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Kris Peach
Chair and CEO
Australian Accounting Standards Board

Submission via online form

2 December 2019

Grant Thornton Australia Submission – ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*

Dear Ms Peach

We welcome this opportunity to provide our views on ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Grant Thornton's global network maintains an open and constructive relationship with national governments, standard-setters and regulators, consistent with our policy of embracing external oversight.

Grant Thornton's response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations.

In responding to ED 295, we have also considered the proposals in ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* given the interrelationships between these two proposals.

We generally support the proposals in ED 295, however we do have concerns over a number of specific proposals (as detailed in our responses to the specific questions below) and recommend the deferral of the mandatory effective date by at least 12 months.

We note that the Australian Accounting Standards Board (AASB) is expected to finalise and release the final requirements around March/April 2020 with the changes becoming effective for financial years beginning on or after 1 July 2020. In our view, the proposals in the ED (in conjunction with ED 297) represent significant reforms to the Australian financial reporting framework and the implementation timeframe proposed by the AASB does not provide sufficient lead time for entities to prepare and implement changes of this magnitude. The AASB should in line with the *Due Process Framework for Setting Standards* (September 2019) increase the timeframe for implementation to ensure that stakeholders have adequate time to prepare for the implementation when determining the effective date of standards.

We recommend the AASB provide at least 12-months implementation period by moving the proposed mandatory effective date from 1 July 2020 to at least 1 July 2021. This will allow practitioners, businesses, and other stakeholders adequate time to educate and understand the extent of the changes, develop a transition plan, make appropriate systems changes, capture necessary data, and implement the changes in an orderly manner.

Should you have any queries related to our submission, please contact either me (merilyn.gwan@au.gt.com) or Siva Sivanantham (siva.sivanantham@au.gt.com).

Yours sincerely

Merilyn Gwan
Partner - Audit & Assurance
Head of National Assurance Quality

Answers to specific and general matters for comment in ED 295

In this section, Grant Thornton Australia offers feedback on the specific and general matters for comment requested by the AASB in ED 295.

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.

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

   We generally agree with these proposals, subject to our comments in this submission. We also recognise the importance of maintaining comparable and consistent financial reporting frameworks across the Trans-Tasman to reduce unnecessary compliance costs for businesses operating across Australia and New Zealand. Accordingly, we urge the AASB to work with New Zealand's External Reporting Board to ensure that the new Australian Tier 2 framework and the equivalent New Zealand requirements are identical or as closely aligned as possible.

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. 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?
   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?
   c. the inclusion of the audit fees disclosures from AASB 1054 *Australian Additional Disclosures* for the reasons set out in BC62?
   d. not including certain Australian Accounting Standards and Interpretations in this Simplified Disclosure Standard as explained in BC63-BC65?
   e. retaining the following disclosures from the IFRS for SMEs Standard that are not currently required under RDR framework or full AAS (see BC59 for explanations):

   If you disagree with any of the decisions, please explain why.

   We agree with the proposals, except that we do not agree with imposing disclosures not currently required under the RDR framework or full AASs. Given the International Accounting Standards Board's (IASB) existing projects on subsidiaries that are Small to Medium Entities (SME) and the comprehensive review of IFRS for SMEs, we urge the AASB not to introduce these additional disclosures until the completion of the IASB's projects.

   Furthermore, while we appreciate the usefulness of maturity analysis of future lease payments, there needs to be consistency in disclosures requirements for lease liabilities (AASB 16 *Leases*) and financial liabilities (AASB 7 *Financial Instruments: Disclosures*). Under the proposed framework, there is a requirement to disclose maturity analysis for leases however there is no such requirement for financial liabilities. We urge the AASB to address this inconsistency when finalising ED 295 proposals.

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 disagree with this proposal. Based on our understanding, presentation of a statement of changes in equity will not be required in certain circumstances which could change from year-to-year. This will potentially result in some entities presenting a statement of changes in equity in some years but not others, creating year-on-year inconsistency. In our view, this will result in a significant lack of comparability between financial statements of entities and within the same entity year-on-year for very little benefit. The cost of preparing a statement of changes in equity in the circumstances where the proposals provide relief is typically quite minimal.

We believe the simplified disclosure framework should focus on simplification of ‘disclosures’ rather than ‘presentation’. We do not support altering ‘presentation’ requirements for entities as part of this project (while we acknowledge that IFRS for SMEs alters recognition, measurement, presentation and disclosure requirements).

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.

   (See *Staff Analysis – Comparison of R&M requirements in IFRS for SMEs Standard and full IFRS and analysis of impact on disclosures (For for-profit private sector entities with no public accountability)*)

We generally agree with the proposals, however we encourage the AASB to reconsider the appropriateness of removing the income tax reconciliation which, in our view, is an important and useful disclosure to users. Given the usefulness of this information, we support retaining this disclosure for Tier 2 entities. In addition, consistent with our response to Question 4 above, we do not support altering presentation requirements for discontinued operations under the proposed Tier 2 framework.

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 framework should be available to the not-for profit (NFP) private sector and all public sector entities. However, we are mindful that the new framework represents significant changes to existing Tier-2 disclosures along with many new and additional disclosures. Accordingly, these entities will need sufficient lead time to prepare, and implement, the new framework. As outlined in our cover letter, we encourage the AASB to defer the mandatory effective date of these proposals (and ED 297) by at least 12-months from finalisation.

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.
   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 agree with the proposals.

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.

   (See *Staff Analysis of NFP modifications paragraphs in AAS and NFP specific AASB Standards for detailed analysis*)

We agree with the proposals.

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 proposal.

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.

    We agree with the proposals.

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)?

    As noted in our covering letter, we do not agree with the proposed effective date of 1 July 2020. These proposals, in conjunction with the proposals in ED 297, represent a significant reform to the Australian financial reporting framework. It is important that practitioners, businesses and other stakeholders have adequate time to educate and understand the extent of the changes, develop a transition plan, make appropriate systems changes, capture necessary data and implement the changes. We encourage the AASB to allow at least 12-months implementation period by deferring the effective date of these proposals to periods beginning on or after 1 July 2021. However, early adoption should be permitted so entities wanting to apply these changes from 1 July 2020 are free to do so.

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

    As noted earlier, we consider the current implementation period to be inadequate. We urge the AASB to allow at least 12-months implementation period by deferring the effective date of these proposals to periods beginning on or after 1 July 2021.

General matters for comment

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

    We have no specific comments.

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 no specific comments.

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

    We believe that the proposals will result in financial statements that would be useful to users.

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

    We have no specific comments.

17. Unless already provided in response to 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 have no specific comments.