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Dr Keith Kendall
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AASB Exposure Draft 302 'Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities' ('ED 302')

Dear Dr Kendall

We welcome the opportunity to provide our comments to the AASB in relation to ED 302.

Whilst we are generally supportive of the proposed amendments, our main concern is with the additional disclosure burden for those entities moving from special purpose financial statements ('SPFS') for years ending 30 June 2021 to Tier 2 general purpose financial statements – simplified disclosure ('GPFS - SD') from 1 July 2021. For these entities, we believe that the additional disclosures under the proposals, for one year only, impose an additional cost (being on top of costs already required for transitioning to GPFS – SD from 1 July 2021) that do not produce benefits worthwhile to justify the cost.

The appendix attached contains our responses to your specific matters.

Should you wish to discuss any aspects of our submission, kindly contact either:

- Anna Adamidis on 0402 908 874 or by email at anna.adamidis@frs.com.au
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Yours faithfully

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About Financial Reporting Specialists ('FRS')
FRS are a firm of chartered accountants that are specialists in compiling financial statements. We have significant experience in compiling financial reports that are GPFS Tier 1, GPFS Tier 2 and SPFS and offering technical accounting guidance to our clients. We have a significant client base including leading ASX listed entities, SMEs and NFP charities.

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Appendix

Specific Matters for Comment

1. *Do you agree that an amendment to Australian Accounting Standards to require entities to disclose information about their special purpose financial statements – including the material accounting policies applied in the special purpose financial statements, changes in those policies, and whether or not the entity has complied with all the recognition and measurement requirements in Australian Accounting Standards – is needed to provide more transparency to users of special purpose financial statements and improve the comparability of special purpose financial statements? If not, please provide your reasons.*

Response 1

For those entities that will not be scoped within Tier 2 GPFS – SD for years commencing from 1 July 2020, subject to our other responses, we agree with the proposed amendments requiring additional disclosure in special purpose financial statements ('SPFS'). We believe that disclosure as to the basis of accounting used, including information about the implication of divergent from the recognition and measurement requirements of accounting standards, would enhance a user's understanding of the financial statements.

2. *Do you agree that the proposed new disclosures should apply only to those entities preparing special purpose financial statements that are:*
   a) *for-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and*
   b) *other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards.*

If not, please provide your reasons

Response 2

We consider that the proposed disclosures should only apply to the entities referred to above, except to the extent that those entities will be required to prepare Tier 2 GPFS - SD under AASB 2020-2 '*Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities'*. Refer to Response 5 below for further discussion.

3. *Do you agree with the proposed amendments to AASB 1054 requiring disclosure of:*
(a) the basis for the preparation of the special purpose financial statements (see proposed new paragraph 9C(a));
(b) the material accounting policies applied in the special purpose financial statements, including information about changes in those policies (see proposed new paragraphs 9C(b) and 9C(c));
(c) information about the consolidation or non-consolidation of subsidiaries and accounting for associates and joint ventures (see proposed new paragraph 9C(d));
(d) an explicit statement as to whether or not the accounting policies applied in the financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards (including the requirement to disclose an indication of how they do not comply) (see proposed new paragraph 9C(e)); and
(e) an explicit statement as to whether or not the financial statements overall comply with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) (see proposed new paragraph 9C(f))?

If you disagree with any aspect of the proposed disclosures, please provide your reasons.

Response 3

We agree that the disclosures as referred to in questions 3(a) to 3(c) above would produce relevant information to users. However, it is unclear why the proposed paragraph 9C(b) distinguishes between an accounting policy constituting a measurement basis in subparagraph (i) and then 'other accounting policies' used in subparagraph (ii). We query why the proposed standard does not simply refer to the 'recognition and measurement policies adopted that are relevant to an understanding of the special purpose financial statements'.

In relation to the proposed paragraph 9C(e), we agree that divergence from the measurement and recognition requirements of accounting standards in applying accounting policies to financial statements should be identified as a disclosure. It is unclear as to what disclosure of 'an indication' of how the financial statements do not comply might involve, and so there could be confusion in the application of such wording. For instance, does 'an indication' involve a quantitative assessment and estimate, or what processes the entity would need to adopt to bring a particular element of a financial statement in alignment with the requirements of an accounting standard. Whilst we note some guidance is provided in the illustrative guidance paragraphs, we believe more explanation is required as to what the objective to be achieved is.

In relation to the proposed paragraph 9C(f), we are concerned with the lack of precision and consequential interpretative discretion that exists with respect to the requirement to arrive at a conclusion as to whether the financial statements 'overall' are compliant with accounting standards. There is no definition or term of reference as to how the word 'overall' should be interpreted within accounting standards.

Our view is that an entity preparing SPFS should be required to disclose an explicit statement of compliance, as referred to in the wording to question 3(e) above, as this would be sufficient to explain the extent to which the financial statements comply with the recognition and measurement requirements. Such requirement would be consistent with the current wording within AASB 1054.7 which requires 'an explicit and unreserved statement' of compliance with Australian Accounting Standards. Where an entity does not comply with all the measurement and recognition requirements, then it should be required to provide information about which Australian Accounting Standards were not complied with, and if possible, provide a quantitative assessment.

We suggest that either the current proposals in paragraphs 9C(e) and 9C(f) be amended to address our concerns noted above, or alternatively that they are updated to reflect our view in the previous paragraph.

4. *The proposed Standard includes implementation guidance and illustrative examples illustrating the application of the proposed disclosure requirements. Do you agree it provides appropriate illustration of the application of the disclosure requirements? If not, please provide your reasons.*

Response 4

We do not consider that the guidance and examples sufficiently illustrate the disclosure required by paragraph 9C(f). In this regard, we also note that there is no example of an entity that has a statement that indicates there is or isn't 'overall compliance'.

The other guidance and examples are useful and illustrate the application of the other proposed requirements appropriately.

We note the illustrative examples table at IG29. We find it confusing as to why the sixth scenario, being an example of 'material accounting polices comply with all recognition and measurement requirements (except for AASB 10 or AASB 128)' would refer to an entity (Example #1) that has in fact adopted AASB 10 and AASB 128.

We also find it confusing as to what the difference is between the aforementioned sixth scenario (i.e. where there has been 'material compliance with recognition and measurement) and the seventh scenario (i.e. where there has been 'overall compliance'). We do not believe the ED sufficiently distinguishes what the difference is and the related implications of the difference. As mentioned, there is no example of an entity that has a statement that indicates there is or isn't 'overall compliance' to assist in this understanding.

5. *Do you agree with the proposed effective date of annual periods ending on or after 30 June 2021 (with early adoption permitted)? If not, please explain why.*

Response 5

As noted in Response 2, for those entities that will be required to prepare Tier 2 GPFS – SD under AASB 2020-2 from 1 July 2021, we believe it is unfair and burdensome to require additional disclosures for only one year. It would be a better use of their resources to simply focus on transitioning to Tier 2 GPFS, since this may be a challenging exercise for many entities.

Therefore, we consider that these entities should not be included in the scope of the proposals.

6. *Do you agree that an entity that has no subsidiaries, investments in associates or investments in joint ventures should not be required to make an explicit statement to this effect? If not, please provide your reasons.*

Response 6

We agree with this proposal.

7. *Do you have any other comments on the proposals?*

Response 7

No.

General matters for comment

8. *Whether the AASB's For-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft?*

Response 8

Given that ED 302 proposes disclosures for SPFS, this does not align with paragraphs 9 and 12 of the Standard Setting Framework which indicate that the AASB only sets standards for GPFS and that it is up to the users to determine the contents of SPFS. We do however believe that, subject to our qualifications, amending the requirements for SPFS is appropriate.

9. *Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?*

Response 9

For entities that will continue to produce SPFS after the proposals and that are within the scope of the proposed amendments to AASB 1057 and AASB 1054, many preparers will be required to implement change to the disclosures within financial statements for the first time. We believe that the Board should be cognisant that this change may impact an audience who have not in the past had to react to accounting standard changes. There may be limited understanding and awareness of these proposals amongst certain professional demographics to the point where such changes to accounting standards will not be identified and implemented.

To help maximise the awareness and understanding of these proposals, in particular for entities such as trusts that are within scope, varied communication methods with key stakeholders may be required. This includes lawyers, auditors, taxation advisors and accounting professionals who assist these clients, with the focus on those from smaller firms.

10. *Whether the proposals create any auditing or assurance challenges?*

Response 10

Auditors would be required to analyse an entity's constituting documents to determine how the proposals apply. If the entity is permitted to prepare SPFS, auditors would then need to determine whether the policies are appropriate and what additional disclosures are required. This may result in an increase in audit fees for these entities. We also refer you to our Response 3 regarding the wording of proposed paragraphs 9C(e) and 9C(f) which could have audit implications.

11. *Whether, overall, the proposals would result in special purpose financial statements that would be more useful to users?*

Response 11

We agree that overall SPFS will be more useful, except for those entities that will be required to move from SPFS to Tier 2 GPFS as from 1 July 2021, as noted in our comments in Response 5.

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

Response 12

We believe that the proposals are in the best interests of the Australian economy as it will result in transparent financial statements. However, as noted in our comments in Response 5, we do not consider these proposals to be in the best interests of entities that will be preparing Tier 2 GPFS – SD from 1 July 2021 and therefore suggest that these entities be removed from the scope of these proposals.

13. *Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) 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.*

Response 13

For those entities that do not currently comply with recognition and measurement of accounting standards and that will be retaining SPFS reporting, the proposals will require additional disclosures to the financial statements to identify instances of divergence from accounting standards. The costs will depend on the extent of the non-compliance. Overall, we would expect a one-off increase in the cost to prepare financial statements of 5% to 10% in such circumstances. Where audit is involved, we would anticipate a similar increase in audit fees. For those entities moving from SPFS at 30 June 2021 to GPFS – SD at 30 June 2022, there will be an additional transition cost for such entities. There would also be costs involve in communications, staff training, and reporting software enhancements to accommodate the changes.

We do not believe there would be any cost savings.