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30 November 2019

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=2251>

Dear Kris

Exposure Draft 297 — Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities

I am pleased to make this submission on ED297.

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 intention of the AASB not to create a simplified reporting framework for for-profit entities, based on the following matters:

- lack of application of AASB evidence-informed approach – AASB research of overseas reporting
- lack of application of AASB evidence-informed approach – large global accounting firms support for IFRS for SMEs

I believe that this intention is not in the best interests of the Australian economy.

In relation to the specific proposals, I do not agree with:

- the mechanism for removing the grandfathering of entities without a legislative requirement
- the lack of transitional provisions for previously grandfathered entities

I discuss the above issues in more detail below.

Yours sincerely

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AASB Intention of not establishing a simplified reporting framework for for-profit entities.

Lack of application of AASB evidence-informed approach– AASB research of overseas reporting.

I note that the AASB undertook research on private sector reporting overseas¹. For each of the seven jurisdictions included in the AASB research, all had a simplified measurement and disclosure framework². I note that over 80 countries³ have adopted a simplified reporting system based on IFRS for SMEs.

I also note that there are over 2 million businesses in Australia, and that there are over 50,000 businesses with 20 or more employees⁴. Therefore, there are tens of thousands of businesses that use financial information that could benefit from a simplified measurement and disclosure framework.

As such, I believe that Australia should be consistent with the approaches adopted globally and introduce a simplified measurement and disclosure framework.

I would support a simplified measurement and disclosure framework such as the United Kingdom approach, that used IFRS for SMEs as a base.

The UK approach addresses many of the AASB's concerns about IFRS for SMEs as expressed in AASB 1053 *Application of Tiers of Australian Accounting Standards* paragraph BC73, such as including asset revaluations (subsequently included by the IASB) and including not-for-profit modifications.

The benefit of the UK approach is that the simplified measurement framework is the default framework, with full IFRS as the exception.

Simplifications in measurement that I recommend include:

- Remaining with the old AASB 117 accounting for finance and operating leases.
- Giving permanent relief from requiring peppercorn leases to be fair valued for not-for-profit entities.

Lack of application of AASB evidence-informed approach – Large global accounting firms support for IFRS for SMEs

To identify evidence of practical issues for countries dealing more than one accounting system, and in particular, IFRS for SMEs and full IFRS, the AASB should have researched the views of the larger global accounting firms.

I researched the views of the top 10 global accounting firms (as at February 2019⁵) when the IASB was establishing a simpler reporting framework for SMEs, as part of the comment letters for the 2007 Exposure Draft for IFRS for SMEs⁶. I then researched the views of those same firms after IFRS for SMEs had been in operation for approximately 2 - 3 years, when the IASB conducted its first Comprehensive Review of IFRS for SMEs in 2013.⁷

In my analysis of the various submission letters and further research, I identified that all 10 large global accounting firms gave specific support for a simplified reporting system for SMEs in one or both comment letters, or provided public support in other ways⁸.

I also identified public support for IFRS for SMEs from other large accounting firms.

My analysis is:

	2007 Exposure draft	2013 Comprehensive Review
Big 4 (alphabetical order)		
Deloitte	Submission support	Submission support
EY	Submission support	Submission support
KPMG	Submission support	Submission support
PwC	Submission support	Submission support
Remainder of top 10 (alphabetical order)		
Baker Tilly	Other support	Not located
BDO	Submission support	Submission support
Crowe Howarth	Not located	Submission support
Grant Thornton	Not located	Submission support
Nexia International	Other support	Not located
RSM	Not located	Submission support
Other – large firms		
Mazars	Submission support	Submission support
PKF	Submission support	Other support
Moore Stephens	Not located	Not specific

It appears that the AASB has relied on the views of the Australian members of the large accounting firms at face value, many of which are part of the global firms listed above. I believe that in following an evidence-informed approach, that the AASB should have further investigated the contradictory statements, particularly as:

- the global firms (outside Australia) had actual experience with more than one reporting framework, and
- the AICD, CPA Australia, and Chartered Accountants ANZ, who represent tens of thousands of preparers and users, supported either an option for IFRS for SMEs or a simpler reporting system for SMEs.

Specific proposals – Comments

The mechanism for removing the grandfathering of entities without a legislative requirement

I agree with the proposals to exempt (grandfather) entities without a legislative requirement to follow Australian Accounting Standards from the changes. However, I do not agree with the mechanism to remove the exemption.

Users should determine application of new requirements

I believe that it should be the users that determine whether the financial statements have to be prepared under the new approach. As the underlying requirement for the preparation of the financial statements is the constituting or other document, and given that the financial statements were special purpose and the requirements subject to the needs of the users, then it has been the users that have had the power to permit the preparation of special purpose financial statements or not. These situations differ to when the users did not have the power to determine reporting requirements, such as the underlying requirement being legislative.

The users should continue to have the power to determine requirements, and not have accounting standards override that power and cause increased costs, and therefore the proposed exemption removal requirements should be changed.

Inadvertent exemption removal and increased costs

The grandfather exemption will be removed, if there is ANY amendment to their constituting document or another document to prepare financial statements.

I expect that there will be many changes to constituting documents, or other documents, without the person making the change (most likely not an accountant) understanding or knowing of the consequences of the rule created by accountants.

While the outreach by the AASB to lawyers and law councils is encouraged, such outreach is not enough. The grandfather exemption removal scope is far too wide, and will cause inadvertent consequences, and additional costs on businesses. I have come across situations with Australian Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* that caused problems because the AASB included a rule-based requirement for a designation of an equity transfer, at or before the transfer. Particularly when the interpretation was first issued, many people undertaking transfers were not accountants, and did not know of, let alone understand, the rule. And some auditors (then as now) apply a rule-based approach, and consequently get a different outcome to the substance over form approach under IFRS.

There does not seem to be any mechanism to apply a substance over form approach to amendments of constituting or other documents, that were not intended to change existing reporting requirements.

I expect a frequent cause of inadvertent consequences, and additional cost imposition, will be with loan agreements. Many loan agreements seem to be modified by banks throughout the loan agreement. These changes can range from changes in interest rates, to changes for

communication methods, and are not related to reporting requirements, or intended to change existing requirements.

The lack of transitional provisions for previously grandfathered entities.

I agree with the proposed additional relief for transition from special purpose to general purpose financial statements. However, I disagree with the relief only being available for 12 months being for financial years commencing 1 July 2020 until 30 June 2021 (proposed AASB 1 paragraph AusE8.1).

As I stated above, I expect that there will be many situations where the grandfather exemption will be removed inadvertently. I expect that many such situations will occur after 1 July 2021. These entities should have available to them the same relief provided on transition from special purpose financial statements.

¹ *Financial Reporting Requirements Applicable to For-Profit Private Sector Companies*, AASB Research Report No. 7 (May 2018)

http://www.aasb.gov.au/admin/file/content102/c3/AASB_RR_07_05-18.pdf

and *Comparison of Standards for Smaller Entities*, AASB Staff Paper (April 2018)

http://www.aasb.gov.au/admin/file/content102/c3/AASB_Staff_Paper_Comparison_of_Standards_for_Smaller_Entities.pdf

² Refer AASB research and IASB jurisdictional analysis of use of IFRS for SMEs

United Kingdom – <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/united-kingdom/#application>

Singapore - <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/singapore/#application>

South Africa - <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/south-africa/#application>

Refer IASB jurisdictional analysis of use of IFRS for SMEs:

Hong Kong – <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/hong-kong-sar/#application>

Canada – <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/canada/#application>

United States – <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/united-states/#application>

New Zealand – <https://www.charteredaccountantsanz.com/member-services/technical/reporting/special-purpose-financial-reporting>

³ <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#analysis>, updated as at March 2019. 86 jurisdictions were noted as allowing IFRS for SMEs

⁴ ABS 8165.0 Counts of Australian Businesses, including Entries and Exits, Jun 2013 to Jun 2017, Table 10 <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8165.0Jun+2013+to+Jun+2017>

⁵ <https://economia.icaew.com/news/february-2019/deloitte-still-worlds-number-one-firm> sourced from *International Accounting Bulletin*

⁶ IFRS for SMEs ED and link to comment letters - <http://archive.ifrs.org/IFRS-for-SMEs/history/ed0207/Pages/ed.aspx>

IFRS for SMEs ED (Feb 2007) - Comment letters - <http://archive.ifrs.org/IFRS-for-SMEs/history/ed0207/Comment-Letters/Pages/Comment-Letters.aspx>

⁷ IFRS for SMEs ED – Comprehensive Review - <http://archive.ifrs.org/IFRS-for-SMEs/Comprehensive-review-IFRS-for-SMEs/Pages/default.aspx>

IFRS for SMEs ED (Oct 2013) – Comprehensive Review - Comment letters - <http://archive.ifrs.org/IFRS-for-SMEs/ED-October-2013/Pages/Comment-letters.aspx>

⁸ Baker Tilly supported IFRS for SMEs and supported introduction of a two-tier system of accounting standards for all UK companies <https://www.accountancyage.com/2011/04/27/baker-tilly-favours-two-tier-accounting-standards/>

PKF supported IFRS for SMEs in their publication “A Streamlined Reporting Standard - IFRS for SMEs vs. Full IFRS: (Feb 2013) <https://www.pkf.com/media/10031229/ifrs-for-sme-brochure.pdf>

Nexia provided support for IFRS for SMEs in news releases, including SMEs must wake up to realities of IFRS - <https://nexia.com/2009/smes-must-wake-up-to-realities-of-ifrs/> and Annual Conference underlines commitment to international mid-market - <https://nexia.com/2009/annual-conference-underlines-commitment-to-international-mid-market/>