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Submission for: ED 297 Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities

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Background:
IFRS SYSTEM (www.ifrssystem.com) develops and distributes statutory financial reporting software. By working with our users, auditors, professional bodies and regulators we aspire to deliver the world's best statutory financial reporting software.

We have analysed 2,587 Annual Reports (incorporating the financial statements) for Australian reporting entities with year ends between July 2018 and June 2019, that were prepared using IFRS SYSTEM and lodged with ASIC (and for listed entities, lodged with the ASX) as part of our consideration and research for the answers for ED 295 and ED 297. This is further to our research of 1,784 Annual Reports for the 30 June 2018 year end for ITC 39 submitted to the AASB in November 2018.

Sample: 2,587 Reports	**All**	**Listed**	**Unlisted**	**Proprietary**	**Limited by guarantee**	**Incorporated association**
December 2018	28%	12%	24%	33%	22%	24%
March 2019	3%	5%	4%	3%	1%	1%
June 2019	62%	74%	71%	57%	72%	65%
Other months	7%	9%	1%	7%	5%	10%
	100%	100%	100%	100%	100%	100%
Consolidated	34%	92%	38%	32%	14%	9%
Single	66%	8%	62%	68%	86%	91%
	100%	100%	100%	100%	100%	100%
General purpose	24%	100%	39%	17%	7%	5%
RDR	27%	0%	33%	23%	64%	21%
Special purpose	49%	0%	28%	60%	29%	74%
	100%	100%	100%	100%	100%	100%

Q1 - 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.

Yes, we agree.

Special purpose is inconsistent with other countries and reduced disclosure requirements (RDR) general purpose is not that much extra work in return for the benefit of the robust framework it provides. Refer to Q13 in relation to costs.

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(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).

No, we do not agree that certain entities should be able to self-select accounting policies and disclosures. If there is going to be a move away from special purpose, it should be a clear either-or approach, as this prevents entities falling through the gaps or try to fly under the radar. **We support two frameworks: RDR** (reduced disclosure, which we propose further disclosures to be eliminated, as identified in Q11) and **General Purpose** (full disclosure). **We do not support SDR.**

(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 have no comment at this stage, while the work on the public sector framework continues.

Q4 - 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).

Yes, we agree and see these as non-reporters and no not have to fit into a framework of RDR or general purpose.

Q5 - 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.

Yes, as long as the comparative information is consistent. Being a creator of financial reporting software, we understand the flow of financial information. So, in order for information to flow and aggregate, you cannot have a mix of parent (single entity) in one statement (such as the statement of profit or loss) and consolidated information in another statement (such as the statement of financial position). The information will not flow (such as profit to retained earnings in the financial position) and other information will not be able to be calculated (such as the statement of cash flows).

The alternative and simplest option for new consolidations is to only consolidate for the current period and leave the comparative period as the parent. Opening balances in the statement of changes in equity and statement of cash flows can have an opening adjustment item. This would simplify the audit process as well. We are happy to demonstrate how this works.

Q6 - 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?

Refer to the answer at Q5.

Q7 - 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?

Refer to the answer at Q5.

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Q8 - 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.

Yes, as long as the transition is to RDR (and not SDR) and RDR can be early adopted. We have seen a significant migration year-on-year to RDR and after a slow start (and helped with the ATO's SGE initiative), 33% of 169 reports for unlisted public companies and 23% of 1,656 reports for proprietary companies were prepared under RDR. We think that this a significant uptake. Refer to the statistics above for a range of entity types.

Q11 - Whether, overall, the proposals would result in financial statements that would be useful to users?

Yes, a migration from special purpose to RDR would be useful to users. But, RDR should also further reduce the following disclosures to make the financial statements less cluttered:
- disaggregation of revenue (AASB 15 (114))
- breakdown of deferred tax assets and deferred tax liabilities (AASB 112 (81)(g))
- fair value measurement (AASB 13 (93)(a))
- aggregate compensation for key management personnel (AASB 124 (17))
- share-based payments (AASB 2 (45)(a) and (45)(b))
- right-of-use assets depreciations (AASB 16 (53)(a))
- lease expenses (AASB 16 (53)(c),(d),(e))

Q12 - Whether the proposals are in the best interests of the Australian economy?

Yes, we believe that a clear financial reporting framework of RDR and full general purpose is a good for the Australian economy and also the equity holders and financiers of Australian businesses.

Q13 - 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.

The step to converting from special purpose to RDR general purpose financial statements is not as bad as many people fear. Our research shows that a typical set of special purpose financial statements converted to RDR general purpose only increases the content in the notes by 15%. Put into context, this means that a 30-page set of special purpose financial statements becomes a 33-page set of RDR general purpose financial statements. Also, most people agree that the additional disclosures add significantly to the financial statements and therefore it is a positive step up. So, by converting from special purpose to RDR general purpose it is possible to produce more meaningful accounts without the burden of full general purpose reporting.

Costs do increase more when a consolidation is undertaken for the first time. When we last looked at this and reported to AASB for ITC 39, we checked 1,058 single entity 30 June 2018 Annual Reports and only 9 (5 unlisted public and 4 proprietary) of these reports (less than 1%) have subsidiaries and did not produce a consolidated report. So we reported that the scenario was rare, but what we did not factor in was new clients purchasing our software so they could do a first time consolidation. First time adoption work includes, but is not limited to, eliminating the parent's investment in subsidiaries and accounting for pre-acquisition retained earnings, fair value adjustments and goodwill. In some cases, the acquisitions occurred more than 10 years ago and information is not readily on hand; so ultimately the difference is split between retained earnings and goodwill rather than any fair value adjustments.

We publicly supported the conversion from special purpose to RDR general purpose in the following LinkedIn article 'The end is nigh for special purpose, but is step up to RDR so bad?':
https://www.linkedin.com/pulse/end-nigh-special-purpose-step-up-rdr-so-bad-michael-berrington/

Signed on behalf of IFRS SYSTEM.

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