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11th September 2020

Dr Keith Kendall
Chairman and CEO
Australian Accounting Standards Board
Podium Level, Level 14,
530 Collins Street,
Melbourne, VIC 3000
Australia

Dear Dr Kendall,

AASB Exposure Draft 302 "Amendments to Australian Accounting Standards – – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities"

Ernst & Young Australia is pleased to comment on the above Exposure Draft. We welcome the opportunity to contribute to the future of financial reporting in Australia.

We believe the disclosure proposals contained in the Exposure Draft would provide greater transparency in Special Purpose Financial Statements prepared for for-profit private sector entities.

Our detailed responses to the questions raised in the Exposure Draft are provided in the appendix to this letter. We would be pleased to discuss our comments further with either yourself or members of your staff. If you wish to do so, please contact Frank Palmer on (02) 9248 5555 or Kalaselvi Kandiah on (03) 9288 8034.

Yours sincerely


Ernst & Young

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.

We agree, in general, that the proposals will provide greater transparency in special purpose financial statements (SPFS). We also consider the amendment can assist many for-profit (“FP”) private sector entities transitioning from SPFS to GPFS from 1 July 2021, to be better prepared for the transition. Refer below for our specific comments on the scope of the proposals, the proposed amendments and examples.

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.

We generally agree with the principle of those entities that should be captured.

However, we have the following concerns:

- the proposed scope in new proposed paragraph 2 to AASB 1054 is not reflected in the proposed consequential amendments to AASB 1057 Application of Australian Accounting Standards. The application paragraphs in AASB 1057 should make it clear that they also apply to FP entities that are required by legislation to comply specifically with AASB 1054 (while having no requirement to comply with AAS overall). As an aside, this should also be made clear for NFP entities with similar requirements.
 - the proposals should apply to other FP entities that prepare SPFS in compliance with AAS, for example, those that voluntarily prepare SPFS (even though not required by legislation or otherwise to prepare financial statements).
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.

We generally agree with the above proposed amendments in (a - d). However, we consider that the requirement in (e) above is redundant given the disclosures proposed in (d). Perhaps, the disclosures in (e) should only be required for those financial statements that do comply overall since anything else is a matter for the entity and its users to agree..

In addition, we have the following comments:

- paragraph 8 and 9 of AASB 1054 should be made applicable for:
 - for-profit private sector entities that are required by legislation (other than the Corporations Act) to comply with Australian Accounting Standards (AAS) or accounting standards; and
 - for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with AAS, provided that the relevant document was created or last amended before 1 July 2021.

The disclosures in paragraphs 8 and 9 would provide useful information and context to the disclosures that these entities will be providing in accordance with the proposed paragraphs 9C and 9D to AASB 1054. We also note that these disclosures are required for NFP entities that provide disclosures in paragraphs 9A and 9B.

- we question the basis for requiring any entities preparing SPFS to apply paragraph 7 of AASB 1054. This paragraph requires an entity whose financial statements comply with AAS to make an explicit and unreserved statement of such compliance and is not relevant for entities preparing SPFS.
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.

With regard to Example 2, we consider that the example should clarify that the financial agreement with the bank requires preparation of financial statements that comply with AAS. Otherwise the entity would not be within the proposed scope of AASB 1054 to provide the disclosures. We also suggest providing similar clarification in Examples 3 and 4.

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.

Yes

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.

Yes, as this is also not a requirement for those preparing GPFS.

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

We have no other comments.



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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?

We consider the above Framework has been applied appropriately.

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

We are not aware of any such issues.

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

We are not aware of any such issues.

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

As noted in our response in Question 1 above, we believe the proposed amendments will provide more useful SPFS.

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

Given the relatively low compliance burden, and the advantages derived in terms of comparability and transparency of SPFS, we consider these proposals beneficial to the Australian economy.

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.

We have no other comments.