Tel: +61 3 9603 1700
Fax: +61 3 9602 3870
www.bdo.com.au

Collins Square, Tower Four
Level 18, 727 Collins Street
Melbourne VIC 3008
GPO Box 5099 Melbourne VIC 3001
Australia

The Chair
Australian Accounting Standards Board
PO BOX 204
Collins Street West
Melbourne VIC 8007

5 November 2021

Dear Sir

314 – SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY: DISCLOSURES

Thank you for the opportunity to comment on the Board's proposals regarding the IASB's recent Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures* and its implications in the Australian context. We have not provided detailed feedback in this letter about the IASB's proposals regarding specific disclosures, with such comments submitted directly to the IASB as part of BDO's global submission.

Please refer to Appendix 1 for our detailed comments on your specific matters for comment, Questions 1 to 4.

We note the Board's comment that it could not wait for the IASB to complete this project, and therefore that AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* might ultimately be replaced with the Standard developed by the IASB. However, given that Tier 2 entities are currently amending disclosure templates whilst transitioning to AASB 1060, we recommend that any final decision on the status of AASB 1060 be delayed for at least two to three years to give these entities a chance to consolidate their AASB 1060 transition before having to transition again (if required).

While we can see the desire for such an IFRS reduced-disclosure standard in other jurisdictions which do not have a Tier 2 reporting framework that requires compliance with the recognition and measurement requirements in IFRS, we question the need for such a standard in Australia. This is because we already have an existing Tier 2 framework (AASB 1060), containing substantially fewer disclosures than the IASB's proposals, and which the Board considered appropriate for non-publicly accountable entities.

If you have any comments regarding this request, please do not hesitate to contact me.

Yours faithfully

ABoshoff

Aletta Boshoff
Partner & National IFRS Leader

APPENDIX 1 – Specific matters for comment

Question 1

Whether a resulting IFRS Standard should be issued by the AASB as an additional reduced-disclosure Standard for eligible subsidiaries or for all Tier 2 entities, or to replace AASB 1060 for all Tier 2 entities?

BDO Comment:

This question appears to be asking which of the following options we consider most preferable:

1. The resulting IFRS Standard should be issued as an **additional** reduced-disclosure Standard for **eligible entities**
2. The resulting IFRS Standard should be issued by the AASB as an **additional** reduced-disclosure Standard for **all Tier 2 entities**, or
3. The resulting IFRS Standard should **replace AASB 1060** for all Tier 2 entities

However, there is also a fourth option to be considered, i.e. not issuing the resulting IFRS Standard in Australia at all.

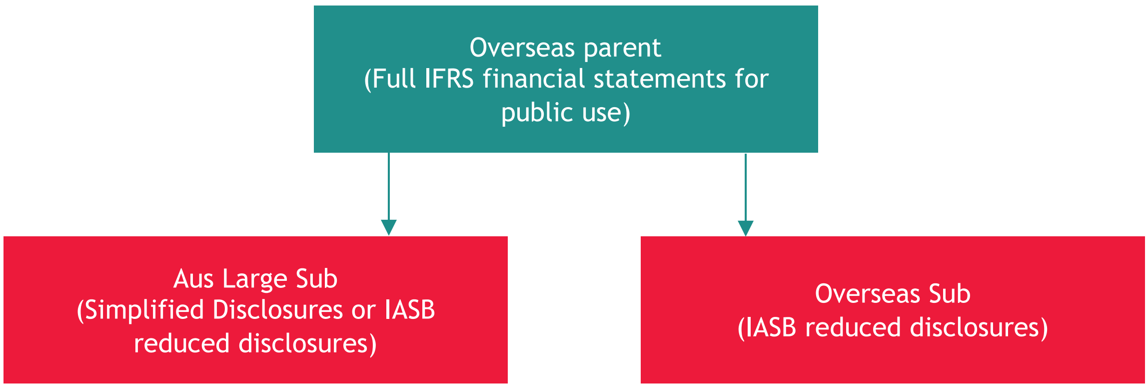
We have summarised the advantages and disadvantages of each of these four options below.

At the time of writing, Tier 2 entities are still in the process of transitioning to general-purpose financial statements, either by scaling up their special purpose financial statements, or by transitioning from the Reduced Disclosures. Our preferred approach would be for the Board to 'wait and see' how the transition to AASB 1060 proceeds in the next two to three years before requiring Tier 2 entities to transition again within a short period of time.

As we do not favour having two reduced-disclosure reporting standards in Australia, we acknowledge that Option 3 is likely to be the most feasible, albeit resulting in more disclosures than currently required for Tier 2 entities, and acknowledging the need to expand the scope to include all Tier 2 entities.

Option 1 - The resulting IFRS Standard should be issued as an additional reduced-disclosure Standard for eligible entities

The main advantage of this option is that Australian eligible subsidiaries will be able use the same reduced-disclosure template when preparing financial statements as other eligible overseas subsidiaries of an overseas parent that prepares IFRS financial statements for public use. This could provide significant cost and time savings by not having to create a bespoke disclosure template to comply with Simplified Disclosures in Australia.



Another advantage is that standalone Australian Tier 2 entities or groups will still be able to apply Simplified Disclosures, which would sit alongside the resulting IFRS Standard as a second reduced-disclosure standard.

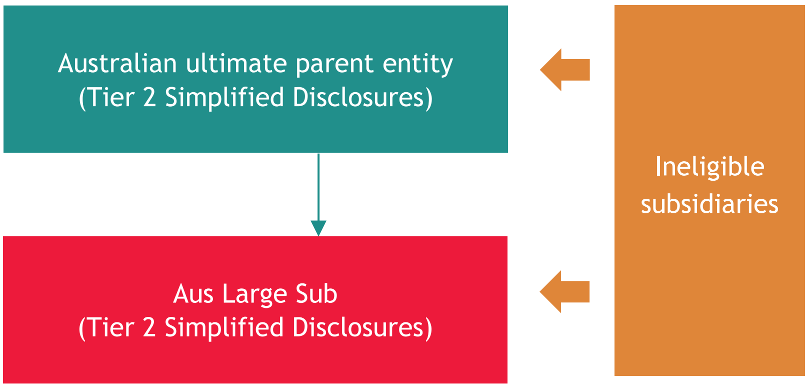
The disadvantages of having the resulting IFRS Standard as an additional reduced-disclosure Standard in Australia include:

- The Board having to maintain more than one reduced-disclosure standard, particularly if additional Australian-specific disclosures are added to the resulting IFRS Standard (e.g. for audit fees, imputation credits, etc.)
- Additional time and costs associated with keeping auditors and preparers up to date with the requirements of two disclosure frameworks
- Additional time and costs to maintain two sets of disclosure checklists for the two disclosure frameworks.

Option 2 - The resulting IFRS Standard should be issued as an <u>additional</u> reduced-disclosure Standard for <u>all Tier 2 entities</u>

We do not think this is a necessary option. As noted in Option 1 above, the benefit of having the resulting IFRS Standard <u>in addition</u> to Simplified Disclosures is that:

- Eligible Australian subsidiaries can choose to apply the IFRS reduced disclosures, and
- Ineligible Australian subsidiaries still apply reduced disclosures by applying AASB 1060 (refer diagram below).



Option 2 would allow ineligible subsidiaries to apply the IFRS reduced disclosures, which would be inconsistent with application in other jurisdictions.

Option 3 - The resulting IFRS Standard should replace AASB 1060 for all Tier 2 entities

Advantages of replacing AASB 1060 with the resulting IFRS Standard include:

- The Board would only be maintaining one reduced-disclosure standard, and
- That standard would be IFRS compliant (ED 314, paragraph 110), although we are uncertain of the necessity for Tier 2 entities to be IFRS compliant.

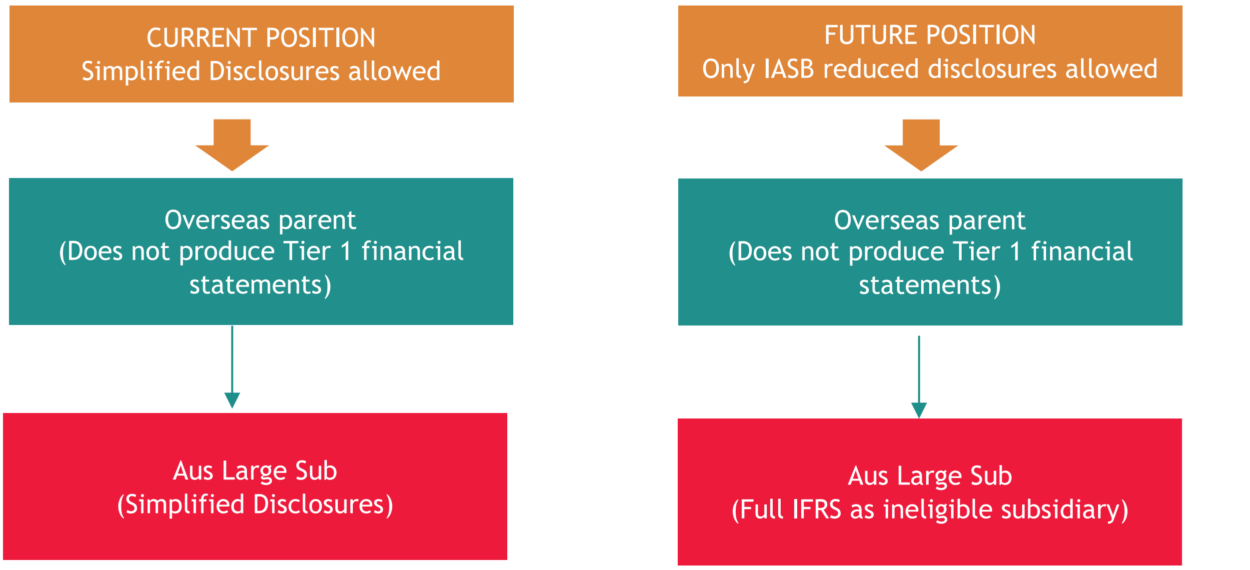
However, major disadvantages would be:

- Entities that have adopted Simplified Disclosures will need to transition to the resulting IFRS reduced-disclosure standard, requiring extensive additional disclosure in areas such as business combinations, non-current assets held for sale, E&E assets, financial instruments, unconsolidated subsidiaries, share-based payments and fair values. In addition, there is no option for the short-form Statement of Income and retained Earnings as exists under Simplified Disclosures, and
- Ineligible subsidiaries (as shown in the Examples below) would not be able to prepare Tier 2 financial statements at all (i.e. they would have to prepare Tier 1 full IFRS financial statements) because they do not have a parent that produces IFRS financial statements.

If the Board adopts this approach, it is vital that the scope of the resulting IFRS Standard is expanded to include Tier 2 entities that are not eligible subsidiaries (e.g. large Australian group entities).

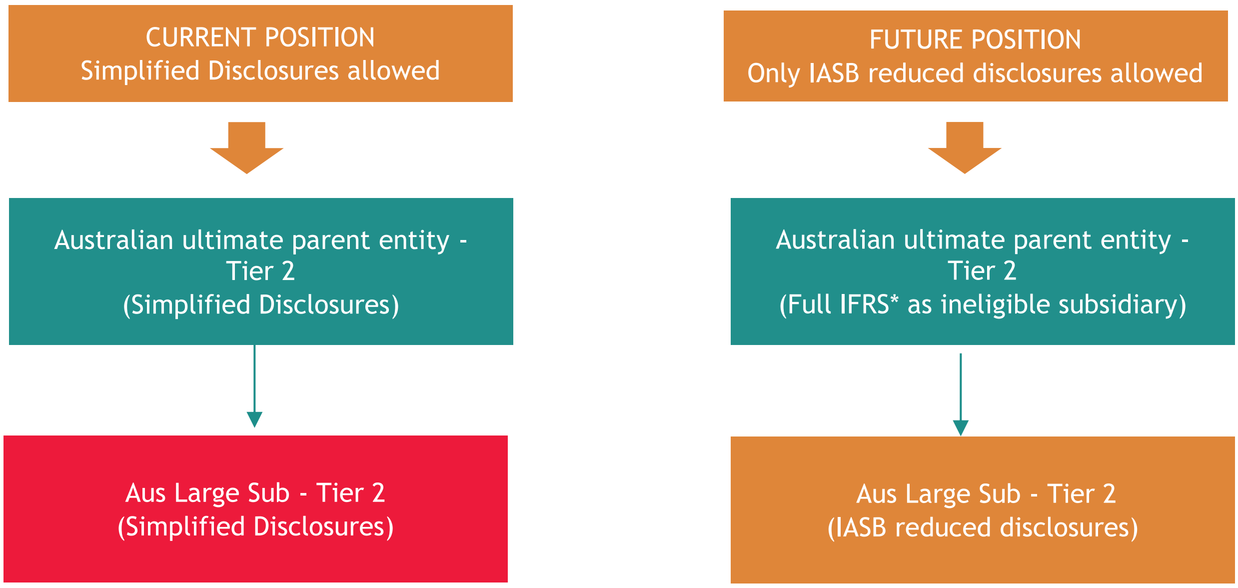
Example 1 – Overseas parent does not produce full IFRS financial statements for public use

The following example illustrates how large Australian subsidiaries of foreign parent entities, currently permitted to prepare Tier 2 Simplified Disclosures, would be required to prepare Tier 1 full IFRS financial statements if the resulting IFRS Standard was to replace AASB 1060.



Example 2 – Ultimate Australian parent entity is an Australian Tier 2 entity

In the following group structure for a large Australian private group, if AASB 1060 were replaced, the ultimate Australian parent entity would be required to prepare full IFRS Tier1 financial statements because it is not an eligible subsidiary. Any Australian subsidiaries would then be eligible for reduced disclosures in the resulting IFRS Standard.



**A further question arises as to whether Tier 1 financial statements prepared in accordance with Australian Accounting Standards, and claiming compliance with IFRS, will be considered to meet the requirement for an eligible subsidiary in Scope paragraph 6(c), i.e. has an ultimate or intermediate parent that produces consolidated financial statements available* for public use that comply with IFRS Standards. This is particularly relevant given the Board's discussions at its September 2021 Board meeting regarding proposed changes to AASB 1, paragraph D16.

Option 4 – Not issuing the resulting IFRS Standard in Australia at all (i.e. retain AASB 1060 as the only reduced-disclosure standard in Australia)

Our additional option propositioned above is not to issue the resulting IFRS Standard in Australia at all, resulting in only one Tier 2 reporting framework, being Simplified Disclosures (AASB 1060).

Advantages of such an approach include:

- The Board having to maintain only one reduced-disclosure standard
- Time and cost savings for preparers and auditors having to train staff on only one reduced-disclosure standard, as well as only having to maintain one disclosure checklist.

However, there are disadvantages to this approach, being:

- Australian eligible subsidiaries not being able to use global disclosure templates for the purposes of local filings
- Entities required to claim compliance with IFRS might not be able to do so as they would not be using the IFRS reduced disclosure standard.

Question 2

If AASB 1060 is retained by the AASB, whether amendments to AASB 1060 are warranted, and if so, the amendments you would suggest.

BDO Comment:

If AASB 1060 is retained as noted in Options 1 and 2 above, we do not consider any further amendments necessary to AASB 1060 because it will be an alternative reduced disclosure standard that sits alongside the IFRS standard and Australian entities can choose to adopt it if it suits.

Question 3

Whether there are any regulatory issues or other issues arising in the Australian environment that may affect implementation of the proposals, particularly issues relating to:

(a) Not-for-profit entities, and
(b) Public sector entities, including GAAP/GFS implications?

BDO Comment:

Issues arising in the Australian environment if the resulting IFRS standard is adopted via one of the options noted in Question 1 above

1. Are Australian Accounting Standards same as IFRS?

   As noted in our discussion for Question 1 (Option 3 – Example 2) above , the proposals in Scope paragraph 6(c) require an eligible subsidiary to have an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Standards.

   We are unsure whether an Australian parent entities preparing Tier 1 financial statements in accordance with Australian Accounting Standards, and claiming compliance with IFRS, will be considered to meet this requirement, resulting in its Australian or overseas subsidiaries being eligible subsidiaries of such Australian parent. This is particularly relevant given the Board's discussions at its September 2021 Board meeting regarding proposed changes to AASB 1, paragraph D16. We believe that this issue needs clarifying in any proposed standard.

2. Fewer Australian entities will be able to prepare reduced disclosures if Simplified Disclosures is not retained as an alternative, and the resulting IFRS Standard is the only reduced-disclosure standard. The scope of any resulting IFRS Standard would therefore need to be expanded to capture all non-publicly accountable entities in AASB 1053, as opposed to just eligible subsidiaries referred to in this Exposure Draft.

Issues for not-for-profit entities (NFPs)

NFPs are unable to claim compliance with IFRS if any of the alternative not-for-profit measurement paragraphs are applied in Australian Accounting Standards. Without making a specific Scope amendment, entities that would otherwise be eligible subsidiaries of a NFP parent entity will not be able to adopt the resulting IFRS reduced-disclosure Standard.

Question 4

Whether the proposals would create any auditing or assurance challenges.

BDO Comment:

We anticipate the following auditing/assurance challenges if these proposals are adopted as an alternative to AASB 1060:

1. Additional time and cost investment will be required to train audit staff on two reduced disclosure frameworks instead of one, and
2. Additional time and cost investment because audit staff will need to ascertain which is the appropriate framework to use in a particular set of circumstances.

If AASB 1060 is replaced by the resulting IFRS Standard, there are likely to be significant audit/assurance costs associated with transitioning from AASB 1060 to the new framework because of the significant number of additional disclosures contained in ED 314.