BUSINESS COUNCIL
OF CO-OPERATIVES AND MUTUALS

Submission in response to AASB Consultation Papper: Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems

November 2018

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1 Introduction

The Business Council of Co-operatives and Mutuals (BCCM) appreciates the opportunity to provide comments on this Consultation Paper. The development of appropriate accounting and reporting standards for co-operatives and mutuals is of considerable significance to the wellbeing of our sector and of Australia in general.

Co-operative and mutual enterprsises (CMEs) have been a part of the fabric of Australian life and business since the mid 1800s. They provide a business platform for small agricultural producers, community settlement programs, housing and financial and insurance services to Australians. They continue to serve with 8 in 10 Australians being members of a co-operative or mutual organisation. CMEs carry on business in a range of primary, secondary and tertiary industries.

Interest in this model of doing business is growing, both internationally and in Australia. CMEs proved their resilience by surviving the global financial crisis, while many investor-owned firms collapsed.

Formed in 2013 following the United Nations International Year of the Co-operative, the BCCM aims to educate, inform and advocate for recognition of the sector and for measures that create a level playing field between co-operatives and other businesses. The need for government action to include CMEs in regulatory and policy development is evident from the findings and recommendations of the Senate Economics References Committee Inquiry into Cooperative, mutual and member-owned firms, and the Hammond Review into Access to Capital for CMEs.

2 Evaluation Criteria

Our criteria for assessing the merit of the proposed Phase 2 reflect the wide diversity within the co-operative and mutual sector. They range from internationally recognised and competitive agricultural co-operatives through significant operators in financial markets who have retained their mutual status during 150 years plus of economic cycles through to regional and local arts, crafts, retail, healthcare and sporting co-operatives – and many permutations in between.

We advocate for development of accounting and reporting standards which exhibit (inter alia) the following features:

- Simplicity and Clarity – our larger members employ qualified professionals who are skilled in interpreting complex documentation. But it should also be possible for our smaller members to identify easily and quickly what their accounting and reporting responsibilities are without substantial expenditures on external advisers.
- A tiered approach – the level of reporting required should reflect the relative size and breadth of the potential population of persons/entities interested in/affected by the detail contained it.

We note that other criteria are set out in various standards, which are also relevant considerations.

3 Commentary

Based on the above criteria, the BCCM is largely supportive of the Medium-term approach to apply the Revised Conceptual Framework (RCF) to all entities.

In particular we support:

3A The adoption of the revised definition of a Reporting Entity contained in the IASB's RCF as 'an entity that is required, or chooses, to prepare financial statements.'

The definition is simple and clear in comparison with the existing definition in Statement of Accounting Concepts 1 (SAC1), which requires a judgement as to the existence or otherwise of users dependent on general purpose financial reports for making and evaluating decisions about the allocation of scarce resources. The judgement is made by the reporting entity and consequently there is anecdotal evidence that some entities have de-selected themselves inappropriately.

3B A change in nomenclature from 'General Purpose Financial Statements' and 'Special Purpose Financial Statements' due to the lack of clarity as to what those purposes might be and whether there are any other types such as (for instance) Limited Purpose Financial Statements.

The Corporations Act and the Co-operatives National Law effectively specify that certain (clearly defined) companies and co-operatives respectively must prepare a financial report which complies with the accounting standards. It would seem appropriate therefore for a revised SAC 1 or AASB 1053 to require reporting entities to prepare Complying Financial Statements (CFS) and to require those financial statements which do not meet the relevant reporting requirements to be referred to as Non-Complying Financial Statements (NCFS).

3C Continuation of the application of different tiers of Australian Accounting Standards

There are clearly some disclosures which are relevant to very large enterprises, certain industries or those with public accountability and those entities should meet all accounting standards in order to produce Complying Financial Statements (Tier 1). But it should be equally possible for entities without such involvements to be regarded as producing Complying Financial Statements (Tier 2) if they meet certain minimum specified reporting standards.

The BCCM therefore supports the adoption of Alternative 2 Complying Financial Statements (GPFS) – Specified Disclosure Requirements (SDR) as a new Tier 2 in AASB 1053 because it will provide simplicity of application and more clarity than the existing Tier 2.

It is further recommended that an additional Tier 3 is introduced, which would in effect be a transitional arrangement. Tier 3 would provide CFS (Tier 3) status with less disclosures than Tier 2. Tier 3 would only be available to an entity for so long as it adhered to a timetable for the gradual adoption of additional disclosure requirements so as to bring it up to Tier 2 level. If a Tier 3 entity failed to meet the requirements then it would be required to identify its financial statements as NCFS unless and until it rectified the shortfall.

3D Differentiating between the disclosure requirements and the recognition and measurement requirements.

Meeting the recognition and measurement requirements of the accounting standards should be part of the basic establishment of any For-Profit or Not-for-Profit enterprise large enough to be required to produce financial statements. There is a quantum difference, however, between that capability and the level of resources required to prepare certain disclosures. Meeting full recognition and measurement requirements should therefore be part of any minimum disclosure requirements even at Tier 3 level.

3E Requirement for Consolidated Financial Statements

Many enterprises operate through a range of subsidiaries. This can be from a desire to differentiate between different types of business or regulatory requirements. In such cases, especially if the parent entity is merely a non-operating holding company, the parent entity's accounts will be of no use in determining the financial performance or status of group because they will not encompass the bulk of either the activities or the assets and liabilities of the business. The book values of the subsidiaries in the parent entity's financial statements could be misleading.

It is therefore important that a requirement to prepare consolidated financial statements (if applicable) be part of the minimum requirements for Tier 2 and Tier 3.

4 Responses to matters for comment (Phase 2)

Q11 Do you agree with agree with AASB's Phase 2 approach?

Yes, for the most part. The reason is best illustrated by Diagrams 2 and 3 in paragraph 190 of the Consultation Paper, which show a considerable measure of simplification in the reporting framework from one to the next. We are concerned that the first box in the decision tree in Diagram 3 still poses the question whether there is legislation or 'other requirement' which requires a financial report complying with Australian Accounting Standards. Further clarity on what the 'other requirement' might be is necessary before the framework is implemented.

Q12 Which of the AASB's two GPFS Tier 2 alternatives do you prefer?

Alternative 2 GPFS – SDR is preferred because it appears to provide greater simplicity and clarity.

Q13 Do you agree that we only need one Tier 2 GPFS alternative in Australia?

Yes, for the same reasons as our answer to Question 12.

Q14 Do you agree with the AASB's decision that GPFS - IFRS for SMEs should not be made available as a Tier 2 alternative?

Yes. We will be better served by having one set of standards and determining which ones are not required for Tier2 reporting rather than two sets of standards and having to determine which set apply to which entities.

Q15 If the AASB implements one of the two proposed alternatives as a GPFS Tier 2 what transitional relief should apply?

The transitional relief currently available in AASB 1 is adequate for a fully resourced entity which has planned well for a transition to full first-time adoption of Australian Accounting Standards.

The recommendation in Section 3C above addresses the position of less well-resourced entities which nevertheless wish/are required to prepare CFS Tier 2 by providing a comprehensive timetable for attainment of that level of disclosure.

Q16 What concerns do you have on consolidating subsidiaries and equity accounting associates and joint ventures as proposed. What transitional relief do you think the AASB should apply?

We are very concerned about the value of any financial statements of an economic entity with subsidiaries/associates/joint ventures which are not prepared on a consolidated and/or equity accounted basis as discussed in section 3E above. The only transitional relief should be that which is currently available in the accounting standards.

Q17 If the new Alternative 2 GPFS – SDR is applied do you agree that the specified disclosures would best meet users' needs?

The specified disclosures will be enough for some entities to meet a satisfactory level of disclosure but an additional list may required of those standards relating to particular activities which should also be mandatory if the relevant entity is engaged in those areas.

Q18 Do you have any other suggested alternatives for the ASB to consider as a GPFS Tier 2?

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?

Only if and when relevant standards have been developed which provide for comprehensive and consistent categorisations of such revenues and expenditures and their inter-relationships. Current disclosures can be inconsistent across the sector which could result in totally misleading comparisons and conclusions.

Q20 Are you aware of any legislation that refers to SPFS that might be impacted by these proposals?

No.

Q21 Whether the AASB' Standard Setting Frameworks for For-Profit and Not-for-Profit have been applied appropriately in developing the proposals in Phase 2?

Please refer to BCCM's previous submission in respect of the Frameworks in which we strongly advocated for use of the expression Not-for-Profit to be confined to those entities eligible for registration as a charity.

Q22 Whether there are any regulatory or other issues that may affect the implementation of the proposals?

Not that we are aware of.

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

The proposals do not appear to detract from the current level of usefulness of financial statements.

Q24 Whether the proposals are in the best interests of the Australian economy?

The proposals are aimed at improving the comprehensibility of the system for determining financial reporting requirements. As such they are likely to improve Australian entities' competitiveness and access to capital. Unfortunately the economic benefits are not separately identifiable (from those resulting from other factors) so as to be sufficiently quantifiable to qualify for recognition under the IFRS framework.

Q25 Commentary on costs and benefits of the proposals

The BCCM does not have access to any specific data on potential costs and benefits. We can only re-iterate that simple and clear requirements are easier and cheaper to meet and that smaller entities should not be burdened with any requirements beyond those appropriate to their size and activities.

Contact:
Anthony Taylor
Policy Officer
info@bccm.coop ; (02) 9239 5931