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Ms K. Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West Vic 8007

By electronic submission to the AASB website

Dear Ms Peach,

REVIEW OF REVISED CONCEPTUAL FRAMEWORK ("RCF") AND ITC 39
SUBMISSION TO AASB SPFS CONSULTATION

Introduction

1. We are pleased to provide these comments to the Australian Accounting Standard Board ("AASB"), in respect of AASB Invitation to Comment ITC 39.

2. We are concerned that these proposals in ITC 39 demonstrate regulatory failure to properly consult with a wide range of entities. We are concerned that the AASB is unduly influenced by the Australian Securities and Investments Commission ("ASIC") and the 'Big-4' accounting firms.

3. We consider that the proposals in ITC 39 are fundamental to a majority of assurance and accounting work in Australia. Unfortunately, we consider that the AASB has failed to appropriately understand the fundamental impact that ITC 39 would have on the Australian economy and market. Accordingly, we do not agree with the proposals set out in ITC 39.

4. We consider that the changes proposed will have a significant impact across all Australian companies that need to lodge statements with ASIC and that this has not been properly understood by the AASB.

5. We are concerned with the AASB's limited advisory reach and 'capture' by a small number of technicians with limited client contact and operations experience who are employed by Global 'Big-4' accounting firms. We consider that the proposals and formation of ITC 39 are demonstrative of this regulatory failure.

6. Further, we consider that the AASB's approach to releasing this fundamental and far-reaching proposal in May 2018 with submissions due on 9 August and 9 November are unhelpful for the majority of smaller practices. These submissions have been due during (or shortly after) the busiest time of year for most practitioners who are dealing with the 4-month lodgement and reporting season

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for the 30 June balancing companies. This represents another failure of the AASB to properly conduct its mission for ALL Australian companies.

7. By way of background, Hanrick Curran is a firm of Chartered Accountants who provide audit, tax and other services to various entities in the South-East Queensland region.

8. Our clients typically are medium and small private entities with reporting requirements that span shareholders, banks and other capital providers. Our clients typically report under both special purpose frameworks and general purpose frameworks under the *Corporations Act 2001,* the *Australian Charities and Not-for-profits Commission Act 2012* and the *Associations Incorporations Act 1981 (Qld).* Our comments included herein are formed on the basis of our experience with our current and former clients.

9. Our responses to the specific questions in ITC 39 are included at Appendix A.

General Comments

10. The Special Purpose Financial Reporting ("SPFR") framework provides an efficient and effective method of enabling smaller entities to comply with the requirements of the *Corporations Act 2001*. The SPFR framework enables entities to report and lodge information with ASIC and to provide information to shareholders without the considerable expense associated with the production of general purpose financial statements.

11. Despite the problems with special purpose financial reports identified in ITC 39, our practical experience with clients is that special purpose financial reports provide an extremely effective means of providing financial information to stakeholders in a cost-effective manner.

12. ITC 39 proposed certain changes to the tiers of reporting below general purpose financial statements (see paragraph 14 of ITC 39). We consider that the Australian economy would benefit from a:

    a. Reduced Disclosure Regime ("RDR")("Tier 2"), and

    b. Specified Disclosure Requirements ("SDR")("Tier 3"), and

    c. a further 'tier 4' option for genuine special purpose reporting (e.g., for financial statements to accompany a small entity tax return).

13. We consider that, subject to materiality, the recognition and measurement requirements of all Australian Accounting Standards should be mandated for GPFS, RDR and SDR.

14. The recognition and measurement requirements should be strongly encouraged for SPFS unless their application is not-practicable or economically efficient and

where this is applied, additional explicit disclosure should be required indicating that the recognition and measurement requirements have not been applied.

15. We consider that Australian Accounting Standards should remain sector neutral. Accordingly, we do not support deferral of application of these amendments for the not-for-profit sector.

Specific Comments

16. We are concerned with the conceptualisation of consolidation as a recognition and measurement issue rather than a disclosure matter. This is similar to the common mistake we see clients make where they consider matters 'on-consolidation' rather than ensuring that the underlying accounting in each entity has been correctly completed.

17. We consider that consolidation should remain a disclosure matter for 'Those Charged With Governance'.

18. We are concerned that the proposals in ITC 39 result in commercially sensitive information for private entities becoming publicly available. Unfortunately, in the Australian regulatory and legislative environment, private companies are compelled to provide significantly more information than is provided in comparable OECD economies. Accordingly, we generally do not support the proposals in ITC 39.

19. As we identified above, we are concerned regarding the AASB's regulatory failure to properly consult with a wide range of entities on this issue. We are concerned for the impartial approach adopted by the AASB and that they hold a prejudicial view regarding SPFS.

20. SPFS are fundamental to majority of assurance and accounting work in Australia. As we have stated above, we are concerned that the proposals set out in ITC 39 demonstrate a severe lack of understanding of the use of SPFS in the Australian economy. The 'issue' of special purpose reporting has been worked on by the profession since at least the release of ASIC RG 85 *Reporting Requirements for Non-Reporting Entities* in July 2000. We would have hoped that the past 18 years has provided the AASB with sufficient time to understand how complex and fundamental this is for Australian entities, sadly it appears not!

21. The general proposals in ITC 39 seem to suggest that consolidation will become a mandatory item of disclosure and considered in the same nature as a recognition and measurement criteria. We are concerned with proposals which suggest that consolidation will be mandatory for all entities that are required to lodge statements with ASIC. We consider that this will add further operating costs for these entities, without any substantial benefit for the Australian economy.

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We are very pleased to have been able to make this submission. If you have any queries in relation to our submission, please contact me directly on 0447 724 595.

Yours sincerely
HANRICK CURRAN AUDIT PTY LTD

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Director
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APPENDIX A

Specific matters for comment on Phase 2

Q11 – Do you agree with the AASB's Phase 2 approach (described in paragraph 166?) Why or why not?

22. *No.*

23. *We consider that the limitation of options in the conceptual framework is not appropriate. We consider that the medium term approach needs to allow for the Reduced Disclosure Requirements, the Specified Disclosure Requirements and a further 'tier 4' option for genuine special purpose reporting (e.g., for financial statements to accompany a small entity tax return).*

24. *We consider that this issue is a more complex issue that needs a more considered response.*

Q12 – Which of the AASB's two GPFS Tier 2 alternatives (described in paragraphs 167–170) do you prefer? Please provide reasons for your preference.

25. *We do not consider that a selection between these two options is appropriate.*

26. *We consider that both options are required, in addition to a third option, being a further 'tier 4' option for genuine special purpose reporting (e.g., for financial statements to accompany a small entity tax return).*

27. *We note research from Chartered Accountants which highlights that members in practice do not support the reduction in options as proposed in ITC 39.*

Q13 – Do you agree that we only need one Tier 2 GPFS alternative in Australia (either Alternative 1 GPFS – RDR or the new Alternative 2 GPFS – SDR described in paragraphs 167–170)? Why or why not?

28. *No, we do not agree with the proposals.*

29. *We consider that the proposals are too limited to be useful for practitioners.*

30. *We consider that the current proposals in ITC 39 would be too limited for the use of entities in the Australian market.*

Q14 – Do you agree with the AASB's decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18–36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not for-profit sectors.

31. *Yes.*

32. *We consider that differential approaches to recognition and measurement in the Australian economy would be detrimental to the profession and to the comparability of financial information.*

33. *We consider that the universal application of recognition and measurement principles are beneficial to the economy and are easily and appropriately applied using the concepts of materiality that are fundamental to the application of accounting standards.*

Q15 – If the AASB implements one of the two proposed alternatives (described in paragraphs 167–170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.

34. *No comment.*

Q16 – What concerns do you have on consolidating subsidiaries and equity accounting associates and joint ventures as proposed in the AASB's medium-term approach? What transitional relief do you think the AASB should apply? Please provide specific examples and information.

35. *We refer to our comments at paragraph [16].*

Q17 – If the new Alternative 2 GPFS – SDR (described in paragraphs 167–170) is applied, do you agree that the specified disclosures would best meet users' needs? If not, please explain why and provide examples of other disclosures that you consider useful.

36. *We consider that the reporting of entities who are not publicly accountable should be left to the discretion of 'Those Charged With Governance'. Accordingly, we are concerned with regulatory overreach in this area.*

Q18 – Do you have any other suggested alternative for the AASB to consider as a GPFS Tier 2 and whether this would be applicable for for-profit and not-for-profit sectors? Please explain rationale (including advantages and disadvantages and the costs and benefits expected).

37. *We consider that the option in paragraph 14 and 166 are too limited to be applied in practice. We consider that Reduced Disclosure Requirements, Specified Disclosure Requirements and a further 'tier 4' option for genuine special purpose reporting (e.g., for financial statements to accompany a small entity tax return) are required for the Australian economy.*

Q19 – Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).

38. *No.*

39. *We consider that specified information required should be mandated by the Australian Charities and Not-for-profits Commission, the Australian Securities and Investments Commission or the Australian Parliament.*

40. *Any other reporting decisions regarding service information should be left to the discretion of 'Those Charged With Governance'.*

Q20 – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.

41. *Yes. These proposals would be far reaching and affect items such as the Australian Charities and Not-for-profits Commission Act 2012 and ASIC Form FS70/71.*

Q21 – What are your views on whether The AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities (the Framework) have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).

42. *We consider that these proposals have not been appropriately prepared and that they represent a degree of regulatory overreach.*

43. *We consider that these proposals illustrate the degree to which the AASB is isolated from practitioners in the small and medium size markets and 'captured' by 'Big 4' accounting firms.*

44. *We consider that further research and consultation is required to enable a more appropriate proposal to be made.*

Q22 – What are your views on whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?

45. *There are a number of issues that are relevant to these proposals and we consider that the AASB should have been able to identify these prior to the issue of the ITC.*

46. *Further, we do not see special purpose financial reporting is the 'problem' that both the Australian Securities and Investments Commission and the Australian Accounting Standards Board see it as.*

Q23 – What are your views on whether, overall, the proposals would result in financial statements that would be useful to users?

47. *We agree with other comments we have contributed to, including "We believe the current Phase 2 proposals demonstrate an insufficient understanding of the needs of users, especially for entities that are not publicly accountable which is where this reform proposes its biggest changes. Accordingly these proposals would produce financial statements that would not be useful to a wide range of users, and would require a significant increase in preparer burden for no demonstrable benefit."*

Q24 – What are your views on whether the proposals are in the best interests of the Australian economy?

48. *We do not consider that these proposals are in the best interest of the Australian economy.*

Q25 – Unless already provided in response to specific matters for comment above, what are your views on the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or nonfinancial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

49. *We consider that these proposals are going to be costly to small and medium sized businesses in the Australian economy.*

50. *We consider that these proposals are going to be costly to practices in these markets (i.e., non 'Big-4' firms).*

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