

RSM Bird Cameron

Chartered Accountants

Level 12, 60 Castlereagh Street Sydney NSW 2000
GPO Box 5138 Sydney NSW 2001
T +61 2 9233 8933 F +61 2 9233 8521
www.rsmi.com.au

Mr David Boymal
The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007
Email: standard@asb.com.au

Dear David

ITC 12 – Proposed Revised Differential Reporting Regime for Australia

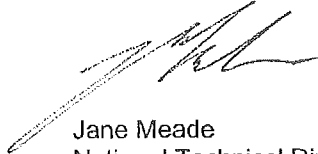
RSM Bird Cameron appreciates the opportunity to make this submission on ITC 12 and the proposed IFRS for SMEs.

Whilst we generally support the concept of a simplified IFRS for SMEs, we have a number of concerns regarding the AASB's proposed application of the current IASB exposure draft in the Australian context. In particular, we do not support the proposal to replace the reporting entity concept. We do, however, support some clarification regarding the requirement for non-reporting entities to apply the recognition and measurement requirements of all accounting standards.

In addition we also recommend that this project should be considered in light of the outcome of consultation carried out by the Treasury regarding unlisted public companies. Finally, until the IASB finalises its IFRS for SMEs standard, its application in the Australian context cannot be fully determined.

We have provided detailed comments to specific questions raised by the AASB in the following pages.

Yours sincerely



Jane Meade
National Technical Director.

Liability limited by a
scheme approved under
Professional Standards
Legislation

Birdanco Nominees Pty Ltd
ABN 33 009 321 377
Practising as
RSM Bird Cameron
ABN 65 319 382 479

Major Offices in:
Perth, Sydney,
Melbourne, Adelaide
and Canberra

RSM Bird Cameron is an independent
member firm of RSM International, an
affiliation of independent accounting and
consulting firms.

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 support this proposal. The current reporting entity focus provides for the preparation of financial information which is relevant to the needs of users. The main companies affected by this proposal would be subsidiaries of listed entities and foreign-owned subsidiaries. These companies lodge their financial reports with ASIC and hence, under the AASB's proposals would be required to prepare general purpose financial reports (GPFRs). Under the reporting entity concept, such companies, in many cases, would be able to prepare special purpose financial reports (SPFRs) which are adequate for the needs of their users. Preparing GPFRs for these entities would significantly increase costs for these entities. In addition, it may be impracticable or not possible for these entities to apply the proposed IFRS for SMEs standard (and thereby reduce their disclosures to some degree) if they are required by their parent company to apply accounting policies which are contained in IFRS but not IFRS for SMEs.

- (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?*

The AASB's concern with the reporting entity concept appears to be twofold. Firstly, the current approach does not reflect International practice and, secondly, there is a level of subjectivity in determining whether an entity is a reporting entity. Regarding International comparability, a number of different applications exist in various jurisdictions. In addition, the entities which the change would apply to are not of the type that would generally cause a concern in this area. Applying recognition and measurement requirements to all entities would remove part of this concern. It should also be noted that applying IFRS for SMEs as opposed to full IFRS could also lead to issues of comparability among entities.

Regarding subjectivity, it can be argued that there is sufficient guidance in SAC 1 and APS 1 relating to determination of whether an entity is a reporting entity and such guidance is consistent with a principles-based approach. The greater concern appears to have arisen from the question as to whether non-reporting entities are required to apply the recognition and measurement requirements of accounting standards. The requirement for all entities applying IFRS to apply the recognition and measurement requirements could simply be included in a standard to address this concern.

- (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 do not support this proposal. It would be preferable to maintain the concept of disclosing entity as a differentiator to provide consistency with various Corporations Act requirements as well as the distinction for applying certain requirements of existing A-IFRS.

(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?*

We agree that there may be for-profit entities which do not meet the definition of publicly accountable (or, in our proposed Australian context, disclosing entity) but are of public interest because of their size. However, adding another tier to the reporting framework appears contrary to the AASB's objective of consistency between application in Australia and Internationally. It should also be considered that size alone may not be indicative of public interest; however other determinants would introduce another level of subjectivity.

Another issue with the use of size tests is that an entity may be on the borderline of the thresholds and as a result the requirement to apply either full IFRS or IFRS for SMEs may vary from year to year. This can have major impacts where the recognition and / or measurement requirements differ between the two regimes.

- (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?*

Whilst the quantum of the proposed size thresholds appear appropriate, we believe the AASB should consider whether it is appropriate to have an either/or approach. Our view is that it is more appropriate to require both thresholds to be met for an entity to be considered important from a public interest perspective.

(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?*

Whilst we agree that it is appropriate for not-for-profit entities in both the private and public sectors to adopt the recognition and measurement principles of either full IFRS or IFRS for SMEs, we do not agree that it is appropriate for these entities to adopt the disclosure requirements of either of these regimes as they currently exist. The inclusion of Aus paragraphs, particularly regarding disclosure requirements would be cumbersome for all users. It would be preferable for the AASB to prepare a separate not-for-profit standard, applying the recognition and measurement requirements of IFRS for SMEs if this is considered appropriate, and with disclosure requirements appropriate for these 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?*

- (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?*
- (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?*
- (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 support a differential reporting framework in respect of not-for-profit private sector entities. However, we believe that such a project should be considered in conjunction with the outcome of responses to the Treasury Discussion paper regarding companies limited by guarantee which also addressed the need for having a consistent framework for incorporated associations.

(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.*
- (v) *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?*

- (vi) *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 public sector will face similar issues as the private sector in respect of the need to be consolidated into whole of government reports and therefore there is a requirement for consistent accounting policies. This may mean that an IFRS for SMEs will not be practical to apply where the recognition and measurement requirements are different to those under full IFRS.

The level of public interest in the public sector may lend some support to the requirement to prepare general purpose financial reports for all government departments at least. However, for smaller statutory bodies, we consider user requirements should be the determinant of the level of disclosure.

- (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.*

Apart from the comments noted throughout this submission we support size thresholds, in concept, as appropriate for distinguishing which entities apply IFRS for SMEs.

- (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.*

As stated earlier, we do not agree that it is appropriate for all reports available on a public register to be regarded as general purpose financial reports. We support maintaining the reporting entity concept to distinguish between general purpose and special purpose financial reports with the added clarification that all entities lodging financial reports should apply the recognition and measurement criteria of either IFRS or IFRS for SMEs.

In respect of (ii), we believe clarification is required as to what is meant by "available to the public at large". If it is intended that, for example, financial reports available on websites or mailed to members of clubs should be general purpose financial reports, we do not agree with the requirement for the same reasons.

- (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 do not agree with this proposal. If the financial report is not required to be lodged and is only available for distribution to users at the discretion of the entity, it would not be appropriate to require this to be a general purpose 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?*

Inclusion of the number of employees as a determinant of size would appear appropriate and would make the determination of size consistent across sectors. It would also allow for a 2 out of 3 approach, rather than an either / or approach, to determining size as described above. It may be desirable to investigate whether such an approach would have an unintended affect on the outcome of applying the test in the relevant sectors.

- (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?*

Whilst we support the concept of an IFRS for SMEs and agree that the IASB exposure draft goes some way toward simplification of IFRS, particularly in respect of recognition and measurement, we believe the disclosure requirements are still onerous for smaller entities. The outcome for entities currently preparing special purpose financial reports would be significantly increased costs if required to prepare financial reports under IFRS for SMEs.

Another key issue with the standard as it is currently drafted is that if an entity is a subsidiary of an entity complying with full IFRS and that parent requires them to comply with a recognition or measurement requirement not available under IFRS for SMEs that subsidiary entity would then be required to prepare their financial report with the disclosures of full IFRS. Again there would be significant costs in doing so with no apparent benefit.

Finally, the IFRS for SMEs standard does not currently provide for entities moving in and out of the regime as their size fluctuates. This could also make application onerous and difficult to understand for such entities.

- (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 support the issuance of a separate not-for-profit standard, which could be based on IFRS for SMEs, rather than complicating the application of the standards by inserting Aus paragraphs.

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

We would support harmonisation between Australia and New Zealand.

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

As mentioned previously, we would recommend that the outcomes of the Treasury consultation on unlisted public companies should be considered prior to finalising implementation for these entities.

(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.

In our view, the cost of implementation of the proposals as they currently stand would outweigh the benefits, particularly in relation to entities who are currently preparing special purpose financial reports.

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

In this light, the preliminary views would not appear to be in the best interests of the Australian economy nor would they be consistent with recent measures to simplify the regulatory reporting framework.