

**ED192 sub 38**

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The Chairman  
Australian Accounting Standards Board  
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AUSTRALIA  
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Dear Chairman

**ED 192: Revised Differential Reporting Framework**

My brief comments on the proposals in ED 192 are attached.

If you wish to discuss any of the issues raised in the submission I can be contacted by email at [ian@company-accounting.com](mailto:ian@company-accounting.com).

Best wishes

Ian Langfield-Smith FCPA

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

I do not support the proposal. Differential reporting requirements should be based on the reporting entity concept as set out in SAC 1. While there has been extensive reporting of that concept that is not a sufficient reason to replace it with system that would be more prone to reporting. The definition of publically accountable, even when supplemented by guidance, will not preclude 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 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?

The IASB's SME standard should not be an available alternative. It is predicated to a substantial degree on the incomprehensibility of IFRSs, and that of itself is no reason to excuse compliance with those standards by some entities. Also, the standard is premised on conditions that, in general, do not exist in Australia. In Australia there is no mandatory financial reporting by entities that can reasonably be described as either small or medium. There would be very few, if any, small or medium sized entities that were not also small proprietary companies. If owners and managers elect to use a legal form to carry out economic activity which has more extensive disclosure requirements than those applicable to other forms of entities, that is no reason for the introduction of a standard that can be then be opportunistically adopted by preparers. In this context, very few entities that are not also small proprietary companies would be reporting entities as described in SAC 1. So, what we are left with is a solution in search of a problem.

There are some special issues associated with not-for-profit entities and public sector entities; however, they are not easily reconciled with a differential reporting framework proposed in the ED.

(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;

The definition of public accountability is, like that of reporting entity, capable of being used inappropriately to reduce the level of financial disclosure. Extensive mandatory guidance would be necessary to minimise the possibility of reporting. In addition to entities listed in paragraph 26 the following entities should be classified as having public accountability: responsible entities and managers of collective investment schemes; entities providing management services to collective investment schemes.

(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;

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

The current definition of reporting entity lacks focus. It appears to include entities that would not be classified as reporting entities under SAC 1.

(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 GPFs;

(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;
- (h) transitional provisions for entities applying Tier 1 or Tier 2 for the first time 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;
- (j) whether, overall, the proposals would result in reducing the costs of preparing GPFs that would remain useful to users; and

I am not convinced that the cost reductions are sufficient to justify reduced disclosure. The criteria must be whether or not the disclosures are necessary to allow those wishing to make evaluations and decisions about the reporting entity. An allied issue, not canvassed in any detail in the ED, is the existence of users ... ones that under SAC 1 would be dependant users – users who cannot command the preparation of special purpose reports

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

The proposal to allow the use of the SME standard would not be in the interests of the Australian economy. The differential disclosures for publically accountable entities could be in the interest of the Australian economy if there was greater clarity of the nexus between the level of disclosure and the presence or absence of public accountability as that term is used in the ED.