R G RUTTER B. Com[Hons],FCA, MAICD
Chartered Accountant

PO Box 390
Mornington, Vic, 3931
Tel: 03 5974 4651
Fax: 03 5974 4653
Mob: 0419 874 714
Email: twobaysptyltd@bigpond.com

15 April 2010

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West, Victoria, 8007

Dear Sir

Reduced disclosure regime

The AASB has issued an Exposure Draft: ED192 Revised Differential Framework and has requested comments on the contents from practitioners and others.

By way of background to my comments, I advise that I was a practising auditor for over 40 years, including approximately 30 years as a Partner of the Melbourne and Darwin firms of the BDO network in Australia. At present, I am a director of a substantial private company, a NFP company operating in Aged Care and a quality reviewer for the ICAA.

In those roles I have been closely involved with the application of Accounting Standards as they have developed over the period. During that period I have seen very few examples where the standards have assisted my clients or my firm as their auditors, as few clients have wanted to stretch our credulity. Where they have tried to do so, it has been fairly easy to detect and ensure that remedial action is taken.

When I started in the profession the numbers of accounting standards were very small and fairly basic in nature and, from memory, their provisions were not mandatory in a legal sense as they are now. During that early period, early 1960's to early 1970's there were a number of high profile corporate collapses, including The Stanhill Group, Reid Murray Group and Cambridge Credit, among others. From memory, the problems at Stanhill derived from a legalistic separation of corporate entities, despite the existence of related party transactions, while Cambridge Credit was a fraud based on duplicate photo copied documents that had not been executed.

I am not confident that similar frauds would be impossible under the current regime due to the legalistic nature of current standards and the vast volume of the standards and their provisions. I find accounts that I receive from companies that I invest in to be increasingly detailed and the amount of detail obscures the real issues. This is particularly so because of the increasing amount of PR spin incorporated and the continuing attempts by companies and Share Registrars to

unilaterally decide that shareholders will not receive the statutory accounts without having to go to significant inconvenience to get them.

Differential reporting

The concept of the non-reporting entity preparing Special Purpose Financial Statements ("SPFS") is one that I support strongly, provided that the individual entity applies the concept sensibly. This does not mean that every paragraph of every IFRS standard must be applied in all cases. In most cases where I have seen SPFS prepared, the accounts have provided the information that the users have needed, without the esoteric matters that are included in some standards. Under the circumstances the case for change, in my view, is unnecessary.

It appears that there is significant potential for retaining the status quo, albeit with some changes to terminology if these are necessary, which I doubt, and thereby avoid the potentially major increase in the amount of work for entities on disclosure, with little perceived benefit to the entity, or to those that receive the financial statements.

I also believe that the use of the term GPFS for both Tier 1 and Tier 2 will be confusing and suggest that SPFS be retained, with suitable disclosure of the entity's accounting policies that are followed.

Exposure Draft proposals

1. Subject to my later comments, the two tiers are already being followed today – why change just to be in congruence with other jurisdictions.

2. The disclosures required under the RDR should be documented, if at all, in separate standards, so that there is no confusion in the minds of preparers as to what is required. Many disclosures in standards are excessive for privately run family companies and should be deleted (see later comments). In some cases all they achieve is to expand the amount of detail in financial reports, with no benefit to readers as the key information is obscured. As set out later, I believe any new standards should be principle-based, not compliance-based.

3. Non-publicly accountable for-profit private sector entities have the choice of whether to apply Tier 1 or Tier 2. The same choice should be available for not-for-profit private sector entities.

4. Public sector entities should apply the tiers as set out in the exposure draft.

5. The definition of 'public accountability' is acceptable.

6. Having accounts applying different levels of disclosure, both being described as GPFS will lead to confusion among readers.

7. Transitional provisions are somewhat convoluted and could be abolished for Tier 2 entities if the basis suggested below is adopted.

8. There should not be the ability for regulators to make a unilateral change to the status of a for-profit private sector entity that is not a listed entity to force them into Tier 1.

9. The concept of 'the needs of users who are not in a position to require an entity to prepare reports tailored to their particular needs (*AASB 101*)' may be theoretically attractive to some, but in practice leads to unintended results. Also, I have rarely seen any of my clients rely on published accounts lodged with ASIC as a basis on which to make economic decisions. They are generally lodged too late to be effective and, if GPFS, too complex for the reader to isolate the information required. The definition of users in the *Reporting Entity* definitions is similarly vastly overstated.

10. Paragraph seems to contradict the concept of tiers as it implies that GPFS must apply all accounting standards. If, as is set out in the ED, both tiers produce GPFS, but using different rules, they cannot both be GPFS.

11. Paragraph 31 implies that ALL accounts lodged with ASIC must apply all IFRS standards in their entirety. This appears to be unjustified as many companies which lodge accounts lodge SPFS as they do not have any users that rely on the accounts to make economic decisions. One could argue why they are required to lodge accounts at all if they are audited.

Specific matters for comment – paragraph 46 ff

a) I agree with the retention of a regime similar to that which applies now – a two tier set of requirements – allowing for the exclusion of standards that are irrelevant to the entity where they are not publicly accountable entities.

b) IFRS does not fill the needs of family-owned and run entities whose users are limited to family members and financiers who can obtain the information they require. Major creditors are also normally able to obtain this information. If a separate set of standards are thought to be necessary, they should be principle-based, not detailed lists of requirements.

c) I agree with 'publicly accountable', but I do not agree that the definition should be expanded to take in entities that some may consider for their own reasons to be so e.g. large companies.

d) Government departments and the like must, by definition, be considered to be publicly accountable.

e) The ED does not clarify the meaning of GPFS as it will apparently be applied to both Tier 1 and Tier 2. What is wrong with SPFS?

f) I have not had time or the resources to review the RDR in detail. However, in my experience reduced requirements previously published are far too detailed to be effective in reducing work. What we need for Tier 2 entities are financial statements which show:

    a. The operating results for the period, prepared on an historical cost basis using accrual accounting. In general, I do not support asset revaluations, other than the valuation of marketable securities at their current realisable values.

b. A balance sheet with appropriate separation between current and non-current items.

c. A simplified cash flow document which shows the sources and application of cash flows in the entity. This is an important document for many clients, but the current format generally requires the accountant to interpret it.

d. Elimination of new terms that have come into use, which merely serve to confuse the bulk of readers e.g. impairment, disaggregation etc.

e. Elimination of related party information for closely held entities – they own the business and know what is happening..

f. Accrual accounting should include:

   i. Depreciation of plant and other fixed assets;

   ii. Provisions for annual and long service leave;

   iii. Valuation of inventories at actual cost or NRV where this is lower than cost (a standard is probably necessary here);

   iv. Valuation of work in progress in respect of long term contracts;

   v. Deferred income tax liability, where material and necessary, but no future tax benefit because of the possibility that it will never eventuate;

   vi. Accruals and prepayments of expenses to enable the matching of costs with revenue;

   vii. A simplified revenue statement that matches revenue received with costs yet to be incurred that are related to the revenue;

   viii. Provisions for doubtful debts against debtors;

   ix. Subsequent events information; and

   x. Provisions for diminution in value where these are deemed to be permanent, or in any event, long term in nature, excluding short term reductions in property values which can frequently reverse within short periods.

g. Elimination of the requirement to use the financial instruments standard – this is rarely relevant to companies in this segment.

h. Ensuring that where write offs are made, that write backs can be made in the same financial statement as the write off.

i. Removing the requirement for entities to reconcile the movements in fixed assets, a requirement that has caused some of my clients significant difficulty for little benefit for actual users.

g) As I haven't reviewed the RDR requirements in any detail, I will merely refer to the requirement for a principles based regime following the principles enunciated in 'f' above.

h) Making transitional provisions simple. If the changes a limited to, effectively, retaining the accounting policies previously followed, there will be no transitional issues.

i) None identified.

j) The proposals will, in my view increase work at greater cost for entities with no real benefit.

k) The proposals, insofar as they increase the regulatory burden on family-owned entities are **not** in the best interests of the Australian economy.

Concluding remarks

There appears to be a well developed sense of entitlement to information amongst many commentators, including academics and the media, where such entitlement should not exist. Much of the information is, and should remain, private to the owners of entities that are not publicly accountable. If regulators require information they can obtain it. To require the vast bulk of entities to produce large amounts of information that the owners do not need just to satisfy the inquisitive members of the community should be stopped before it causes more financial pressures on an important segment of the economy.

Where is the benefit to anyone? Let us try to keep things simpler than they are now for the ultimate users, who rarely have detailed education in the terms used by regulators, academics and accountants.

Yours faithfully

R G Rutter