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27 November 2019

Ms Kris Peach  
Chairman  
Australian Accounting Standards Board  
Level 14, 530 Collins Street  
Melbourne VIC 3000

Dear Ms Peach

**SUBMISSION – AASB ED 295 GENERAL PURPOSE FINANCIAL STATEMENTS –  
SIMPLIFIED DISCLOSURES FOR FOR-PROFIT AND NOT-FOR-PROFIT TIER 2 ENTITIES**

We appreciate the opportunity to provide comment to the Australian Accounting Standards Board (the AASB) on the AASB's Exposure Draft 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Entities* (the Exposure Draft).

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We support the objective of the AASB to reduce excessive disclosures within the Reduced Disclosure Regime (RDR) framework. However, we do not consider the proposals, to introduce a new 'Simplified Disclosures' in place of the current RDR, will result in any practical benefits to preparers and users of financial statements. We consider the issue of excessive disclosure identified in the current RDR requirements can be addressed more simply through modifications to the existing regime rather than the introduction of a whole new basis for determining a new Tier 2 standard.

However, on the basis that the AASB proceed with developing 'Simplified Disclosures' based on the IASB issued IFRS for SMEs standard, we do not support disclosures being required by the proposals that are over and above the current RDR disclosures. This is on the basis that increased disclosures do not address the fundamental issue of excessive disclosure of the current RDR. Additional disclosures and or requirements/options proposed in relation to the current RDR include:

- The option to present a statement of income and retained earnings with additional disclosures; and
- Additional disclosures relating to information about the entity, audit fees, hedging, investments in associates, goodwill, lease arrangements, employee benefits, subsequent events, related parties and first-time adoption.

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Further, we do not support the effective date for mandatory adoption being 1 July 2020. We consider the proposed change from RDR to 'Simplified Disclosures' to be a major accounting standard change for many entities, and hence consider a minimum of two years post issuing the standard should be provided to entities before the standard is made mandatory. A minimum two-year notice period for major accounting standard changes is common practice in Australia and internationally. This allows time for education initiatives to take place as well as allowing time for changes to be processed through IT software and various illustrative financial reporting guidance.

We have included further comments on the certain questions outlined in the specific matters for comment section of the proposal in the following pages.

Please contact Ms Kerry Hicks, Director – Technical Standards (02 9228 2272 or [kerry.hicks@pitcher.com.au](mailto:kerry.hicks@pitcher.com.au)), in relation to any of the matters outlined in this submission.

Yours sincerely



K L Byrne  
Partner



Kerry Hicks  
Director, Technical Standards

**SPECIFIC MATTERS FOR COMMENT**
**Question 1**

**Do you agree with the overarching principles on which the proposed Simplified Disclosure Standard is based, and the methodology described in paragraph BC33-BC43 to this ED? If you disagree, please explain why.**

*Response:*

No, we do not support the overarching principles on which the proposed Simplified Disclosure Standard is based as outlined in BC33 – BC43. These principles have started with the existing disclosures in the IFRS for SME's Standard taking a bottom up approach to determine the 'Simplified Disclosures'. However, the AASB has not adopted all the IFRS for SMEs standard and have focused only on disclosure. We note that in taking this approach the AASB is attempting to anticipate what the IASB may do in its project in relation to Subsidiaries that are SMEs.

If the AASB is looking for consistency with IFRS for SMEs, we note that IFRS for SMEs is currently the subject of a comprehensive review and therefore any alignment might be best to wait until this review is complete.

We agree that the main issue regarding the current Reduced Disclosure Regime (RDR) is that there exist still too many disclosure requirements. This will make it difficult for entities adopting the RDR, for example if they previously prepared special purpose financial statements (SPFS).

However, we do not see any practical benefit for entities in solving the issue of excessive disclosures under the current regime in replacing this with a fundamentally new framework called 'Simplified Disclosures'.

While such an approach may be easier for preparers that previously prepared SPFS, we consider it will cause unnecessary cost for those entities that already prepared general purpose financial statements (GPFR) for no additional benefit.

Further, we consider that users will be confused with such a different framework as it can result in different financial statements compared to existing GPFR. For example, the proposal to allow for a statement of income and retained earnings in place of a statement of comprehensive income and a statement of changes in equity will be confusing to users that compare accounts of different entities.

Our preference would be to revisit the proposals in ED 277 *Reduced Disclosure Requirements for Tier 2 Entities* and determine those disclosures considered unnecessary and remove them from the current RDR standards.

**Question 2**

**Do you agree that proposals should replace the current RDR framework? If you disagree, please explain why.**

*Response:*

Refer to our response to question 1.

## SPECIFIC MATTERS FOR COMMENT

We are concerned that the proposals increase the disclosures required by the current RDR framework in a number of areas. We do not support disclosures being required by the proposals that are over and above the current RDR disclosures, even if they are based on IFRS for SMEs. Additional disclosures and or requirements/options proposed in relation to the current RDR include:

- The option to present a statement of income and retained earnings with additional disclosures; and
- Additional disclosures relating to information about the entity, audit fees, hedging, investments in associates, goodwill, lease arrangements, employee benefits, subsequent events, related parties and first-time adoption.

<b>Question 10</b>
<b>Do you agree with the approach taken in this ED to include all the disclosure requirements for Tier 2 entities in one stand-alone standard?</b> If you disagree, please explain why.

*Response:*

We can see the benefits of having one stand-alone standard for disclosures as well as the benefits of the current 'shading'.

The current shading arrangement within the individual standards is commonly understood by preparers and also means there is no separation between recognition and measurement, presentation requirements, guidance and disclosures.

Having one stand-alone standard does have some benefits, as the disclosure requirements are easily distinguished and can be more easily updated by standard setters. However, we consider the presentation criteria and the guidance thereon as critical to refer to as entities are preparing their disclosures.

For example, the new proposals contain the classification criteria between a current and non-current liability which is also contained in paragraph 69 of AASB 101 *Presentation of Financial Statements*. No other disclosures or guidance are within the new proposals. However, AASB 101 contains guidance on this classification criteria in paragraphs 70 to 76. This guidance provides additional consideration in interpreting paragraph 69 including guidance on refinancing and breaching a bank covenant. This guidance is not referred to in the new proposals and therefore may not be used in interpreting the standard and therefore result in divergence.

Therefore, on balance, we do not agree with the new proposal to include the disclosure requirements in one-stand-alone standard. However, we could envisage the AASB producing a stand-alone guide (rather than a standard) containing the specific disclosure requirements within the standards for the standards that are not 'disclosure only' standards.

**SPECIFIC MATTERS FOR COMMENT****Question 11**

**Do you agree that, once approved, the amended Tier 2 disclosure requirements should be effective for annual periods beginning on or after 1 July 2020 with early application permitted?** If not, please provide your reasons.

*Response:*

We do not agree with the proposed effective date for annual reporting periods beginning on or after 1 July 2020.

It is common practice in Australia and internationally for major accounting standard changes to have a minimum of two years post issuing of the standard to be effective. This allows time for education initiatives to take place as well as allowing time for changes to be processed through IT software and various illustrative financial reporting guidance.

We consider the proposed change from RDR to 'Simplified Disclosures' to be a major accounting standard change for many entities, and hence consider a minimum of two years post issuing the standard should be provided to entities before the standard is made mandatory.

We do not consider the arguments raised by the AASB in the Basis for Conclusions to be persuasive in mandating an earlier application date. The entities to which this change will apply do not apply International Financial Reporting Standards and will vary in size and structure with the application to large proprietary companies as well as public companies of all sizes.

For those entities that wish to adopt the changes earlier, we support the standard allowing for earlier application.

**Question 16**

**Whether, overall, the proposals would result in financial statements that would be useful to users?**

*Response:*

We do not consider the proposals would result in financial statements that would be useful to users in any incremental way to RDR being useful to users. We consider that users will find confusing the different presentation requirements in GPFR that will be introduced by the proposals.

At a minimum we consider the disclosures related to the key financial statements should be consistent for all GPFRs.

**Question 17**

**Whether the proposals are in the best interests of the Australian economy?**

*Response:*

We do not consider the proposals are in the best interests of the Australian economy as the costs to implement the proposals will exceed the incremental benefits to preparers and users.