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Mr David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
Melbourne
Victoria 8007



By email: standard@asb.com.au

Dear Mr Boymal

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

Thank you for the opportunity to comment on the Australian Accounting Standard Board's (AASB's) Exposure Draft on an Australian differential reporting regime and the proposed IFRS for SMEs issued by the International Accounting Standards Board (IASB).

AICD is the peak organisation representing the interests of company directors in Australia. Our current membership consists of over 21,000 individuals drawn from large and small organisations, across all industries, and from private, public and the not-for-profit sectors.

[AICD supports relief for unlisted SMEs from full IFRS and the development of a basic set of standards](#)

AICD continues to support the removal of the existing requirement for unlisted SMEs to comply with full IFRS -

- the SME sector is a key contributor to economic growth in Australia. AICD remains concerned about the imposition of IFRS on many SMEs, on the basis that the costs to these companies far outweigh benefits to the companies and report users.
- Australian SMEs should not be put at a competitive disadvantage relative to their overseas counterparts (unlisted SMEs overseas are not usually subjected to full IFRS).

- this removal would be in line with the Australian Government's stated objective to, where possible, reduce "red tape".

AICD strongly supports the idea of designing a basic set of standards for unlisted SMEs. This should help to alleviate the problem in Australia brought about by many non-listed companies having been "shoehorned" into a full IFRS compliance environment.

The proposed IFRS for SMEs is still far too complex for small unlisted entities

Turning to the proposed IFRS for SMEs, AICD is concerned that this has been developed from the "top down" rather than the "bottom up". The proposed standard should focus on the actual needs of SMEs rather than what parts of the full IFRS can be simplified or cut back.

The main advantage of the current draft IFRS for SMEs is that it consolidates relevant requirements in the one place. However, a great deal of unnecessary complexity inherent in full IFRS has been retained. AICD notes that much of the simplification that has been achieved is a result of removing accounting choices that are available in full IFRS.

Unless there are material changes to the draft IFRS for SMEs, along the general lines suggested in this submission, AICD believes that Australia should develop its own accounting standards for unlisted SMEs.

The reporting entity concept should be retained

The existing reporting entity regime has operated successfully since 1991. It continues to serve as a useful "brake" for excessive reporting obligations on certain SMEs. AICD does not accept the argument that the current regime is only operating effectively through "non-compliance" by non-reporting entities.

Where uncertainty exists in relation to the current accounting principles to be followed by non-reporting entities, this could be addressed by further guidance. It should not be used as a reason for removing the reporting entity concept.

Linking lodgment of financial reports with accounting standard compliance is a public policy issue

AICD continues to strongly oppose the proposal to link IFRS compliance to public filings of financial reports.¹ When determining existing lodgment requirements, AICD does not believe the relevant policymakers would have necessarily had in mind the issues currently under consideration by the AASB.

¹ Refer to AICD's submission to AASB dated 14 June 2006 on "ED 148 - Proposed Amendments to AASB 101 Presentation of Financial Statements: A Revised Presentation".

AICD maintains that just because some overseas jurisdictions might end up linking the proposed IFRS for SMEs to public filings, does not mean Australia should automatically follow this approach. Public filing requirements are likely to differ between countries and IASB is not in a position to have regard to the regulatory environments of all countries that might adopt the IFRS for SMEs. As a result, its proposals are not necessarily a neat fit with local laws.

AICD considers the issue of whether lodgment of financial reports should trigger compliance with accounting standards (whether full IFRS or IFRS for SMEs) is a public policy matter that should, before it is progressed by the AASB, be the subject of a broader policy consultation. In particular, AICD believes the AASB's proposed linkage of compliance with accounting standards to lodgment of financial statements will necessitate:

- an immediate reexamination by Treasury of existing lodgment requirements for financial statements (in light of the potential accounting compliance costs for existing non-reporting entities); and
- a public policy decision by Government as to the nature of information that is needed from unlisted companies (whether unlisted public companies or large proprietary companies) that are not currently defined as "reporting entities" by the AASB.

It is incumbent on the AASB to publish an analysis of the regulatory impact of the proposed changes as part of its consultation process

The AASB should publish a regulatory impact study of its proposed changes and issue this as part of its invitation to comment. The lack of impact analysis concerning the expansion of reporting requirements beyond current "reporting entities" is a major drawback of the AASB's discussion paper. AICD believes the AASB should be adopting the approach of the Office of Best Practice Regulation (<http://www.obpr.gov.au/reform.html>). The Business Checklist for Commonwealth Regulatory Proposals² is also relevant in this regard.

² Refer to

<http://www.companydirectors.com.au/Policy/Policies+And+Papers/2007/Business+Checklist+for+Commonwealth+Regulatory+Proposals.htm>

We consider that the adoption of the proposed IFRS for SMEs, in the way suggested by the AASB, has the potential to increase the regulatory burden on some entities (eg existing non-reporting entities) and as a consequence undo some of the progress the Federal Government has made on red tape reduction.

Thank you again for the opportunity to comment. If you have any questions in connection with this letter please do not hesitate to contact me or Mark Blair on (02) 8248 6634.

Yours sincerely



Ralph Evans
Chief Executive Officer

cc The Hon Chris Pearce MP, Parliamentary Secretary to the Treasurer
Mr Jim Murphy, Executive Director, Markets Group, Department of the Treasury