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Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

Our ref Submission ED 293

19 August 2019

Dear Kris

ED 293 Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements

We are pleased to have the opportunity to comment on Exposure Draft 293 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements* (ED 293).

We broadly support the proposals set out in ED 293. As an interim measure intended to bridge the gap between Phase 1 and the complete removal of special purpose financial reporting option for applicable entities in Phase 2 of the revised Conceptual Framework project, we expect the proposed disclosures to contribute to improving the quality of information provided to users of special purpose financial statements.

Please refer to the Appendix for our detailed comments on the specific and general matters for which feedback was requested.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact myself on (02) 9455 9744 or Julie Locke on (02) 6248 1190.

Yours faithfully

Michael J Voogt
Director

Appendix

Specific matters for comment

Do you agree that an amendment to AAS to require entities to disclose information about their SPFS, including whether or not the entity has complied with all the R&M requirements in AAS, is needed to provide more transparency to users of publicly lodged SPFS and improve the comparability of SPFS? If not, please provide reasons.

We agree that the proposed amendments are needed to provide more transparency to users of publicly lodged SPFS and to improve the comparability of those SPFS.

Notwithstanding that the proposals are an interim measure and that the AASB's objective is to provide two general purpose reporting frameworks and not a special purpose reporting framework, we consider that more is needed to provide SPFS users with a significant improvement in the information available to them.

In addition, please see our response to Question 3.

Do you agree that the proposed amendments should apply only to those entities lodging SPFS with:

(a) ASIC under Part 2M.3 of the Corporations Act 2001; or

(b) the ACNC?

If not, please provide reasons.

We agree with the scope of the proposed amendments capturing the entities identified in (a) and (b) above.

We are also cognisant of the scope of the AASB's Australian Financial Reporting Framework Project being limited to the development and maintenance of general purpose financial reporting frameworks, as special purpose financial reporting by nature is determined by users, preparers and regulators. To effectively implement the proposed disclosures in this context, we encourage the AASB to work closely with regulators and those with enforcement powers over SPFS preparers by aligning their requirements to the proposed disclosures.

In addition, we would encourage the AASB to work with the Accounting Professional & Ethical Standards Board (APESB). APES 205 *Conformity with Accounting Standards* (October 2015), section 6 provides general guidance on the responsibilities of members in respect of special purpose financial statements (SPFS). Updating APES 205 would increase the effectiveness of the implementation of the proposed disclosures.

Do you agree with the proposed amendments to AASB 1054 requiring disclosure of:

(a) the basis for the preparation of the SPFS (reflected in the proposed amendment to paragraph 9 of AASB 1054);

(b) information about the consolidation or non-consolidation of subsidiaries and accounting for associates and joint ventures (reflected in the proposed new paragraphs 9A(a) and (b));

(c) an explicit statement as to whether or not the accounting policies applied in the financial statements comply with all the R&M requirements in AAS (including the requirement to disclose an indication of where they do not comply) (reflected in the proposed new paragraph 9A(c))?

If you disagree with any aspect, please provide reasons.

We agree with each of the above proposed amendments.

Disclosure of whether the financial statements are in compliance with all recognition and measurement requirements of Australian Accounting Standards on its own will unlikely achieve a significant improvement in the information quality of SPFS. It will likely result in boilerplate disclosure in respect of (a). However, we acknowledge of the importance of the disclosure in (a) when combined with (c). On this basis, we support the AASB's decision to propose the amendments in (a) to (c) based on Options 1 and 2 in paragraph BC28 over Options 3 and 4.

In our view, ED 293 should also consider discussion around the disclosure of those Australian Accounting Standards where an entity has not made any of the disclosures in respect of balances or types of transactions. For example, if an entity had significant related party transactions but AASB 124 *Related Party Disclosures* where not present at all in the financial statements.

For the sake of clarity, we are not recommending a list of which disclosures in AASB 124 have not been made. Rather the fact that there are related party transactions and that the financial statement preparers have elected not to include any of the disclosures in AASB 124.

The proposed Amending Standard includes implementation guidance and illustrative examples illustrating the application of the proposed disclosure requirements. Do you agree it provides appropriate illustration of the application of the disclosure requirements? If not, please provide reasons.

We agree that the guidance and examples provided are useful – notwithstanding some potential for them to encourage boilerplate disclosures.

For the included illustrative disclosure of the basis of preparation we note that all examples refer to the absence of users who are 'not in a position to require the preparation of reports tailored to their information needs'. We suggest considering some alternative types of disclosures, for example

> ABC Pty Ltd (the "Company") is a for-profit entity and primarily involved in [insert details]. In the opinion of the directors, the Company is not publicly accountable nor a reporting entity. The financial statements of the Company have been drawn up as special purpose financial statements for distribution to members and for the purpose of fulfilling the requirements of the *Corporations Act 2001*.
>
> The special purpose financial statements have been prepared ……

If the Amending Standard is issued before December 2019, do you agree with the proposed effective date of annual periods ending on or after 30 June 2020 (with early adoption permitted)? If not, please explain why.

We agree with the proposed effective date of annual periods ending on or after 30 June 2020. The effort and time required to implement this standard would be minimal and for a majority of impacted entities this information should be readily known.

Do you agree that an entity that has no subsidiaries, investments in associates or investments in joint ventures should not be required to make an explicit statement to this effect? If not, please provide reasons.

We agree that an entity as described above should not be required to make an explicit statement.

Do you agree that a not-for-profit entity that has not determined whether or not its interests in other entities give rise to subsidiaries, associates or joint ventures should be permitted to disclose only that fact, and should not also be required to disclose the reasons why? If not, please provide reasons (refer to paragraph BC32 in the Basis for Conclusions for the AASB's consideration of this matter).

We do not agree that where a not-for-profit entity has not determined whether or not its interests in other entities give rise to subsidiaries, associates or joint ventures should be permitted to disclose only that fact. That is, it is our view that not-for-profit entities should be required to disclose the reasons why.

The reporting entity assessment is required at the individual and consolidated entity level. We question whether a not-for-profit entity could make the assessment on the consolidated entity level if it had not first determined whether or not its interests in other entities give rise to subsidiaries.

Do you have any other comments on the proposals?

Any comments have been included in earlier responses (above).

General matters for comment

Whether The AASB's For-Profit Entity Standard-Setting Framework and The AASB's Not-for-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft?

We think both Frameworks have been applied appropriately in developing the proposals.

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

We have not identified any regulatory or other issues arising in the Australian environment.

Whether, overall, the proposals would result in SPFS that would be more useful to users?

Overall, in our view, the proposals would enhance transparency in SPFS of affected entities.

Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

We have not current firsthand experience on the costs of these proposals.

As noted in paragraph BC37, some entities might find it burdensome to determine whether their accounting policies comply with the recognition and measurement requirements of Australian Accounting Standards. However, in our view, the benefit to users of the financial statements should outweigh the costs.