

28 November 2019

Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West Victoria 8007
AUSTRALIA

By online submission: WWW.AASB.gov.au

Dear Ms Peach

ED 295 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on Exposure Draft 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (ED 295). The views expressed in this submission represent those of all Australian members of ACAG.

ACAG does not support ED 295. ACAG considers that the principles proposed in ED 277 *Reduced Disclosure Requirements for Tier 2 Entities* (ED 277) presented a better approach and ACAG suggests this is the approach the AASB use going forward. ACAG has summarised below its reasons for reaching this conclusion, with the attachment to this letter addressing the AASB's specific matters for comment outlined in ED 295.

ACAG considers that a primary benefit of IFRS for SMEs is that the simplified framework (recognition, measurement, guidance and disclosure) provides a 'one-stop-shop' for both users and preparers that is entirely independent of the full IFRS framework. ED 295 is not a 'one-stop shop' as it requires preparers and auditors to access the disclosure requirements, recognition and measurement, and guidance in different places. As ED 295 does not significantly alter key disclosures from current Tier 2 RDR financial statements, ACAG considers that the benefits of ED 295 do not justify the additional burden on preparers and auditors.

ACAG does not consider that the AASB has adequately addressed how disclosures based on IFRS for SMEs, which uses a simplified recognition and measurement framework, are improved by requiring preparers to maintain and auditors to audit systems, processes and procedures that comply with recognition and measurement based on full AAS. The primary justification put forward in the ED is that the IASB is considering a research project to allow SMEs to use IFRS recognition and measurement. ACAG considers this justification inaccurate, as the IASB allowing SMEs the option to use either IFRS for SME recognition and measurement or full IFRS recognition and measurement is an entirely different proposition to that contained in ED 295. ED 295 does not have a default option of the IFRS for SMEs simplified recognition and measurement and instead would prevent an entity from using IFRS for SMEs recognition and measurement through mandating the use of full AAS.


It is ACAG's view that a disclosure only standard will encourage the preparation of 'boilerplate' financial statements and checklist auditing rather than applying materiality. Since RDR was introduced approximately ten years ago, there has been a far greater focus on materiality, and moving away from a checklist approach, including the IASB's Disclosure Initiative. ACAG considers that in moving forward with RDR, the AASB should incorporate materiality as a key principle in determining where additional disclosures are required both in reference to the inclusion of Tier 1 disclosures and any additional disclosure relevant to users' understanding of the financial statements.

ACAG considers ED 295 impractical, for example, it is complex and time consuming to match the disclosures back to the relevant recognition and measurement in the underlying standards. Further, making some standards out of scope for Tier 2 results in the new standard containing non-disclosure information that replicates what is in the underlying standard (e.g. section 33.2-4 provides a definition of related party which is also defined in AASB 124). Given that ED 295 disclosure changes are minimal relative to current Tier 2 disclosure requirements, ACAG suggests making amendments to the existing standards will give greater implementation ease relative to creating a new mismatched standard.

ACAG is concerned about the timing of ED 295 with changes being implemented before the proposed changes to the not-for-profit and public sector Financial Reporting Frameworks have been completed. In the event the AASB decides to proceed with ED 295, ACAG suggests deferring the application of ED 295 for not-for-profit and public sector entities until the completion of the not-for-profit and public sector Financial Reporting Frameworks project.

ACAG appreciates the opportunity to comment and trusts the attached comments are useful.

Yours sincerely



Rod Whitehead
Chairman
ACAG Financial Reporting and Accounting Committee

AASB Specific Matters for comment**1. Do you agree with the overarching principles on which the proposed Simplified Disclosure Standard is based and the methodology described in paragraphs BC33-BC43 to this ED? If you disagree, please explain why.**

As noted in ACAG's response to ED 277, while ACAG supports the principles in BC 37, ACAG remains strongly of the view that, for public sector entities, the principles of stewardship and accountability are critical to users in making decisions about financial performance and resource allocation.

As indicated in previous ACAG submissions on RDR, ACAG's preference is that RDR disclosure requirements be included as an appendix to the underlying standard over the New Zealand approach with some ACAG members preferring the current approach of shading. If the outcome of the ED 295 consultation process is that the AASB proceeds with ED 295, ACAG considers that the AASB would need to address the following issues:

- Including guidance in the standard to support preparers in assessing materiality, understanding both the context and purpose of disclosures, and in determining what is an appropriate level of detail and whether additional disclosures are required.
- It should be possible for preparers to readily compare and match disclosure requirements with the related requirements e.g. recognition and measurement, in the underlying standard.
- Like disclosures for Tier 1 and Tier 2 entities must be comparable.

The obvious benefit of IFRS for SMEs is that both preparers and users are only required to read and understand one standard. Given that AASB 10XX proposes that recognition, measurement and primary guidance (for example purpose and objectives) will remain in the underlying topic standard, ACAG sees no particular advantage in having a single disclosure standard over the current approach of having RDR disclosures included in the underlying standard. Further, ACAG considers that the approach proposed in AASB 10XX would introduce an additional level of regulatory complexity and associated administrative burden on preparers, as preparers will be required to interpret and apply an additional disclosure standard while all of the other key components such as recognition, measurement and guidance are contained in separate standards that are not readily referenced.

It is ACAG's view that, in removing existing RDR disclosures, insufficient consideration has been given to the principles and process that determined their relevance in the first instance and their continued relevance. Removal of disclosures supported by statements such as 'reduced compared to RDR' give no insight as to what principles were used to determine that the disclosures are no longer relevant.

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

ACAG does not agree that these proposals should replace the current RDR framework.

For the reasons discussed above it is ACAG's view that AASB 10XX would not represent a significant improvement in the RDR framework over the existing approach. It is therefore ACAG's view that the additional burden on preparers of AASB 10XX relative to an appendix in the underlying standard is not justified and the proposals should not proceed in their current form.

Given that the changes from current Tier 2 disclosure requirements are minimal, ACAG suggests making amendments to the existing standards will give greater implementation ease than creating a whole new standard. The existing standards provide additional context and a single point of reference for recognition, measurement and disclosure, which is useful for both preparers and auditors. Similarly, making some standards out of scope for Tier 2 results in the new standard containing non-disclosure information that replicates what is in the underlying standards (e.g. section 33.2-4 provides a definition of related party which is also defined in AASB 124.9). Future changes in disclosure requirements will be easier to maintain if requirements applicable to Tier 1 and Tier 2 are only documented once rather than twice.

ACAG strongly opposes the approach taken to the replacement of AASB 101 and AASB 107 along with the objectives paragraphs for AASB 7, AASB 15 and AASB 16. It is ACAG's view that the guidance contained in the originating standard is important in assisting preparers in understanding the requirements. ACAG considers that including the guidance is critical in ensuring that Tier 2 entities prepare disclosures that are comparable with previous period statements and other entities' disclosures, a consideration that also underpins the Board's decision to retain the recognition and measurement requirements of the underlying standard rather than moving to full IFRS for SMEs. ACAG notes that, in replacing AASB 101 and AASB 107, the exclusive consideration on disclosure requirements has resulted in important elements such as definitions not being included.

3. Do you agree with the following key decisions made and judgements exercised by the AASB in drafting the proposed Simplified Disclosure Standard in relation to:

(a) The replacement of:

i. AASB 7 *Financial Instruments: Disclosures*

ACAG does not support the replacement of AASB 7. In particular it is ACAG's view that:

- The overall objective (paragraph 1) should be retained as it:
 - Provides useful context for preparers and users when considering materiality, the level of detail required and whether additional disclosures are warranted; and
 - Is important in ensuring comparability for entities between financial periods and between entities.
- As paragraph 21 is retained, paragraph B5 should also be retained as it provides relevant context to the application of paragraph 21.
- As paragraph 42D is in effect retained, paragraph B32 should also be retained as it provides context to the application of paragraph 42D.

As liquidity and solvency are overarching principles, it is recommended that a maturity analysis for financial liabilities (and preferably for financial assets) be included as a requirement. It is also recommended that disclosure of average interest rates and whether they are fixed or floating be mandated for financial assets and financial liabilities. These requirements could then replace the non-specific requirements of section 11.42.

ACAG believes that the following disclosures should be included in the RDR requirements as they would be material if they exist. Entities can omit these disclosures if not material.

- 12B/D (reclassifications) – changes in classifications will affect the measurement of financial assets and auditors would want to consider that changes in classification is a possible indicator of manipulation of results.
- 16A (loss allowance for FVOCI)

- 17 – ACAG would consider that this is necessary for assessing liquidity/solvency and complexity.

ii. AASB 12 Disclosure of Interests in other Entities

ACAG does not consider that “maintaining simplicity of the disclosure requirements” is sufficient justification for replacing AASB 12. Given that the ED is proposing a fundamental change to the RDR framework in Australia, it is ACAG’s view that the BC for the ED should include consideration of existing RDR requirements and the decisions that underpinned those requirements.

ACAG is of the view that paragraphs 2(a), 7, 10, 19B, 21 and 24 should be retained as they provide information about significant judgements and assumptions and are directly relevant to the decision making of users. ACAG considers that this information is readily available and would not represent a significant cost to preparers.

iii. AASB 101 Presentation of Financial Statements

ACAG does not support the replacement of AASB 101. It is ACAG’s view that the guidance that is included in AASB 101 provides context to the presentation and disclosure requirements and is critical to ensuring that Tier 2 entities prepare statements that are comparable with the entity’s financial statements from prior periods and with financial statements of other entities. Without this guidance ACAG is concerned that the comparability of statements will be reduced.

ACAG is concerned as to the lack of consistency in explanations where items have been included in AASB 10XX and where items have been removed. For example, section 5.4(b) where the components of other comprehensive income are defined like it is in AASB 101, however items including profit or loss, reclassification adjustments and total comprehensive income defined in AASB 101 have not been retained in AASB 10XX and are accompanied by the explanation ‘provides guidance. No impact on disclosures’.

ACAG notes that sections 3.17(b) and 5.7, and 3.18 and 6.4 are repetitive.

ACAG notes that some sections change the requirements from what is included in AASB 101 without explanation of why the changes have been made. For example, AASB 101 paragraph 78(b) includes specific reference to ‘prepayments’ whereas it has been excluded from section 4.11(b) of AASB 10XX. ACAG is concerned that such changes will directly impact the comparability of financial statements for Tier 2 and Tier 1 entities, something that is contrary to the reason for retaining recognition and measurement from the underlying standards and not adopting IFRS for SMEs in full.

ACAG does not support the removal of the following disclosure requirements included in AASB 101:

- Section 5.5 removing the requirements included in paragraphs 82(ca) and (cb) of AASB 101. As previously noted, ACAG considers disclosures of information relating to reclassifications to be important as it provides the opportunity to manipulate results.

ACAG considers that paragraphs 97-98 of AASB 101 meet the principles outlined in the ED and should have been included.

ACAG does not agree with section 5.3 that “a change from the single-statement approach to the two-statement approach, or vice versa, is a change in accounting policy”. This section should be deleted.

iv. AASB 107 Statement of Cash Flows

ACAG does not support the approach in AASB 10XX of only considering disclosure requirements when a standard is replaced in full. The assumption that other material is irrelevant is, in ACAG's opinion, incorrect. For example:

- Given that cash and cash flows are key terms the definitions should be included.
- ACAG regards the following AASB 107 text as constituting relevant explanations useful to preparers and sees no reason to exclude:
 - Paragraph 7, 'Equity investments are excluded...'
 - Paragraph 8, last sentence 'a characteristic of such banking arrangements...'
 - Paragraph 9.
 - Paragraph 12.
 - Paragraph 14, 'cash payments to manufacture or acquire... from operating activities.'
 - Paragraph 16 'Only expenditures that result in a recognised asset... as investing activities.'
 - Paragraph 32.
 - Paragraphs 37 and 38.
 - Paragraphs 39 and 42.
 - Paragraphs 42A and 42B
 - Paragraph 50 – while considered optional, given the stated focus on users' information needs in relation to liquidity and solvency it would seem logical to retain.

v. AASB 124 Related Parties

It is ACAG's view that AASB 10XX does not consider that there is specific implementation guidance for not-for-profit public sector entities. ACAG therefore suggest that it would be appropriate to include a footnote in Part 33 drawing attention to the guidance available.

ACAG consider the 'Purpose of related party disclosures' paragraphs (AASB 124 paragraphs 5-8) to be useful and relevant context that should be included.

Section 33.8 of AASB 10XX includes examples of related party transactions that are "common to entities within the scope of this Standard". Given the Australian context, ACAG questions whether this is necessary and potentially limiting relative to AASB 124 as it is currently applied in Australia. For example, section 33.8(c), given the Board's agenda decision on materiality, ACAG would consider it highly unlikely that such an event would be material and require disclosure.

Unlike paragraph 18 of AASB 124, section 33.9 of AASB 10XX does not refer to commitments. ACAG is concerned that preparers would interpret this as a difference in requirements.

ACAG is unclear as to why paragraph 21(i) of AASB 124 has been excluded as no explanation is provided.

(b) Adding, removing or amending disclosures for:

i. Lessees

ACAG is of the view that guidance included in AASB 16 is necessary for preparers to understand the purpose of disclosures and should therefore be included in AASB 10XX. ACAG considers that as a minimum, paragraphs 51 and 89 of AASB 16 which outline lessee and lessor disclosure objectives should be included. The disclosure objectives are needed for sections AusNFP20.35.1

and AusNFP20.35.2. ACAG would also suggest that consideration be given to including Appendix E RDR 54.1 as well as B48-B52.

The AASB staff comparison for RDR disclosures on page 183 states that there is no equivalent in the proposed new disclosures for AASB 16 paragraph 53(a) depreciation on right-of-use assets by class, and (b) interest expense on lease liabilities. These items are two of the most critical amounts in understanding the effect of the new leases standard, and capitalised operating leases, on net profit or loss. Removing the disclosures is not appropriate and should be reinstated.

ACAG believes that AASB 10XX should include paragraphs 59-60. While these are additional disclosures under AASB 16, ACAG would consider that where these additional disclosures (e.g. exposure arising from variable lease payments) are material then this information would be of interest to users and should be disclosed.

Paragraph 53(e) of AASB 16 requires lessees to disclose the expenses relating to variable lease payments that are not included in the measurement of lease liabilities. It is ACAG's view that under the principles set out in paragraph BC 37 of the ED, as this information relates to cash flows and obligations they should be included in AASB 10XX. ACAG notes that lessors are required to disclose income relating to variable lease payments not included in the measurement of the net investment of the lease (section 20.23(e) of AASB 10XX).

Paragraph 57 of AASB 16 requires "if a lessee measures right-of-use assets at revalued amounts applying AASB 116, the lessee shall disclose the information required by paragraph 77 of AASB 116 for those right-of-use assets". This requirement has been replaced in AASB 10XX with section 20.14 "in addition, the requirements for disclosure about assets in accordance with sections 17, 18, 27 and 34 apply to lessees for the right-of-use assets". However, ACAG notes that paragraph 77 of AASB 116 only has 3 requirements applicable to Tier 2 entities; effective date of revaluation, whether an independent valuer was involved and the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

It is ACAG's view that referring preparers to the broad sections of AASB 10XX is not specific enough to capture what is required to be disclosed by paragraph 77 of AASB 16. ACAG would therefore suggest that AASB 10XX include references to specific sections, for example, section 17.33 of AASB 10XX. ACAG would also question whether sections 18, 27 and 34 of AASB 10XX are relevant to AASB 16 right-of-use assets; for example, the scope of AASB 16 excludes leases of biological assets under AASB 141 for which the equivalent section in AASB 10XX is 34. ACAG notes that section 20.31 of AASB 10XX also refers to these sections – again ACAG would question whether this is appropriate.

ACAG is unclear as to the purpose of section 20.23(d) given that this type of disclosure will not be applicable to any other financial assets.

ACAG is unclear why the *Staff Analysis - Comparison of RDR disclosures with AASB 10XX Simplified Disclosures for Tier 2 Entities* concludes that paragraphs 53(a) and (h) have been reduced compared to RDR given that section 20.14 of AASB 10XX would require compliance with section 17.31 which requires the disclosure of additions and depreciation/amortisation for ROU assets.

ii. Revenue

ACAG considers that the guidance provided in paragraphs 123, 125 and 127-129 of AASB 15 should be included in AASB 10XX as these disclosures are important to a user's understanding of disclosures including judgements made by management, information about contract assets and liabilities, and practical expedients used.

ACAG considers that guidance included in paragraphs 110 and 111 of AASB 15 should be included in AASB 10XX as they are important to giving preparers context as to what should be disclosed.

It is ACAG's view that consistent with the principles set out in BC 37(c) of the ED, paragraph 113(b) of AASB 15 requiring the disclosure of impairment losses recognised on receivables and contract assets should be included in AASB 10XX as these disclosures are important to users in understanding measurement uncertainties.

ACAG question whether section 24.7 of AASB 10XX modifying the definition of government assistance from AASB 120 is necessary or warranted. ACAG would be concerned that modifying the definition in this manner would lead preparers to consider that there has been a change in the definition. It is ACAG's view that the reference in the definition in AASB 120 that "Government assistance does not include..." would be relevant and useful for all preparers including Tier 2.

iii. Borrowing costs

ACAG has no specific concerns.

iv. Revalued property, plant and equipment

While not specific to AASB 10XX, ACAG notes that when disclosing valuation techniques and inputs, it is the experience of auditors that it is common that insufficient information is provided where property, plant and equipment have been significantly discounted due to restrictions.

v. Intangible assets

ACAG notes that the approach taken to the inclusion of cross references within paragraphs taken from AASB 138 is inconsistent, for example:

- AASB 10XX section Aus 18.29.2 which is based on paragraph 123 of AASB 138 simply states that the entity 'shall describe the factor(s)' whereas paragraph 123 of AASB 138 has a cross reference to AASB 138.90 which provides an extensive list of possible factors to be considered. This contrasts with section 18.29 of AASB 10XX which is based on paragraph 127 of AASB 138 where both paragraphs contain an explicit cross reference.
- Section 18.27(e)(v) of AASB 10XX which refers to 'impairment losses' is likewise inconsistent with AASB 138 paragraph 118(e)(iv) and (v) which includes a cross reference to AASB 136 which is consistent with section 17.31(e)(iv) of AASB 10XX.
- Likewise, section 36 under "Budgetary reporting" the full text of AASB 1055 has not been included. Instead it states that "When disclosing budgetary information under AusNFP36.5- AusNFP36.7, the entity must comply with the requirements in AASB 1055 Budgetary Reporting". This is inconsistent with how information is presented in other sections of AASB 10XX, which do not reference back to the requirements in AAS.

(c) Inclusion of audit fees disclosures from AASB 1054 Australian Additional Disclosures

ACAG agrees with the changes.

(d) Excluding certain Australian Accounting Standards and Interpretations

As AASB 5 requires a classification called non-current assets held for sale, ACAG does not agree with the removal of the requirement to separately disclose this category in the statement of financial position. ACAG considers the decision by management to dispose of a group or asset to be an important disclosure for users when assessing the performance and accountability of the entity.

The proposals miss disclosures from some standards, for example AASB 1023 general insurance, AASB 1038 life insurance, AASB 17 insurance contracts. While many insurance companies will meet the definition of publicly accountable, not all will. For example, closely held insurance

companies. Consequently, entities affected will not be required to disclose material information. These disclosures should be included in the proposed Tier 2 regime.

In addition, AASB 17 applies to insurance contracts, not insurance companies, so AASB 17 will apply to more entities than insurance companies.

ACAG notes that the disclosure requirements provided in paragraph 24 of AASB 1053, relating to the application of Tier 2 (reasons entity stopped or resumed applying Tier 2) have not been addressed. ACAG considers this a relevant disclosure.

(e) Retaining disclosures from the IFRS for SMEs Standard that are not currently required under RDR framework or full AAS.

ACAG does not consider that the ED provides sufficient explanation and justification for adding disclosures for Tier 2 entities beyond those required for Tier 1 entities applying full AAS.

i. Section 3 Financial Statement Presentation

ACAG has no specific concerns.

ii. Section 12 Other Financial Instrument Issues – Hedging Disclosures

ACAG has no specific concerns.

iii. Section 14 Investments in Associates

ACAG has no specific concerns.

iv. Section 19 Business Combinations and Goodwill

ACAG notes that the approach taken to the disclosure of business combinations in paragraph Aus19.25(h) of AASB 10XX which is equivalent to paragraph B64(o) of AASB 3 is inconsistent with the approach taken for AASB 12 and Section 9 of AASB 10XX. Arguably these disclosures are of a similar nature.

v. Section 20 Leases

Refer to ACAG's response to item 3(b)i.

vi. Section 28 Employee Benefits

ACAG has no specific concerns.

vii. Section 32 Events after the End of the Reporting Period

ACAG has no specific concerns.

viii. Section 33 Related Party Disclosures

Refer to ACAG's response to item 3(a)v.

ix. Section 35 Transition to Australian Accounting Standards – Simplified Disclosures

ACAG has no specific concerns.

x. Section 6 Statement of Changes in Equity and Statement of Income and Retained Earnings

ACAG does not consider that the ED provides sufficient explanation and justification for adding disclosures for Tier 2 entities beyond those required for Tier 1 entities applying full AAS.

ACAG notes that sections 3.18 and 6.4 of AASB 10XX are repetitive.

xi. Section 12 Other Financial Instrument Issues – Hedging Disclosures

ACAG does not consider that the ED provides sufficient explanation and justification for adding disclosures for Tier 2 entities beyond those required for Tier 1 entities applying full AAS.

xii. Section 20 Leases

ACAG does not consider that the ED provides sufficient explanation and justification for adding disclosures for Tier 2 entities beyond those required for Tier 1 entities applying full AAS.

Refer to ACAG's response to items 3(b)i.

xiii. Section 28 Employee Benefits

ACAG does not consider that the ED provides sufficient explanation and justification for adding disclosures for Tier 2 entities beyond those required for Tier 1 entities applying full AAS.

4. Do you agree with providing Tier 2 entities with an option of not having to prepare a separate statement of changes in equity as per paragraph 3.18 of AASB 10XX? If you disagree, or are concerned that this option could have unintended consequences, please explain why.

Although ACAG does not disagree, we note that for public sector entities without shareholders or simple shareholder arrangements, there would be no particular benefit over full AAS and it is likely that jurisdictions will retain a separate statement as this provides for consistent presentation across entities.

Also, for many entities in the public sector, where revaluation of PPE assets is common, such entities will not be able to avail themselves of the simplification.

5. Do you agree with the other disclosures for Tier 2 entities as set out in Sections 3 to 35 of the proposed new Simplified Disclosure Standard that have been identified by applying the proposed methodology and principles? If you disagree with the outcome, please identify, with reasons:

ACAG does not agree with the other disclosures for Tier 2 for the following reasons:

(a) Which of the disclosures proposed should not be required for Tier 2 entities

ACAG does not consider that the ED provides sufficient explanation and justification for adding disclosures for Tier 2 entities beyond those required for Tier 1 entities applying full AAS. For example, the disclosures in AASB 10XX relating to other long-term employee benefits require the entity to disclose the nature of the benefit, the amount of the obligation and the extent of the funding, however AASB 119 does not require specific disclosures about other long-term employee benefits. While the AASB 10XX disclosures fit within the ED principles and provide useful information, there is no clear basis for why these are appropriate for Tier 2 entities only.

(b) Which disclosures not proposed in this ED should be required for Tier 2 entities.

The proposals omit relevant transition disclosures for the new accounting standards AASB 15 revenue (for not-for-profits) and AASB 16.

6. Do you agree that the proposed Simplified Disclosure Standard should also be made available to NFP private sector entities and all public sector entities that can apply Tier 2 reporting requirements as set out in AASB 1053? If you disagree, please explain why.

As discussed in its covering letter, ACAG does not support the proposed simplified disclosure standard. It is ACAG's view that the proposed standard offers no identifiable disclosure benefits over existing RDR arrangements, is overly complex for both preparers and auditors to understand and apply, is impractical to administer and would reduce comparability between Tier 1 and Tier 2 entities.

ACAG would appreciate the AASB clarifying whether the outcome of section Aus1.6 of AASB 10XX is that not-for-profit and public sector entities would continue to be able to use the reporting entity concept and prepare SPFS while AASB 10XX is in operation.

7. Do you agree:

(a) With the principles applied to identify the additional disclosures for NFP private sector and public sector Tier 2 entities (as explained in paragraph BC45)? If you disagree, please explain why.

ACAG is concerned that the analysis of the principles has been limited to instances of recognition and measurement differences. A consequence of this approach is that there is little to no explanation provided for disclosure items such as AASB 107 Aus20.2. In this instance, the explanation is that this is not required for Tier 2 for-profit entities, however ACAG notes that this is a not-for-profit specific requirement and therefore not required for for-profit entities. Further, the reconciliation does provide information to explain differences relevant to short term cash flows which is one of the principles contained in BC37.

(b) That previous decisions made under the RDR Framework in relation to cost vs the benefits of these disclosures do not need to be revisited (as explained in BC 68.) If you disagree, please explain why.

ACAG believes that the previous decisions should be revisited. The previous decisions made under the RDR Framework in relation to the cost vs benefit of these disclosures were made following due process and explanations for decisions made were provided. ACAG considers that the explanations for removing existing RDR disclosures in the ED are in general insufficient and it is not clear how they relate to the principles. ACAG does not support the reversal of previous decisions without adequate consideration and explanation. In particular, ACAG believes that the Board should revisit the costs versus benefits of excluding the following disclosures:

- Disaggregated information in AASB 1052: disaggregated disclosures are important for public sector entities to provide accountability about whether programs have been delivered and program outcomes achieved.
- Discretionary disclosures included in paragraphs 27 and 37 of AASB 1058. It is ACAG's opinion that excluding discretionary disclosures implies that entities do not have to consider whether the disclosures may be useful to users. AASB 101 already provides that immaterial information may be removed regardless of whether or not AAS identifies the disclosures as required.

8. Do you agree with the disclosures identified for NFP private sector and public sector Tier 2 entities in this Simplified Disclosure Standard? If you disagree, please identify, with reasons:

ACAG does not agree with the identified disclosures for the following reasons:

(a) Which of the disclosures proposed should not be required for NFP private sector and public sector Tier 2 entities.

ACAG notes that not-for-profit private sector and public sector Tier 2 entities consist of a very diverse range of organisational structures that deliver goods and services across a broad range of activities. Given this diversity, ACAG accepts that there will be circumstances where some of the proposed AASB 10XX disclosures will be immaterial and where additional disclosures would be appropriate. It is therefore ACAG's view that the AASB should incorporate materiality as a key principle for preparers to use in identifying unnecessary disclosures and determining when additional disclosures are required.

(b) Which disclosures not proposed in the ED should be required for NFP private sector and public sector Tier 2 entities.

As stated above, ACAG believe the costs versus benefits of disclosing disaggregated information in AASB 1052 and discretionary disclosures in AASB 1058 should be revisited.

9. Do you agree with using the proposed title of AASB 10XX Simplified Disclosures for Tier 2 Entities? If you disagree, please explain why.

ACAG has no specific concerns. However, as noted above we do not believe the proposals should proceed in their current form of a single standard.

10. 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 (as explained in BC41)? If you disagree, please explain why.

ACAG strongly disagrees with the current approach to a single standard:

- Preparer judgements about presentation requirements will be difficult for Tier 2 entities because the standard does not include relevant disclosure guidance. ACAG considers guidance of this nature to be critical for preparers to make appropriate judgements and decisions about what disclosures are required including the level of detail, the purpose of disclosures and additional disclosures. It is ACAG's view that a likely consequence of this would be a return to 'boilerplate' disclosures.
- ACAG does not agree with the entire replacement of AASB 101 and 107. These standards include guidance and definitions that are critical. The approach creates too many different standard references for effectively the same thing. This issue is further complicated by the inclusion of CF sections. A consequence of this approach is that in some cases there will be 3 different standards/references for the same requirement. While there may be less disclosure, the effort required by preparers to determine those disclosures will not be reduced by AASB 10XX.
- One of the key objectives of a revised framework is to encourage greater adoption of Tier 2 disclosures by public sector entities. ACAG's view is that AASB 10XX creates a framework that is more complicated to understand and implement than Tier 1, which will do nothing to encourage broader adoption and will, in all likelihood, encourage entities to stay away from Tier 2 disclosures.
- ACAG is concerned that separating the disclosure requirements into a separate standard that is too far removed from IFRS/AAS will create a knowledge gap for both preparers and auditors. At present, as disclosures remain based on AAS both preparers and auditors need very little additional knowledge or training to engage with and apply RDR. AASB 10XX is fundamentally different and would require specific training and support.
- ACAG notes that no consideration has been given to the potential impact on the systems that both preparers and auditors rely on to do their work. Mainstream financial management information systems and auditing information systems contain templates and work programs based on full AAS. Moving away from standard AAS disclosures runs the risk of additional costs to entities as these templates and work programs will no longer be applicable and entities will be required to create and maintain bespoke solutions.

IFRS for SMEs is a self-contained framework as it has simplified recognition and measurement principles and disclosures that support the simplified recognition and measurement, a construct that effectively makes IFRS for SMEs a one-stop-shop for both preparers and users. However, AASB 10XX is incapable of being a one-stop-shop as it can never be a self-contained framework with Tier 2 entities having to apply the recognition and measurement requirements from AAS. To the contrary, it is ACAG's view that moving all the simplified disclosures to one standard will make it more complex for preparers relative to the current approach as:

- The disclosure requirements are separate from the recognition and measurement requirements and the majority of the presentation requirements requiring preparers to cross reference between AASB 10XX and the underlying standards, an issue that is further complicated by AASB 10XX being numbered based on IFRS for SMEs not the relevant recognition and measurement standards and there is no simple way of cross-referencing from AASBs to AASB 10XX, or from AASB 10XX back to the AASBs.
- In determining what guidance should be included in AASB 10XX, the focus was on disclosure only. As a consequence, AASB 10XX does not include the application guidance which provides context around the disclosures. This guidance is critical to preparers in determining appropriate levels of detail, context for assumptions and judgements (an important component of materiality) and in determining whether additional information should be included.

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 (as explained in BC78-BC80)?

While noting that ACAG does not support the proposed standard, should the AASB decide to proceed with the proposed standard, ACAG would not support extending disclosure requirements to public sector and not-for-profit entities until the respective revised financial reporting frameworks have been finalised.

12. Do you agree with the transitional requirements proposed in this ED (as explained in BC72-BC77)? If you disagree, please explain why.

ACAG has no specific concerns. ACAG does note that there is no equivalent in AASB 10XX for AASB 1053.24.

General matters for comment

13. Whether the AASB's For-Profit Standard-Setting Framework and Not-for-Profit Standard-Setting Framework have been applied appropriately in developing the proposals in this ED?

ACAG notes that the public sector framework is currently under review as evidenced by the proposed Public Sector Financial Reporting Framework plan to be discussed at the November 2019 AASB Board meeting.

One factor driving this review is 'unclear user needs' as mentioned in the 'Executive Summary' of AASB Research Report No. 6 *Financial Reporting Requirements Applicable to Australian Public Sector Entities*. Based on the results of the review, the revised Tier 2 framework may not be feasible for users and may require preparers to invest significant public resources to keep revisiting and revising the disclosure requirements in accounting standards. Further, it is not clear how the AASB claims that adoption of the proposed Tier 2 framework will benefit public sector entities (as mentioned in the section 'Who will be affected: For profit and NFP entities' of the ED), without understanding public sector user needs.

14. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Financial Statistics (GFS) implications?

As previously mentioned, ACAG notes that the principles in BC 37 are focused on for-profit entities whose users are primarily concerned with liquidity and solvency. In considering the relevance of AASB 10XX for not-for-profit private and public sector entities, ACAG suggest the Board add the principles of stewardship and accountability. These principles are important to users of not-for-profit financial statements where delivery of programs and management of public assets and liabilities are primary in evaluating financial performance and making resource allocation decisions.

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

ACAG does not consider that the proposals would result in any significant change in the financial statements presented by Tier 2 entities. As a result, ACAG considers it doubtful the proposals would result in financial statements that would be more useful to use than those presently prepared.

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

As noted above, ACAG disagrees with the proposed approach of a single standard and ACAG does not consider that the proposals would result in any significant improvement in the current RDR financial statements presented by Tier 2 entities. ACAG does not believe that the proposals in their current form would be in the best interests of the Australian economy.

17. 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.

(a) Quantitative issues

ACAG is concerned that the proposals would increase the burden on preparers by introducing an additional level of regulatory complexity with no obvious benefit to users or to preparers that often have significantly less resources than Tier 1 preparers.

(b) Qualitative issues

ACAG does not consider that the proposals would provide any significant improvement over the existing arrangements.