

Professor David Boymal
The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Vic 8007

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
www.pwc.com/au
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

1 September 2007

Email: standard@aaab.com.au

Dear Professor Boymal,

We are responding to your invitation to comment on ITC 12 Request for Comment on a Proposed Revised Differential Reporting Regime for Australia. As a member of the PricewaterhouseCoopers network of firms, our comments on the matters raised in the IASB exposure draft have been considered in the firm's response to the IASB. PricewaterhouseCoopers will respond directly to the IASB regarding its exposure draft of A Proposed IFRS for Small and Medium-sized Entities. We will forward a copy of this to you. This submission focuses on the proposals for differential reporting in Australia.

We believe the reporting entity concept should be retained. The reporting entity concept's focus on the users of financial reports is consistent with the objectives of financial reporting. The concept has operated effectively since 1990 and as a large accounting firm, we have not seen any evidence that the current system is failing users. We do not agree with removing the reporting entity focus from the application of Australian Accounting Standards nor expanding the definition of 'general purpose financial reports'. The impact of the proposed change on many entities, such as subsidiaries of listed Australian and foreign entities is unduly burdensome and does not appear to deliver a commensurate benefit. The AASB's concerns identified in the exposure draft can be addressed by codifying some of the additional guidance available in ASIC Regulatory Guide 85. We believe the AASB could clarify that non-reporting entities should comply with all recognition and measurement requirements and be able to tailor their disclosures to meet the user's needs.

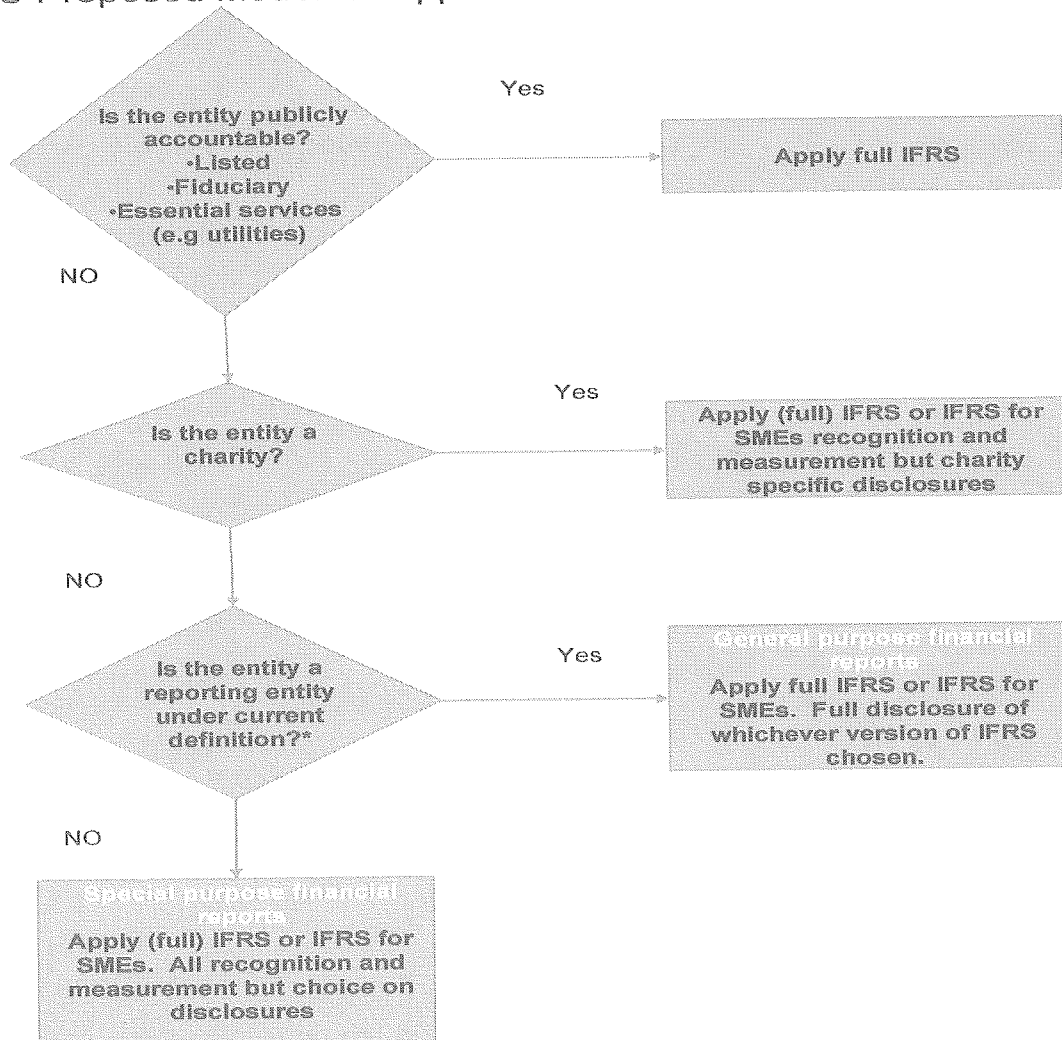
We support a simpler set of rules for small entities within Australia. Some Australian small entities may belong to a global or "trans-Tasman" group which will report under IFRS for SMEs. It is important to implement IFRS for SMEs here to facilitate consolidation.

The key consideration in Australia is to which entities the SME rules should apply. Under the proposals a broad spectrum of entities would report under IFRS for SMEs, some due only to their size. Size limits will also need regular adjustments to remain relative. A more timeless alternative would be to focus on the definition of a publicly accountable entity without using a size test. The AASB could expand the IASB's definition of publicly accountable to include both private and public sector entities which should prepare full IFRS financial reports due to their national importance. Examples might include essential services, national monopolies and utilities. If an entity is not publicly accountable they should be able to choose full IFRS or IFRS for SMEs.

We are concerned the disclosures in neither IFRS nor the proposed IFRS for SMEs address the needs of users of the financial reports of charities. We believe charities should have specific reporting and governance requirements due to the level of public interest in their activities. We encourage the AASB to develop specific disclosure guidance, to address the requirements of users. For example, information on how the mission of the charity has been achieved through the use of funds provided could be required. This should be done concurrently with implementation of IFRS for SMEs.

We consider that it would be appropriate to introduce the proposed IFRS for SMEs Standard within the existing Australian reporting framework in the following way:

PwC Proposed Model for Application of IFRS for SMEs



*Includes public sector, NFP entities that are no charities and corporate entities

Our detailed comments are set out in the attached appendix.

We would welcome the opportunity to discuss our views at your convenience. Please contact me on (02) 8266 0844 or Regina Fikkers on (02) 8266 8350 if you would like to discuss this further.

Yours sincerely,



Paul Bendall
Managing Partner - Assurance

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'?

We do not agree with changing the application focus of Australian Accounting Standards to 'general purpose financial reports'. We believe the reporting entity concept should be retained.

The reporting entity concept's focus on the users of financial reports is consistent with the objectives of financial reporting. Therefore we do not agree that there is a need to replace the reporting entity concept for the following reasons:

The impact of the new definition of general purpose financial reports on certain entities such as subsidiaries of listed Australian and foreign entities is unduly burdensome.

This particularly affects entities where deeds of cross guarantee cannot be put in place due to regulatory or commercial reasons. Because often there are no external users of their financial reports, many of these entities currently prepare special purpose financial reports including only limited disclosures. If these entities adopted IFRS for SMEs it would increase their disclosure, without evident benefit.

Additionally, IFRS for SMEs may result in subsidiaries adopting accounting treatments different from those adopted in their group's consolidated financial reports. This would mean preparing two sets of financial information, which appears incongruent with the move to IFRS and the intention of the IFRS for SME project. The additional cost of training staff, preparing adjustments between single entity and group financial statements and implementing systems to facilitate the two sets of standards would be onerous.

There are many different types of entities which are not reporting entities. Examples provided to the AASB at their round-table discussions included golf clubs, small associations, strata entities or simple public sector entities who may have one large asset such as a library. To require these entities to prepare full IFRS disclosures, such as AASB 7, would be costly with questionable benefit.

- (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?**

It is desirable to retain the reporting entity concept. We do not share the AASB's concerns. Their concerns about the application of the reporting entity concept can be addressed by codifying some of the additional guidance available in ASIC Regulatory Guide 85. The AASB could provide examples to assist interpretation of the reporting entity definition and clarify what is expected in the financial reports prepared by non-reporting entities. The AASB could clarify that all measurement and recognition requirements must be met for non-reporting entities, but the entity can tailor disclosures to meet the needs of users of their financial statements. Additionally the common questions such as whether an entity should equity account or the minimum disclosures to include in special purpose reports could be addressed.

We disagree with the AASB concern in BC6(a). Although the reporting entity concept is not used internationally, a number of other jurisdictions achieve the same outcome through use of a tiered system where full IFRS is only applied to listed entities. In Europe and the UK for example, there are many different tiers of reporting for different types of entities. We believe the removal of the reporting entity concept means Australia would impose more onerous requirements than other countries who have adopted IFRS.

- (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?**

We support the concept of a publicly accountable entity applying full IFRS. We believe the definition of publicly accountable should be expanded to include both private and public sector entities who should prepare full IFRS financial reports due to their national importance. Examples might include essential services, national monopolies and utilities.

- (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?**

No, we do not agree with a size test. A size threshold would be arbitrary and on current application may bring entities in and out of full IFRS if there is an exceptional yearly result. The definition of publicly accountable should be robust enough to include all entities considered to be publicly accountable. This definition would be timeless, whereas a size test will need to be updated periodically.

- (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?**

We do not agree with a size test. As outlined in (c) we believe the definition of publicly accountable should be robust enough to include all entities considered to be publicly accountable. This definition would be timeless, whereas a size test will need to be updated periodically. If an entity is not publicly accountable they could choose full IFRS or IFRS for SMEs.

- (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 do not agree that the forthcoming IASB's IFRS for SMEs is enough of an improvement for all not-for-profit entities.

Charities have funds provided by the public and are unique in their operations. We are concerned neither IFRS nor the proposed IFRS for SMEs addresses the needs of users of the financial reports of charities. Whilst we agree that charities should apply IFRS or IFRS for SMEs for recognition and measurement, specific disclosure guidance should be developed concurrently with the implementation of IFRS for SMEs. This should be done in a separate document and not via the inclusion of Aus paragraphs in the SME standard. Inclusion in IFRS for SMEs will result in a standard that is not easy for the less sophisticated finance departments of charities to use or understand.

Experience from overseas standard setters should be considered by the AASB. We understand the UK Chair of Charities SORP Committee has also requested more attention be given to the needs of charities by the UK ASB and the IASB. In New Zealand and the United States a sector neutral approach has been undertaken for recognition and measurement but disclosures specific to charities are required.

Not for profit entities that are not charities should be subject to the same reporting thresholds as proprietary companies. The reporting entity concept should be retained to ensure that not-for-profit non-reporting entities can tailor their disclosures to meet their user's needs.

We support a differential reporting regime for the public sector. See further comments below in (g) in relation to 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)?**
- (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?**

Yes, we agree that there is a need for differential reporting in the not-for profit sector however we believe that the nature of the operations of an entity rather than its size or how it is incorporated should determine its financial reporting obligations. The reporting entity concept better accommodates this principle rather than a size test. The AASB will need to consider the outcome of the Treasury proposals on unlisted public companies as part of its deliberations in this area.

For example, associations which are companies limited by guarantee will have funds provided by their members who also enjoy the benefits of the association. We are not persuaded that there is great public benefit in these associations preparing general purpose financial reports. The users of financial information of these associations (usually just the members) are most likely to seek simple financial and governance information illustrating how their funds have been utilised. We believe the constitution of these entities usually provides a mechanism to require the entity to prepare such information or financial reports that members need. It may also outline any audit requirements. If the government makes a grant to such an association it will usually also require some level of reporting on the use of these funds as part of the terms of the grant.

As stated in (e) we believe that the nature of activities undertaken by charities should determine the disclosure requirements rather than their size.

- (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 do not agree with the difference outlined in question (iii) due to the reasons noted above. It is unreasonable to expect a not-for-profit entity with \$26 million turnover to have more onerous reporting requirements than a for profit entity with \$499 million turnover.

We believe that there is no greater degree of public interest in not-for-profit entities that are not charities than corporate entities. Therefore, associations which are incorporated as companies limited by guarantee should have the same exemptions from reporting as proprietary companies.

- (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?**

No, we do not agree. In our view, there is not an equivalent degree of public interest in not-for-profit entities that are not charities. We believe that these entities should be treated in the same way as proprietary companies. Charities should be treated differently, due to the level of public interest in their activities.

We believe the reporting entity concept should be retained for private not-for-profit entities that report under IFRS or IFRS for SMEs and specific disclosure standards are developed for charities in conjunction with the IFRS for SMEs proposals. This would enable not for profit entities that are not reporting entities to prepare special purpose financial reports based on the needs of the users of the accounts.

We believe the definition of publicly accountable entities should be expanded to include the appropriate public sector entities rather than a size test. Examples raised at the AASB roundtables included essential services and utilities. Other examples include local government reports and whole of government reports at State or Federal levels. For non-publicly accountable public sector entities a choice of full IFRS or IFRS for SMEs should be made by the State or Federal government rather than an arbitrary size test. For example, where an entity is established merely to hold a particular asset, its size alone should not determine the entity's reporting obligations.

- (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?**

Yes, we believe an additional tier of simpler reporting is required. However, we believe the current reporting entity concept adequately provides this tier and should be retained. The users of smaller not-for-profit entity reports will not benefit from general purpose financial reports with full disclosures. Our views on charities and associations are noted above.

(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)?
- (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?
- (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?
- (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?
- (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?

Please refer to our comments in (c) and (d). We believe the reporting entity concept should be retained for the public sector and the definition of publicly accountable should be expanded to capture all entities needing to report under full IFRS. We disagree with having an arbitrary size threshold. We do not agree that there is always a higher degree of public interest in public sector entities than private sector. The entities activities rather than size will determine public interest.

- (h) do you think there are approaches, other than the proposed approach based on public interest and employing size thresholds, which 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.

Yes we believe the current tier of special purpose financial reports should be retained along with the new concept of public accountability. Please refer to our answers to questions (a), (b) and (c).

- (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.

We do not agree that all reports lodged on a public register such as with ASIC should be regarded as general purpose financial reports. We do not believe this was ASIC's original intent in their Media Release 92/106 and related guide. Additionally we do not believe the view outlined in the question is always consistent with the IASB's view of a general purpose financial report. An entity may lodge a report with ASIC and have no employees or creditors. As such it would not meet the IASB's definition of a general purpose financial report in the SME proposals because there are no external users of the accounts. This is often the case in the financial services industry.

We believe the definition will create confusion because the meaning of "made available to the public at large" is not sufficiently defined. For instance, it is unclear whether this would include financial reports lodged with the Department of Fair Trading or lodged on a website. For example, an association may prepare a special purpose report meeting its members' needs and lodge this on their website for members to use. We do not believe this action alone should trigger additional reporting requirements.

- (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 believe that reporting entities should be preparing general purpose financial reports regardless of whether the financial reports are filed with ASIC. These general purpose financial reports will be prepared under full IFRS or IFRS for SMEs. If an entity is regarded as a non reporting entity they should comply with recognition and measurement requirements of the standards but be allowed to tailor their disclosures to meet the needs of the users of the financial report.

- (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?

We believe the number of employees is not an appropriate basis for distinguishing the size of not-for-profit entities because it does not correlate to donations or asset values. Not for profit entities often have a large number of voluntary workers rather than salaried employees. As noted previously, we believe the nature of the operations is a differentiating feature which needs to be considered.

- (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?

It would be useful to have a simpler set of rules for small entities. The key consideration in Australia is to which entities these rules should apply. We assume any final decision of the AASB will be based on an understanding of a final IASB standard on SMEs and the outcome of the Treasury's deliberations on unlisted public companies. We have significant reservations regarding proposals to abolish the disclosure relief that non-reporting entities currently have as this will significantly increase the reporting burden for these entities. We do not believe that IFRS for SMEs should be implemented without an overlay of a reporting entity concept.

We will forward to you separately our PricewaterhouseCoopers' network of firms' views on the IASB's proposals.

- (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?

As noted above we believe specific guidance should be developed for charities outside the IFRS for SMEs standard.

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

Yes we agree it would be beneficial for Australia and New Zealand to consider the possibilities of harmonising their reporting requirements, however the solution needs to be acceptable in the Australian environment.

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

As noted above, the AASB will need to consider the outcome of the Treasury proposals on unlisted public companies as part of its deliberations in this area.

(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.

Overall the costs for some entities outweigh the benefits in these proposals. For example subsidiaries of listed and foreign entities that may currently prepare special purpose accounts will now have to prepare general purpose financial reports. In the banking industry in Australia it would not be unusual for a listed entity to have more than 300 subsidiaries, many of which will need to produce financial reports. The average length of the subsidiaries' special purpose financial report would be 15 pages, it is anticipated that this would increase to around 30 pages if general purpose financial reports needed to be prepared. These entities may wish to adopt IFRS for SMEs to avoid the detailed disclosures required by IFRS. However, this may result in them adopting accounting treatments different from those adopted in their group's consolidated financial reports. This would mean their financial information would need to be adjusted before being included in the group's results. This additional financial reporting burden has questionable benefits. Disclosure relief should be retained through operation of the reporting entity concept.

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

We do not believe it would. Refer to our answer to question (a) and (l).