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Kris Peach  
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Australian Accounting Standards Board  
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Australia

Online submission: <http://www.aasb.gov.au>

Dear Kris

**Fatal Flaw Review Version of AASB 2019-X Amendments to Australian Accounting Standards - References to the Conceptual Framework**

I am pleased to make this submission on the fatal flaw review version of AASB 2019-X Amendments to Australian Accounting Standards - References to the Conceptual Framework.

I have extensive experience in accounting advice, across a wide range of clients, industries and issues in the for-profit, not-for-profit, private and public sectors.

My clients have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, federal, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises). I also have some commercial, standard setting and academic experience.

I have comments in the following areas:

- Required by legislation terminology
- Longevity of use of reference to “public accountability”
- What are non-AusCF paragraphs?
- Implications of AASB 2018-7 Definition of material

Regards,

David Hardidge

## **Required by legislation terminology**

In my submission on ITC39 Phase 1, I referred to ACAG's submission that suggested to the AASB that it clearly articulates the term "required".

In that submission, I also raised an example of an unintended consequence with using that term in relation to the Corporations Act. I include that example below.

In relation to 2019-X, does the term "required by legislation" cover:

The Minimum Financial Reporting Requirements as issued under the *Queensland Building and Construction Commission Act 1991*

Reporting guidelines issued by the (Queensland) Industrial Registrar under subsection 765(1) of the *Industrial Relations Act 2016* (Queensland)?

While it may not make much difference in practice (the QBCC requirements probably do not apply to any publicly accountable entities and the QIRC requirements are for GPFS Tier 1,) the use of the term may cause problems in the future if it is used for Phase 2.

For AASB Research Report 10 Legislative and Regulatory Financial Reporting Requirements (March 2019) it is not clear how far staff investigated subordinate and delegated legislation.

## **Longevity of use of reference to "public accountability"**

The IASB staff is currently consulting on providing some additional scope exclusions to allow entities with public accountability to apply IFRS for SMEs. For example, entities listed on alternate markets and some situations where there are fiduciary responsibilities.

My personal view is that there are some significant deficiencies in those proposals. Notwithstanding my view, I believe that if the IASB gives additional scope exemptions, these should be made explicitly by amending the scope paragraphs of IFRS for SMEs, and not by changing the definition of public accountability.

For example, similar to the financial instruments standard, the definition of financial instrument remains the same, and there are various exemptions to applying the standard.

Consequently, should the IASB provide additional scope exemptions allowing more entities to apply IFRS for SMEs, this may not be via the definition of "public accountability". Therefore, I believe a better reference than "public accountability" may be the application of Tier 1 under AASB 1053.

## **What are non-AusCF paragraphs?**

While there is a reference to "corresponding non-AusCF paragraphs", I was unable to work out what the corresponding paragraph to AusCF1 was, as AASB 2 paragraph 1 was the objective of the standard.

What are non-AusCF paragraphs? For example, when looking at the AASB 2 amendments are the non-AusCF paragraphs every other paragraph except AusCF1 and footnote AusCF5? I can envisage such arguments being put forward that would mean the standard was effectively not applicable to non-AusCF entities?

### **Implications of AASB 2018-7 Definition of material**

It appears that the amendments assume that the AASB 2018-7 Definition of material have already been applied – I did not identify the updates to AASB 101 paragraph 7 and AASB 108 paragraph 6.

What are the implications for entities applying the conceptual framework early, but not AASB 2018-7?

### **Extract from David Hardidge submission on ITC39 – Unintended consequences of using the term “required”**

An example of unintended consequences arising from the use of similar references to “require” were introduced by amendments to the Corporations Act section 295(2) in 2011. These amendments were to allow removal of parent entity financial statements when consolidated financial statements are prepared. The wording used was:

*Financial statements*

- (2) The financial statements for the year are:
- (a) unless paragraph (b) applies—the financial statements in relation to the company, registered scheme or disclosing entity required by the accounting standards; or
  - (b) if the accounting standards **require** the company, registered scheme or disclosing entity to prepare financial statements in relation to a consolidated entity—the financial statements in relation to the consolidated entity required by the accounting standards.

(Emphasis added)

Some interpretations of those amendments are that a non-reporting entity preparing consolidated special purpose financial reports is not able to take advantage of the amendments. This is because as they are a non-reporting entity, the entity is not “required” to prepare consolidated financial statements. This interpretation means that an unlisted non-reporting entity has greater reporting obligations than a listed entity.

This issue was raised in responses to Treasury’s Proposed Amendments to the Corporations Act (November 2011). Comment letters are located at:

<https://treasury.gov.au/consultation/proposed-amendments-to-the-corporations-act/>

Responses from the four large accounting firms were:

- Deloitte – States that wording is unclear
- EY – States that a significant number believe that non-reporting entities are ineligible for relief
- KPMG – States that entities preparing consolidated special purpose financial statements are precluded from the relief

- PwC – Notes the different views, and that they believe the entity should be exempted from preparing parent entity financial statements.

Further background was included in PwC Value Accounts – Special Purpose – Annual financial reporting 2014:

### **Separate parent entity financial statements**

VALUE ACCOUNTS Special Purpose Pty Limited does not include separate financial statements for the parent entity in the financial report. Instead, we have provided condensed financial information for the parent entity in a separate note (note 27), as required under *Corporations Regulation 2M.3.01*.

Entities should be aware that there are different views about the application of the law in respect of the separate parent entity information that must be presented in special purpose financial statements. Some commentators argue that the removal of the separate entity financial statements by non-reporting entities is not permitted under the revised section 295 of the *Corporations Act 2001* (the Act) as amended by the *Corporations Amendment (Corporate Reporting Reform) Act 2011*. Others hold the opposite view.

Section 295 of the Act requires separate parent entity financial statements to be presented if the accounting standards do not require consolidated financial statements. AASB 127 *Consolidated and separate financial statements* does not apply to non-reporting entities; ASIC has stated in Regulatory Guide 85 *Reporting requirements for non-reporting entities* (RG 85) that non-reporting entities do not need to prepare and lodge consolidated financial statements if neither the parent entity nor the group are a reporting entity. On that basis, some commentators argue that consolidated financial statements are not required by non-reporting entities; therefore, section 295 still requires the preparation of separate parent entity financial statements.

In our view, non-reporting entities should not be subject to more onerous reporting requirements than reporting entities. Consolidation is prima facie a recognition and measurement requirement. RG 85 states that non-reporting entities, which are required to prepare financial reports in accordance with the Act, must still comply with the recognition and measurement requirements of all applicable accounting standards in order to give a true and fair view of their financial position and results of their operations. If a parent entity considers consolidation necessary in order to provide users of the financial report with a true and fair view, then we believe the entity should be allowed to remove the separate parent entity financial statements from its financial report under section 295 of the Act.

Given the different views in practice, entities may choose to obtain legal advice on the appropriate course of action before lodging a financial report without full parent entity financial statements.

Source:

PwC Value Accounts – Special Purpose – Annual financial reporting 2014  
<https://www.pwc.com.au/assurance/ifrs/assets/value-accounts-special-purpose-2014.pdf>