

JONATHON SKINNER

Certified Practicing Accountant
15th Floor, 10 Market Street, Brisbane, Queensland 4000
G.P.O. Box 514, Brisbane, Queensland 4001
Phone: 61-7-3221-2628
Facsimile: 61-7-3229-8408

29 August 2007

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

By email: standard@aasb.com.au

Dear Sir

ITC 12: Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of a Proposed IFRS for SMEs

I support the broad principles of the proposed IFRS for SME's accounting standard to simplify the accounting standards applicable to Reporting Entities that are not Publically Accountable.

I do not however believe that current Non-Reporting Entities including those that file their financial statements with ASIC or grandfathered large proprietary companies should be required to adopt the IFRS for SME's as the proposals as currently drafted will add significant additional cost with little or no additional public benefit. In fact, I do not believe that IFRS should be imposed on Non-Reporting Entities at all.

When the First Corporation Law Simplification Act was introduced in 1995 it abolished 'exempt proprietary' companies and introduced the concept of a 'large proprietary' company (LPC) based on threshold criteria, and required such companies to lodge their accounts with ASIC. The reporting entity concept allowed those non-reporting LPC's to compile their accounts in accordance with three basic accounting standards. This provided consistency in their preparation and basic information for creditors to assess the company's solvency and financial position. In addition a LPC was required to be audited unless it complied with Class Order 98/1417. This relief was aimed at LPC's that were well managed, in sound financial condition, and where the shareholders and directors do not require an audit.

In other words, the public benefit of lodging accounts with ASIC was balanced against the cost of audit, and/or compliance with the full set of accounting standards including disclosure requirements. The proposals contained within ITC 12 destroy the balance between the public benefit of lodging accounts of LPC's and the cost imposed on it.

The following suggestions are made in order to regain an appropriate balance between the public benefit and cost of compliance:

1. Retain the Reporting Entity Concept with respect to proprietary companies.
2. Exclude Non-reporting entities from compliance with the Australian equivalents to IFRS and return back to the relevant AASB standards.
3. Retain the audit exemption for those LPC's which comply with Class Order 98/1417.

Example

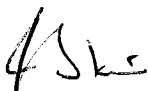
A client operates two truck dealerships in regional locations. The entity is currently classified as a non-reporting large proprietary company and complies with Class Order 98/1417. It is family owned and managed. It's major creditor is a truck manufacturer who's credit risk is covered by way of bank guarantee. The entity's annual revenue is \$58 million (due to the high selling price of trucks), and has 79 employees (due to the labour intensive workshop).

The public interest is predominantly in the provision of basic financial information for use by minor creditors and employees. This is satisfied by the information currently lodged with ASIC. There is no additional public benefit achieved by the imposition of the IFRS regime whatsoever. Nor do I see any public benefit in requiring the company to be audited. The previous system of the reporting entity concept and applicable AASB standards achieved all public benefits sought at a reasonable cost. While there was little or no benefit from imposing IFRS on this entity, additional costs were imposed. Removing the reporting entity concept and deeming accounts lodged with ASIC as general purpose financial reports would impose very significant additional costs to this entity, again with little or no public benefit.

The primary requirement of directors under the Corporations Act is to cause the entity's financial accounts to present a true & fair view. This has always been the case and is appropriate. There is no need to impose further compliance requirements. Little, if any work appears to be undertaken by ASIC in auditing accounts lodged with them by proprietary companies to ensure they present a true & fair view.

More complicated and cumbersome financial reporting is likely to make financial accounts more difficult for small creditors and employees to read and understand. All that ought to be required of proprietary companies is a simple set of accounts that is easily understood that provide a true & fair view. They should be based on simple measurement and recognition criteria (ie historical costs not fair values) and basic disclosures. The stated benefits of IFRS are of no relevance to non-reporting proprietary companies and many of the detailed disclosures required are unnecessary and in many cases inappropriate for a proprietary company.

Yours faithfully



Jonathon Skinner
Certified Practising Accountant