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Ms Kris Peach
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AASB Consultation Paper *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* ('ITC 39')
Phase 2: Medium-term approach

Dear Ms Peach

We refer to the AASB round table discussion held in Sydney on 14 September 2018 in connection ITC 39 and welcome the opportunity to provide our comments on phase 2 of ITC 39.

Whilst we applaud the AASB on taking on this project, we do not believe that there is an "urgent problem" to fix. Your own presentations suggest that only 0.1% of entities that prepare special purpose financial statements ('SPFS') do not fully comply with the recognition and measurement requirements of Australian Accounting Standards ('AAS'). This could be resolved by education and mandating entities of a certain size (e.g. turnover over $25 million) and type (e.g. Corporations Act entities) comply fully with the recognition and measurement, rather than an overhaul of the current framework.

By ensuring full recognition and measurement, the IFRS Revised Conceptual Framework ('RCF') could be adopted in Australia, notwithstanding the fact that SAC 1 and 'reporting entity' as currently used in Australia would require rewording to avoid confusion with RCF.

That said, we have no issue in removing SPFS as a reporting option and replacing it with the streamlined version of the current reduced disclosure requirements ('RDR') on the basis that Australia is the only country in the world that has a self-assessing (reporting entity or not) and self-selecting disclosures (pick and choose disclosures to suit) and bringing Australia in line with the reporting requirements of other IFRS adopting countries is seen as conceptually favourable.

Rather than having an entirely new Simplified Disclosure Requirements ('SDR') framework, we suggest a streamlined version of RDR, as currently, on a cost-benefit analysis, there are a number of disclosures that seem unnecessary and add time and cost to financial report preparation. Such disclosures include aggregated key management personnel, fair value levels 1, 2, and 3, and financing arrangements within financial instruments disclosures.

In our experience, when moving from SPFR to RDR, excluding issues of consolidation, the additional disclosures represent approximately a 15% increase in the volume of the report, which translates to an increase in compilation costs of 15-30%. This does not include the additional costs of auditing such disclosures.

The table below shows some of the changes when moving from SPFS to RDR:

Deletion from accounts SPFR to RDR	**Addition to accounts SPRS to RDR**
Registered office and principal place of business	Income tax breakdown (income tax expense reconciliation, deferred tax break-down and reconciliation)
Remuneration of auditors	Receivables impairment movement
Indirect cash-flow statement reconciliation	Current year reconciliations of property, plant and equipment, intangibles and provisions
New Accounting Standards and Interpretations not yet mandatory or early adopted	Related party transactions
Franking credit balance	Contingent assets and liabilities
	Commitments
	Business combinations
	Interests in subsidiaries and associates
	Aggregate key management personnel disclosure *
	Fair value hierarchy – levels 1,2 and 3 *
	Information on borrowings such as total secured liabilities, assets pledged as security and any financing arrangements *

* Consider removing under streamlined RDR

The most significant burden is for entities moving from standalone SPFR to consolidated RDR and any additional relief provided in addition to AASB 1 *First-time Adoption of Australian Accounting Standards* would be welcomed.

The appendix attached contains our responses to your specific matters.

Should you wish to discuss any aspects of our submission, kindly contact Vik Bhandari on 02 9943 0201 or by email on vik.bhandari@frsgroup.com.au

Yours faithfully

Financial Reporting Specialists

Financial Reporting Standards ('FRS')
FRS are specialists in preparing financial statements, both directly to our clients and indirectly via auditor outsourcing arrangements. We have wealth of experience in the compiling Tier 1 general purpose financial statements, Tier 2 general purpose reduced disclosure requirements financial statements and special purpose financial statements.

Appendix

Specific matters for comments

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

Refer to covering letter.

The rest of our answers assumes SPFS will no longer be an option.

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.*

We support RDR as outlined in paragraph 166(b)(i) but with some amendments that remove some of the excessive disclosures that add little or no additional value and/or take too long to obtain. We also consider that the current disclosures for AASB 15 are excessive and should be streamlined under RDR.

We do not support SDR for two reasons:

1. Complying with all the disclosures contained in the four specified accounting standards is excessive; and
2. Disclosures in other standards may be equally appropriate, for example:
    a. AASB 140 *Investment Property* – for entities with substantial investment properties;
    b. AASB 6 *Exploration for and Evaluation of Mineral Resources* – for entities within the mining and exploration sector; and
    c. AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* – applies to all entities that have significant contingent liabilities.

In our experience there is enough confusion between GPRS and RDR without introducing a new SDR.

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?*

Yes. We agree that there only needs to be one Tier 2 GPRS alternative. However, we believe that SPFS should be available for those entities that are below a certain threshold.

Q14 - Do you agree with the AASB's decision that GPFS - IFRS for SMEs (outlined in Appendix C paragraphs 18 to 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.*

Yes.

We are not in favour of using *IFRS for SMEs* as a basis of preparation for Tier 2 entities, for the same reasons that we provided in our submission in AASB *Consultation Paper, Exposure Draft 192 (ED 192)* being:

- Having more than one recognition and measurement basis for all Australian entities would remove the fundamental reason for adopting IFRS in the first place, being comparability between entities;
- Maintaining two sets of recognition and measurement standards would involve additional ongoing costs;
- Training and education costs of accounting professionals would increase – there is already enough confusion between disclosures of full general purpose and RDR; and
- Mobility of accounting professions would decrease.

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.*

Additional relief would be welcome, particularly when considering the application of AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures.*

For example, Appendix C of AASB 1 states that "This Appendix should only be applied to business combinations within the scope of AASB 3 *Business Combinations"* – where an entity previously accounted for a transaction as a business combination which would otherwise not have been in the scope of AASB 3, such as common control transactions, the transitional relief of Appendix C is not available and full business combination accounting is required for such transactions.

Additional research should be undertaken by the AASB to establish which additional transitional reliefs would be beneficial.

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.*

Refer to our Q15 response.

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.*

No. Refer to our Q12 response.

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).*

No.

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).*

N/A due to AASB deferral as detailed in Q21.

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

General matters for comments

Q21 – Whether The AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities 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).

We do not believe the proposals satisfies the AASB's Standard-Setting Framework.

On 4 September 2018, the AASB decided to exclude not-for-profit entities from the proposals in ITC 39 and has effectively departed from its sector-neutral approach to applying accounting standards.

We suggest the AASB should wait for the ACNC legislative review to be completed prior to any amendments being made from the ITC 39 project.

Q22 – Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.

We are concerned that the proposals will add significant costs and regulatory burden to entities far greater than outlined by the AASB. Additional research should be undertaken to identify all classes of entities that would be impacted by the proposed change.

For example, propriety companies that are 'grandfathered' under s1408 of the Corporations Act would be affected by the proposals. As these entities are privately held and accounts not publicly available, the accounts are usually SPFS. These entities would have additional burden of preparing GPFS and having them audited for no benefit.

Q23 – Whether, overall, the proposals would result in financial statements that would be useful to users.

Yes. However, the regulatory cost burden may outweigh the benefits especially where consolidated financial statements are prepared when previously standalone financial statements were prepared.

Q24 – Whether the proposals are in the best interests of the Australian economy.

Yes - to an extent.

Various entities are required to prepare financial statements in accordance with accounting standards due to contract terms or trust deeds, e.g. those with banking covenants and SPFS are currently acceptable. The AASB at the round table suggested that such entities could renegotiate/change the terms of the contract/covenants/constitution which in practise is difficult/expensive to do.

We would prefer the framework to allow for the continuation of SPFS at least for entities less than a certain size such as small proprietary companies, charities, associations and trusts. This would reduce the regulatory cost burden on these entities and fully acknowledge in doing so comparability may be lost between similar entities.

Q25 – 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.

No.