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Submission for: ED 295 General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities

Submitted on: 29 November 2018

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 - 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.

No. we do not agree that SDR should be introduced and we support further reduced disclosure (refer to Q2) for RDR.

SDR is based on IFRS for SME disclosures, which itself is undergoing a review (as it has been around a while now) and is subject to change. Australia should wait for the outcome of IASB's projects '2019 Comprehensive Review of the IFRS for SMEs Standard' and 'Subsidiaries that are SMEs'. It is not the best timing for Australia to consider the SME framework and/or second guess what changes may be implemented. If SDR proceeds, we could see an entity be special purpose for 2019, RDR in 2020, SDR (Phase I) in 2021 and then SDR (Phase II, IASB changes) 2-3 years later. This is not offering a stable reporting platform to businesses.

SDR should be in the consideration stage for a while and not rushed to be implemented. Preparers of financial statements need to be trained, software providers need lead time to prepare the changes and no one should be subjected to multiple framework changes inside 5 years.

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Q2 - Do you agree that these proposals should replace the current RDR framework? If you disagree, please explain why.

No, we do not agree that SDR should replace RDR anytime before 2025, if at all. We do not see the merit in the 'bottom-up' approach of SDR, over the 'top-down' approach of RDR. With SDR, preparers will need to read to the Accounting Standards for recognition and measurement (we agree should be complied with) plus ignore the disclosures; and refer to new SDR Accounting Standard for disclosures. They will need to determine where they intersect (as reporting specialists, we know where they intersect, but what about the once a year preparer) and this could lead to confusion. We make no apologies for being fans of the approach for RDR of ignoring the highlighted parts of the Accounting Standards. It is clear and concise; and you are not cross-referencing two documents.

Also, the Australian Accounting Standards are currently harmonised with New Zealand and the introduction of SDR would break this, unless they too adopt at the same time.

In addition, as identified in our response to ED 297, we support RDR, 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))

We do not think RDR needs the inclusion of audit fees (which was Q3(c)) in relation to SDR but as we are supporting RDR we have addressed this in the context of RDR).

Q3 - Q9

We have not answered Q3 - Q9 as we disagree with, and do not support, SDR. If SDR does proceed to the next stage, we will offer our comments to AASB.

Q10 - 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 do not agree with this approach. As mentioned in Q2, we do not see the merit in the 'bottom-up' approach of SDR, over the 'top-down' approach of RDR. With SDR, preparers will need to read to the Accounting Standards for recognition and measurement (we agree should be complied with) plus ignore the disclosures; and refer to new SDR Accounting Standard for disclosures. They will need to determine where they intersect (as reporting specialists, we know where they intersect, but what about the once a year preparer) and this could lead to confusion. We make no apologies for being fans of the approach for RDR of ignoring the highlighted parts of the Accounting Standards. It is clear and concise; and you are not cross-referencing two documents.

Also, the comment in relation to RDR shading in ED 297 "current shading used to identify disclosures that can be omitted confusing" is opposite to our considerable experience. We find that our clients, who are preparers of financial statements, find the shading most helpful and easy to understand.

Q11 - 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)?

Refer to the comments in Q1 and Q2, SDR should not be considered until 2025.

Q12 - Q14

We have not answered Q12 - Q14.

Q15 - Whether, overall, the proposals would result in financial statements that would be useful to users?

We do not think that SDR is more useful to users than what RDR offers.

Q16 - Whether the proposals are in the best interests of the Australian economy?

We do not believe SDR is in the best interests of the Australian economy, as there are potentially going to be too many framework changes in too shorter timeframe. As noted in Q1, we could see an entity be special purpose for 2019, RDR in 2020, SDR (Phase I) in 2021 and then SDR (Phase II, IASB changes) 2-3 years later. This is not offering a stable reporting platform to businesses.

Q17 Unless already provided in response to specific 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 not further comments on SDR, but we will repeat our answer to Q13 for ED 297 in relation, and in support of, RDR as this is extremely cost effective.

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/

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Signed on behalf of IFRS SYSTEM.

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