisation of financial statements – this is implicit in the date of the Director's declaration.
AASB 112.81d	An explanation of changes in the applicable tax rate(s) compared to the previous reporting period.
AASB 112.81g	Amounts of deferred tax assets / liabilities / income and expenses recognised in relation to each type of temporary differences and each type of unused tax loss and unused tax credit.
AASB 116.73e	Reconciliation of the carrying amount at the beginning and end of the period.
AASB 116.77c	The methods and significant assumptions applied in estimating the items' fair value – this would be substantially covered by the requirements in AASB 116.77d.
AASB 117.31e	A general description of the lessee's material leasing arrangements for finance leases.
AASB 117.35d	A general description of the lessee's material operating leasing arrangements.

Australian Accounting Standard and Paragraph Reference	Requirement
AASB 127.42	Additional disclosures when separate financial statements are prepared for a parent entity that, in accordance with paragraph 10 elects not to prepare consolidated financial statements.
AASB 127.43	Additional disclosures when a parent (other than one described in paragraph 42), venturer with an interest in a jointly controlled entity or an investor in an associate prepares separate financial statements.
AASB 131.55	Separate disclosure of the aggregate amount of commitments in respect of its interest in joint ventures.
AASB 136.129	Disclosures for entities who comply with AASB 8.
AASB 137.84	Reconciliation of the carrying amount of provisions between the beginning and end of the period.
AASB 137.85	Disclosure of the indication of the uncertainties about the amount or timing of those outflows.
AASB 137.89	Description of contingent assets, where the inflow of economic benefits is probable.
AASB 138.118d	Information about the line item in the SOCI in which any amortisation of intangible assets is included.
AASB 138.118e	Reconciliation of the carrying amount of intangible assets at the beginning and end of the period.
AASB 138.122c	Additional disclosures where intangible assets are acquired by way of a government grant and initially recognised at fair value.
AASB 140.76	Reconciliation of the carrying amount of investment properties carried at fair value at the beginning and end of the period.
AASB 140.79	Reconciliation of the carrying amount of investment properties carried at cost at the beginning and end of the period.
AASB 141.50	Reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the period.

TABLE TWO – DISCLOSURES WHICH SHOULD BE RETAINED

The disclosures included in the following table should be included in the RDR due to the information they provide being useful to users.

Relevant AASB and Paragraph Reference	Requirement
AASB 3.59	The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination.
AASB 3.B64g	Information relating to contingent consideration arrangements and indemnification assets should be disclosed where this has occurred.
AASB 101.104	Where an entity classifies expenses by function; additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense.
AASB 101.138.6	Nature and amount of capital commitments and other expenditure commitments. Maybe remove the timebands and just require a narrative.
AASB 124.17e	Share-based payments should continue to be shown separately given the nature of the compensation.