ITC 12 sub 61

MOORE STEPHENS

31 August 2007

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007
E Mail: standard@aasb.com.au

Dear Chairman,

ITC 12 – 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*

We are pleased to submit our responses to the Board's Request for Comment on a Proposed Revised Differential Reporting Regime for Australia.

Moore Stephens is generally supportive of the concept to simplify financial reporting for small and medium sized entities and of the AASB's proposed framework for differential reporting. We are also supportive of moving away from the use of the 'reporting entity' concept, and instead having financial report content determined based on lodgement of financial statements on a public register.

However we do not presently believe that the proposed SME standard would deliver the degree of simplification that might have been expected of such a proposal. Consequently, we express some concern as to whether the benefits of such a standard would be significant enough to justify its implementation in its present form.

We would be pleased to discuss our submission with you if required. In this regard, please contact either myself on (03) 8635 1965 or Rob Mackay on (03) 8635 1832.

Yours faithfully

Kevin W Neville
Managing Partner
Moore Stephens

Partners
Stephen L. Adrian
Steven A. Allan
Marco S. Carlei
Jean-Claude Cesario
Ian K. Kearney
Daren I. J. McDonald
Kevin W. Neville

Moore Stephens ABN 39 533 589 331
14th Floor, 607 Bourke Street, Melbourne, Victoria, 3000 Australia
Telephone: +61 3 9614 4444 Facsimile: +61 3 9614 6039
Email: melbourne@moorestephens.com.au Web: www.moorestephens.com.au
An independent member of Moore Stephens International Limited – members in principal cities throughout the world.
A separate partnership in Victoria

Stephen J. O'Flynn
Tim R. Olynyk
S. David Pitt
Ivan Shapiro
Grant M. Sincock
Jonathan C. Thomas
Daren Yeoh

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'?**

Yes.

Moore Stephens concurs with the proposed change from the 'reporting entity' concept to 'general purpose financial reports'. We believe that the proposed change eliminates the inherent subjectivity associated with the assessment of what is a 'reporting entity'. We consider the definition of 'general purpose financial reports' as defined by the International Accounting Standards Board to be objective in nature and easy to implement.

(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 (see paragraph BC6) and make it more effective?**

Not Applicable.

We do not support retention of the reporting entity concept.

(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?**

Subject to some tightening up of the wording of the definition, we support the use of the IASB's notion of 'publicly accountable entities' for the purposes of differentiation.

The IASB's definition states that an entity has public accountability if:

(i) it files, or it is in the process of filing, its financial statement with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or

(ii) it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance entity, securities broker or dealer, pension fund, mutual fund or investment banking entity.

Our understanding is that the first leg of the definition is intended to capture entities that are publicly listed. However, on a literal reading of the definition, it is difficult to see how such entities would be caught. We are concerned that, under the present wording, it seems possible for an established listed entity that has no need for raising capital to argue that it is not publicly accountable since it only files its financial statements for the purposes of compliance with the Corporations Act or Listing Rules. Hence, without the relevant activity of issuing instruments to the public, the nexus between such an entity and the definition does not appear to exist.

We would recommend the insertion of a third leg to the definition that would give an entity public accountability if it has its equity or debt instruments traded in a public market.

Moore Stephens believes that where an entity is publicly accountable, the full body of Australian equivalents to International Financial Reporting Standards should apply. In respect of entities not captured by this definition or by the AASB's proposed size thresholds, we are of the opinion that a less onerous reporting framework should apply. However, we have reservations as to whether the proposed SME standard realistically meets this objective. This is further elaborated below.

(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?**

Yes.

We concur that certain entities, by virtue of their size, should be required to adopt the full body of Australian equivalents to IFRS.

(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?**

Yes.

Any threshold, by its nature, will create an arbitrary limit. However, we are of the view that for Australian equivalents to IFRS to apply, thresholds should be of significant size so that only entities that having substantial interaction with the Australian economy are captured.

We would consider that thresholds of $500million for revenue and $250million for assets, whilst being at the high end of a theoretical range of possible thresholds that might be considered, would be reasonable in meeting the underlying objective.

(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?**

We believe that there is a need to address differential reporting requirements that apply to not-for-profit entities and public sector entities, and agree that both types of entities could be dealt with together on the presumption that they may have similar levels of accountability to wide groups of users.

We are also of the opinion that there should be a consistent framework for all not-for-profit entities, including, but not limited to, unlisted companies limited by guarantee, unlisted companies limited by shares, and incorporated associations.

With respect to incorporated associations, we are aware that there would need to be state based legislative amendments so as to harmonise financial reporting requirements across Australia. Having regard to the fact that incorporated associations are not statutorily bound to comply with accounting standards, it is presently unclear as to whether it is the AASB's intention to bring these entities into the differential reporting framework put forward by the SME proposals, and if so, how the AASB intends to achieve this.

Inclusion of Aus paragraphs into the proposed SME standard is an obvious way of achieving differential reporting for not-for-profit and public sector entities. However, this method of addressing the issue could also be viewed as cumbersome to the users of the standard.

For this reason, as a longer term proposition, consideration should be given to the development of a specific accounting standard applicable to not-for-profit entities and public sector entities.

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

(i) **is there a need for differential reporting in the not-for-profit private sector? If yes, do you agree with using size thresholds to distinguish between not-for-profit private 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 included in Australian equivalent to IFRSs)?**

Moore Stephens agrees that there is a need for differential reporting in the not-for-profit private sector for entities that do not otherwise meet the IASB's definition of 'publicly accountable'. We have also made a submission to Treasury supporting the introduction of a differential reporting regime based on size in respect of unlisted public companies. In this regard, we would recommend that the AASB coordinates its deliberations on this topic with those currently being undertaken by Treasury.

We would support the argument that differentiation based on size is appropriate on the basis that this represents objective criteria.

As mentioned above, we believe that it would be preferable if there was a specific accounting standard applicable to not-for-profit entities, however we are not presently opposed to incorporating Aus paragraphs within existing AASB's in the short term.

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

We believe that the most appropriate criteria to determine the thresholds for the reporting requirements of not-for-profit entities would be the amount of revenue received in a reporting period.

Because of their not-for-profit objective, we believe that the level of revenue received is the main indicator as to the significance of the entity's operations. The level of revenue is therefore indicative of the level of accountability to which the entity should be held and the degree of reporting that the entity should be required to comply with.

We believe a three tiered reporting framework to be preferable. This would be based on revenue thresholds as follows:

Revenue	Reporting Requirements
Less than $1,000,000	Minimal reporting requirements
Between $1,000,000 and $25,000,000	Lesser reporting requirements
Greater than $25,000,0000	Full reporting requirements

Based on this criterion, and having regard to the data provided in Treasury's discussion paper, two-thirds of the population of companies limited by guarantee would be subject to only the minimal reporting requirements whilst only 2% would be subject to full reporting requirements. We believe that this seems appropriate in the circumstances in that it recognises that the smallest not-for-profit entities should not incur the onerous time and cost burdens associated with financial statements prepared in accordance with full IFRS standards, whilst still recognising that these companies are often of more public interest than their private counterparts.

With respect to not-for-profit entities, we believe that the quantum of assets held is of lesser importance to providing an indicator in relation to the entity's accountability or significance of operations. For example, many charitable or benevolent not-for-profit entities have inherited or been gifted assets that today have a significant value yet are not an indication as to the significance of the entity's operations nor the level of accountability to which they should be held.

We therefore believe that the use of asset thresholds for triggering more comprehensive financial reporting should be set higher than what has been proposed by the AASB. In this regard, we propose that the gross asset thresholds should be the same as the revenue thresholds. We would propose a three tiered reporting framework based on gross assets as follows:

Gross Assets	Reporting Requirements
Less than $1,000,000	Minimal reporting requirements
Between $1,000,000 and $25,000,000	Lesser reporting requirements
Greater than $25,000,0000	Full reporting requirements

Based on this criterion, this would maintain the level of companies limited by guarantee utilising minimal reporting requirements at two-thirds of the population. Only 5% of not-for-profit companies limited by guarantee would be subject to full reporting requirements.

In summary, we feel that a differential reporting regime based on meeting either revenue or gross asset thresholds (set at levels as described above) would be appropriate.

(iii) **not-for-profit 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 not-for-profit entities. Do you agree?**

We support the proposed principle justifying the different size thresholds for not-for-profit entities and non-publicly accountable for-profit entities.

(iv) **both private sector not-for-profit entities and public sector entities that meet the thresholds of $25m revenue and $12.5m assets would need to 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?**

We support the principle that not-for-profit entities and public sector entities have similar degrees of public interest.

We refer you to our response to question (f)(ii), where we recommend that the thresholds for not-for-profit entities for both revenue and assets be set at $25m.

Whilst there may be an argument to suggest that there is public interest in the way that public sector entities utilise large amounts of assets and therefore that the asset threshold could be set at a lower threshold in line with the AASB's proposals, we believe that maintaining an equal $25m threshold for both revenue and assets (as we have suggested for not-for-profit entities), would not produce an unreasonable differential reporting framework for public sector entities.

Given that public sector entities often utilise their assets in the interests of the public rather than the profit orientated generation of revenues, we believe that the level of revenue received is the main indicator as to the significance of the entity's operations, and therefore is indicative of the level of accountability to which the entity should be held and the degree of reporting that the entity should be required to comply with.

We believe that the financial reporting for public sector entities with gross assets and revenues less than $25m would be more than adequately dealt with by the proposed SME standard.

(v) **do you think a third tier of simpler reporting requirements should be added to cater for smaller not-for-profit private sector entities that prepare general purpose financial reports? If so, what should those simpler reporting requirements be and how would the category of entities applying those requirements be identified? How would your answer to this question differ if the forthcoming IFRS for SMEs has fewer disclosures than the ED of A Proposed IFRS for SMEs?**

We propose that a three-tier differential reporting regime be used. This would be in accordance with the thresholds discussed in our response at (f)(ii) above. This differential financial reporting regime would consist of 'minimal', 'lesser' or 'full' reporting requirements.

Minimal – Management would be responsible for determining the financial information to be included in the financial report, subject to meeting minimum requirements of an income statement, balance sheet, cash flow statement, basic notes and Chairman's or CEO's (or equivalent) report that addresses the performance and operations of the entity during the reporting period, its position at the year end and its likely future developments. Such a report would be akin to a special purpose financial report under the current reporting framework.

Lesser – It would appear reasonable and consistent that entities falling into this category should be subject to the reporting requirements based on the proposed SME accounting standard (subject to some further simplification) with Aus paragraph insertions. However, in this regard and as already mentioned, we are of the belief that consideration should be given to the development of a not-for-profit standard in the future.

Full – Application of all Australian Equivalents to International Financial Reporting Standards.

(g) in respect of public sector entities:

(i) **is there a need for differential reporting in 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 included in Australian equivalents to IFRSs)?**

We believe that a differential reporting framework in the public sector is appropriate. We refer the reader to our response to question (f)(iv) in this regard.

(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?

In accordance with our response at questions (f)(ii) and (f)(iv) above, Moore Stephens proposes the following thresholds for the differential reporting framework of public sector entities.

Revenue/Gross Assets	Reporting Requirements
Less than $1,000,000	Minimal reporting requirements
Between $1,000,000 and $25,000,000	Lesser reporting requirements
Greater than $25,000,0000	Full reporting requirements

(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?

We support the use of different threshold platforms for public sector entities and non-publicly accountable for-profit entities based on the higher degree of public interest in the activities of public sector entities. This is primarily on the basis that public sector entities are funded by taxpayers who have a vested interest in ensuring that such entities are being governed appropriately.

(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?

We refer the reader to our responses at questions (f)(ii) and (f)(iv).

(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?

We have proposed that a three tier differential reporting framework be used by public sector entities as we have recommended for not-for-profit entities. Refer to our response at question (f)(v) in this regard.

(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.**

It is noted that the AASB are proposing to link financial report content requirements to the obligation to prepare and lodge a financial report with ASIC. That is, entities that lodge a financial report with ASIC will be deemed to have prepared a 'general purpose financial report', and will therefore be subject to the accounting standards governing the preparation of such a 'general purpose financial report'. The AASB has therefore tied the framework for financial report content to government policy.

Government policy in this regard is evident from ASIC Regulatory Guide 43 'Accounts and audit relief' which includes the following statement:

> "The accounts, audit and directors' report provisions of the Law are directed to attaining the objectives of the maintenance of investor confidence and the enhancement of market efficiency through the provision of relevant, reliable and timely financial and other information to market participants and in particular to shareholders and debenture holders and present and prospective creditors.'

Since the lodgement of financial reports with ASIC is based on the deemed information requirements of users of that financial report, we believe that such a principle must be consistently applied in determining the extent of that financial reporting. In other words, we believe that it would be appropriate to base differential reporting on the needs of users of financial statements, and we believe that it is a reasonable basis to conclude that the needs of users can be distinguished based on the public interest and size of the entity.

Whilst the use of size as a test is based on an assumption that the users of the accounts of small and larger sized entities vary in all instances, and whilst there may be many instances when this assumption might not hold in practice, we note the use of the size test by the government in the differential reporting of small and large proprietary companies.

It could be considered that alternative approaches to defining differential reporting could be equally subjective.

We therefore agree with the proposed use of the public interest and size in developing a differential reporting framework.

(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 that are 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; and**
- (ii) **all financial reports that are made available to the public at large, such as those tabled in a Parliament, also should be regarded as general purpose financial reports? If you do not agree, explain why.**

To the extent that the lodgement of a financial report on a public register is intended to satisfy the information needs of users who cannot otherwise obtain financial information to satisfy their specific requirements, we believe that it is appropriate to deem such financial reports as being 'general purpose financial reports'.

We are also of the view that reports otherwise made available to the 'public at large' should be considered 'general purpose financial reports'.

(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?**

We would regard such a financial report as a 'general purpose financial report' only on the basis that there are shareholders of the entity who cannot otherwise obtain information to satisfy their financial information needs. In all other cases, we believe that it is conceptually difficult to see how a financial report that is not required to be lodged on a public register could be appropriately described as a 'general purpose financial report' under the proposed principles.

We also consider the government policy underlying the requirement to lodge financial reports with ASIC to be distorted when having regard to the fact that certain entities are exempt from filing financial reports with ASIC (i.e. grandfathered large proprietary limited companies). Where the AASB has aligned its notion of general purpose financial reporting with such government policy, this also creates an inconsistency in the AASB's underlying principles for determining financial reporting content.

(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 already mentioned, we believe that the quantum of revenue is the key indicator in determining differential reporting thresholds for not-for-profit private sector entities, since this is the best indicator for determining the economic impact of the entity.

We do not believe that using 'number of employees' as an additional differential reporting test is appropriate for not-for-profit entities, since these entities should be seen as having a higher level of accountability for their activities. Introducing additional hurdles to trigger full IFRS reporting, such as a 'number of employees test' for significant not-for-profits is only going to reduce the financial information being reported in circumstances where reduced reporting is not merited.

It should also be considered that the level of the entity's revenue will generally determine the number of employees able to be sustained. Therefore, if the threshold for revenue has already been met, it could be seen as superfluous to also make reference to the number of employees. Furthermore, consideration would need to be given as to how part-time and volunteer employees should be treated in any calculation of employee numbers, noting that volunteers are unlikely to be recorded in the entities' payroll records.

For public sector entities, we believe that satisfying either an assets test or a revenue test is appropriate. For the reasons above, we do not support introducing an 'employees' test for public sector entities.

(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?**

<u>Overview of appropriateness of SME standard</u>

Moore Stephens supports the concept of an accounting standard for SME's. However, we believe that the standard is not appropriate in its present form.

Further simplification should be introduced, particularly with respect to the amount of disclosure still required by the proposed SME standard. This is discussed in more detail below.

We would question the practical implications of the use of the SME framework as the second level reference point in the hierarchy for accounting policy selection as detailed at paragraph 10.3 of the ED. We see that there may be scope to introduce some creativity in accounting where a transaction is being accounted for solely with reference to the framework in instances where it is not specifically addressed by the proposed SME standard. The fact that use of the SME framework could give rise to accounting treatments that are different from the accounting that would have resulted from full IFRS application is also problematic. For example, government grants received that are likely to be required to be recognised upon receipt under the SME framework would be allocated over the grant period using AASB 120. In this regard, we believe that full IFRS standards should be referred to for guidance in instances where the proposed SME standard does not address the accounting for a particular transaction.

We would also question the merits of the requirement for SME entities in extractive industries to expense all items of exploration where such expenditure may have been capable of capitalisation under AASB 6. We believe that, in a similar way to accounting for research and development, an accounting policy choice should exist for the SME to either expense or capitalise the relevant expenditure if it meets the AASB 6 requirements for capitalisation.

We see differences between recognition and measurement outcomes of the proposed SME standard and full IFRS standards as being particularly problematic for Australian subsidiaries of foreign entities that report under IFRS. These subsidiaries would not be inclined to report under the SME standard where their financial statements cannot be readily consolidated to the parent entity without re-alignment of accounting policies and subsequent re-accounting for transactions.

Such entities are therefore likely to prefer the application of the full IFRS accounting policy as allowed for by the SME standard. However, by doing so, they then seem to be penalised by having to adopt the full disclosures of the full IFRS standard.

It is our understanding that based on some preliminary statistics supplied by ASIC at some recent discussion forums, the number of entities to which an SME standard would apply is much lower than what might have been expected.

The above issues, as well as the ensuing discussion on disclosure, are examples of where doubt may be raised over the perceived benefits of adoption of the standard in its present form when compared to the costs of implementation to Australian entities and their professional advisors.

<u>Suitability of disclosures</u>

As mentioned above, it is perceived that the disclosures required by the SME standard may be onerous to entities applying the standard, particularly when considering the needs of the users of SME financial statements.

Examples of external users given in the ED of A proposed IFRS for SMEs include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

The standard also provides us with the notion of 'relevance' in the SME framework as being.....

> "The information provided in the financial statements must be relevant to the decision making needs of users. Information has the quality of

relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations."

In determining the disclosures that should be applicable to the users, paragraph 120 of the Basis for Conclusions to the draft standard states that the Board had regard to issues such as the interests of users in information about short term cash flows, obligations, commitments or contingencies, liquidity and solvency, measurement uncertainties, accounting policy choices and disaggregations of amounts reported on the face of the financial statements. Whilst not mentioned in this paragraph, basic information about the profitability and financial position is also relevant.

With these principles in mind, it is apparent that there are disclosure requirements in the SME standard which would not fall into these requirements. This is particularly the case where the standard may require the user to adopt the disclosures of the full IFRS standard due to the policy choice adopted by the entity.

For example, we would query the relevance of the following disclosures to the users identified:-

(i) Associates

- the summarised financial information of the associates
- shares of discontinued operations of the associate
- the reasons why the associate might have a different reporting date
- the country of incorporation of each significant associate
- the share of income tax of the associate
- the fair value of the investments in associates

(ii) Investment properties

- the significant assumptions and methods used in determining fair values
- detailed reconciliations between opening and closing balances, providing details such as whether the addition to the balance resulted from acquisition, subsequent expenditure, or a business combination
- reconciliations between valuations obtained and the amounts actually booked for the valuation

(iii) Property, Plant and Equipment

- effective dates of revaluations
- methods and significant assumptions applied in revaluations
- the extent to which the fair value was determined by reference to an active market, recent market transactions, or valuation techniques

- the carrying amounts that would have been used had a cost model been adopted
- the amounts of revaluations of property, plant and equipment attributed to the asset revaluation reserve
- detailed reconciliation items such as additions attributable to business combinations, impairment reversals and exchange differences

(iv) Intangible assets

- amounts included in an asset revaluation reserve that relate to the intangible asset revaluations
- significant assumptions applied in assessing fair values
- amounts of amortisation included in the line items in the income statement
- reasons why it is determined that an intangible asset has an indefinite life

(v) Financial instruments

- Assumptions adopted for valuation techniques and other fair value determinations
- Nature and extent of risk disclosures of AASB 7

(vi) Borrowing costs capitalised

- amount of capitalised borrowing costs
- capitalisation rate adopted

(vii) Leases

- breakdowns for lease expenditure with separate amounts for minimum lease payments, contingent rents and sublease payments.
- bases for which contingent rent is determined
- renewal and purchase options and escalation clauses

(viii) Provisions

- detailed reconciliations of movements (e.g. additions, reversals, unwinding discounts, expected reimbursements for each class of provision

(ix) Share Based Payments

- terms, conditions and vesting requirements of schemes
- breakdowns between vested and unvested SBP liabilities

(x) Discontinued Operations and Assets held for sale

- the separation and disclosure of the profits or losses and cash flows attributable to the component for the period and from its ultimate disposal

It could be argued that the detailed disclosures as identified above may be more applicable to entities whose revenues and assets are in the 'hundreds of millions' and where analysts might require access to such information. In this regard, it may be possible to argue therefore that:

(a) the SME disclosure requirements should be simplified as indicated above; and
(b) the thresholds adopted by the AASB in their differential reporting framework for economically significant non-publicly accountable entities may be too high.

We are of the general opinion that the main interests of users of SME financial statements lie in:-

- carrying values of assets and liabilities whereby comfort in these carrying values is gained in the knowledge that they have been subject to audit or review. In this regard, we do not believe that disclosures relating to underlying assumptions in deriving carrying values is relevant. Such information is more in line with the requirements of analysts in capital markets

- suitably classified items on the face of the financial statements, or notes whereby detailed disaggregations of such amounts adds little value to the user since the aggregated totals should be adequately described

- relevant note disclosures relating to commitments, contingencies, and liquidity issues

- All other relevant information that enables the user to obtain a true and fair view of the operations of the entity including material uncertainties

(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?**

We believe that it is important that special consideration should be given to the particular needs of the key users of the financial information contained in financial statements. To suggest that there is potential for additional adaptations or additional guidance that could be inserted is further grounds to support the need for a separate project to produce specific standards for not-for-profit and public sector entities.

We do not think that it should be within the scope of the current SME project to suggest how further financial reporting principles or requirements should be developed for these specific entities in an Australian context.

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

We presently see no reason why Australia and New Zealand should not seek harmonisation with respect to the SME standard. Such harmonisation would be consistent with the objectives set out in the Protocol for Co-operation between the AASB and the FRSB.

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

The outcome of Treasury's review of the reporting obligations that apply to unlisted public companies may impact on the AASB's deliberations with respect to the differential reporting framework for SME's.

As mentioned in paragraph (l) above, the applicability of the proposed SME standard in Australia may not be as significant as in overseas jurisdictions. This should be considered by the AASB in determining whether the standard is worthwhile or not.

(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.**

Moore Stephens is of the view that the costs of implementation of the proposed SME standard in its present form would exceed the benefits. This would particularly be the case for the subsidiaries that do not have lodgement relief under ASIC Class Order 98/1418, and currently prepare special purpose financial reports.

Having regard to the quantum of disclosures still required under the SME standard, we do not believe that the cost savings to an entity currently preparing full IFRS financial statements would be significant enough to warrant implementation.

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

On the basis that there is some further simplification implemented to the proposals, Moore Stephens is generally supportive of the concept.

We believe that the next stage is for all submissions to this ITC to be compiled and the outcomes released to the market so that the impacts on relevant parties can be fully digested. We would be particularly interested in obtaining some firm indications from ASIC as to the extent to which an SME standard would actually be applicable in an Australian context, since, as already mentioned, indications are that its potential application may not be significant.