

9 August 2018

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

Dear Kris,

**Request for Comment on Phase 1 of the Consultation Paper "Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems"**

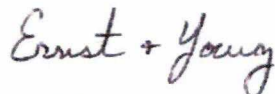
Ernst & Young Australia is pleased to comment on the above Invitation to Comment. We welcome the opportunity to contribute to the future of financial reporting in Australia.

Overall we consider that the proposals released by the AASB in Phase 1 of the Consultation Paper (the "Paper") are in the best interests of the Australian economy. Ernst & Young support the maintenance of compliance with International Financial Reporting Standards in Australia, and therefore support revising the definition of "Reporting Entity" for consistency with that used by the IASB in its Revised Conceptual Framework. However, we draw your attention to our response to question 5 in relation to the potential confusion caused by the removal of the 'reporting entity' definition per SAC 1, and its interaction with the requirement in AASB 10.Aus4.2 for an ultimate Australian parent to prepare consolidated financial statements, irrespective of whether an ultimate foreign parent has prepared IFRS consolidated financial statements.

Our view is that it is the standard setter's responsibility to provide a framework for the preparation of financial statements in accordance with Australian Accounting Standards (AAS). We encourage those determining the need for preparing financial reports - across all sectors and types of entities in Australia - to consider the needs of users when determining "which entities" should prepare financial reports in accordance with AAS. We support the same underlying recognition and measurement principles for all entities preparing financial reports.

Our detailed responses to the questions raised in Phase 1 in the Invitation to Comment 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 Tony Hanrahan on (03) 9635 4036.

Yours sincerely



Ernst & Young

## APPENDIX - Specific matters for comment on Phase 1

**Q1 - Do you agree with the short-term approach to maintain IFRS compliance by introducing the RCF in Australia? That is, do you agree that the RCF should be applicable for publicly accountable for-profit entities that are required to prepare Tier 1 GPFS and other entities that are voluntarily reporting compliance with IFRS, and the existing Framework should continue to be applicable to other entities in the short term until the medium term solution is implemented? Please indicate reasons for your response and if you disagree, please provide suggestions for an alternative approach for the AASB to consider.**

We agree, because we believe maintenance of IFRS compliance is fundamental to Australia's adoption decision in 2005.

However, we consider another approach could be to introduce the RCF for all entities as part of Phase 1, along with maintenance of the reporting entity concept (as per SAC 1) for a period for entities other than a) publicly accountable for-profit entities required to prepare Tier 1 GPFS and b) entities that are voluntarily reporting compliance with IFRS.

- If the RCF is implemented just for Tier 1 entities (or those that voluntarily claim IFRS compliance) - as proposed by the AASB - then the delay in adoption of the RCF for other entities under Phase 2 could mean inconsistent accounting policies may evolve for similar transactions, affecting the AASB's long held view of transaction neutrality. This could then create additional transitional issues on ultimate adoption of the RCF for these other entities.
- Although the AASB is concerned about the potential confusion with the use of 'reporting entity' in two different contexts, the IASB's concept of reporting entity is already used in some Australian standards, as noted in paragraph 40 of the Paper, and this has not caused problems.
- We are not proposing as part of Phase 1 the additional amendments that are contemplated by Option 5 in the Paper (which include changing the name of the Reporting Entity concept, continuing to allow entities to self-assess whether they should prepare GPFS or not, and maintaining SPFS, albeit with prescribed recognition, measurement and disclosure requirements).

**Q2 - Do you agree that the short-term approach should be made applicable to both publicly accountable for-profit private sector and public sector entities? That is, do you agree that the RCF should be applicable for publicly accountable public sector entities that are required to prepare GPFS in accordance with Tier 1 reporting requirements (who are currently claiming compliance with IFRS) as well? Please indicate reasons for your response and if you disagree please provide suggestions for an alternative approach for the AASB to consider.**

We concur with consistent application across both the public and private sector for those entities deemed 'publicly accountable' and therefore preparing fully compliant IFRS financial statements.

We are concerned - similar to the concern in the previous question - about the possibility of differences in accounting policies arising across the public sector due to two sets of conceptual frameworks existing for a period of time.

**Q3 - Are you aware of publicly accountable for-profit entities currently self-assessing as non-reporting entities and preparing SPFS that would have implications under the AASB's short-term approach? If so please provide specific examples including why these entities are not currently applying AASB 1053 and preparing Tier 1 GPFS although they would otherwise meet the definition of public accountability.**

We consider there to be two main issues with the application of the definition of public accountability, although the first is not necessarily new.

Entities preparing financial statements as part of their admission process to the ASX need to give the ASX several years of audited historical financial statements. The requirements in ASX listing rules, for financial statements to be prepared in accordance with AAS, have resulted in SPFS and GPFS-RDR financial statements being accepted. This would appear to contradict the definition of public accountability in respect of 'in the process of issuing such instruments for trading...'. To the extent the ASX accepts financial statements that are not Tier 1 GPFS, this may still be an issue for directors and auditors having to comply with accounting standards, including AASB 1053. We recommend guidance to further explain "in the process of listing".

Entities in the process of listing may also be required to prepare carve-out financial statements. The term "carve-out financial statements" is used in practice to describe the financial statements of a business, such as a division or components of a business (or groups of businesses), that are derived from the financial statements of an entity. The composition of carve-out financial statements depends on the facts and circumstances of the transaction. Such financial statements are often described as SPFS due to non-compliance with AASB 10 *Consolidated Financial Statements*, not because they deem themselves to be non-reporting entities. Of note, Chapter 3 *Financial Statements and the Reporting Entity* of the IASBs RCF acknowledges 'combined financial statements' may be prepared by reporting entities comprising multiple entities that are not linked by a parent-subsidary relationship. We ask the AASB to clarify whether carve-out financial statements are considered GPFS and how this interacts with the requirements of AASB 10. We note that para 82 of the Paper assumes that transition from SPFS to Tier 1 GPFS for any publicly accountable entities currently self-assessing as non-reporting entities would be a disclosure only issue, but this does not address the fact that consolidation may be required if Tier 1 GPFS are to be issued.

**Q4 - Do you agree with the AASB's amendments to the definition of 'public accountability' in AASB 1053 per IFRS for SMEs Standard (refer to Appendix A)? Please indicate reasons for your response and if you disagree, please provide suggestions for the AASB to consider.**

We support the use of 'public accountability' as the basis for determining the reporting requirements to be applied by for-profit private sector entities preparing GPFS and agree with the AASB's clarification of the application of the 'public accountability' in the Australian context.

**Q5 - Do you agree with the proposed amendments to SAC 1 Definition of the Reporting Entity and the following Australian Accounting Standards, as set out in Appendix A:**

- (i) AASB 9 Financial Instruments;
- (ii) AASB 14 Regulatory Deferral Accounts;
- (iii) AASB 101 Presentation of Financial Statements;
- (iv) AASB 1048 Interpretation of Standards;
- (v) AASB 1053 Application of Tiers of Australian Accounting Standards; and
- (vi) AASB 1057 Application of Australian Accounting Standards.

Overall we agree with the proposed amendments made to SAC 1 and AAS (as set out in the Paper's Appendix A) but note the following two issues.

- The amendment made to the scope of AASB 133 *Earnings per Share* (via amendments to AASB 1057 *Application of Australian Accounting Standards*). We are unclear why a reference is required to the Corporations Act (rather than AAS as is included for other amendments). The additional scope requirements in AASB 133 paragraph 2 already limits the standard's application to certain entities.

- No amendments have been made to AASB 10.Aus4.2. This paragraph notes:

*Notwithstanding paragraphs 4(a) and Aus4.1, the ultimate Australian parent shall present consolidated financial statements that consolidate its investments in subsidiaries in accordance with this Standard when either the parent or the group is a reporting entity or both the parent and the group are reporting entities, except if the ultimate Australian parent is required, in accordance with paragraph 31 of this Standard, to measure all of its subsidiaries at fair value through profit or loss.*

With the amendments to other AAS and the limitations on application of SAC 1, this paragraph will confuse entities with public accountability, because 'reporting entity' in this paragraph is in the context of SAC 1 (which will no longer exist). It is not clear whether consolidated financial statements continue to be required by the ultimate Australian parent (irrespective of any foreign parent IFRS compliant financial statements).

**General matters for comment on Phase 1 due 9 August 2018**

**Q6 - Whether The AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities has been applied appropriately in developing the proposals in Phase 1.**

For for-profit entities, we believe the AASB's standard-setting framework has been appropriately applied, subject to clarity of AASB 10.Aus 4.2 as noted in Q5. Also, we do not consider any factors described in paragraph 37 of *The AASB's For-Profit Entity Standard-Setting Framework* have been triggered. Therefore we do not consider any Australian specific amendments are required to the IASB Revised Conceptual Framework.

We have similar comments for not-for-profit publicly accountable entities and not-for-profit entities that voluntarily claim compliance with IFRS (albeit we do not believe many entities in this sector seek compliance with IFRS or would be publicly accountable, and as such are unlikely to be impacted by these proposals).

**Q7 - 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 regulatory issues that may affect the implementation of Phase 1.

We strongly encourage those determining the need for preparing financial reports - across all sectors and types of entities in Australia - to consider the needs of users when determining "which entities" should prepare financial reports in accordance with AAS (i.e., GPFS).

**Q8 - Whether, overall, the proposals would result in financial statements that would be useful to users.**

Subject to our comments above, overall we agree that the proposals would result in financial statements that would be useful to users.

**Q9 - Whether the proposals are in the best interests of the Australian economy.**

We agree that the proposals are in the best interests of the Australian economy. We agree that Australia should continue to maintain IFRS recognition and measurement principles for its financial reporting, and for those entities stating compliance with IFRS as issued by the IASB this needs to be maintained on a continuous basis.

**Q10 - 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 do not believe the impact of these Phase 1 proposals will be significant.