WHK Horwath

Australian Accounting Standards Board
PO Box 204
Collins Street West
VIC 3000

23 April 2010

Dear Sirs

Exposure Draft 192: *Revised Differential Reporting Framework*

We are pleased to respond to the AASB's request for comments on the proposed revised differential reporting framework within Australia.

WHK Horwath's response reflects WHK Group's position as Australasia's fifth largest accounting business, and therefore one of the largest providers of accounting and related services to small and medium enterprises. We have 19 major accountancy firms employing over 3000 people in over 100 offices throughout six states in Australia and both islands of New Zealand.

WHK Horwath is a member of Crowe Horwath International, one of the top ten global accounting affiliations with offices in 107 countries.

We are in general supportive of the AASB's proposals. However, we have concerns in some areas, and in particular around the rejection of IFRS for SMEs as an option for financial statement preparation, and the process for convergence with New Zealand. Our responses to specific areas are detailed below:

AASB Question (a)

Comment on whether you agree with the introduction of a second tier of reporting requirements for preparing general purpose financial statements (GPFSs) for:

- *(i) for-profit private sector entities that do not have public accountability;*
- *(ii) not-for-profit private sector entities; and*
- *(iii) public sector entities other than those required by the AASB to apply Tier 1?*

If not, and you support differential reporting, what other classifications of entities do you think would be more appropriate for differential reporting and why?

We are in principle supportive of the concept of a second tier of reporting requirements for General Purpose Financial Statements, as this would appear consistent with the IASB's determination that full IFRS should effectively be limited to the listed sector.

Member Crowe Horwath International
WHK Horwath Sydney ABN 97 895 683 573
Level 15 309 Kent Street
Sydney NSW 2000 Australia
Telephone +61 2 9262 2155 Facsimile +61 2 9262 2190
Email sydney@whkhorwath.com.au
www.whkhorwath.com.au

AASB Question (b)

Comment on whether you agree that entities within the second tier should be able to apply the proposed reduced disclosure regime, which retains the recognition and measurement requirements of full IFRSs or would you prefer another approach (e.g. IFRS for SMEs)? If you prefer the IFRS for SMEs, what do you consider to be the specific advantages of the individual differences of recognition and measurement requirements in the IFRS for SMEs compared with full IFRSs?

We believe that preparation of financial statements in accordance with the IFRS for SMEs accounting standard should be an option available to entities that do not meet the IASB's definition of publicly accountable entities. We would support the introduction of IFRS for SMEs in Australia for the following reasons:

- We believe that the simplified recognition and measurement model offered by IFRS for SMEs will be more relevant to financial statement users in this sector, and will significantly reduce the compliance burden on some entities. For example, we note that IFRS for SMEs makes greater use of cost accounting in accounting for financial instruments, and that it requires intangible assets to be measured at cost and amortised. We believe that this will reduce the requirement on SMEs to make potentially complex assessments of fair value and impairment which they may lack the expertise to perform.
- The IASB expects to update the IFRS for SMEs standard only every two to three years, which will reduce compliance costs when compared with the many revisions to full IFRS which occur each year.
- We expect that an increasing number of other jurisdictions throughout the world will adopt IFRS for SMEs, or have already done so. Therefore, adoption within Australia will maintain the international consistency and comparability of financial statements – the primary purpose of the original introduction of IFRS

We support the introduction of IFRS for SMEs as an option for preparers, but would suggest that it should not be mandatory, as the potential then exists for an entity to be required to use different recognition and measurement criteria from other entities within a corporate group.

AASB Question (e)

Comment on the clarification of the meaning of General Purpose Financial Statements and modifying the way the reporting entity concept is used;

We support the modification in the way that the reporting entity concept is used. We believe that the concept is currently open to differing interpretations about what constitutes a reporting entity, and that the distinction is not universally understood among users of financial statements. The Reduced Disclosure Regime would give clarity and consistency to the preparation of financial statements for non-reporting entities.

We would also welcome the clarification that all entities reporting under the Corporations Act are required to adopt the recognition and measurement requirements of the accounting standards in full. However, as noted above, we believe that compliance with the requirements of IFRS for SMEs should be available as an alternative to the requirements of 'full' IFRS.

Our concern with the definition of General Purpose Financial Statements as publicly available documents is that it creates a discrepancy between the reporting requirements of companies (both large Pty and limited by guarantee), and unincorporated entities such as trusts and partnerships. Entities that do not have a requirement to lodge accounts will be able to continue producing Special Purpose Financial Statements. This will create a disincentive for businesses to incorporate, due to the additional reporting and audit requirements and associated costs. From a public policy perspective, in our view it would be beneficial to encourage more entities to incorporate due to the enhanced regulatory regime and transparency in structure that apply to companies.

AASB Question (i)

Comment on whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals;

We note that New Zealand is currently undertaking a similar review of the reporting framework, and that the two governments have indicated their intention to achieve a Single Economic Market. Therefore we consider it highly desirable that the Australian differential reporting framework is harmonised to the greatest extent possible with those in New Zealand. In the longer term, we consider that it may be appropriate to have one trans-Tasman setter of accounting and auditing standards.

We hope that our comments on this Exposure Draft are helpful. Should you wish to discuss any of the points that we have raised, or request any further information, please contact Ralph Martin (Ralph.martin@whkhorwath.com.au)

Yours faithfully
WHK Horwath

R.R. Martin

Ralph Martin
National Technical & Training Manager, WHK Horwath