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The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
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By email: standard@aasb.gov.au

23 April 2010
Our Ref: DR/SC

Dear Kevin

Re: ED 192 Revised Differential Reporting Framework

Deloitte Australia welcomes the opportunity to comment on Exposure Draft ED 192 "Revised Differential Reporting Framework".

By way of executive summary:

- We support the introduction of a second tier of reporting requirements for the preparation of general purpose financial statements (GPFSs). We also agree with the board's proposals for the determination of those entities required to apply Tier 1, in particular the use of the IASB's definition of 'public accountability' in respect of for-profit private sector entities (subject to the matters raised in our response to the specific matters for comment – see Appendix A).
- We support the retention of full IFRS recognition and measurement requirements for entities applying the proposed Tier 2 reduced disclosure regime.
- On the basis of the research undertaken by the IASB in completing the 'IFRS for SMEs' project (on which the board has relied upon as the basis for the proposed reduced disclose regime), we support the proposed level of disclosure under the proposed Tier 2 reduced disclosure regime.
- We do not support mandatory or optional adoption of 'IFRS for SMEs' in Australia at this time.
- Whilst the reporting entity concept has served us well in operationalising differential reporting in Australia, we do not believe it is necessary to retain such concept within Australian Accounting Standards. Provided that the requirements of the reporting mandate are developed and established with appropriate consideration of the information needs of users of the financial statements, such approach will produce outcomes similar to the reporting entity concept (where appropriately applied). We therefore support the board's proposal to cease the use of the reporting entity concept operationally in the application clauses of Australian Accounting Standards.

Our responses to the specific matters for comment requested by the AASB are set out in Appendix A.

If you have any questions concerning our comments, please contact Darryn Rundell on (03) 9671 7916.

Yours sincerely

Darryn Rundell
Partner
Deloitte Touche Tohmatsu

APPENDIX A
SPECIFIC MATTERS FOR COMMENT

The AASB has invited comments on the following specific matters:

(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?

We agree with the introduction of a second tier of reporting requirements for the preparation of general purpose financial statements (GPFSs). We also agree with the board's proposals for the determination of those entities required to apply Tier 1, in particular the use of the IASB's definition of 'public accountability' in respect of for-profit private sector entities.

In addition to the question of the appropriateness of introducing a second tier of reporting requirements for the preparation of GPFSs (of which we are supportive), the matter that has generated significant discussion amongst our partners, staff and clients, is the board's proposal to cease the use of the reporting entity concept operationally in the application clauses of Australian Accounting Standards. For example, some have expressed the view that the reporting entity concept should be retained operationally within Australian Accounting Standards, which would in effect create a third Tier of reporting (albeit 'special purpose reporting').

Whilst the reporting entity concept has served us well in operationalising differential reporting in Australia, we do not believe it is necessary to retain such concept within Australian Accounting Standards. Consistent with the board's proposals, we favour the approach of entities being required to prepare financial statements in accordance with Australian Accounting Standards where, and to the extent, required by the relevant reporting mandate (referred to as a "legal mandate" in ED 192). The reporting mandate may require the preparation of financial statements in accordance with Australian Accounting Standards (meaning all applicable Australian Accounting Standards under Tier 1 or Tier 2, as appropriate), being GPFSs; or in accordance with some, but not all, Australian Accounting Standards, being by default special purpose financial statements (SPFSs). Provided that the requirements of the reporting mandate are developed and established with appropriate consideration of the information needs of users of the financial statements, such approach will produce outcomes similar to the reporting entity concept (where appropriately applied).

We therefore support the board's proposal to cease the use of the reporting entity concept operationally in the application clauses of Australian Accounting Standards.

(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?

We support the retention of full IFRS recognition and measurement requirements for entities applying the proposed Tier 2 reduced disclosure regime.

We do not support mandatory or optional adoption of 'IFRS for SMEs' in Australia at this time. In the Australian context, we believe that adopting 'IFRS for SMEs' at this time would be a backward step.

We believe there should be a single set of recognition and measurement requirements for all GPFSs (whether prepared under Tier 1 or Tier 2) for reasons largely consistent with those outlined by the board in the AASB Consultation Paper *Differential Financial Reporting – Reducing Disclosure requirements*, including:

- Australia has already transitioned to IFRS across all sectors (e.g., for-profit listed entities, for-profit non-listed entities, private sector not-for-profit entities, and public sector entities). In our opinion, there would be little or no benefit in now adopting something less than full IFRS recognition and measurement requirements;
- A single set of recognition and measurement requirements is consistent with the board's 'transaction neutral' approach to standard setting;
- A single set of recognition and measurement requirements results in comparability of financial information between entities preparing GPFSs irrespective of whether the entity is within Tier 1 or Tier 2;
- A single set of recognition and measurement requirements will minimise the compliance cost / transition cost of entities 'moving' between Tier 1 and Tier 2;
- Introducing a second set of recognition and measurement requirements would, in our opinion, be potentially confusing for users and preparers of GPFSs;
- Introducing a second set of recognition and measurement requirements would require preparers and auditors to keep up-to-date with two sets of recognition and measurement requirements which, in our opinion, would be likely to increase costs.

In addition to the above general comments, we do not support mandatory or optional adoption of 'IFRS for SMEs' in Australia at this time for the following specific reasons:

- 'IFRS for SMEs' recognition and measurement requirements are not attractive in the Australian context. (e.g., amortisation of goodwill, no revaluation option for property, plant and equipment, mandatory expensing of development costs, etc). In particular, many Australian entities (including almost all public sector entities) adopt the revaluation policy for the measurement of property, plant and equipment and, as a result, such entities would be unable to adopt 'IFRS for SMEs' (which does not allow such policy to be adopted).
- 'IFRS for SMEs' will only be updated by the IASB every three years and therefore will usually be 'out of date' when compared to full IFRS.

- Adopting 'IFRS for SMEs' as an 'available option' under Tier 2 (i.e., as an allowable alternative to the proposed reduced disclosure regime) is not, in our opinion, a viable approach under Tier 2 on the grounds that (in addition to the above general and specific comments) the existence of such 'available option' would undermine the comparability of financial information reported under Tier 2. In our opinion, Tier 2 GPFSs should be prepared on a consistent basis.

Notwithstanding that we do not support mandatory or optional adoption of 'IFRS for SMEs' in Australia at this time, we suggest that the board continues to monitor changes to 'IFRS for SMEs' and its adoption in other jurisdictions and reassess periodically the appropriateness of its adoption in Australia.

*(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 agree with the definition of public accountability used to identify those for-profit entities that must apply the Tier 1 reporting requirements. Further, we have not identified any additional categories of entities in the Australian environment that should be cited as examples of publicly accountable entities (i.e., in addition to those already identified in paragraph 26).

However, we note that the IASB's definition of 'publicly accountable' is somewhat broad in respect of entities that hold assets in a fiduciary capacity. In this regard, we have identified the following examples where it might be unclear whether an entity would be treated as 'publicly accountable' in Australia:

- The reference to 'mutual funds' in the definition of 'publicly accountable' might be interpreted to be referring to all managed investment schemes. This does not appear to be the intention of the Exposure Draft as it specifically states that 'registered managed investment schemes' would be considered 'publicly accountable' in the Australian context, implying that unregistered schemes would not be considered 'publicly accountable'.
- 'Superannuation plans registered with the Australian Prudential Regulation Authority' are considered publicly accountable. It is unclear whether this is meant to include all Registrable Superannuation Entities (i.e. Pooled Superannuation Trusts, Approved Deposit Funds and Eligible Rollover Funds) in addition to regulated superannuation funds.
- 'Authorised Deposit-taking Institutions' are also considered to be publicly accountable. It is unclear whether this is meant to include only ADIs regulated by APRA.

We recommend the board be more explicit in defining which entities would be considered 'publicly accountable' entities in the context of the Australian financial services industry.

*(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***

In addition to those public sector entities identified by the board, we believe it would be appropriate to also require the General Government Sector to be categorised as Tier 1 (with full IFRS applied in the context of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*).

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

We support the clarification of the meaning of GPFSs and the board's proposal that the reporting entity concept will no longer be used to operationalise differential reporting, thus resulting in the board focusing exclusively on the reporting requirements for GPFSs.

As outlined in our response to question (a) above, such approach places greater importance on the requirements established by the relevant reporting mandate (referred to as a "legal mandate" in ED 192). We note that the reporting mandate may arise in a number of ways including the operation of law (e.g., under the *Corporations Act 2001* in respect of disclosing entities, public companies, large proprietary companies and registered schemes) or the operation of the entity's constitution or deed (e.g., small proprietary companies and trusts that are not required to report under legislation such as the *Corporations Act 2001*).

In this regard, it is our understanding that (under the proposals contained in ED 192) if the reporting mandate requires the preparation of financial statements in accordance with Australian Accounting Standards, the financial statements will be GPFSs (prepared in accordance with all applicable Australian Accounting Standards under Tier 1 or Tier 2, as appropriate) irrespective of whether the financial statements are publicly available. On the other hand, if the reporting mandate is silent on the basis of preparation or only requires the financial statements to be prepared in accordance with some, but not all, Australian Accounting Standards, the financial statements will not be GPFSs (and by default will be SPFSs) irrespective of whether the financial statements are publicly available. Assuming that our understanding of the proposals is correct, we question the inclusion of the requirement in paragraph 27(i) that financial statements are required to be publicly available for them to be GPFSs. Paragraph 27(i) is made effectively redundant by paragraphs 27(ii) and 28 which states that *'financial statements held out as being prepared in accordance with Australian accounting standards .... are GPFSs'.*

We recommend that the board clarify this matter in the final Standard.

(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 have sought comments from our partners, staff and clients that we expect to be most directly impacted by the proposed reduced disclosure regime.

Many people commented that the proposed Tier 2 disclosure requirements are too onerous and should be significantly reduced, and that the reporting entity concept should be retained within Australian Accounting Standards such that non-reporting entities could continue to prepare SPFSs (under Tier 2).

On the matter of the level of disclosure under the proposed reduced disclosure regime, we believe that, in the absence of the board undertaking direct research in Australia regarding the appropriate level of disclosure under Tier 2, it is appropriate for the board to rely on the research undertaken by the IASB in completing the 'IFRS for SMEs' project. Accordingly, having accepted the IASB's research as an appropriate basis for Australia's reduced disclosure regime, we believe it is difficult to support the reduction of disclosure below the 'IFRS for SMEs' level and still be able to appropriately claim that the financial statements are GPFSs. We therefore support the proposed level of disclosure under the proposed Tier 2 reduced disclosure regime.

On the matter of the retention of the reporting entity concept, as outlined in our response to question (a) above, whilst the reporting entity concept has served us well in operationalising differential reporting in Australia, we do not believe it is necessary to retain such concept within Australian Accounting Standards. Provided that the requirements of the reporting mandate are developed and established with appropriate consideration of the information needs of users of the financial statements, such approach will produce outcomes similar to the reporting entity concept (where appropriately applied). We therefore support the board's proposal to cease the use of the reporting entity concept operationally in the application clauses of Australian Accounting Standards.

On a related matter, we note that AASB 127 *Consolidated and Separate Financial Statements* paragraph Aus10.1 requires an ultimate Australian parent entity to prepare consolidated financial statements irrespective of whether the conditions for exemption included in AASB 127 paragraph 10 are met. We would encourage the AASB to consider deleting paragraph Aus10.1 thus bringing Australian requirements into line with IFRS.

(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 provided.

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

We agree that the proposed transitional rules are consistent with IFRS.

However, we note that the transitional provisions in applying Tier 1 for the first time might result in entities that currently prepare SPFSs that comply fully with the IFRS recognition and measurement requirements being required to apply AASB 1 (for a second time) on transition to Tier 1, in order to claim IFRS compliance. Such entities would have previously applied AASB 1 on transition to A-IFRS. We acknowledge that this is not a new issue, as entities moving from SPFSs to GPFSs under the current regime would also face a similar issue. In our opinion, the requirement to effectively apply AASB 1 for a second time (on transition to Tier 1) may be problematic and we encourage the AASB to raise this issue with the IASB, including the appropriateness of obtaining relief where an entity is currently complying fully with the IFRS recognition and measurement requirements.

Further, the proposed transitional requirements do not appear to cater for multiple movements between Tier 1 and Tier 2 after adoption of the new regime. Again, we encourage the AASB to consider the appropriateness of entities being required to apply AASB 1 multiple times.

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

We are not aware of any regulatory issues or other issues arising in the Australian environment that may affect the implementation of these proposals.

However, we would strongly encourage regulators (including Treasury and other state and territory regulators) to consider whether following the finalisation of these proposals, there is an appropriate balance between the needs of users and the reporting burden for preparers. This consideration might result in changes to the large company thresholds and/or additional relief for wholly owned subsidiaries under the *Corporations Act 2001*.

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

In our opinion, the proposals will result in a reduction of costs of preparing GPFSs for those entities currently preparing GPFSs and which will be able to adopt the proposed Tier 2 reduced disclosure regime.

However, we note that there will be increased costs for those entities currently preparing SPFSs which in future will be required to prepare GPFS under the proposed Tier 2 reduced disclosure regime. Given this position, as noted above, we would strongly encourage regulators (including Treasury and other state and territory regulators) to consider whether following the finalisation of these proposals, there is an appropriate balance between the needs of users and the reporting burden for preparers. This consideration might result in changes to the large company thresholds and/or additional relief for wholly owned subsidiaries under the *Corporations Act 2001*.

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

We believe that the introduction of a reduced disclosure regime is in the best interest of the Australian economy.

However, we note that there will be increased costs for those entities currently preparing SPFSs which in future will be required to prepare GPFS under the proposed Tier 2 reduced disclosure regime. Given this position, as noted above, we would strongly encourage regulators (including Treasury and other state and territory regulators) to consider whether following the finalisation of these proposals, there is an appropriate balance between the needs of users and the reporting burden for preparers. This consideration might result in changes to the large company thresholds and/or additional relief for wholly owned subsidiaries under the *Corporations Act 2001*.