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Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007Via Email: standard@asb.gov.au

Dear Chair,

Submission on Exposure Drafts ED 295 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities and ED 297 Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities

Thank you for the opportunity to provide a submission on the Exposure Drafts (EDs) *ED 295 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* and *ED 297 Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*.

We understand that the key points of the EDs are to

- Increase comparability between similar companies on a national and international level in mandating full recognition and measurement requirements under Australian Accounting Standards;
- Remove the ability of certain for-profit private sector entities to self-assess their financial reporting requirements and prepare Special Purpose Financial Statements (SPFS); and
- Provide General Purpose Financial Statements (GPFS) Tier 2 requirements for those for-profit entities currently preparing GPFS 'Reduced Disclosures' and SPFS.

In our view, certain aspects of the proposed EDs would contradict the stated Commonwealth Treasury purpose to '*ensure financial reporting obligations and associated costs are not imposed on smaller businesses*'¹. We do not support the removal of SPFS as an option for financial reporting as it will significantly increase the reporting and auditing costs for a large number of preparers of financial statements, without a material benefit to the user of those financials.

However, should the AASB proceed with the adoption of the draft standards, we provide the following feedback on the draft proposal:

- **Inconsistent disclosure requirements for Trusts depending on when their constituting document was created or amended:** Exemption in BC84 no6 of ED 297 for entities who are only required to prepare financial statements as a consequence of terms in their constituting document where that is not created or amended this before 1 July 2020. This will lead to a permanent inconsistency in disclosure

¹ <https://treasury.gov.au/small-business/frt/factsheet>

requirements based on the date when they created or amended their constituting document. This is inconsistent with the AASB's purpose to improve consistency, comparability and transparency of financial reports. We suggest that this exemption be replaced with a general transition period. Please refer to our detailed response to question 1(b) of ED 297.

- Small proprietary companies holding AFSL:** These entities only prepare financial statements for the purpose of lodging an ASIC FS70 form. There is an inconsistency between the disclosure requirements of the Corporations Act 2001 (only profit and loss and balance sheet required), ASIC FS70 form (currently SPFS is sufficient) and the proposed disclosure in ED 295 (full notes to the financial statements). We respectfully submit that if there is a desire to change the reporting requirements relating to AFSL license holders, that this would more appropriately be effected under the AFSL licensee reporting provisions set out in the Corporations Law, rather than through the application of a change in accounting standards. Please refer to our detailed response to question 2 of ED 297.
- Inconsistent treatment between Small Pty and 'Small' trusts:** We note that the proposed reporting requirements for small proprietary companies provides relief for these entities reflective of their size. However where a similar sized entity is not covered by the Corporations Act (e.g. a trust), which provides for financial statements to be prepared under the constituting documents, the entity would be required to prepare at a higher level of disclosure, even where its size would have met the exemption provided to a small proprietary company under the *Corporations Act 2001*. This does not meet the comparability and consistency purpose and imposes additional costs of financial reporting to those entities. We suggest that AASB consider aligning the treatment of small proprietary entities and small trusts. Please refer to our detailed response to question 2 of ED 297.
- Statement of income and retained earnings:** The proposed option for certain entities not to prepare a full 'statement of changes in equity' (SOCE) will lead to inconsistent disclosure of otherwise similar entities. We propose to remove this option and make a full SOCE mandatory for all GPFS Tier 2 financial statements. Please refer to our detailed response to question 4 of ED 295.
- Income tax disclosures:** Tax disclosures in section 29 of ED 295 will require all Tier 2 entities to disclose all material income tax expense and income. For entities that form part of a tax consolidated group with existing tax funding and tax sharing agreements, this disclosure goes beyond the needs of the users of the financial statements, particularly where the head entity will provide this on a more detailed basis. Under the tax consolidation, the allocation of the asset, liabilities and expenses flow from the sharing agreements. We suggest that the standard should provide for an exemption in relation to this note for Tier 2 entities that form part of a tax consolidated group that has publicly available Tier 1 accounts. Please refer to our detailed response in question 5(a) of ED 295.

We have attached detailed responses to the AASB's questions in ED 295 and ED 297 in our appendices. Our responses are limited to for-profit private companies and we did not conduct broader academic or economic research.

We hope our comments will be of assistance to you. To discuss any aspects of this submission, please contact our Financial Reporting & Control team below.

Yours sincerely



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Acting Chief Financial Officer

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Appendix 1 – Response to ED 295 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities

Note: The below is based on the Exposure Draft (ED) as at August 2019 and references to the Basis for Conclusion (BC) refer to this version of the ED.

Specific Matters		Suncorp Response
No	AASB Question	
1	Do you agree with the overarching principles on which the proposed Simplified Disclosure Standard is based and the methodology described in paragraphs BC33-BC43 to this ED? If you disagree, please explain why.	<p>We generally agree, in particular we like to call out the following principles:</p> <ul style="list-style-type: none"> • Full Recognition & Measurement requirements for new Tier 2 (BC33) • To base the new disclosures on 'IFRS for SME' to enhance comparability (BC34) with tailoring it for the Australian specific requirements (BC35&BC36) and adding certain aspects of full IFRS (BC37) • To include disclosures for Tier 2 into a separate standard (BC41) • To retain existing presentation requirements (BC42) <p>We disagree with</p> <ul style="list-style-type: none"> • The option not to present a separate statement of changes in equity in certain instances (BC42). Please refer to question 4.
4	Do you agree with providing Tier 2 entities with an option of not having to prepare a separate statement of changes in equity as per paragraph 3.18 of AASB 10XX? If you disagree, or are concerned that this option could have unintended consequences, please explain why.	<p>We disagree. In our view it would increase comparability of Tier 2 financial statements to present full 'statement of changes in equity', with insignificant incremental costs compared with the proposed 'statement of income and retained earnings'.</p>

5	Do you agree with the other disclosures for Tier 2 entities as set out in Sections 3 to 35 of the proposed new Simplified Disclosure Standard that have been identified by applying the proposed methodology and principles? If you disagree with the outcome, please identify, with reasons:	We therefore propose to remove the option to prepare a 'Statement of income and retained earnings' as per paragraph 3.18, paragraphs 6.4 and 6.5.
(a)	which of the disclosures proposed should not be required for Tier 2 entities; and	<p>Section 29 Income tax: We disagree that this disclosure should be mandatory for Tier 2 entities that form part of a tax consolidated group for the following reasons:</p> <ol style="list-style-type: none"> 1. The head entity of a tax consolidated group prepares tax disclosures as part of their Tier 1 or Tier 2 financial statements that go beyond the scope of section 29 of this ED and the disclosure by the head entity, where that company has public Tier 1 accounts, provides sufficient detail where the head entity is public. 2. Where the head entity is a public company or other Tier 1 company it is expected that it will already be subject to a high level of scrutiny by the Australian Tax Office (ATO) and thus it is expected that some assurance is provided to users through this process 3. The consolidated group financial statements, including the tax disclosures, of public companies which are head entities are generally subject to external audit and accordingly users should have a sufficient level of comfort with more simplified disclosures at the small subsidiary level 4. Entities that are part of a tax consolidated group will have tax sharing and tax funding agreements in place. <p>For users of Tier 2 financial statements concerned with cash flow, the tax liabilities and assets and tax expenses recognition provide sufficient comparability of financial reports and is therefore in line with the AASB's purpose. As tax notes are complex, the retention of this in the Tier 2 disclosure for a member of a consolidated group unnecessarily increases the preparation and auditing costs for those entities that are part of a tax consolidated group, without providing additional benefits to the reader of the financial statements.</p> <p>Based on the above, we submit that sufficient detail and disclosures are provided to the relevant stakeholders.</p>

		<p>We submit that the following may be added to paragraph 29:</p> <p><i>"29. x An entity that forms part of a tax consolidated group domiciled in Australia and that has tax sharing and/or tax funding arrangements in place with the head entity preparing Tier 1 statements shall disclose this fact and will be exempt from the disclosures in paragraph 29.39 and 29.40."</i></p>
(b)	which disclosures not proposed in this ED should be required for Tier 2 entities.	Nil.
General Matters		
14	Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Financial Statistics (GFS) implications?	Small proprietary companies holding an AFSL would have to comply with all disclosure requirements mentioned in ED 295. We refer to our detailed response in ED 297 question 2.
16	Whether the proposals are in the best interests of the Australian economy?	The proposed disclosures in ED 295 will generally increase the disclosure requirements, especially for entities currently preparing SPFS. Depending of the nature of the business of the individual entity, we estimate the ongoing preparation and auditing costs will increase between 5% (for entities currently preparing GPFS Tier 2 RDR) and 20% (small proprietary companies holding AFSL).

Appendix 2 – Response to ED 297 Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities

Note: The below is based on the Exposure Draft (ED) as at August 2019 and references to the Basis for Conclusion (BC) refer to this version of the ED.

Specific Matters		Suncorp response
No	AASB question	
1	The proposed amendments identify the for-profit entities required to comply with Australian Accounting Standards (or accounting standards) that would no longer have the ability to prepare SPFS. Do you agree that:	
(a)	the amendments set out in this ED effectively remove the ability to prepare SPFS for the for-profit entities identified in AASB 1057 Application of Australian Accounting Standards as entities for which the reporting entity definition is not relevant (also identified in paragraph Aus1.1 of the Conceptual Framework for Financial Reporting)? If not, please provide your reasons.	<p>We disagree. In our view, the removal of SPFS would unnecessarily increase the preparation and auditing costs for the preparers of financial statements outweighing its benefits of higher comparability and transparency.</p> <p>In our view, there will be two types of entities that will be especially burdened by the increase in preparation and auditing costs:</p> <ol style="list-style-type: none"> 1. Small proprietary companies holding an AFSL; and 2. Trusts that prepare financial statements under Australian accounting standards and would fit the Corporations Act definition of a small proprietary or those that create or amend their constituting document after 1 July 2020. <p>An opportunity to remove themselves from the scope of this ED, trusts could change their constituting document to only comply with 'accounting standards' rather than 'Australian accounting standards' (AAS). This is not in the best interest of the users of the financial reports.</p> <p>In addition, there is not sufficient guidance provided to distinguish between AAS and 'accounting standards'. There will be instances, where the constituting document refers to 'accounting standards', but implicitly expects to prepare financial statements that comply with AAS.</p> <p>Please refer to our answers below for further details.</p>
(b)	as an exception, other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with AAS should retain the ability to prepare SPFS, provided that the	<p>Entities only required by their constituting document to prepare financial statements under Australian Accounting Standards are currently only in scope if they have created or amended their constituting document on or after 1 July 2020 (BC84 No6). Existing entities</p>

	<p>relevant document was not created or amended on or after 1 July 2020? If not, please provide your reasons (see paragraphs BC73-BC83).</p>	<p>that have not amended their constituting document on or after 1 July 2020 are not in scope.</p> <p>This would lead to different financial reporting requirements for otherwise identical entities, depending on the date their constituting document has been amended.</p> <p>In our view, this is inconsistent with the AASB's purpose to improve consistency and comparability of financial reports.</p> <p>In the event that the AASB proceeds with its current ED, we submit that a better test of "in scope/out of scope" would be to align with the exemptions available for small proprietary companies.</p> <p>In addition, we submit that a 3-year transition period would be more appropriate to assist the impacted entities to change their accounting and reporting systems, while at the same time ensuring that consistency and comparability of financial reports will be achieved, once the transition period is completed.</p> <p>Thus, we suggest the removal of the exemption for entities that only prepare financial statements based on their constituting document (BC84 No6) and replace this with a 3-year transition period to exempt those entities from preparing Tier 2 'Simplified Disclosures' in the interim.</p>
(c)	<p>for-profit public sector entities should also retain the ability to prepare SPFS as discussions about the public sector reporting framework are continuing? If not, please provide your reasons.</p>	<p>Our analysis did not include public sector entities and therefore we will not express an opinion.</p>
2	<p>Have you identified any arguments additional to those addressed in the Basis for Conclusions or unintended consequences that should be considered by the AASB in determining whether the ability to prepare SPFS should be removed from certain for-profit private sector entities as set out in this ED?</p>	<p>A) Impact on Small proprietary companies holding an AFSL</p> <p>BC61 outlines the entities in scope for this ED. In our view, this scope has consequences for small proprietary companies that currently prepare SPFS for the purpose of holding an AFSL. In our view there is discrepancy between the requirements by ASIC, the <i>Corporations Act 2001</i> and the proposed EDs.</p> <ol style="list-style-type: none"> 1. ASIC FS70 form requires AFSL entities to submit a profit and loss statement, balance sheet and notes to the financial statements. The extent of notes provides as part of the SPFS is currently sufficient to meet this requirement. 2. Section 989B of the <i>Corporations Act 2001</i> requires AFSL entities to only prepare profit and loss statement and balance sheet, without mentioning accompanying notes.

3. ED 297 in combination with ED 295 would require all AFSL entities, irrespective of the size and legal form to prepare Tier 2 'Simplified Disclosures'

ED 297, in combination with ED 295, would result in small proprietary AFSL entities to prepare GPFS Tier 2 financial statements for the purpose of completing the ASIC FS70 form.

Preparing a full financial report under Tier 2 'Simplified Disclosures' will add significant preparation and auditing costs for small proprietary AFSL entities.

In the event that the AASB proceeds with its current ED, we recommend to the AASB to clarify with ASIC the reporting requirements for small proprietary AFSL entities as we see a discrepancy between the disclosure requirements of the ASIC FS70 form, section 989B *Corporations Act 2001* and the proposed Tier 2 'Simplified Disclosures'.

We suggest that if the intention is to increase the reporting obligations attaching to an AFSL licence that the appropriate place for this to be reflected is within the Corporations Act via an amendment and not indirectly via the application of the new standard.

In our view, the existing SPFS regime in combination with ASIC Regulatory Guidance 85 ensures consistency, comparability and transparency (AASB's purpose) for small proprietary AFSL entities, while ensuring to meet the Commonwealth Treasury's goals to not impose financial reporting obligations and associated costs to small business².

B) Different treatment between Small proprietary companies and 'small' trusts

The *Corporations Act 2001* excludes small proprietary companies from the requirement to prepare financial statements unless it is controlled by a foreign company. The Commonwealth Treasury has doubled these thresholds for revenue, total assets and full-term employees for financial years starting 1 July 2019 to ensure 'financial reporting obligations and associated costs are not imposed on smaller businesses'.

ED 297 consequently excludes small proprietary companies unless they are controlled by a foreign company or have crowd-sourced funding.

The new threshold however does not apply to entities that are not required by legislation, but by their constituting document, to prepare financial statements. As a result of this, trusts that would meet the size criteria for a small proprietary company would be required

² <https://treasury.gov.au/small-business/fit/factsheet>

to produce Tier 2 'Simplified Disclosures' if their constituting document is created or amended after 1 July 2020.

In our view, this is not consistent with the AASB's purpose to improve consistency, comparability and transparency of financial reports prepared in accordance with Australian Accounting Standards³.

In the event that the AASB proceeds with its current ED, we suggest that the same thresholds apply for revenue, total assets and full-term employees for all entities as currently applied to small proprietary companies.

This would remove small trusts from the scope of ED 297.

³ <https://www.aasb.gov.au/Work-In-Progress/Conceptual-Framework-and-SPFS.aspx>