KPMG

10 Shelley Street
Sydney NSW 2000

P O Box H67
Australia Square 1215
Australia

ABN: 51 194 660 183
Telephone: +61 2 9335 7000
Facsimile: +61 2 9335 7001
DX: 1056 Sydney
www.kpmg.com.au

Mr Kevin Stevenson
The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Our ref Submission - ED 248 - Amend AASB 1053

19 May 2014

Dear Kevin

Submission - ED 248 *Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements*

We are pleased to have the opportunity to comment on AASB Exposure Draft ED 248 *Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements*.

Executive Summary

We support the objectives outlined in ED 248 paragraph 1, including the requirement that when applying AASB 1 *First-time Adoption of Australian Accounting Standards* an entity has a choice to either apply AASB 1 in full or else apply Australian Accounting Standards ('AASs') retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. We see this objective as consistent with the amendments made as part of the IASB annual improvements 2009-2011 cycle as adopted by the AASB in AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009 – 2011 Cycle*.

However, we believe that the detail contained in the amendments complicates the transition process and we question why in certain circumstances the application of AASB 1 could not be required. Please refer to Appendix 1 of this letter for our detailed comments.

Finally, we support the proposed disclosure requirements when an entity resumes the application of Tier 2 reporting requirements as it is consistent with the amendments contained in AASB 2012-5.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact me on (02) 9335 7630, or Michael Voogt on (02) 9455 9744.

Yours sincerely

Martin McGrath
Partner In Charge, Department of Professional Practice

Appendix 1 – Submission - ED 248 *Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements*

Complication of the transition process

The principle contained in the IASB annual improvements 2009-2011 cycle was that when an entity:

- that had applied Australian Accounting Standards ('AASs' and includes Tier 1 or Tier 2) <u>or</u> IFRSs in a previous reporting period
- but whose most recent previous annual financial statements did not (or could not) contain an explicit and unreserved statement of compliance with AASs <u>or</u> IFRSs
- must either apply AASB 1 or the AASB 108 option in AASB 1 (i.e. apply retrospectively as if the entity had never stopped applying AASs or IFRSs).

In summary the amended principle in AASB 1 covers:

- when an entity first applies AASs <u>or</u> IFRSs it must apply AASB 1, i.e. it does not have the AASB 108 option in AASB 1 (AASB 1 paragraph 2), and
- when an entity has previously applied AASs <u>or</u> IFRSs but not in the previous financial year, it must either apply AASB 1 or the AASB 108 option in AASB 1when returning to apply AASs or IFRSs in the current year (AASB 1 paragraph 4A).

Prior to the amendments to AASB 1053 proposed in ED 248 principles established included:

- when a special purpose financial statement preparer transitions to general purpose (Tier 1) financial statements it <u>must</u> apply AASB 1
- when a special purpose financial statement preparer transitions to general purpose (Tier 2) financial statements:
  - it is <u>not permitted</u> to apply AASB 1when the special purpose financial statements <u>applied all</u> applicable recognition and measurement requirements
  - it <u>must</u> apply AASB 1when the special purpose financial statements <u>did not apply all</u> applicable recognition and measurement requirements.
- when transitioning from Tier 1 to Tier 2 an entity is <u>not permitted</u> to apply AASB 1
- when transitioning from Tier 2 to Tier 1 an entity:
  - <u>must</u> apply AASB 1 if claiming compliance with IFRSs
  - <u>must not</u> apply AASB 1 if not claiming compliance with IFRSs.

When looking at the causes of different treatments in the above principles the following is observed:

- First-time adoption of AASs or IFRSs has different outcomes from transitioning back to AASs or IFRSs. This is necessary in order to follow the IASB principles.
- When transitioning from special purpose to Tier 2, different outcomes result depending on whether the special purpose financial statements applied all applicable recognition and measurement requirements. Refer to 'recognition and measurement discussion' below.
- When transitioning from Tier 2 or special purpose to Tier 1, different outcomes result depending on whether the Tier 1 general purpose financial statements will be compliant with IFRSs or not. Refer to 'IFRS compliance discussion' below.

Recognition and measurement discussion

We note the AASB view that AASB 1 should not be applied in circumstances where an entity had been previously applying applicable recognition and measurement requirements, as it could "imply a change in accounting basis".

KPMG would support simplification of the transition rules such that AASB 1 is always applied when an entity transitions from special purpose to Tier 2, irrespective of whether the entity previously applied applicable recognition and measurement requirements.

In our view the benefits from this simplification would outweigh any disadvantages, as discussed below:

- For a majority of entities that have been applying applicable recognition and measurement requirements, the application of AASB 1 would not necessarily result in any accounting entries (unless a specific exemption was elected).
- Users of the financial statements should not "imply a change in accounting basis", i.e. the basis of accounting and any changes is a normal part of disclosure of significant accounting policies in financial statements.
- The fact that some entities <u>may</u> elect certain exemptions outlined in Appendix D of AASB 1, for example re-setting a foreign currency translation reserve to zero, is not of major concern and if elected would be appropriately disclosed in the financial statements.
- Application of AASB 1 would not be considered an onerous time requirement. Entities could elect not to apply any exemptions contained in AASB 1.

- To remove what could be interpretated as an inconsistency with AASB 1. In principle AASB 1 requires that an entity which had previous applied AASs <u>or</u> IFRSs but not in the previous financial year must apply AASB 1 or the AASB 108 option in AASB 1 when returning to apply AASs <u>or</u> IFRSs in the current financial year.

  Consider, for example, an entity that had previously applied Tier 2 and in the previous financial year applied special purpose (applying applicable recognition and measurement requirements) but in the current financial year returns to Tier 2. The amended paragraph 19B(e) would prohibit the application of AASB 1 or the AASB 108 option in AASB 1.

- To remove the prima-facie inconsistency with the amendment proposed in paragraph 13 of ED 248 where under the revised paragraph 19 an entity that transitions from special purpose to Tier 1 (but not complying with IFRSs) is required to apply AASB 1 or the AASB 108 option in AASB 1.

IFRS compliance discussion

KPMG would support simplification of the transition rules such that AASB 1 is always applied when an entity transitions to Tier 1 general purpose financial statements irrespective of whether the entity is also complying with IFRSs.

In our view the benefits from this simplification would outweigh any disadvantages, as discussed below:

- For the same reasons as outlined in the 'recognition and measurement discussion' above.

- To remove what could be interpretated as an inconsistency with AASB 1. In principle AASB 1 requires that an entity which had previous applied AASs <u>or</u> IFRSs but not in the previous financial year must apply AASB 1 or the AASB 108 option in AASB 1 when returning to apply AASs <u>or</u> IFRSs in the current financial year.

  Consider, for example, an entity that had previously applied Tier 1 (and is IFRS compliant or not) and in the previous financial year applied Tier 2 (and is therefore not IFRS compliant) but in the current financial year returns to Tier 1 (and is not IFRS compliant). The amended paragraph 21(b) would prohibit the application of AASB 1 or the AASB 108 option in AASB 1.

Other

KPMG supports the proposed amendment in ED 248 paragraph 11 – where under the revised paragraph 18A(a)(ii) the 'Tier 2 reporting requirements directly using the requirements in AASB 108' alternative has been created.

In our view this aids simplification and is consistent with the arguments outlined under the 'recognition and measurement discussion' and 'IFRS compliance discussion' above.