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29th November 2019

Kris Peach
Chair and CEO
Australian Accounting Standards Board
PO Box 204
Collins Street West VICTORIA 8007

Dear Kris,

Exposure Draft 295 "General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 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 support the Board's efforts to enhance the desirability of adopting Tier 2 reporting by entities in Australia. We agree with using *IFRS for SMEs* as a base for disclosure requirements but disagree with creating presentation differences to Tier 1 reporting.

In addition, we question the timing of replacing the reduced disclosure regime (RDR). We acknowledge the IASB is considering developing proposals for *Subsidiaries that are SMEs* to apply the recognition and measurement (R&M) requirements of IFRS but drawing upon disclosures in *IFRS for SMEs*. If it is likely the IASB's project will proceed in the short-term, then RDR should not be replaced at this time, because entities may need to make changes twice (assuming the AASB might consider those proposals for adoption in Australia). However, if it is thought that the IASB's project will progress in the longer term then we support the replacement of RDR at this time.

Our detailed responses to the specific questions raised in the Exposure Draft are provided in Appendix A to this letter. Additional feedback on the proposals is provided in Appendix B.

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 Melissa Sim on (02) 9276 9965 or Claire Patra on (02) 9276 9667.

Yours sincerely

Ernst + Young

Ernst & Young

APPENDIX A

Specific matters for comment

Q1 – 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.

We agree with using the *IFRS for SMEs* standard for disclosure requirements, but not for presentation requirements.

IFRS for SMEs was developed for small and medium sized entities that do not have public accountability and publish general purpose financial statements (GPFS) for external users. This basis is similarly used to distinguish the Tiers 1 and 2 frameworks Australia adopted in AASB 1053 *Application of Tiers of Australian Accounting Standards*. Consequently, we consider the disclosures for Tier 2 entities should be the same as that required by *IFRS for SMEs*, except:

1. where the R&M requirements differ between Australian Accounting Standards (AAS) and *IFRS for SMEs* (including standards that have not been contemplated by IFRS for SMEs i.e. IFRS 9, 15, and 16); or
2. where there is an Australian specific need due to legislation or other matters (e.g. franking credits).

Therefore, except for those limited reasons above, we consider there should be no disclosure differences compared to the *IFRS for SMEs*. These disclosures have already been considered by the IASB through its due process with wider stakeholder engagement, and we see no reason to second guess the IASB (even where *IFRS for SMEs* incorporates additional disclosures compared to Australian Tier 1 entities). Refer to questions 3(b)-(e) for our more detailed responses.

In relation to presentation requirements, we consider Tier 2 entities should follow the same Tier 1 presentation requirements without amendment. Refer to question 3(a) for our more detailed response.

Q2 - Do you agree that these proposals should replace the current RDR framework? If you disagree, please explain why.

We agree that the Tier 2 reporting requirements need revisiting as more entities will be required to prepare GPFS following ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*. However, as noted in our cover letter, we consider it important for the AASB to assess the timing of the IASB's *Subsidiaries that are SMEs* project to then consider the timing for changing the RDR disclosures.

Q3 - 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 AASB 7 Financial Instruments: Disclosures, AASB 12 Disclosure of Interests in Other Entities, AASB 101 Presentation of Financial Statements, AASB 107 Statement of Cash Flows and AASB 124 Related Party Disclosures and in their entirety as explained in BC46?

We disagree with presentation changes (ie replacement of AASB 101 *Presentation of Financial Statements* and AASB 107 *Statement of Cash Flows*), since we consider the presentation requirements for Tier 1 entities and Tier 2 entities should be the same.

In addition, we disagree with the removal of presentation guidance for Tier 2 entities, because presentations may diverge unintendedly from that of Tier 1 entities, and guidance applying to Tier 1 entities would not be enforceable for Tier 2 entities.

We agree with replacing AASB 7 *Financial Instruments: Disclosures*, AASB 12 *Disclosure of Interests in Other Entities* and AASB 124 *Related Party Disclosures* for Tier 2 entities given these standards relate only to disclosure requirements.

We acknowledge the distinction between presentation and disclosure is not always clear and judgement would be required in some cases, but we prefer that only disclosures are transferred into the Simplified Disclosure Standard (SDS).

(b) adding, removing or amending disclosures, for example the disclosures for lessees, revenue, borrowing costs, revalued property, plant and equipment (PPE) and intangible assets as explained in BC46-BC62?

As explained in Q1, we agree that where there are R&M differences between *IFRS for SMEs* and that applied by Tier 1 entities, then changing disclosures is appropriate i.e. leases, revenue and borrowing costs. However, we disagree with otherwise further changing disclosures compared to *IFRS for SMEs*, except for Australian specific needs.

We recognise there are additional disclosures in *IFRS for SMEs* that are beyond current disclosures applicable for those complying with IFRS as issued by the IASB (where the R&M requirements are the same). We suggest the AASB highlight these items to the IASB for future amendment rather than the AASB removing them in developing SDS.

(c) the inclusion of the audit fees disclosures from AASB 1054 Australian Additional Disclosures for the reasons set out in BC62?

We agree with including audit fee disclosures.

(d) not including certain Australian Accounting Standards and Interpretations in this Simplified Disclosure Standard as explained in BC63-BC65?

We generally agree with not including certain AAS and Interpretations in the SDS for the reasons noted in BC63-65. However, for:

- AASB 5 – as noted in questions 1 and 3(a), we disagree with diverging from the presentation requirements applicable to Tier 1 entities.
- AASB 14 – we agree AASB 14 is generally not relevant in the Australian environment. However, for an entity that has not complied with the R&M requirements of AAS, this may become relevant when moving to GPFS.

(e) ***retaining the following disclosures*** (as outlined in the ED) ***from the IFRS for SMEs Standard that are not currently required under RDR framework or full AAS (see BC59 for explanations):***

If you disagree with any of the decisions, please explain why.

We agree with retaining the disclosures. Refer to question 1 for more details.

Q4 - 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.

We disagree. As noted in questions 1 and 3(a), we consider the presentation requirements for Tier 2 entities should be the same as for Tier 1 entities.

Q5 - 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: which of the disclosures proposed should not be required for Tier 2 entities; and which disclosures not proposed in this ED should be required for Tier 2 entities. (See Staff Analysis – Comparison of R&M requirements in IFRS for SMEs Standard and full IFRS and analysis of impact on disclosures (For for-profit private sector entities with no public accountability))

We disagree with the additions, deletions and amendments compared to *IFRS for SMEs* unless as described in our response in question 1. Refer to Appendix B for other detailed comments.

Q6 - 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.

We agree that SDS should also be made available to not-for-profit (NFP) private sector and all public sector entities.

Q7 - 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.***

We agree.

(b) ***that previous decisions made under the RDR Framework in relation to the cost vs the benefits of these disclosures do not need to be revisited (as explained in BC68.) If you disagree, please explain why.***

We agree that previous decisions do not need to be revisited.

Q8 - 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:

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

(See Staff Analysis of NFP modifications paragraphs in AAS and NFP specific AASB Standards for detailed analysis)

Generally, we agree with the disclosures, except we disagree with disclosures that appear to condone inappropriate and/or inconsistent application of accounting standards. Refer to Appendix B for our detailed comments.

Q9 - Do you agree with using the proposed title of AASB 10XX Simplified Disclosures for Tier 2 Entities? If you disagree, please explain why.

We agree.

Q10 - 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.

We agree with including only disclosure requirements in one separate standard, but we disagree with changes to presentation matters (including relocating to one stand-alone standard). Refer to our comments in question 3(a) above. We also find the non-consecutive numbering confusing and could create practical difficulties for preparers of subsidiaries, and auditors, trying to link any disclosures intended to be the same or similar to an underlying IFRS disclosure for Tier 1 entities.

Q11 - 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)?

We agree, if the proposals are finalised by 30 June 2020, and the transitional provisions (relieving the need for comparative information) are accepted in ED 297.

Q12 - Do you agree with the transitional requirements proposed in this ED (as explained in BC72-BC77)? If you disagree, please explain why.

We agree with the transitional requirements, except those relating to NFP entities. As noted in Appendix B and referred to above, AusNFP35.16 seems to condone non-compliance with AAS relating to NFP entities. We do not believe entities should be allowed to state compliance with AAS, unless they comply with all applicable requirements.

General matters for comment

Q13 - Whether The AASB's For-Profit Entity Standard-Setting Framework and The AASB's Not-for-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this ED?

Except for the matters described in our response to Q12, in relation to NFP entities, we believe *The AASB's For-Profit Entity Standard-Setting Framework* and *The AASB's Not-for-Profit Entity Standard-Setting Framework* have been followed.

Q14 - 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?

We believe that updating the SDS, in particular for future R&M changes applicable to Tier 1 entities, and changes for *IFRS for SMEs* will be time consuming and judgemental due to the IASB reviewing *IFRS for SMEs* every 5+ years. We suggest the AASB should review for new and amending standards on a more frequent basis.

Q15 - Whether, overall, the proposals would result in financial statements that would be more useful to users?

Refer our responses to questions 1-3.

Q16 - Whether the proposals are in the best interests of the Australian economy?

We agree that the Tier 2 reporting requirements need revising. Assuming ED 297 progresses as proposed, we believe these proposals will help reduce the cost burden for entities that prepare GPFS and therefore is beneficial to the Australian economy. However, we do question the timing given the IASB's project on *Subsidiaries that are SMEs*. Refer to question 2.

Q17 - 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.

Appendix B

Additional Feedback

Main features of the [draft] standard	
Main requirements – last para	The ED implies that Standards that deal only with presentation and disclosure issues will not be relevant under the SDS regime. AASB 132 *Financial Instruments: Presentation* falls into this category, but is still relevant for SDS. We consider that it should remain applicable for SDS as per our comments in Q3.
[Draft] Accounting Standard	
Aus1.7(b)	We are confused as to why an AusNFP paragraph would apply to a FP public sector entity.
3.7	The wording at end of the 3rd line doesn't flow "would be so misleading that it would conflict with the objective of financial statements **of set out in the** Conceptual Framework for Financial Reporting."
5.4	We think the related tax effect should be added.
Aus7.8.1	Subject to our comments in Q3, we do not understand the rationale for adding an alternative to present the net cash flow from operating activities using the indirect method.
Page 25	Footnote 17 refers to AASB 1 *Presentation of Financial Statements*. AASB 1 should be AASB 101.
Section 9	Why does footnote 18 include AASB 3?
Section 9	The investment entity exemption from consolidation creates a R&M difference for SDS compared to the *IFRS for SMEs* Standard (but consistent with our view, SDS would be the same as for Tier 1 reporters). We therefore think that disclosures in AASB 12 relating to investment entities should be added to SDS.
Section 11 & 12	The IASB has yet to consider the impact of IFRS 9 and the consequential amendments to IFRS 7 on *IFRS for SMEs*. It is unclear whether the AASB have considered the revisions to AASB 7 when they have adjusted disclosures for the R&M differences of *IFRS for SMEs* compared to AASB 9.
12.29	We believe the disclosures relating to cash flow hedges should also include hedges of net investments in a foreign operation.
14.13	We would like to clarify when this disclosure will be relevant.
14.15/15.21	We suggest amending the wording "Fair value model" as this language is not used elsewhere in AAS.
17.33(d)	We don't agree with deleting 17.33(d) when its required by *IFRS for SMEs*, and there are no R&M differences.
20.13(b)	We note that AASB 16 refers to AASB 7 disclosures rather than including the disclosures in AASB 16. The equivalent AASB 7 disclosures are reflected in 11.42 – we suggest similar wording is included in this section.

AusNFP20.35.1	We would like to understand the rationale for why there is a reference to the disclosure objective in AASB 16. SDS effectively creates a new disclosure objective.
21.16	We believe that to align with AASB 137 that the AASB should insert "where practicable."
Aus24.6(d) and AusNFP25.3.2	We don't believe additional disclosures are required. This is not consistent with the overall principle of minimising differences between SDS and *IFRS for SMEs*. If the accounting policy is material it will be covered by section 8.5.
29.35/37	It is not clear why these paragraphs have been deleted. They relate to presentation issues, similar to 29.36 (and this is retained).
31.15(c)	Why has this paragraph been deleted given IFRS has the same measurement basis.
Aus33.7.1&2	These disclosures arose because of amendments made to AASB 124 *Related Party Disclosures* via AASB 2014-1 *Amendments to Accounting Standards*. The IASB equivalents of these standards were considered as part of the 2012 review of *IFRS for SMEs* and consequently we do not believe additional disclosures should be included compared to *IFRS for SMEs*.
AusNFP.35.16	We are concerned such a disclosure condones inappropriate and inconsistent application of accounting standards. We do not believe any differences should exist between FP and NFP entities.
AusNFP36.10	We would like to understand the purpose of including this paragraph.
<u>Amendments to other standards</u>	
AASB 1057	We believe the reference in paragraph 7 should be to paragraph 20B, not 20C.