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17th August 2007

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA

Response to “Proposed Revised Differential Reporting Regime”

We refer to the “Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of A Proposed IFRS for Small and Medium-sized Entities” prepared by the Australian Accounting Standards Board in May 2007 which invites responses before 1 September 2007.

The international accounting standards adopted by the Australian Accounting Standards Board (AASB) were designed primarily for companies listed on the world’s capital markets.

The government has already made their intentions clear for “exempt” proprietary corporations preparing financial statements. The issue arose in the recent Corporate and Financial Services Regulation reform. By rejecting the proposal to remove the grandfathered provisions within the Corporations Law the government has in effect confirmed these exempt proprietary corporations are not publicly accountable and will continue to be relieved from the requirement to lodge and prepare general purpose financial statements.

One of the overriding themes of the Corporate and Financial Services Regulation reform was to reduce “red tape”. We are supportive of reductions in unnecessary expensive regulatory requirements. The AASB appear to be in complete contradiction to the government in this area. The scaled-down version released as IFRS for SME’s reduce the complexity but do little to ease the unnecessary presentation of information that is largely ignored by our users; being the owners of the business and institutions who provide funding (banks).

Therefore the question this raises is who should be making policy regarding the preparation of financial statements. Our view is the government via the Corporations Law. The AASB’s authority should be limited to setting accounting standards. The AASB should not be empowered to decide who prepares general purpose accounts.

The AASB's proposal appears to lack "real world" experience given that the complex and exhaustive general purposes financial statements these exempt proprietary corporations would be forced to prepare would never actually be lodged. Further to this, there would actually be no users who would read these accounts. The users instead request special purpose audited accounts based on their needs.

The AASB's basis of determining public accountability is much more inclusive than the IASB's proposal. We do not believe the additional test (size thresholds for revenue and assets) proposed is required. It is arbitrary and results in exempt privately owned corporations being swept into a reporting standard that is unjustified. Even if it could be argued that these large private corporations are publicly accountable it does not make sense to have general purpose financial statements prepared when no users will read them.

We believe that the existing requirements, which apply the Australian equivalents of IFRS being AASB 101 *Presentation of Financial Statements*, AASB 107 *Cash Flow Statements*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 1031 *Materiality* and AASB 1048 *Interpretations and Application of Standards* are appropriate and consistent with what users need.

The Australian economy need reforms that will continue to improve efficiency. The current AASB proposal will reduce efficiency by redeploying resources into financial statements that will become completely irrelevant to the users. Accountants would be better utilised adding real value to their business/clients. We request the AASB to reconsider its current proposal and keep the existing "reporting entity" approach.

Yours faithfully,

A handwritten signature in black ink that reads "Troy Vegvari". The signature is written in a cursive style with a horizontal line extending to the right.

Troy Vegvari
Chief Financial Officer

Specific comments re AASB questions raised in their proposal (pg xiii to xv):

- (a) We see no value in changing the existing reporting entity concept for non-listed entities.
- (b) We do not believe the concerns raised in BC6 of the AASB report are important in light of the additional cost that would be borne if the current proposal is implemented without change.
- (c) Yes we support the IASB proposal of public accountability as the key to differentiating entities to determine who prepares general purpose financial statements. We do not support the AASB's additional size thresholds.
- (d) We disagree with the AASB's proposal to include an addition test to determine who prepares general purpose financial statements. We believe it is the government who should decide the basis for this determination.
- (e) Not applicable for our business
- (f) Not applicable for our business
- (g) Not applicable for our business
- (h) We believe the existing differential regime should remain without change; (i) full-IFRS or (ii) minimum of AASBs 101, 107, 108, 1031 and 1048 which are appropriate and consistent with what users need
- (i) We disagree with IASB's view that all financial reports available on a public register (eg lodged with ASIC) should be general purpose. This is an expensive approach with very little benefit. We need to question who the users are and what information they need. Users of financial statements for most proprietary corporations do not need to be general purpose.
- (j) The case for all entities preparing general purpose because Corporations Law requires financial statements is weak. A comprehensive factual "cost benefit" exercise has clearly not been undertaken. To implement this proposal would in our view be an example of regulation and "red-tape" gone too far.
- (k) Not applicable for our business
- (l) IFRS for SMEs does reduce complexity compared to full-IFRS but does not go far enough. The cost to produce does not justify the additional benefit (if any) for many SMEs.
- (m) Not applicable for our business

- (n) Yes, Australia and New Zealand have many close business relationships which would benefit from consistency in this area.
- (o) The government's red tape reduction reform is heading in the right direction but will be severely comprised if the AASB proposal is implemented without change.
- (p) We would expect the increase cost of implementing the AASB proposal to be \$100k per annum.
- (q) The Australian economy need reforms that will continue to improve efficiency. The current AASB proposal will reduce efficiency by redeploying resources into financial statements that will become completely irrelevant to the users. Accountants would be better utilised adding real value to their business/clients.