PO Box 1411
Beenleigh QLD 4207
25 August 2019

Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West Victoria 8007
AUSTRALIA

Dear Kris

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

I am pleased to make this submission on ED293.

I have over 30 years' experience in accounting advisory functions of large accounting and auditing firms across a wide range of clients, industries and issues in the for-profit, not-for-profit, private, and public sectors. My clients across the business and government environments have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, commonwealth, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises).

I do not support the proposals as I do not believe such urgency is required. I believe the proposals should not be introduced at this time, as the proposed changes to the financial reporting framework should resolve this issue.

I also believe that for similar reasons to providing the peppercorn leases relief, which included possible increasing of NFP reporting thresholds, these proposals should not be introduced at this time.

I detail below my responses to selected individual Exposure Draft Questions.

Yours sincerely

David Hardidge
https://www.linkedin.com/in/davidhardidge/

Attachment

AASB specific matters for comment

The AASB is inviting specific comments on the following:

1. **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.**

   I agree with the AASB's statement (Exposure Draft, page 4) that "it is an important part of a director's duty and an auditor's responsibility to consider and clearly identify the financial reporting framework which forms the basis for the preparation of financial statements".

   I also agree with the AASB's research that application of the current system has failed to provide adequate disclosure of the financial reporting framework in many cases.

   However, this is not a new problem and I do not agree with the urgency. I do not agree that such a change is required this financial year.

   Based on the AASB near-final research quoted in the Exposure Draft, there appears to be large portion of entities that are not following the recognition and measurement requirements of Australian Accounting Standards. This outcome seems to be a direct result of the purpose of the special purpose financial reporting framework of reducing the reporting burden on non-reporting entities.

   I suggest that the AASB focus its effort on developing a simplified measurement and disclosure framework in Australia for small-to-medium sized businesses (for-profit and not-for-profit), consistent with the approaches adopted globally. A simplified framework would increase the comparability of financial statements prepared by such entities, without the cost of full IFRS.

   I include suggestions in my LinkedIn article at:
   https://www.linkedin.com/pulse/developing-simpler-better-reporting-framework-david-hardidge/

2. **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.

   It appears that the AASB contradicts itself by first saying that the current system has failed (to provide users with adequate information of the compliance with recognition and measurement requirements), but then not requiring the changes to all entities preparing special purpose financial statements. Or at the least, those entities publicly lodging financial statements, which would include many incorporated associations.

While it is difficult to gain access to the financial statements of incorporated associations, which can be behind paywalls, and sometimes also requires a paid search for a listing of documents to be undertaken, at least some are available publicly. For example:

Queensland

https://www.qld.gov.au/law/laws-regulated-industries-and-accountability/queensland-laws-and-regulations/associations-charities-and-non-for-profits/incorporated-associations/request-information-about-an-incorporated-association

Having noted the above, I do not agree that the changes should be introduced, and any improvements should be made at the same time as other changes to the Australian financial reporting framework.

For for-profit entities, these proposals would only be applicable 30 June 2020 year ends. This is because the AASB is proposing to remove the ability to prepare special purpose financial statements from that date. I believe there is not sufficient urgency to require the amendments to be made with such little time for preparers to get ready. Preparers may only deal with their accountants for the statutory reports after the end of the financial year, and requiring this sort of effort with such little notice would be burdensome.

For not-for-profit entities, many are small with limited resources, and possibly without adequate in-house resources to determine the required disclosures. As I noted above, I suggest that the AASB focus its effort on developing a simplified measurement and disclosure framework in Australia for small-to-medium sized businesses, including not-for-profit entities. Any improvements in disclosures can be made as part of those changes.

For similar reasons to providing the peppercorn leases relief, which included possible increasing of NFP reporting thresholds, these proposals should not be introduced at this time.

3. 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.

Refer comments above that I believe the proposals should not be introduced at this time, as the proposed changes to the financial reporting framework should resolve this issue.

4. 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.

Refer comments above that I believe the proposals should not be introduced at this time, as the proposed changes to the financial reporting framework should resolve this issue.

5. 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.

Refer comments above that I do not believe such urgency is required. I believe the proposals should not be introduced at this time, as the proposed changes to the financial reporting framework should resolve this issue.

I also believe that for similar reasons to providing the peppercorn leases relief, which included possible increasing of NFP reporting thresholds, these proposals should not be introduced at this time.

The time for preparers, and auditors, to properly prepare for these changes is inadequate, which will likely result in unnecessary costs at a very busy time of the year to try and sort out what is required. I also expect the changes, if introduced with such urgency for this financially year, to result in unnecessary, but unintended, non-compliance.

General matters for comment

The AASB would also particularly value comments on the following general matters:

9. 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?

I do not believe that the frameworks have been applied appropriately. The urgency, and indeed the need for such changes, before the introduction of the new financial reporting framework has not been demonstrated.

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

The time for preparers, and auditors, to properly prepare for these changes is inadequate, which will likely result in unnecessary, but unintended, non-compliance.

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

As I noted above, I believe that the AASB should focus its effort on developing a simplified measurement and disclosure framework in Australia for small-to-medium sized businesses, including for-profit and not-for-profit entities. I believe that such an approach would provide more benefit to users.

To improve disclosures, I believe that the AASB should also focus on the issues that Malcolm Bunney raised in his submission to the AASB on ITC 39 – Phase 2 regarding disclosures by Retirement Villages.

> http://www.aasb.gov.au/admin/file/content106/c2/ITC39_sub12_MBunney_09-11-2018_151653.pdf

However, based on AASB Research Report 10 - Legislative And Regulatory Financial Reporting Requirements (March 2019) (page 47) retirement village reporting in Victoria would be excluded from the scope of the changes under the financial reporting proposals.

12. Whether the proposals are in the best interests of the Australian economy?

No, I believe that the proposals are not in the best interests of the Australian economy, for the reasons outlined above.