



Project:	Removal of SPFS for FP entities	Meeting	September 2019 (M172)
	Simplified disclosures for Tier 2 entities		
Topic:	Extension of comment period for ED297 and ED295 issued	Agenda Item:	17.1
		Date:	4 September 2019
Contact(s):	Helena Simkova hsimkova@asb.gov.au 03 9617 7642 Meina Rose mrose@asb.gov.au 03-9617 7622	Project Priority:	High
		Decision-Making:	High
		Project Status:	Exposure Draft issued

Introduction and objective of this agenda item

- 1) The objective of this agenda item is for the Board to decide whether the comment period for *ED 297 Removal of SPFS for certain for-profit entities* and *ED 295 GPFS Simplified Disclosures for FP and NFP Tier 2 Entities* should be extended.

If the answer is yes, then the Board needs to decide:

- (a) whether to extend the comment period for *ED 297 Removal of SPFS for certain for-profit entities* only or for *ED 297 Removal of SPFS for certain for-profit entities* and *ED 295 GPFS Simplified Disclosures for FP and NFP Tier 2 Entities* as they are related; and
- (b) what the extended comment period should be.

Summary of staff recommendation to the Board

- 2) To enable the issue of the final standards related to ED 297 and ED 295 by 30 June 2020 (for the reasons explained below), and accommodate the feedback from our stakeholders, staff recommend that a two-week extension be provided.

Reasons for bringing this paper to the Board at this meeting

- 3) In August 2019 the AASB issued the following documents:
 - *ED 297 Removal of SPFS for certain for-profit entities* and *ED 297 Removal of SPFS for certain for-profit entities*, which is proposing to remove the ability of for-profit large proprietary, unlisted public and small foreign-controlled companies to publicly lodge special purpose financial statements; and
 - *ED 295 GPFS Simplified Disclosures for FP and NFP Tier 2 Entities*, which proposes to replace the current Reduced Disclosure Requirements with a new, separate disclosure standard that would apply to all entities that report under Tier 2 of the differential reporting framework.

The comment period for both exposure drafts will end on 15 November 2019.

- 4) Following the issue of the ED 297, CAANZ and CPA Australia requested an extension of comment period for ED 297 and Nexia provided feedback requesting an extension of comment period for ED 297, ED 295 and ED 291 Not-for-Profit Entity Definition and Guidance
- 5) Nexia (refer to agenda item 17.2) points out that since June, AASB has issued eight Exposure Drafts comprising a combined 887 pages of material for public comments. It further highlights that the period between July and October is the busiest time for companies, accounting firms and auditors as they attend to companies' 30 June financial reporting obligations. Nexia considers that the current comment deadlines for the EDs do not provide companies, accounting firms and other stakeholders sufficient time to properly consider, engage with clients and stakeholders and respond to each of these proposals in an informed manner within the time permitted.. In addition, Nexia mentions that the comment period also partially coincides with submission period for the Parliamentary Inquiry into Regulation of Auditing, which ends 30 September 2019 (the submission for this inquiry has now been extended to 30 October 2019).
- 6) Due to the reasons stated above, Nexia suggests to AASB to extend the comment period for ED 291 *Not-for-Profit Entity Definition and Guidance*, ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* and ED 291 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* until 20 December 2019. (Note for the Board, as the comment period of ED 291 closes on 9 September (prior to the September Board meeting) and as the ED was issued in June 2019, extension of its comment period has not been considered).

Staff have also received feedback from CAANZ and CPA Australia, both citing that the 90-day comment period provided for ED 297 coincides with the financial reporting and audit engagements for 30 June 2019 year–ends and as such constituents may not be able to devote the necessary time to consider a comprehensive response to ED 297. CPA particularly mentions that the comment period for ED 297 considered in staff paper for the Board meeting in June 2019 was 120 days and 6 months prior to that. Due to these reasons, CAANZ and CPA Australia request an extension of the comment period for ED 297 until 15 December 2019.

Attachments

- | | |
|------------------|------------------------------------|
| Agenda Item 17.2 | Letter from Nexia |
| Agenda item 17.3 | Email from CAANZ and CPA Australia |

Reasons for current comment period deadline i.e 15 November 2019 for both EDs

- 7) Even though ED 297 and ED 295 are two separate consultative documents, FP private sector constituents impacted by the proposals in ED 297 should consider the proposals in ED 295 when providing feedback on ED 297. ED 295 provides a new Tier 2 disclosure framework which will enable FP private sector entities transiting from SPFS to General Purpose Financial Statements (GPFS) to apply the R&M requirements of Australian Accounting Standards (AAS) with simplified disclosure requirements that are further reduced from the disclosure requirements in the current Tier 2 disclosure framework i.e. Reduced Disclosure Requirements (RDR). The proposals in ED 295 would help mitigate some of the cost concerns for those FP entities transitioning from SPFS to GPFS. Therefore, the Board decided to align the comment closing date for both these EDs to enable FP private sector constituents to consider the proposals in the EDs together. For this reason, Staff consider that an extension of comment period should be considered for both the EDs together and not in isolation.

- 8) The Board considered a number of possible comment periods for the EDs during the development of the proposals. While staff had proposed comment periods of 120 days for both EDs at the June 2019 meeting, this was based on an expected issue date of mid-July for ED 295 and August for ED 297. However, the Board agreed in June that the comment period for both EDs should be aligned, and that a 90-day comment period would be sufficient for ED 297.
- 9) In particular, the issuance of ED 297 was preceded by an extensive consultation process. The comments collected on consultation paper *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* (ITC 39) helped to identify the main issues relating to the project and the feedback was considered by the Board prior to issuing the ED. With the exception of the proposed transitional relief, the ED does not introduce significant new proposals but rather a more detailed version of proposals and options previously discussed and exposed for comments as part of ITC 39.
- 10) A 90-day comment period is also in line with the AASB's [Policies and Processes Document](#), which is available on AASB's website, which states that usual comment period for an ED is 90 days.
- 11) While Staff acknowledge that ED 295 does introduce new proposals and has quite a lot of supporting material, Staff note that the comment period for ED 295 is 107 days (ED 295 issued on 1 August 2019). Staff further note that it is not necessary for constituents to read the supporting material (ie staff analysis) to provide feedback on ED 295. The supporting material accompanying ED 295 provide details on how staff have applied the proposed methodology to determine the simplified disclosures and is for information only.
- 12) The Board also wanted to ensure the final Standards arising from ED 297 and ED 295 could be issued before 30 June 2020, which is when the revised Conceptual Framework would become effective for entities with 30 June 2021 year-ends. This is to ensure that the overlap of the revised Conceptual Framework and the existing Framework is minimised. The Board also wanted the benefits of the simplified disclosure framework and the transitional relief for entities transitioning from SPFS to GPFS are in place for entities making such a transition as a result of the change in thresholds for determining large proprietary companies. To ensure this can still be achieved, staff would prefer not to extend the comment deadline, or at most provide a two-week extension.

Why do the standards need to be issued before the end of June 2020?

- 13) The main reasons for issuing the standards before 30 June 2020 are:
 - enabling early adoption by entities transitioning from SPFS to GPFS for 30 June 2020 year-ends (eg as a result of the change in thresholds for determining large proprietary companies under the Corporations Act); and
 - retaining a mandatory adoption date of 1 July 2020 and thereby limiting the period during which there are two conceptual frameworks in operation for for-profit private sector entities.
- 14) The commentary contained in the Explanatory Statement to the regulations made in relation to the recent increase in thresholds used for determining what constitutes a large proprietary company (applicable from 1 July 2019) may persuade an entity to reconsider its status as a non-reporting entity. For such entities, the transition from SPFS to GPFS will be made easier if the transitional relief proposed in ED 297 and the Simplified Disclosure

Framework (ED 295) were both available for early adoption for financial years ending 30 June 2020.

- 15) While entities could still early adopt the standards provided they are issued by the time the relevant financial statements are finalised. This means that it would be theoretically sufficient if they were issued before the end of October (reporting deadline of 4 months for proprietary companies). However, in order to plan ahead, entities will need some certainty and any significant delay in issuing the final standards will affect their ability to early adopt the new requirements.
- 16) If the standards were issued after 1 July 2020, they could not have a mandatory application date of financial years beginning on or after 1 July 2020, as the change from SPFS to GPFS may require some entities to remeasure amounts recognised in their financial statements. As a consequence, the AASB could not issue the standard after the application date as that would have retrospective effect. While the mandatory application date could be set for financial years beginning on or after 1 July 2020 that end on or after 1 October 2020 (or other date after the standard issue), the AASB will usually provide constituents with adequate time for implementation and allow a reasonable time between the issue date and the effective date, by issuing a standard during the previous annual reporting period. [Para 32 of the Policy document]. This is also re-iterated in BC126 of ED 297.

Options considered on whether to provide an extension of comment period deadline

17) The table below considers 3 options and their advantages and disadvantages:

Options	Advantages	Disadvantages
1) No extension of the comment period	<ul style="list-style-type: none"> transitional relief for entities moving from SPFS to GPFS and the simplified disclosure framework for Tier 2 entities is likely to be in place for entities with financial year end of 30 June 2021 there would be minimal overlapping period during which there would be two Conceptual Frameworks that are operational for FP private sector entities 	<ul style="list-style-type: none"> not addressing stakeholders' concerns
2) 2 weeks extension of the comment period	<ul style="list-style-type: none"> allowing more time for stakeholders to respond – ie partially accommodating their feedback Possible to still issue final standards by 30 June 2020 with all the advantages in Option 1 	Risk that the final standards may not be issued prior to 30 June 2020 as timeline would be quite tight (refer below)
3) Extend the comment period for both EDs until 15 Dec	<ul style="list-style-type: none"> it accommodates the feedback from the stakeholders 	Unlikely that the final standards will be issued prior to 30 June 2020

Timeline for the project

18) The table below shows the expected timelines for each option considered

Task	No extension	2 weeks extension	1 month extension
Analyse feedback from submissions, hold follow-up conversations with stakeholders and Project Advisory Panel as needed	By end of January 2020	Mid-February	End February
Collate feedback for board paper and identify major issues for discussion, prepare draft standard (6 weeks, plus 2 weeks for mail-out)	January/ February 2020	January/ February 2020	February/ March 2020
First discussion at Board meeting	Early March	Mid-March	April 2020
Staff to research any additional issues raised, as needed, including potential additional outreach to Project Advisory Panel and other stakeholders (6 weeks, plus 2 weeks for mail-out)	March 2020	March/April 2020	April/May 2020
Second discussion at Board meeting	April 2020	May 2020	June 2020
Staff to prepare standards for voting (4 weeks)	May 2020	May/June 2020	June 2020
Board to approve standard for issue – 2 weeks voting period	Mid June 2020	End June/ early July 2020	Mid July 2020

19) In addition to the tasks above, staff will be holding roundtables, conducting targeted outreach, with stakeholders and the Project Advisory Panel, and will be undertaking work for the RIS-like process from October 2019 onwards . The RIS-like process will need to be finalised before the Board makes any final decisions on the standard. Staff will be obtaining conducting outreach on cost implications from October. However, the overall RIS-like process can only be finalised when the requirements on the Standards are near-final.

20) Staff note that the above timelines assume that no significant issues or major changes to the proposals would arise as a result of feedback from submissions and subsequent deliberations by the Board. If such changes are required, this might further delay the projected timeline above.

Staff recommendation

21) To accommodate the feedback from our stakeholders and provide them with more time to respond to AASB, staff recommend extending the comment period. In order to issue the final standards related to ED 297 and ED 295 by 30 June 2020, staff recommend a two-week extension.

Questions to the Board

- Q1 Do Board members agree that the comment period for ED295 and ED297 should be extended?
- Q2 If the answer to Q1 is yes, do Board members agree with two weeks extension?