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Tasmania

DEPARTMENT *of*
TREASURY *and* FINANCE

Contact: Tara Woods
Phone: 03 6233 3846
Our Ref: D001261 TW/CJ

Mr David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

Dear ~~Mr Boymal~~ David

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*

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to comment, and also thanks the Board for the invitation to participate in the Round Table discussions that have been held on this topic.

HoTARAC supports efforts to simplify reporting for small and medium-sized entities, including those in the public sector. Detailed comments by HoTARAC on the Board's proposal are attached.

For the Board's information, I have also attached a copy of HoTARAC's response to the questions asked by the International Accounting Standards Board in its Exposure Draft.

If you have any questions regarding HoTARAC's response, please do not hesitate to contact Peter Gibson of the Australian Department of Finance and Administration on 02 6215 3551.

Yours sincerely

Don Challen

D W Challen
CHAIR
HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

10 September 2007

Encl

INVITATION TO COMMENT 12 - A PROPOSED DIFFERENTIAL REPORTING REGIME FOR AUSTRALIA AND IASB EXPOSURE DRAFT OF A PROPOSED IFRS FOR SMALL AND MEDIUM-SIZED ENTITIES

General Comments

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) supports the Australian Accounting Standards Board (AASB) in seeking to apply a differential reporting regime to small and medium-sized entities in the public sector. There has been concern for some time about the complexity of financial reports prepared by public sector entities, particularly those that are of a smaller scale. Overly complex financial reports impair usefulness, relevance and accountability, and add to the costs of preparation that are not always justified in terms of added benefit to users.

However, HoTARAC is not convinced that the International Accounting Standards Board (IASB) proposal will result in significantly simplified reporting for the Australian public sector. HoTARAC considers that the AASB should re-examine ways to achieve simplified reporting for this sector.

In respect of the proposed size tests, HoTARAC particularly notes:

- the majority of HoTARAC is in favour of a test based on size;
- to be relevant to the public sector, the thresholds proposed by the AASB would need to be increased; and
- approaches other than a size test may be appropriate to reflect diversity in the sizes of Australian public sector jurisdictions[1].

The majority of HoTARAC is in favour of a three tier system that is similar to the one to be used in the for-profit sector. Under this system, very small entities continue to either be exempt from producing general purpose financial reports (GPFRs), or are subject to highly abbreviated reporting requirements should a general purpose financial report (GPFR) be required.

Comments on Practical Implementation

There are a number of practical implementation issues that need to be addressed by the AASB. HoTARAC is not convinced that the application of a proposed International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs) will have a significant impact on simplifying reporting requirements. As a consequence, some jurisdictions may choose not to apply the IFRS for SMEs due to concerns over these practical matters.

[1] Although adoption for the public sector of the for-profit sector thresholds, with optional application, would overcome this issue.

HoTARAC considers that:

- it will be necessary in the Australian context to review the proposed Standard and ensure existing public sector requirements are dealt with in Aus paragraphs as appropriate;

- a clear statement is needed that Australian Accounting Standards, other than those that are originally issued by the IASB, do or do not apply. HoTARAC believes that AASB 1031 *Materiality* should apply as it is inadequately dealt with in the IASB proposed Standard. HoTARAC believes that AASB 1023 *Insurance Contracts* should not apply, unless an entity is in the business of insurance (entities that are not in the insurance business but have limited exposure to general insurance-type liabilities could adopt a variation of accounting for provisions);

- it will be necessary to have a transitional provision for entities that migrate from the Australian Equivalent to International Financial Reporting Standard for SMEs to full Australian Equivalents to International Financial Reporting Standards (AEIFRS). Such entities, if they have previously applied AEIFRS at any time, would otherwise have to undertake a full re-assessment of all assets and liabilities, which may be impractical;

- some jurisdictions believe it would be appropriate to provide relief where an entity temporarily exceeds the size threshold. This is particularly the case when the entity has no control over the temporary event eg it is a one-off transaction;

- if size thresholds are introduced, there needs to be guidance about the point of time at which the size tests apply. It is impractical for the assessment to be done at the end of the financial year, particularly where an entity exceeds a threshold for the first time and has to apply full AEIFRS; and

- for the sake of completeness, HoTARAC is of the view that use of the AEIFRS SME Standard should be optional for entities that qualify for it. In other words, such entities may choose to apply full AEIFRS, or in the case of groups, the decision will be determined by group accounting policy.

HoTARAC has a number of detailed comments in relation to the proposal and these are set out below. HoTARAC has also appended, for your information, a copy of its comments to be provided to the IASB on the *Exposure Draft of a Proposed IFRS for Small and Medium-sized Entities*.

Specific Matters for Comment

(a) Do you agree with changing the application focus of Australian Accounting Standards from 'reporting entity' to 'general purpose financial reports'?

HoTARAC does not agree with removing the reporting entity concept and moving towards the international concept involving GPFRs without the AASB performing additional conceptual work. The AASB needs to consider the IASB and the Financial Accounting Standards Board (FASB) harmonisation project and the resulting interpretations of definitions of GPFRs and reporting entities. HoTARAC notes that International standard-setters are giving consideration to the Australian concept of the reporting entity in the context of conceptual framework development issues.

The removal of the reporting entity concept (as set out in SAC 1) could eliminate the function of the conceptual framework, which would result in there not being agreed rules when deciding between approaches.

HoTARAC notes that, as GPFRs are prepared for users who cannot command the preparation of such information, any changes in the application focus of Accounting Standards should only be made following full consultation with user groups.

HoTARAC also considers that simplified reporting for smaller entities can be justified on cost-benefit grounds alone, without reference to concepts.

(b) If it is considered desirable to retain the reporting entity concept as the basis for differential reporting, what improvements could be made to remove related concerns and make it more effective?

The reporting entity concept was developed primarily to accommodate the needs of users in the for-profit sector and does not reflect the broader accountability requirements of the public sector. On this basis, if the reporting entity concept is retained, HoTARAC believes that greater consideration must be given to the reporting entity concept and the specific needs of public sector users.

The differing accountability requirements and processes of the public-sector mean that government GPFRs must be interpreted in the context of the unique characteristics of the role of government, as they cannot be interpreted in the same way as the reports of for-profit businesses. For example, government GPFRs should facilitate accountability to Parliament and the public for budget outcomes and enable users to assess the financial implications of policy initiatives, including social and environmental policies. Users of public sector reports also want to assess the government's stewardship, with regards to service provision and wealth distribution issues, as well as the sustainability of service potential. This is significantly different to the for-profit sector where sustainability is assessed on a liquidity basis and businesses are far more accountable to users for their performance and financial position than their budget compliance.

HoTARAC believes it is essential that the public sector reporting framework is based on a sound conceptual definition of the reporting entity, to ensure that a complete and accurate picture is provided to users across all sectors. This is especially the case if the reporting entity concept is retained, as recommended by HoTARAC, and used as a basis for differential reporting.

(c) Do you support the proposal to apply the IASB's definition of a publicly accountable entity to differentiate between for-profit entities that apply Australian equivalents to IFRSs and for-profit entities that apply an Australian equivalent to the IFRS for SMEs?

This proposal is not supported if application to the public sector is required. The IASB public accountability criterion is inadequate for the public sector because it is based on financial features (namely having publicly traded instruments or financial institution status). Under the proposed IASB approach either:

- most public sector entities would be classed as SMEs (because they do not issue financial instruments in a public market); or
- no public sector entities would be classed as SMEs because they all hold assets in a fiduciary capacity and have a broad public accountability purpose.

The key issue is that all public sector entities are accountable, irrespective of size, and the question to be resolved is whether accountability is restricted where there are simplified recognition, measurement and disclosure rules.

(d) In respect of for-profit entities that do not satisfy the IASB's definition of a publicly accountable entity, but are viewed as being important from a public interest perspective because of their large size:

(i) Do you agree that such entities should in the public interest apply Australian equivalents to IFRSs and that it is appropriate to use size thresholds to identify these entities?

HoTARAC agrees.

(ii) Do you agree with the proposed size thresholds?

HoTARAC agrees.

(e) Since the IASB's ED of A Proposed IFRS for SMEs has been developed with only for-profit entities in mind, do you agree it is appropriate to adopt the forthcoming IASB's IFRS for SMEs (after inclusion of Aus paragraphs similar to those included in Australian equivalents to IFRSs) in a differential reporting regime in respect of not-for-profit private sector entities and public sector entities?

HoTARAC agrees that simplified reporting for small and medium-sized enterprises in the public sector is essential. The IASB only has a policy of developing Standards for for-profit entities. If the principle is accepted that differential reporting for smaller entities can be justified on cost-benefit grounds without seriously compromising the attributes and objectives of preparing financial reports, the concept is equally applicable to entities in other sectors.

However, HoTARAC is not convinced that the IASB proposal will result in significantly simplified reporting for the public sector. It appears that this is mostly due to the context used by the IASB in developing its proposal, where the primary concern is for comparability across jurisdictions with a focus on credit providers and credit analysts as users of the financial statements. This has resulted in a proposal that simplifies measurement and recognition principles rather than disclosures.

While this may be appropriate in the for-profit sector, the focus in the Australian public sector context is somewhat different. The debate in the Australian context has focussed on the ease of understanding GPFRs, considering both the difficulty in applying AEIFRS to the not-for-profit public sector and the size of public sector entities GPFRs.

Further, the users of not-for-profit public sector entities GPFRs are less likely to be credit providers or credit analysts. From a Parliamentary accountability perspective, greater emphasis is placed on the funding of programmes, expenditures of these funds, what was delivered and ensuring amounts provided to facilitate delivery are maintained.

GFS-GAAP Harmonisation

HoTARAC notes that the IASB proposes that an entity would have to adopt the SME regime in its totality and cannot choose to adopt individual Standards, except in very limited circumstances. Under these conditions, it is very important that any SME Standard allows options that are consistent with the Government Finance Statistics (GFS) framework, to facilitate compliance at a General Government Sector (GGS) and whole-of-government level with GFS-GAAP harmonised standards.

(f) In respect of not-for-profit private sector entities:

No comment.

(g) In respect of public sector entities:

i) **Is there a need for differential reporting in the public sector? If yes, do you agree with differentiating based on size thresholds between public sector entities that should apply Australian equivalents to IFRSs and those that should apply an Australian equivalent to the IFRS for SMEs (which would include Aus paragraphs similar to those in Australian equivalents to IFRSs)?**

HoTARAC supports the concept of simplified accounting and reporting by small and medium-sized entities in all sectors, including the not-for-profit public sector, for useability, relevance and cost-benefit reasons.

The majority of HoTARAC agrees with differentiating based on a fixed size test using revenue and asset levels, as proposed by the AASB. However, there are a variety of views including:

- using a size test based on the relative size of entities within each public sector jurisdiction; and
- using a test of economic significance, which would be determined in respect of each public sector jurisdiction.

HoTARAC notes that some commentators have suggested that public sector bodies that raise money by way of taxes, levies, rates etc should be accountable for their actions by producing AEIFRS compliant financial reports. The majority of HoTARAC considers that such bodies should be fully accountable not only for the funds they raise, but also the way these funds are employed. However, this does not always need to be in the form of an AEIFRS compliant financial report and may be satisfied by the existing Operating and Cash Flow Statements if this meets users' requirements.

ii) Do you agree with the proposed size thresholds? If you do not agree, what do you consider to be the appropriate thresholds and why?

The majority of HoTARAC is of the view that the thresholds are set too low for the public sector. While the definition of "small and medium" based on a size criterion depends somewhat on definition and context, HoTARAC notes that:

- under the proposed thresholds, only a small percentage of public sector entities that produce GPFRs would be classed as small or medium in certain jurisdictions. This appears counter-intuitive if the framework is seeking to classify entities as small, medium or large;

- it would appear that a threshold test, which is based on a revenue threshold of twice the asset threshold may not be appropriate to the not-for-profit public sector, where some entities have considerable asset holdings but lower revenue levels; and

- HoTARAC believes the use of specified size tests could result in the tests rapidly becoming out of date, as has happened with the size tests for exempt corporations.

HoTARAC further notes:

- some jurisdictions question whether thresholds should be different between public sector for-profit entities and public sector not-for-profit entities (see item (g) below); and

- the discussion of thresholds in the public sector does not consider the distinction between administered and controlled transactions and balances. It also does not consider funds held in trust by public sector entities.

iii) **Public sector entities that meet the thresholds of $25m revenue and $12.5m assets would prepare their general purpose financial reports in accordance with the Australian equivalents to IFRSs. In contrast, non-publicly accountable for-profit entities would only be required to apply the Australian equivalents to IFRSs when they meet the thresholds of $500m revenue and $250m assets. The AASB has justified this difference based on the higher degree of public interest in the activities of public sector entities. Do you agree?**

The majority of HoTARAC is of the view that the proposed thresholds for public sector entities need to be higher for the public sector to derive any worthwhile benefit.

The argument proposed by the AASB assumes that accountability is aligned with the complexity of accounting or the volume of disclosure. HoTARAC does not accept this principle, and notes that there is a counter-argument that the increased requirements of AEIFRS could be seen as producing a complexity that hinders accountability and usefulness in public sector reporting.

Additionally, it is arguable that the types of information required by users of public sector financial statements include additional and/or different information from that provided by accounting standards (see the Group of Five[2] paper for the IASB conceptual framework project). This might lead to a conclusion that lower thresholds do not necessarily restrict accountability.

It is noted that if the thresholds for the public sector were set at the for-profit sector level ($500 million revenue and $250 million assets), and the IASB proposal for an ability to opt out of the IFRS for SMEs regime was retained, individual jurisdictions would be able to apply judgement to the entities that would apply IFRS for SMEs, hence:

- removing difficulties that might apply in determining fixed size tests that are relevant across public sector jurisdictions;
- allowing for some recognition of economic significance in applying IFRS for SMEs; and
- avoiding dysfunctional behaviour in choosing between for-profit and not-for-profit structures to deliver public sector programmes.

[2] *Application to Not-for-profit Entities in the Private and Public Sector – IASB/FASB Conceptual Framework Project (Australia, Canada, New Zealand & United Kingdom)*, paragraph 1.22.

iv) Both public sector entities and not-for-profit private sector entities that meet the thresholds of $25m revenue and $12.5m assets would prepare their general purpose financial reports in accordance with the Australian equivalents to IFRSs. The AASB has justified the common size thresholds for both types of entities based on a view that there is an equivalent degree of public interest in the activities of these two types of entities. Do you agree?

No. HoTARAC is of the view that only a very small number of private sector not-for-profit entities would be of high interest to the public.

v) Do you think another tier of simpler reporting requirements should be established to cater for smaller public sector entities? If so, what should those simpler reporting requirements be and how would the category of entities applying those requirements be identified?

The majority of HoTARAC believes the application of the IFRS for SMEs Standard to small and medium enterprises that currently do not produce GPFRs[3] is unnecessary. The users of financial statements of such entities rarely, if ever, need to undertake international comparisons of financial information. The AASB should determine an appropriate mechanism to continue to allow such entities to be scoped out of the IFRS reporting regimes.

Given that the proposed IFRS for SMEs Standard does not appear to result in significantly reduced disclosures and limited simplification of recognition and measurement, the majority of HoTARAC is of the view that a three-tier approach should apply. For example:

- where an entity meets a size threshold that is equivalent to the private sector threshold ($250 million assets/$500 million revenue) it can apply the IFRS for SMEs Standard; and
- where an entity meets a smaller size threshold, which could be that currently proposed for the public sector ($12.5 million assets/$25 million revenue), it can apply a regime similar to that for exempt entities and entities that produce special purpose financial reports.

Both thresholds would be optional and jurisdictions could choose to apply AEIFRSs.

[3] See item (i) (ii) below.

(h) Do you think there are approaches, other than the proposed approach based on public interest and employing size thresholds that would reasonably distinguish between entities that should apply the Australian equivalents to IFRSs and those that should apply an Australian equivalent to the IFRS for SMEs? If there are appropriate alternative approaches, please explain.

As noted above, some jurisdictions support an additional or alternative test based on economic significance. It is suggested that economic significance be measured:

- by the individual jurisdiction explicitly specifying those entities that may report under the IFRS for SMEs Standard; or
- through the use of an external classification system. For example, based on whether entities are included in the jurisdiction's consolidated statements.

The majority of jurisdictions support the concept of a fixed size threshold.

HoTARAC notes that the proposal in its response to item (g) (iii) above would accommodate both approaches.

(i) Do you agree that, consistent with the IASB's view of a general purpose financial report under a revised Australian differential reporting regime:

i) All financial reports available on a public register, such as those prepared and lodged with the ASIC under the Corporations Act, should be regarded as general purpose financial reports

No. See comments under item (i) (ii) below about financial reports for indigenous corporations and incorporated associations. These financial reports are often available on a public register but should not be regarded as GPFRs.

ii) All financial reports that are made available to the public at large, such as those tabled in Parliament, should be regarded as general purpose financial reports?
If you do not agree, explain why?

While HoTARAC understands the approach taken by the AASB and agrees in principle, it has three concerns with the proposal as drafted.

First, HoTARAC believes that the definition of "made available to the public at large" needs further work, because as currently worded it could include all financial reports voluntarily placed on the internet, even in situations where a GPFR is clearly inappropriate. Many entities, particularly in the public sector, make their financial reports available on the internet, even when these financial reports are currently classed as special purpose financial reports.

Second, some entities are required to lodge operational reports, which include financial data, to Parliament. It would be inappropriate to require these to be GPFRs in all instances.

Third, there are some types of entities with publicly available financial reports that do not currently produce GPFRs, and where use of AEIFRS is inappropriate. For example:

- there are a large number of indigenous corporations that have been incorporated under the *Aboriginal Councils and Associations Act 1976* and are required to place their financial statements on a register (or provide a certificate of exemption) – it is impractical for such corporations to prepare financial statements using either AEIFRSs or IFRS for SMEs as many are very small; and

- some jurisdictions require certain incorporated associations to register their annual financial statements as a condition of continued registration or access to government funding. Many of these are very small entities that currently do not produce GPFRs.

HoTARAC is nevertheless attune to the desire that, subject to concise and special purpose reporting arrangements, an entity should be able to present only one set of financial reports as its definitive set.

(j) Do you agree that, notwithstanding an entity having been exempted from filing a financial report with the ASIC, its financial report should be regarded as a general purpose financial report if it is required by the Corporations Act to be prepared in accordance with Australian Accounting Standards?

HoTARAC believes that general reporting requirements should only apply to entities that meet a size test based on revenue and asset levels, as proposed by HoTARAC, or meet a test of economic significance, which would be determined be each public sector jurisdiction.

(k) The Corporations Act includes three size thresholds respectively for revenue, assets and the number of employees to distinguish between small and large proprietary companies. The AASB's proposed size thresholds only include the monetary thresholds of revenue and assets. Do you think that, except for the case of for-profit entities that are not publicly accountable but are important from a public interest perspective, a further size threshold for the number of employees would be appropriate under the proposed differential reporting for not-for-profit private sector entities and public sector entities?

As employee numbers have been retained in the determination of an exempt company under the Australian *Corporations Act 2001*, this should now be incorporated into the AASB's threshold discussion for the sake of completeness.

(l) Considering the AASB's tentative decision to base the second tier of reporting requirements on the IASB's pending IFRS for SMEs, do you consider that the IASB's ED of A Proposed IFRS for SMEs is appropriate for Australian circumstances. If not, explain how it could be improved, or what other options are more appropriate and why?

See item (e) above. See also HoTARAC's response to the IASB, a copy of which is appended to this response.

(m) Do you think adaptations, or additional guidance, are needed (in addition to Aus paragraphs that would be included consistent with Australian equivalents to IFRSs) for not-for-profit private sector entities and public sector entities if the IASB's IFRS for SMEs were adopted in Australia?

HoTARAC identified a series of items that warrant further simplification by the IASB, and has included these in its response to the proposed IASB Standard. In addition, HoTARAC considers that the following simplifications may be appropriate in the context of the Australian not-for-profit public sector.

- the primary financial statements need not contain "resources received free of charge" as these are primarily relevant only for costing purposes; and
- the extent of disclosure of accounting policies could be reduced by making reference to a body of rules (such as accounting standards or directions to jurisdictional entities).

(n) Do you think Australian and New Zealand should seek to achieve harmonisation in their reporting requirements regarding SMEs?

HoTARAC considers that harmonisation would be beneficial. However, it should not be a deciding factor in determining the application of the IFRS for SMEs Standard within Australia.

(o) Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the preliminary views?

No comment.

(p) Do you think that the overall benefits that would arise from the proposals would exceed the overall costs? If you are an entity that prepares a general purpose financial report or would need to do so under the proposals, please advise us of any increased costs or any savings that would result from the proposals, and if possible, quantify them.

HoTARAC considers the proposal as currently drafted is likely to produce marginal benefit, given the proposed size threshold which limits application for the public sector. Without the AASB reconsidering the threshold size, the likely cost of moving to the IFRS for SMEs Standard and the possibility of having to prepare AEIFRS compliant financial statements once an entity exceeds the threshold, is likely to mean that the cost will outweigh the benefit for much of the public sector.

(q) Would the preliminary views be in the best interests of the Australian economy?

No comment.

Comments on *Exposure Draft of a Proposed IFRS for Small and Medium-sized Entities*

HoTARAC strongly supports the International Accounting Standards Board (IASB) in seeking to simplify accounting and reporting for small and medium-sized enterprises (SMEs).

HoTARAC also supports the IASB's decision to allow individual jurisdictions to determine application rules for the proposed Standard. This has allowed not-for-profit and public sector entities in Australia to potentially apply the proposed Standard.

In summary, HoTARAC believes there is scope for:

- additional simplification of recognition and measurement requirements;
- greater focus on simplification of disclosure requirements; and
- specific attention to some transitional arrangements.

Detailed responses to the questions asked by the IASB are set out below. For the sake of brevity, the questions have not been repeated in the response.

Question 1 - Stand alone document

No comment

Question 2 - Recognition and measurement simplifications

HoTARAC considers that the IASB should:

- remove the requirement to straight line operating leases (except where there is a balloon payment). HoTARAC believes straight lining adds additional complexity to financial statements, does not assist in forecasting future cash flows and is theoretically difficult to justify as a measure of economic activity when the revenue, or other expenses, to which it relates is not straight lined;

- adopt simpler valuation techniques for the fair value of financial instruments (particularly non-equity instruments that are not traded in a market and do not have a market equivalent). Attempting to force a market valuation technique on something that does not have a market is erroneous; and

- allow an option in calculating employee benefits to use a discount based on either corporate/government bonds or the advice of a qualified actuary, ensuring mutual consistency provisions are maintained. There are a number of problems with the International Accounting Standard (IAS) 19 requirement: first; it is the only measurement method for liabilities where a very prescriptive approach is taken; second, it may be difficult in some economies to determine a reliable rate from either corporate or government bonds; and third it imposes a risk profile for measuring liabilities that is not related to the individual entity.

Some of HoTARAC's constituents also support the following recommendations:

- remove the requirement to account for loan commitments as financial instruments as most SMEs would not engage in loan commitments; and

- limit the retrospective application of changes to accounting policies to the earliest disclosed comparative period. Calculations can be onerous for small entities and do not add any value to the financial statements, except in limited circumstances that could be covered by a general description of the change

HoTARAC notes that jurisdictions may always add disclosure requirements to meet their individual circumstances.

Question 3 - Measures not adopted

No comment

Question 4 - Accounting Policy Options

No comment

Question 5 - Borrowing Costs

The majority of HoTARAC agree with the proposal, as it allows SMEs to align more closely with initiatives for harmonised accounting and statistical reporting for the public sector under the requirements of the International Monetary Fund.

Question 6 – Topics not addressed

No comment

Question 7 – General referral to IFRS

No specific comment. The proposal should be adequate as long as it allows reference to the full IFRS should circumstances arise that are not catered for by IFRS for SMEs.

Question 8 – Adequacy of guidance

HoTARAC notes that the guidance appears to be adequate. However, HoTARAC notes that some users, preparers and auditors still have difficulty in applying principles-based Standards, and this may be exacerbated in situations such as this where the amount of guidance is reduced. The IASB should monitor this situation and review it periodically.

Question 9 - Adequacy of disclosures

As a general principle, HoTARAC is concerned that not enough attention has been paid to simplifying disclosures. In this regard, HoTARAC notes the trend among entities to produce summaries of financial information so that users do not need to review the full financial report.

HoTARAC recommends the following simplifications:

- defined benefit post-retirement plans;
- disclosure of accounting policies ie no disclosure required where the method of accounting is consistent with the only option available under the framework; and
- detailed discussion of risks associated with simpler financial instruments should not be required eg cash and equivalents, trade receivables and payables. In many cases, detailed discussion adds no value to the financial statements;

Question 10 - Transition Guidance

Note HoTARAC's comment under question 2 above, about retrospective application of accounting policy changes. This should also apply to adoption of IFRS for SMEs. The IASB should also consider the question of transitional provisions where an entity that moves from the IFRS for SME Standard to full IFRS, but is unable to apply the Standard IFRS 1. This might occur, for example, where an entity has previously applied full IFRS in an earlier accounting period.

Question 11 - Maintenance of the IFRS for SMEs

HoTARAC believes that the approach taken by the Board is a practical one.

It would be theoretically superior to require changes to IFRS for SMEs at the same time as changes to the equivalent Standard in the IFRS suite. However, this may impose a burden on SMEs that is not justified on a cost-benefit basis.