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

Online submission: <https://www.aasb.gov.au/Work-In-Progress/Submit-Comment-Letter.aspx?id=2248>

Dear Kris

Exposure Draft 295 — General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities

I am pleased to make this submission on ED295.

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 agree with the intended approach of a single standard based on IFRS for SMEs, based on the following matters:

- a simpler reporting system for SMEs should be made available in Australia
- the fundamental weakness of the RDR approach
- costs and confusion in determining changed disclosure requirements

I believe that the proposals are not in the best interests of the Australian economy. The best interests of the Australian economy would be served by the AASB developing a simpler reporting system for for-profits and not-for-profits and changing existing RDR disclosures in individual standards.

I discuss the above issues in more detail below.

Yours sincerely

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A simpler reporting system for SMEs should be made available in Australia

I agree that IFRS for SMEs makes a suitable framework for financial reporting.

I believe that the AASB should develop a simpler reporting system for for-profits and not-for-profits based on IFRS for SMEs. This would include recognition and measurement simplifications, and not just disclosures. I include my reasoning in my separate submission on ED 297.

The fundamental weakness of the RDR approach

ED 295, and RDR more generally, have a significant weakness. This is that there is no mechanism to require material information, that would be required by Tier 1, to be included in RDR financial statements if the disclosure is not included in the minimum list.

Since RDR was introduced approximately ten years ago, there has been a far greater focus on materiality, and moving away from a checklist approach, including the IASB's Disclosure Initiative and the IASB / AASB Materiality Practice Statements. I consider that in updating RDR, the AASB should incorporate materiality as the main principle in determining disclosure requirements.

I believe the AASB should consider whether RDR is really required, after applying the updated guidance and concepts of materiality.

Costs and confusion in determining changed disclosure requirements

I do not agree with the proposed approach of using IFRS for SMEs referencing. I have found identifying changes from the existing RDR disclosures complex and time consuming. This is because I have to match the disclosures back to the relevant recognition and measurement in the underlying standards that use a different numbering system. For example, the disclosures in AASB 116 for property, plant and equipment, are included in Section 17 of the proposals. Disclosures for AASB 7 and AASB 9 for financial instruments are included in sections 11 and 12 of the proposals.

I believe that it will be impracticable, particularly, for individual SMEs to undertake this work. To have SMEs go through a few hundred pages of staff analysis comparisons is ridiculous.

Given what I believe are a small number of changes, that this is a strong reason for not making the changes as proposed, and instead a better approach is just to update the existing standards.

However, I believe that a list of disclosures required by RDR, contained in a single document, would be a useful (non-authoritative) document from the AASB. While this would create a checklist, and would contradict recent changes to move away from a checklist approach, I think it would be particularly useful for entities moving from special purpose to general purpose RDR. I was not able to locate such a list published by large accounting firms.