ED 295 sub 17
ED 297 sub 12

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Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
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Our ref Submission ED 295 & ED 297

29 November 2019

Dear Kris

Australian Financial Reporting Framework: ED 295 & ED 297

We are pleased to have the opportunity to comment on Exposure Draft 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (ED 297) and Exposure Draft 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (ED 295).

We broadly support the proposals, as a whole, set out in both ED 297 and ED 295.

We support the removal of the ability to prepare special purpose financial statements for those entities specified in ED 297. We agree that removing the ability for entities to self-assess their reporting entity status when, prima facie, they have economic significance is an appropriate step to increasing transparency and consistency in the Australian financial reporting framework for those entities required by legislation or a constituting document to prepare financial statements in accordance with Australian Accounting Standards (AAS).

We generally support the related project of finding an appropriate balance and framework for disclosures for entities that are not publicly accountable – Tier 2 entities. Using the *IFRS for SMEs* Standard as the starting point for Tier 2 disclosures, whilst not precise, is consistent with the Financial Reporting Council's requirement of international consistency. In an ideal world, Australia would leverage the current International Accounting Standards Board (IASB) project on *Subsidiaries that are SMEs* that is proposing to permit subsidiaries that are SMEs to apply the recognition and measurement requirements of IFRS Standards with the disclosure requirements of the *IFRS for SMEs* Standard. However, given this project is in early stages of progress, we agree that the AASB should not delay its considerations. ED 295 is therefore, an appropriate starting point albeit that this may change within the next five years given the aforementioned IASB project. We are aware that the AASB is determined to influence the IASB project, and we encourage the AASB to heavily participate in this international project.

We broadly support the proposals contained in ED 295. There are differing views around the level of disclosures required by the proposals – however we do acknowledge that it is a reduction from the current Tier 2 (Reduced disclosure requirements). On balance, in considering the cost/benefit, we would support the approach to base the types of disclosures on the *IFRS for SME's* Standard, along with the criteria listed in ED 295.BC37.

We would encourage the AASB in its plan to educate stakeholders (including regulators and legal advisors) on the impact of the proposals contained in the two Exposure Drafts. In particular, on the issue of when users of financial statements do not require GPFS and how an entity may go about identifying and defining their own particular financial reporting framework. Ideally this education process should also consider the requirements for such information to be audited or have a compilation report attached.

Please refer to the Appendices 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 1 – ED 297

Specific matters for comment

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.

We agree that the amendments effectively remove the ability to prepare SPFS for the for-profit entities identified in AASB 1057 as entities for which the reporting entity definition is not relevant.

(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 relevant document was not created or amended on or after 1 July 2020? If not, please provide your reasons (see paragraphs BC73-BC83).

We agree with the above exception. We recommend that the AASB consider a sunset date on this exception, for example a period of five years. In our experience, keeping track of these type of exceptions can be challenging, particularly as time passes, and including a sunset date will reduce this complexity.

We would recommend that the AASB provides some guidance/comment on the meaning of 'amended'. Is the intention to catch all changes to the legal document or only those changes that have some form of significance? In our discussions with clients this issue has been raised a number of times. From our perspective, any time that the 'owners' need to agree on the change to the constituting document then this could be considered as in substance 'amendment'.

(c) 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.

We agree with for-profit public sector entities retaining this ability until such time as the public sector reporting framework is resolved given this project is active.

2 ***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?***

We have not identified any additional arguments to those already addressed or untended consequences requiring consideration by the AASB.

3 ***Do you agree that:***

(a) for-profit private sector entities that are neither required by legislation to prepare financial statements that comply with AAS or accounting standards nor required by a document (created or amended on or after 1 July 2020) to prepare financial statements that comply with AAS; and

(b) for-profit public sector entities;

should be able to voluntarily prepare GPFS and in doing so apply either the Conceptual Framework for Financial Reporting or the Framework for the Preparation and Presentation of Financial Statements? Please provide your reasons, including whether there are any adverse or unintended consequences that should be considered by the AASB in determining whether the Framework for the Preparation and Presentation of Financial Statements should not be permitted to be applied in these circumstances.

Yes, entities should be able to voluntary prepare GPFS – but they should not have a choice of Frameworks.

Consistent with the discussion in ITC 39, in our view, moving towards one Framework for all entities is the best outcome in promoting the objectives of financial reporting when preparing GPFS – consistent, comparable, transparent and enforceable.

Representing financial statements as general purpose should have a consistent meaning across all entities.

4 ***Do you agree that entities that are not explicitly required to comply with accounting standards, but are required by legislation or otherwise to provide financial statements or financial information that gives a true and fair view, should not be covered by these proposals? If not, please provide your reasons (see paragraphs BC68-BC69).***

We agree that such entities should not be covered by these proposals – this should be a matter for the respective regulators of the applicable legislation.

In practice, however, we expect that where financial statements or financial information is required to give a true and fair view that reference to AAS will be needed to make that judgement relating to the true and fair view.

5 ***Do you agree with the proposal to amend AASB 1 to provide optional relief from the restatement of comparative information in the year of transition from SPFS to GPFS Tier 2 (see paragraphs BC112-BC122)? If not, please provide reasons. If yes, do you agree with the proposed disclosures in relation to the comparative period (see paragraph AusE8.4 for AASB 1 on page 20)? If not, please provide your reasons. Please consider these matters in conjunction with the AASB's proposals regarding a revised Tier 2 disclosure framework as set out in ED 295.***

We agree with the proposal to amend AASB 1 to provide optional relief from the restatement of comparative information in the year of transition from SPFS to GPFS Tier 2. We also agree with the proposed disclosures in relation to the comparative period.

In addition will also note the following specific comments:

- We question why this relief is only available for reporting periods beginning on or after 1 July 2020 but before 1 July 2021. The relief should effectively apply on an ongoing basis, i.e. after 1 July 2021, for any entity transitioning from SPFS to GPFS. We support this for the same reasons as set out in the basis of conclusions for entities that transition at 1 July 2020.
- In relation to the comparatives for the statement of financial position we would recommend that the notes include a reconciliation between the closing SPFS balances and the opening GPFS balances. Unlike with the profit and loss and other comprehensive income the financial position information will be readily available.

  Based on previous experience with entities transitioning to IFRS compliance it is our view that this reconciliation is a good basis for providing financial statement users with an understanding of the extent and 'completeness' of the accounting changes required as part of the transition.
- Transitional relief from restating comparatives should also be extended to entities that already comply with all recognition and measurement (R&M) requirements (including consolidation and/or equity accounting) in their previous SPFS. There will/could be additional disclosures that are now required for the first time – for example related party and income tax disclosures.

  Conceptually it is difficult to understand why relief would be available for entities that have not complied with all R&M requirements in their previous SPFS – but similar relief is not available for those entities who have complied with all R&M requirements in their previous SPFS.

6 ***Do you agree that additional transition relief is not required (see paragraphs BC112-BC122)? If not, what transition relief should be provided and what are your reasons?***

We agree that additional transition relief is not required.

7 ***Do you agree with the proposal to amend AASB 1053 requirements for the first-time adoption of Tier 2 reporting requirements relating to whether a parent entity has complied with AASB 10 Consolidated Financial Statements in its previous SPFS (see paragraphs BC123-BC125)? If not, please provide your reasons. If non-compliance with AASB 10 was the only departure from AAS in the previous SPFS, should an entity be permitted to apply AASB 1, which could allow the restatement of amounts under various transition relief options?***

We agree with the proposal to amend AASB 1053 requirements for the first-time adoption of Tier 2 reporting requirements relating to whether a parent entity has complied with AASB 10 *Consolidated Financial Statements* in its previous SPFS.

Given that RG 85 *Reporting requirements for non-reporting entities* allows for non-application of AASB 10 if the parent and the group are not reporting entities, we consider that if non-compliance with AASB 10 was the only departure from AAS in the previous SPFS, that entity should be permitted to apply the relief options available under AASB 1.

8 ***Do you agree with the proposed effective date of annual reporting periods beginning on or after 1 July 2020 (see paragraphs BC126-BC129), with earlier application permitted? If not, please provide your reasons.***

We agree with the proposed effective date of annual reporting periods beginning on or after 1 July 2020.

General matters for comment

9 ***Whether The AASB's For-Profit Standard-Setting Framework has been applied appropriately in developing the proposals in this ED?***

We agree the process in issuing the exposure draft is consistent with the AASB For-Profit Standard-Setting Framework.

10 ***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 specific regulatory or other issues arising in the Australian environment.

11 ***Whether, overall, the proposals would result in financial statements that would be useful to users?***

Overall, in our view, the proposals would enhance consistency, comparability, transparency in financial reporting. We agree the proposals would result in financial statements that would be useful to users.

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

We do not have any specific comments on whether the proposals are in the best interest of the Australian economy.

13 ***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 do not have any specific additional comments on the costs and benefits of the proposals.

Appendix 2 – ED 295

Specific matters for comment

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.

We agree with the overarching principles on which the proposed *Simplified Disclosures Standard* is based and the methodology described.

2 Do you agree that these proposals should replace the current RDR framework? If you disagree, please explain why.

We agree that the proposals in ED 295 should replace the current RDR framework.

3 Do you agree with the following key decisions made and judgements exercised by the AASB in drafting the proposed Simplified Disclosure Standard in relation to:

(a) the replacement of AASB 7 Financial Instruments: Disclosures, AASB 12 Disclosure of Interests in Other Entities, AASB 101 Presentation of Financial Statements, AASB 107 Statement of Cash Flows and AASB 124 Related Party Disclosures and in their entirety as explained in BC46?

Whilst we see the logic in replacing the abovementioned Australian Accounting Standards (AAS) in their entirety, we have some concerns. In particular, we do not agree with the replacement of AASB 101 and AASB 107 in their entirety. These two AAS include paragraphs containing helpful requirements and guidance – relating to the required disclosures – that as a result of being replaced in their entirety is lost.

Our experience with entities that are small to medium in size, is that preparers need and want the additional guidance to assist in appropriately meeting the disclosure requirements. The type of additional guidance provided by the paragraphs that are omitted due to replacement of these AAS in their entirety in the proposed *Simplified Disclosure Standard* is the type of guidance that such preparers seek. Despite the Basis of Conclusions stating that "*the Board does not intend the removal of the guidance to result in any differences in the presentation requirements to full AAS*" [BC42, BC47], the exclusion of this additional guidance we believe, will lead to a higher likelihood of this occurring.

(b) adding, removing or amending disclosures, for example the disclosures for lessees, revenue, borrowing costs, revalued property, plant and equipment (PPE) and intangible assets as explained in BC46-BC62?

We broadly agree with the adding, removing and amending of disclosures. Please refer to our detailed comments on each Section in **Appendix 3**.

(c) the inclusion of the audit fees disclosures from AASB 1054 Australian Additional Disclosures for the reasons set out in BC62?

We agree with the inclusion of the audit fees disclosures from AASB 1054 *Australian Additional Disclosures*.

(d) not including certain Australian Accounting Standards and Interpretations in this Simplified Disclosure Standard as explained in BC63-BC65?

We agree with not including the certain Australian Accounting Standards and Interpretations in the *Simplified Disclosure Standard* as explained in BC63-BC65.

(e) retaining the disclosures [as set out in ED 295 pages 7 and 8] from the IFRS for SMEs Standard that are not currently required under RDR framework or full AAS (see BC59 for explanations).

In general we support the principal of basing the Tier 2 disclosures on the *IFRS for SMEs* Standard. As such we support the retention of the listed disclosures with the following comments:

- Section 11 does not require liquidity type disclosures (including maturity analysis) but there is a requirement for lessees to provide a maturity analysis of future lease payments. This inconsistency needs to be resolved. We note that users of financial statements have expressed a view that they have a particular interest in information about the liquidity and solvency of an entity.
- Refer to our earlier comments in question 5 of **Appendix 1** around entities that transition from SPFS to Tier 2 GPFS.

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.

We 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. However, as the option is only available for certain limited circumstances, there are concerns that an entity may flip from meeting the required condition from reporting period to reporting period, and therefore change its approach year on year leading to a higher risk of non-compliance.

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:
(a) which of the disclosures proposed should not be required for Tier 2 entities; and
(b) which disclosures not proposed in this ED should be required for Tier 2 entities.

On the whole we agree with the other disclosures for Tier 2 entities that have been identified by applying the proposed methodology and principles, but have noted some disclosures where we disagree. Please refer to our analysis of each Section in **Appendix 3**.

6 Do you agree that the proposed Simplified Disclosure Standard should also be made available to NFP private sector entities and all public sector entities that can apply Tier 2 reporting requirements as set out in AASB 1053? If you disagree, please explain why.

We agree that the proposed *Simplified Disclosure Standard* should also be made available (emphasis added) to NFP private sector entities and all public sector entities that can apply Tier 2 reporting requirements as set out in AASB 1053. Making the *Simplified Disclosure Standard* available to such entities is consistent with the AASB's sector neutral approach.

7 Do you agree:
(a) with the principles applied to identify the additional disclosures for NFP private sector and public sector Tier 2 entities (as explained in paragraph BC45)? If you disagree, please explain why.

We agree with the principles applied to identify the additional disclosures for NFP private sector and public sector Tier 2 entities.

(b) that previous decisions made under the RDR Framework in relation to the cost vs the benefits of these disclosures do not need to be revisited (as explained in BC68.) If you disagree, please explain why.

We do not have any specific comments on whether the previous decisions made under the RDR Framework in relation to the cost vs the benefits of these disclosures need not be revisited. Given the expectation is that the disclosures will generally further reduce, we would expect that any previous decisions around this aspect would remain relevant.

8 ***Do you agree with the disclosures identified for NFP private sector and public sector Tier 2 entities in this Simplified Disclosure Standard? If you disagree, please identify, with reasons:***
(a) which of the disclosures proposed should not be required for NFP private sector and public sector Tier 2 entities; and
(b) which disclosures not proposed in the ED should be required for NFP private sector and public sector Tier 2 entities.

We agree with the disclosures identified for NFP private sector and public sector Tier 2 entities in the *Simplified Disclosure Standard.*

9 ***Do you agree with using the proposed title of AASB 10XX Simplified Disclosures for Tier 2 Entities? If you disagree, please explain why.***

We agree with the proposed title.

10 ***Do you agree with the approach taken in this ED to include all the disclosure requirements for Tier 2 entities in one stand-alone standard (as explained in BC41)? If you disagree, please explain why.***

Subject to our comments in question 3(a) above, we agree with the approach taken to include all the disclosure requirements for Tier 2 entities in one stand-alone standard.

11 ***Do you agree that, once approved, the amended Tier 2 disclosure requirements should be effective for annual periods beginning on or after 1 July 2020 with early application permitted (as explained in BC78-BC80)?***

We agree with the effective date of the proposed standard.

12 ***Do you agree with the transitional requirements proposed in this ED (as explained in BC72-BC77)? If you disagree, please explain why.***

We generally agree – subject to our earlier comments in question 5 of **Appendix 1** around entities that transition from SPFS to Tier 2 GPFS.

General matters for comment

13 ***Whether The AASB's For-Profit Standard-Setting Framework and Not-for-Profit Standard-Setting Framework have been applied appropriately in developing the proposals in this ED?***

We agree the process in issuing the exposure draft is consistent with the AASB For-Profit Standard-Setting Framework and the Not-for-Profit Standard Setting Framework.

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?***

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

15 ***Whether, overall, the proposals would result in financial statements that would be useful to users?***

Overall, in our view, the proposals would enhance consistency, comparability, transparency in financial reporting. We agree the proposals would result in financial statements that would be useful to users.

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

We do not have any specific comments on whether the proposals are in the best interest of the Australian economy.

17 ***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 do not have any specific additional comments on the costs and benefits of the proposals.

Appendix 3 – ED 295 – Comments on disclosures

Specific matters for comment

The following are comments on the disclosures required in Sections 3 through 36 contained in ED 295. The comments are made in the following contexts – note the colour coding of the comments on the following pages:

Recommended change to the proposals in ED 295.
Suggested amendments if recommendation in **Appendix 2**, question 3(a) is not actioned.
Suggested that these comments are not a current change to the proposals in ED 295 – given we concur with using *IFRS for SMEs* Standard as the current starting point 9along with all the criteria listed in ED 295.BC37. However, as the AASB participates in future IASB projects around SME reporting, we would support our comments being considered as part of that international process.

Section	Topic	KPMG comments
Financial Statement Presentation (Section 3)	Accrual basis of accounting	We note that paragraph 27 of AASB 101 *Presentation of Financial Statements* requires that "*An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.*" We note that a requirement to prepare financial statements on an accrual basis is otherwise not mentioned in the *Simplified Disclosure Standard*. We therefore suggest that this requirement should be included in the *Simplified Disclosures Standard*.
Statement of Financial Position (Section 4)	Par value per share	Paragraph 12 of Section 4 requires that "*An entity with share capital shall disclose the following, either in the statement of financial position or in the notes:* *(iii) par value per share or that the shares have no par value.*" We suggest deleting this disclosure given that the concept of par value is not relevant in Australia.
	Different measurement bases for different classes of assets	Paragraph 59 of AASB 101 requires that "*The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that an entity presents them as separate line items. For example, different classes of property, plant and equipment can be carried at cost or at revalued amounts in accordance with AASB 116.*" We recommend adding this disclosure to the *Simplified Disclosures Standard* as this is useful guidance for preparers of financial statements.
	Amount expected to be recovered or settled after more than 12 months	Paragraph 61 of AASB 101 requires that "*Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:* *(a) no more than twelve months after the reporting period, and* *(b) more than twelve months after the reporting period.*" We recommend adding this disclosure to the *Simplified Disclosures Standard*. This is useful information for the users of the financial statements.

Section	Topic	KPMG comments
Statement of Financial Position (Section 4)	Maturity profile of financial assets and liabilities	Paragraph 65 of AASB 101 requires that "*Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. AASB 7 Financial Instruments: Disclosures requires disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery of non-monetary assets such as inventories and expected date of settlement for liabilities such as provisions is also useful, whether assets and liabilities are classified as current or as non-current. For example, an entity discloses the amount of inventories that are expected to be recovered more than twelve months after the reporting period.*" We question why the above disclosure requirement has not been included in the *Simplified Disclosures Standard*. We believe that including this requirement would also be consistent with similar disclosure requirement proposed in paragraph 13(b) of Section 20 for future lease payments in respect of leases. This issue is also discussed in **Appendix 2**, question 3(e).
Statement of Comprehensive Income and Income Statement (Section 5)	Material items of income or expense	We note that paragraph 97 of AASB 101 requires that "*When items of income or expense are material, an entity shall disclose their nature and amount separately.*" We suggest that this disclosure requirement should be included in the *Simplified Disclosures Standard*. Based on discussion with some of our clients they consistently noted the importance of this information for users of the financial statements. They accepted that they can always include additional information in the notes to their financial statements – but consider that including a requirement will assist in promoting consistency and transparency in reporting financial information.
Statement of Cash Flows (Section 7)	Cash equivalents	In respect of what constitutes cash equivalents, we recommend that the level of detailed disclosures as required by paragraph 7-8 of AASB 107 *Statement of Cash Flows* should be included in the *Simplified Disclosures Standard*. Otherwise, it may result in a diversity in practice between Tier 1 and Tier 2 as to what constitutes cash equivalents.

Section	Topic	KPMG comments
Statement of Cash Flows (Section 7)	Cash	We recommend including the definition of cash in paragraph 6 of AASB 107 as we believe it is quite benign.
	Presentation of a statement of cash flows	Paragraph 12 of AASB 107 requires that "*A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element is classified as a financing activity.*" We believe that this disclosure requirement should be included as it is helpful guidance for preparers of entities that are not publicly accountable.
	Investing activities	Paragraph 16 of AASB 107 requires that "*Only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities.*" We recommend that this guidance should be included in the *Simplified Disclosures Standard* because it would be helpful for the users of financial statements.
	Investments in subsidiaries, associates and joint ventures	In respect of investment in subsidiaries, associates and joint ventures, we recommend that the level of detailed disclosures as provided in paragraph 37-38 of AASB 107 should be included in the *Simplified Disclosures Standard* as they provide useful information to the users of the financial statements.
	Changes in ownership interests in subsidiaries and other businesses	Paragraph 42 of AASB 107 requires that "*The aggregate amount of the cash paid or received as consideration for obtaining or losing control of subsidiaries or other businesses is reported in the statement of cash flows net of cash and cash equivalents acquired or disposed of as part of such transactions, events or changes in circumstances.*" We recommend that this disclosure should be included in the *Simplified Disclosures Standard* as it provides useful information to the users of the financial statements.

Section	Topic	KPMG comments
Notes to the Financial Statements (Section 8)	Basis of preparation	Paragraph Aus8.4.1 in the *Simplified Disclosures Standard* requires that "*An entity may present notes providing information about the basis of preparation of the financial statements and specific accounting policies as a separate section of the financial statements.*" We question whether this specific requirement is needed in the *Simplified Disclosures Standard* given the recent trend of reorganisation/streamlining of notes in the financial statements for both GPFS Tier 1 and Tier 2 reporting entities.
Accounting Policies, Estimates and Errors (Section 10)	Initial application of AAS	We note that paragraph 28(a) of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires that "*When initial application of an Australian Accounting Standard has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:* *(a) the title of the Australian Accounting Standard;…*" In our view SME reporting would benefit from the inclusion of an equivalent disclosure – in light of the criteria listed in ED 295.BC37.
Basic Financial Instruments Disclosures (Section 11)	Reclassification of financial assets	We note that paragraph 12B of AASB 7 *Financial Instruments: Disclosures* requires that "*An entity shall disclose if, in the current or previous reporting periods, it has reclassified any financial assets in accordance with paragraph 4.4.1 of AASB 9. For each such event, an entity shall disclose:* *(a) the date of reclassification;* *(b) a detailed explanation of the change in business model and a qualitative description of its effect on the entity's financial statements.* *(c) the amount reclassified into and out of each category.*" In our view SME reporting would benefit from the inclusion of an equivalent disclosure – in light of the criteria listed in ED 295.BC37. The disclosure is important to understand the classification (and changes in the classification) of financial assets which is expected to be a rare and significant event.

Section	Topic	KPMG comments
Basic Financial Instruments Disclosures (Section 11)	Defaults and breaches	Paragraph 19 of AASB 7 requires that "*If, during the period, there were breaches of loan agreement terms other than those described in paragraph 18, an entity shall disclose the same information as required by paragraph 18 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the end of the reporting period).*" Given a disclosure is required for defaults and breaches as per paragraph 47 of Section 11 in the *Simplified Disclosures Standard*, it is not clear to us why a related disclosure required by paragraph 19 of AASB 7 has been excluded.
	Liquidity risk	Paragraph 39 of AASB 7 requires an to disclosure: "*(a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.* *(b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (see paragraph B11B).*" We question why this disclosure has been excluded from the *Simplified Disclosures Standard* as inclusion of liquidity risk information would appear to be consistent with the AASB's objective in developing ED 295 – specifically the objective around provision of information about liquidity and solvency. In addition refer to **Appendix 2**, question 3(e) and our comments on future lease payment maturity disclosures.

Section	Topic	KPMG comments
Inventories (Section 13)	Reversal of a write-down of inventories	Paragraph 36 of AASB 102 *Inventories* requires that "*The financial statements shall disclose:* *(g) the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 34; and* *(f) the circumstances or events that led to the reversal of a write-down of inventories held for distribution in accordance with paragraph Aus34.1;*" In our view SME reporting would benefit from the inclusion of an equivalent disclosure. The disclosure is important to provide an explanation of why there is a write down or reversal of inventory. This is useful information for the users of the financial statements.
	Classifications of inventories	Paragraph 37 of AASB 102 requires "*Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work in progress and finished goods.*" In our view SME reporting would benefit from the inclusion of an equivalent disclosure– in light of the criteria listed in ED 295.BC37. The disclosure is key for some entities in understanding where inventory is in the production cycle.
Investments in Joint Ventures (Section 15)	Risks associated with an entity's interests in joint ventures and associates	Paragraph of 19 (d) of Section 15 requires that "*an entity shall disclose the aggregate amount of its commitments relating to joint ventures, including its share in the capital commitments that have been incurred jointly with other venturers, as well as its share of the capital commitments of the joint ventures themselves.*" We note that there is no similar disclosure requirement in Section 14. An entity applies equity method in accounting for both investments in joint ventures and associates. We therefore question why there is a difference in the disclosure requirements in this regard.

Section	Topic	KPMG comments
Intangible Assets other than Goodwill (Section 18)	Intangible assets acquired by way of a government grant	In respect of intangible assets acquired by way of a government grant, we recommend adding an additional disclosure on whether such intangible assets are measured under the cost model or the revaluation model [AASB 138.122(c)(iii)]. In our view SME reporting would benefit from the inclusion of an equivalent disclosure. The disclosure would help clarify the go forward accounting policy for such assets given there is an accounting policy choice of cost or fair value.
	Revaluation of intangible assets	Given ED 295 includes specific disclosure requirements when there is a revaluation of intangible assets in section Aus18.29.1, we recommend that the disclosure required by AASB 138.124(a)(ii) regarding carrying amount of revalued assets be included for consistency purposes.
Business Combinations and Goodwill (Section 19)	Contingent consideration	For each business combination that occurred during the year, paragraph B64(g) of AASB 3 *Business Combinations* requires an entity to disclosure "*for contingent consideration arrangements and indemnification assets:* *(i) the amount recognised as of the acquisition date;* *(ii) a description of the arrangement and the basis for determining the amount of the payment; and* *(iii) an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.*" In our view SME reporting would benefit from the inclusion of an equivalent disclosure– in light of the criteria listed in ED 295.BC37. Contingent consideration can be a significant payment in a business combination.

Section	Topic	KPMG comments
Business Combinations and Goodwill (Section 19)	Valuation techniques and significant inputs to measure NCI	For each business combination that occurred during the year, paragraph B64(o)(ii) of AASB 3 requires an entity to disclose the valuation technique(s) and significant inputs used to measure that value for each non-controlling interest in an acquiree measured at fair value. In our view SME reporting would benefit from the inclusion of an equivalent disclosure – in light of the criteria listed in ED 295.BC37. The disclosure is important to understand the basis on which amounts have been included.
	Business combination achieved in stages	For each business combination that occurred during the year, paragraph B64(p) of AASB 3 requires an entity to disclose "*in a business combination achieved in stages:* *(i) the acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition date; and* *(ii) the amount of any gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the business combination (see paragraph 42) and the line item in the statement of comprehensive income in which that gain or loss is recognised.*" In our view SME reporting would benefit from the inclusion of an equivalent disclosure – in light of the criteria listed in ED 295.BC37. The disclosure provides important information to the users of financial statements to help understand any significant gains recognised in the statement of comprehensive income.
	Provisional accounting for business combinations	Paragraph B67(a) of AASB 3 requires following disclosures if the initial accounting for a business combination is incomplete: "*(i) the reasons why the initial accounting for the business combination is incomplete;* *(iii) the nature and amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph 49.*" In our view SME reporting would benefit from the inclusion of an equivalent disclosure – in light of the criteria listed in ED 295.BC37. The disclosure highlights that business combination is not complete and amounts recognised on provisional basis and maybe adjusted during the 12 month measurement period.

Section	Topic	KPMG comments
Provisions and Contingencies (Section 21)	Link between a provision and a contingent liability	We note that paragraph 88 of AASB 137 requires that "*where a provision and a contingent liability arise from the same set of circumstances, an entity makes the disclosures required by paragraphs 84–86 in a way that shows the link between the provision and the contingent liability.*" In our view SME reporting would benefit from the inclusion of an equivalent disclosure – in light of the criteria listed in ED 295.BC37. The disclosure of a link between a provision and a contingent liability will be useful for users of the financial statements.
Revenue (Section 23)	Performance obligations satisfied at a point in time	Paragraph 31 of Section 23 requires that "*An entity shall disclose the following:* *(a) the amount of contract revenue recognised as revenue in the period;* *(b) the methods used to determine the contract revenue recognised in the period; and* *(c) the methods used to determine the stage of completion of contracts in progress.*" In this regard, it is not clear to us why a disclosure is required for performance obligations satisfied over-time but not for those satisfied at a point-in-time. We suggest adding a disclosure for the point-in-time that a performance obligation is satisfied and any significant judgments in this decision.
	Balances of receivables	Paragraph 32 of Section 23 requires that "*An entity shall present:* *(a) the gross amount due from customers for contract work, as an asset; and* *(b) the gross amount due to customers for contract work, as a liability.*" In our view SME reporting would benefit from the inclusion of an equivalent disclosure.

Section	Topic	KPMG comments
Revenue (Section 23)	Significant judgement and estimates	Paragraph 123 of AASB 15 requires "*An entity shall disclose the judgements, and changes in the judgements, made in applying this Standard that significantly affect the determination of the amount and timing of revenue from contracts with customers. In particular, an entity shall explain the judgements, and changes in the judgements, used in determining both of the following:* *(a) the timing of satisfaction of performance obligations (see paragraphs 124–125); and* *(b) the transaction price and the amounts allocated to performance obligations (see paragraph 126).*" We believe that having no disclosure in the revenue section around significant judgment and estimates is inconsistent with a similar disclosure requirement in Section 36.AusNFP36.19 which picks up AASB 1058 disclosures around significant judgments. So we recommend either adding the disclosure requirement in paragraph 123 of AASB 15 in the revenue section or deleting it altogether from both the revenue and NFP disclosures section to be consistent.
	Impairment of receivables or contract assets	Paragraph 113 of AASB 15 requires that "*An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of comprehensive income in accordance with other Standards:* *(b) any impairment losses recognised (in accordance with AASB 9) on any receivables or contract assets arising from an entity's contracts with customers, which the entity shall disclose separately from impairment losses from other contracts.*" In our view SME reporting would benefit from the inclusion of an equivalent disclosure – in light of the criteria listed in ED 295.BC37. This disclosure requirement would be consistent with a similar disclosure requirement for a write-down of inventory or impairment of non-financial assets.

Section	Topic	KPMG comments
Revenue (Section 23)	Contract balances	Paragraph 117 of AASB 15 requires that "*An entity shall explain how the timing of satisfaction of its performance obligations (see paragraph 119(a)) relates to the typical timing of payment (see paragraph 119(b)) and the effect that those factors have on the contract asset and the contract liability balances. The explanation provided may use qualitative information.*" In respect of the above disclosure requirement in AASB 15, we recommend adding an explicit requirement about the impact these factors have on contract assets and contract liability balances in the *Simplified Disclosures Standard*. From our experiences with entities adopting AASB 15, many had trouble with this specific disclosure requirement. This disclosure would be useful for users to assess the liquidity and solvency of the entity.
	Determining the transaction price and the amounts allocated to performance obligations	Paragraph 126 of AASB 15 requires that "*An entity shall disclose information about the methods, inputs and assumptions used for all of the following:* *(a) determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration;* *(b) assessing whether an estimate of variable consideration is constrained.*" In our view SME reporting would benefit from the inclusion of an equivalent disclosure – in light of the criteria listed in ED 295.BC37.
	Assets recognised from the costs to obtain or fulfil a contract with a customer	Paragraphs 127 & 128 of AASB 15 requires: "127 An entity shall describe both of the following: *(a) the judgements made in determining the amount of the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraph 91 or 95);*" "*128 An entity shall disclose all of the following:* *(a) the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraph 91 or 95), by main category of asset (for example, costs to obtain contracts with customers, pre-contract costs and setup costs); and* *(b) the amount of amortisation and any impairment losses recognised in the reporting period.*" In our view SME reporting would benefit from the inclusion of an equivalent disclosure – in light of the criteria listed in ED 295.BC37.

Section	Topic	KPMG comments
Revenue (Section 23)	Practical expedients	Paragraph 129 of AASB 15 requires that "*If an entity elects to use the practical expedient in either paragraph 63 (about the existence of a significant financing component) or paragraph 94 (about the incremental costs of obtaining a contract), the entity shall disclose that fact.*" We suggest that adding the above disclosure requirement in the *Simplified Disclosures Standard* as otherwise how would users of the financial statements know if an entity is using a practical expedient.
Impairment of Assets (Section 27)	Scope	Paragraph 33 of Section 27 requires that "*An entity shall disclose the information required by paragraph 27.32 for each of the following classes of asset:* *(a) inventories*" We note that inventories are out of the scope of AASB 136 *Impairment of Assets* and *IFRS for SMEs* differs to full IFRS in this regard. We therefore recommend that this disclosure should be excluded from the *Simplified Disclosures Standard*.
	Revaluation method	We note IFRS for SMEs does not permit revaluation models – unlike full IFRS. Paragraph 126 of AASB 136 requires that "*An entity shall disclose the following for each class of assets:* *(c) the amount of impairment losses on revalued assets recognised in other comprehensive income during the period.* *(d) the amount of reversals of impairment losses on revalued assets recognised in other comprehensive income during the period.*" In our view SME reporting would benefit from the inclusion of an equivalent disclosure – in light of the criteria listed in ED 295.BC37.

Section	Topic	KPMG comments
Impairment of Assets (Section 27)	Impairment loss recognised during the period	Paragraph 130 of AASB 136 requires that "*An entity shall disclose the following for an individual asset (including goodwill) or a cash-generating unit, for which an impairment loss has been recognised or reversed during the period:* *(a) the events and circumstances that led to the recognition or reversal of the impairment loss.* *(e) the recoverable amount of the asset (cash-generating unit).*" In our view SME reporting would benefit from the inclusion of an equivalent disclosure – in light of the criteria listed in ED 295.BC37.
	Impairment loss recognised – with no disclosures as per paragraph 130	In respect of impairment loss recognised during the period for which no disclosures have been provided under paragraph 130 of AASB 136, paragraph 131 of AASB 136 requires "*An entity shall disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information is disclosed in accordance with paragraph 130:* *(b) the main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.*" In our view SME reporting would benefit from the inclusion of an equivalent disclosure – in light of the criteria listed in ED 295.BC37.
Income Tax (Section 29)	Reconciliation between tax expense and accounting profit	Paragraph 40(c) of Section 29 requires "*an explanation of any significant differences between the tax expense (income) and accounting profit multiplied by the applicable tax rate. For example such differences may arise from transactions such as revenue that are exempt from taxation or expenses that are not deductible in determining taxable profit (tax loss).*" In respect of this disclosure, we believe that an explanation for any significant differences would not be very useful to the users of the financial statements. The most common approach we see in the financial statements is a numerical reconciliation as required by paragraph 81(c)(i) of AASB 112 *Income Taxes* which may be really useful in understanding more complex tax structures and transactions. Given the debate around tax transparency in Australia the numerical reconciliation forms a key input to this process. We recommend that a requirement to provide a numerical reconciliation should be included in the *Simplified Disclosure Standard* with a statement that if the reconciling items are limited then a narrative reconciliation would suffice.

Section	Topic	KPMG comments
Income Tax (Section 29)	Offset rules for deferred tax assets and deferred tax liabilities	We question why offsetting requirements for current tax and deferred tax assets and liabilities in AASB 112 have not been included in the *Simplified Disclosures Standard*. Unless AASB is of the view that it is not a disclosure but a presentation requirement, we would recommend that all the offsetting disclosure requirements in paragraph 71-76 of AASB 112 should be included in the *Simplified Disclosures Standard*.
	Income tax consequences of dividends to shareholders	Paragraph 81(i) of AASB 112 requires disclosure of "*the amount of income tax consequences of dividends to shareholders of the entity that were proposed or declared before the financial statements were authorised for issue, but are not recognised as a liability in the financial statements*". In our view SME reporting would benefit from the inclusion of an equivalent disclosure. The disclosure would provide useful information to the users of the financial statements, including in the area of their liquidity and solvency assessments.
	Tax related contingencies	Paragraph 88 of AASB 112 requires disclosure of tax related contingencies – which are generally significant for those entities that have them. We note that Section 21.15 of the *Simplified Disclosures Standard* generally requires the disclosure of contingent liabilities. We question as to why a disclosure equivalent to paragraph 88 of AASB 112 is not included in the *Simplified Disclosures Standard.*
Related Party Disclosures (Section 33)	Transaction with related party	We question why the disclosure of paragraph 21(i) of AASB 124 *Related Party Disclosures* is not included in Section 33.12 of the *Simplified Disclosures Standard*. This disclosure includes commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised). In our view these types of transactions are at least equally likely to occur in SME type entities.

Section	Topic	KPMG comments
Transition to Australian Accounting Standards – Simplified Disclosures (Section 35)		Refer to comments in **Appendix 1**, question 5.
Additional disclosures for Not-for-Profit entities (NFP) and Public sector entities (Section 36)	Income of NFP entities	Section 36. AusNFP36.10 (in the *Simplified Disclosures Standard)* requires that an entity need not disclose information in accordance with AASB 1058 *Income of Not-for-Profit Entities* if it has provided the information in accordance with another Standard. ED 295 proposes that there will only be this one disclosure standard for Tier 2 entities. The meaning of this requirement is therefore not clear to us. We recommend that the requirement be further explained, or if not required that it be removed from the *Simplified Disclosures Standard*.
	Restrictions on use of resources	Paragraph 37 of AASB 1058 requires an entity to disclose externally imposed restrictions that limit or direct the purpose for which resources may be used by the entity. We recommend that these disclosures be made on a consistent basis in the *Simplified Disclosures Standard*. The disclosures would be useful for the financial statements users in assessing NFP entities.