

5 August 2019

Ms Kris Peach
Chair
Australian Accounting Standards Board
Podium Level,
Level 14, 530 Collins Street,
Melbourne VIC 3000

By email: standard@aab.gov.au

Dear Kris,

Response to AASB ED 293 - Disclosure in Special Purpose Financial Statements

We welcome the opportunity to provide the Australian Accounting Standards Board ("AASB", "the Board") with our views on Exposure Draft ED 293 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements*.

Nexia Australia Pty Ltd represents the seven Australian firms comprising the Nexia Australia network with over 60 partners servicing clients from small to medium enterprises, large private companies, not-for-profit entities, subsidiaries of international companies and listed public companies. Our position within the SME market qualifies us to share our views on the Board's proposals.

We are not convinced there is an imperative for the Board to address the matters described in ED 293 and therefore issue the proposed Accounting Standard.

The Board has previously stated that entities that are required by legislation to prepare financial statement would be required to prepare general purpose financial statements and that this change would take effect from 1 July 2020.

Furthermore, recent amendments to the large proprietary company threshold effective 1 July 2019 will reduce the number of proprietary companies required to lodge financial reports with ASIC and, therefore, the population of non-disclosing entities lodging SPFS, thereby reducing the 'problem' the Board is trying to solve. The Board failed to publicly release Draft Research Report XX Financial Reporting Practices of For-Profit Entities Lodging SPFSs at the same time as the ED and has not provided any analysis to determine the extent to which the increase in the proprietary company reporting threshold reduces the 'problem' described in the ED.

However, given the Board's previous analysis that only 0.35% of trading companies (approximately 3,000 companies) lodged financial statements under the old definition of a large proprietary company in which recognition and measurement was not fully complied with, we expect that the increase to proprietary company reporting thresholds would significantly reduce this number.

Consequently, we disagree with the premise that amendments are "urgently needed" (BC34) and, therefore, are not supportive of the proposals in ED 293.

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In our opinion, the Australian financial reporting community would be better served by the AASB prioritising more pressing interpretative matters rather than allocating time and resources to these proposals which will be redundant 12 months after they are implemented.

However, if the Board chooses to proceed we provide our views on the Board's specific questions below.

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

We disagree with the proposal for the following reasons.

Entities preparing SPFS are required by AASB 108 to disclose their significant accounting policies which describe the accounting methods adopted by the entity. The Board suggests that some non-reporting entities do not appropriately disclose their accounting policies in accordance with AASB 108. It appears that the Board is attempting to address this disclosure deficiency by introducing more disclosures. If the Board is concerned about non-compliance with existing requirements, it should raise those matters with the relevant regulators.

In our opinion, nothing substantive is gained by introducing additional regulation proposed by paragraph 9A(c).

We note that Example 3 in IG7 and IG6 provides a scenario in which an entity consolidates some but not all of its subsidiaries (and are therefore inconsistent with the requirements set out in AASB 10) and does not equity account all its investments in associates in accordance with AASB 128. The example concludes that "the entity's financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards".

We are often reminded that implementation guidance and illustrative examples accompany, but are not part of, Accounting Standards and are not intended to provide interpretative guidance. However, preparers, auditors, regulators and others will regularly refer to and rely on implementation guidance, illustrative examples (even AASB staff papers) as either support for or against a particular interpretation.

Different interpretations currently exist in practice as to whether AASB 10, AASB 11 and AASB 128 represent recognition and measurement or disclosure requirements. For example, in our opinion, paragraph 16 of AASB 128 contains a measurement requirement.

If the AASB is intent on requiring entities to make a positive statement of compliance with "measurement and recognition" requirements of Accounting Standards, then we recommend the Board specifically address whether compliance with AASB 10, AASB 128, and AASB 11 are recognition and measurement requirements or disclosure requirements of Australian Accounting Standards. In addition, we recommend that the Board identify and clarify which aspects of Accounting Standards are measurement and recognition requirements to provide clarity and reduce disagreements between preparers, auditors, users and regulators.

This analysis should extend to all Accounting Standards including, for example, AASB 5 and AASB 132.

In our opinion, if the Board views AASB 10 and the equity method described in AASB 128 as recognition and measurement requirements then paragraph 9A(a) becomes redundant.

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.

We disagree with the premise that there is an "urgent need" to issue the proposals in ED 293. Nevertheless, if the Board chooses to proceed, the amendments should affect the least number of entities as possible. On this basis, we recommend the proposals should only apply to entities required to lodge financial reports with ASIC under Part 2M.3 of the Corporations Act 2001 and those registered charities required to report directly to the ACNC under the Australian Charities and Not-for-profits Commission Act 2012.

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 previous responses.

We disagree with requirement contained in paragraph 9A(a) to disclose the reasons why AASB 10 and AASB 128 have not been applied. The majority of companies preparing SPFS do so to meet their legislative financial reporting obligations and have no users of those reports other than shareholders. The proposal will add time and cost to a SPFS for which there are, by definition, limited users who are not dependent upon GPFS to make economic decisions. This will be seen by companies as a bureaucratic exercise by the AASB that adds no discernible value to those users. We anticipate many companies will include a nondescript boilerplate response as to why it has not applied disclosure requirements like AASB 10 and AASB 128.

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.*

We note BC34 states "the Board decided to express a broad principle (i.e. an indication of where the non-compliance exists) rather than take a more prescriptive approach (e.g. a description of the extent of non-compliance)." That paragraph continues, noting "the Implementation guidance and illustrative examples and the implementation guidance and illustrative examples themselves attached to AASB 1054 as non-mandatory material."

BC36 goes on to state "The Board noted the view of some that, if the differences between an entity's accounting policies and the recognition and measurement requirements in Australian Accounting Standards are extensive, the preparation of the required disclosure could be onerous. To help address this concern, as referred to in paragraph BC34 above, the Board prepared a number of illustrative

examples and flowcharts. The Implementation guidance and illustrative examples is designed to provide examples of how the required information might be disclosed... ”

We caution the Board against sending potentially inconsistent messages to preparers. BC34 – BC36 states that detailed onerous disclosures are not required and that the Board chose not to apply a prescriptive approach (e.g. a description of the extent of non-compliance). However, Examples 7 and 8 in IG7 illustrates a detailed approach to describe the differences between AAS and the entity's accounting policies.

We recommend that those examples either be deleted or revised to better illustrate the Board's stated principle.

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.*

We do not believe that the Board's timetable provides sufficient time for the amendments to be communicated and addressed by those affected entities.

Once the Board confirms and issues its proposed amendments it will take some time to communicate and educate clients on the effects of these changes. The Board has previously issued significant amendments immediately prior to Christmas (for example, AASB 1058, AASB 2016-8, AASB 2018-8). Amendments issued during the Christmas/summer holidays are generally not identified or their effects considered by financial statement preparers before the following February. In practice, advisors have less time to communicate and educate, and preparers have less available time to prepare for changes, than the Board may appreciate.

Many companies and not-for-profit entities use third party software solutions to generate their financial statements. There is no guarantee that those suppliers and vendors will be able to amend their systems within a four month timeframe.

6. *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.

7. *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 agree.

Other matters

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

No. The proposals would not result in SPFS that would be more useful to users.

By definition, a general purpose financial report provides information to meet the common information needs of users who are unable to command the preparation of reports tailored to their particular information needs. A non-reporting entity is one without the existence of users who are dependent on general purpose financial reports for information for making and evaluating resource allocation decisions.

If a SPFS currently satisfies the information needs of its users, then adding additional disclosure that those users have not requested does not make those financial statements more useful to those users.

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

In our opinion, the proposals add additional cost on companies and registered charities. The Board is proceeding with its other proposals to remove SPFS which, when implemented, will result in another round of amendments and costs to those entities.

The Board's premise that there is a large number of non-disclosing entities inappropriately preparing SPFS and not providing comparable information to some users is undermined by Treasury's amendments to the definition of a large proprietary company.

In our opinion, the costs to preparers outweighs the potential short-term benefit to potential users of those financial statements and therefore is not in the best interest of the Australian economy.

10. *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.*

There are no financial benefits or cost savings associated with the proposals. On the other hand, we envisage significant time and costs being incurred by accounting firms, advisors, preparers, accounting software vendors, auditors and other stakeholders to address and implement the Board's proposals.

In our opinion, the financial cost of the Board's proposals outweighs any perceived short-term non-financial benefits.

Should you wish to discuss any aspects of our submission, please contact the undersigned.

Sincerely

Nexia Australia Pty Ltd



Martin Olde
Technical Director