

27 August 2007

The Chairman
Australian Accounting Standard Board
PO Box 204
Collins Street West
Victoria 8007

Submission on Invitation to Comment (ITC 12) - IFRS for SMEs Exposure Draft (ED)

I strongly object to the ITC proposal that abolishes the Reporting Concept and instead deems any entity (whether public, private or not-for-profit) that is required to lodge a Financial Report on a public register (e.g. ASIC, Associations Act) as preparing 'general purpose financial reports'. This is a major change in the financial reporting requirements in Australia that has applied since 1991 and is contrary to the best interests of the Australian economy for smaller enterprises.

Contrary to the view expressed by the Australian Accounting Standards Board (AASB) in the ITC, we believe that the current Reporting Entity requirements result in a proven superior and effective differential reporting system that appropriately reflects the balance between the costs and benefits of financial reporting in Australia.

A significant number of smaller entities are SMEs that are required to prepare Corporations Act financial reports either as Large Proprietary Companies (Revenues \$25M+/Assets \$12.5M+/50+ Employees), or other entity structures, and derive none of the benefits of harmonised international accounting standards that are intended for companies that have Users who require general purpose financial reports.

It particular the AASB's proposed application of the IFRS for SMEs Framework:

- (a) is contrary to the Government's policy of reducing Red Tape (Simpler Regulatory legislation);
- (b) is contrary to the 96% of the record 184 Submissions made to the AASB on ED 148 concerning the Reporting Entity Concept; and

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- (c) is inconsistent with the IASB's application of the IFRS for SMEs ED that only applies to Reporting Entities which are producing 'general purpose financial reports' for which the IFRS for SMEs Framework is designed for.

What small business sees are the ongoing red tape costs of compliance with complex standards that are of dubious relevance to them, and which adds unnecessarily to the burden of regulation.

If the AASB is not prepared to retain the Reporting Entity Concept so that those Non-Reporting Entities can continue to produce simplified financial reports, we request the Financial Reporting Council to issue a Directive to the AASB for retention of the reporting entity concept.

I believe that the IASB project on SMEs is not the solution to the problem facing SMEs in financial reporting. In simple terms, the IASB's standards are so poorly written they cannot be easily applied by any entity, be they SMES or large multi-national corporations. For the latter companies, they have the resources to try to make some sense of these third rate standards. The solution to the problem is to rewrite the standards using a sensible drafting style that facilitates understanding and allows easy application. In adopting the SME project there is an implicit admission by the IASB that is standards are so grossly deficient that they cannot reasonably be applied by the vast majority of entities. They would be better advised to deal with the cause rather than the symptoms.

Best wishes

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