

20 June 2016

Ms K Peach
The Chairperson
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007

Dear Kris

Re: ITC 34 AASB Agenda Consultation 2017-2019

1. Thank you for the opportunity to provide input on the AASB 2017-2019 agenda. I apologise for the lateness of this submission and trust that it will receive consideration by the AASB.

Time for fundamental change

2. It is time to address several fundamental shortcomings in Australian standard-setting and regulatory framework which have been neglected for far too long. The AASB should take a more direct role as *pre-eminent standard-setter* for reporting financial and non-financial information in Australia. With a properly co-ordinated approach, there should be little need for other parties such as Australian Securities and Investments Commission to set accounting rules or make exceptions to those set by the AASB.

3. There are many areas of reporting where the AASB should extend its remit, such SMSF, non-financial performance measurements, and forward looking information. The AASB should work with current 'rule-owners' to ensure a co-ordinated to quality reporting.

4. The AASB should devote less far resources to international projects where Australia is perceived to have very little influence and focus on domestic issues. As part of this re-direction of resources, we also see little benefit AASB's research activities.

5. We support the current projects underway and, in particular, the work on the Australian reporting framework and the post-implementation review of the adoption of IFRS.

Key considerations

6. In addition to our themes in paragraphs 2-5 above, a summary the key points we would like to the AASB to consider in its deliberations on the development of its 2017-2019 work programme are:

1. **Australian reporting framework:** While we support the current work being undertaken in relation to the requirements to lodge general purpose financial statements, we would like to see a more exhaustive consideration of the factors requiring the preparation of general purpose financial reports, including addressing the issue of public interest and transparency. We would also like the AASB to specifically address the reporting needs of SME lodgers with ASIC.
2. **Foreign entity preparers:** We believe a review of the foreign entities requirements to prepare and lodge general purpose financial reports is required to address both public interest and transparency concerns.
3. **ASIC financial reporting class orders** (and like guidance): These should be reviewed and where appropriate include as "Aus" paragraphs in AASB standards.

4. **Financial reporting for Self-Managed Superannuation Funds (SMSFs):** The AASB should address the financial reporting requirements of SMSFs as we are of the opinion that given the structure of the administrative arrangements of the SMSFs industry SMSFs users are dependent users.
 5. **Reported performance measures:** We are of the view that there is a divergence in practice in the use of crucial performance measures such as net interest margin and comparable store sales. As such, the AASB should consider providing guidance on the use of such measures.
 6. **IFRS Post-implementation review:** We support the needs to undertake a post-implementation review of IFRS. We are particularly concerned with anecdotal increase of the use of alternative performance measures since the introduction of IFRS. We believe the scope of the IFRS post-implementation review of IFRS should consider whether “vanilla” IFRS is meeting the requirements of Australian users.
 7. **Public accountability For Not-For-Profits:** We believe the AASB 1053 *Application of Tiers of Australian Accounting Standards* definition of public accountability should be addressed for the not-for-profit sector.
 8. **Alternative reporting measures and forward looking statements:** We strongly support the AASB in issue of the Reporting Service Information exposure draft, and would encourage the AASB to undertake further work in the area of Integrated Reporting and the reporting of forward looking statements.
 9. **Management commentary:** We believe financial statements on their own do not provide a complete picture of the financial performance of an entity. This can only be achieved by the inclusion of appropriate management discussion and analysis (MDA). We recommend the AASB develop a standard on MDA based on the IFRS Practice Statement and ASIC RG 247.
 10. **Profit announcements:** We are of the opinion the primary information provided to investors is no longer the Annual Report but rather the profit announcements (preliminary final reports) provided to markets. The existing guidance in this area should be enhanced and the AASB should work with market regulators to provide consistency of measurement and content.
7. Finally, we express disappointment in the time required to develop and issue new standards. In particular, the time from development to issue of standards on Service Concessions Arrangements: Grantor and Income for Not-for-Profits appears inordinately lengthy. We suggest the AASB review resources and project management practices to expedite the development and issue of new and revised standards.

Detailed comments on these matters are attached.

If you would like to discuss our comments, please contact me or Mr Stephen La Greca (stephenlagreca@aol.com).

Yours sincerely



Colin Parker

Appendix

1. Australian reporting framework

Introduction

1. GAAP Consulting supports the work being undertaken to determine which entities are required to prepare general purpose financial reports, as well as post-implementation review of RDR.

Reduced Disclosure Regime (RDR)

2. In relation to RDR, we are not a supporter; it is checklist approach and lazy way out for preparers and auditors. They should be using materiality to reduce financial reporting disclosures. The AASB should abandon the RDR reporting framework.

Differential Reporting

3. We are of the view that the issue of differential reporting needs to be addressed more robustly. The application of the reporting entity concept and special purpose financial reports has been an unmitigated failure, primarily due to preparer, audit and regulatory failure to apply the principles of the reporting entity and requirements of AASB 101 *Presentation of Financial Statements*.

4. We believe that *IFRS for SMEs* has a role to play in a revised framework, particularly in the area of special purpose reporting. While we have some reservations as the current utility of the existing iteration of IFRS for SMEs, we believe the AASB should work with the IASB in the development a more “user friendly” version.

5. The AASB should consider a project on the concept of special purpose financial statements and, in particular, the circumstances in which they are appropriate and whether any minimum requirements should be set. The AASB should work with the accounting bodies in this regard.

Size test

6. We are concerned that unless a revised size test for lodgement with ASIC is set at such a high level so that it captures only the extremely large preparers then an unnecessary burden is placed on many SME preparers and users.

Lodgement

7. The AASB should continue, in conjunction ASIC and Treasury, to work on the application of a public interest test in determining which entities are required to lodge “full” general purpose financial statements. We are of the view that those who lodge have public accountability and should prepare full general purpose financial statements.

8. As an interim measure, the AASB should make it clear that special purpose financial statements prepared for Corporations Act purposes need to apply accrual accounting. AASB 101.27-28 requires accrual accounting to be determined in accordance with the Conceptual Framework. Therefore, special purpose financial statements for Corporations Act purposes require the measurement requirements of AASBs, including AASB 10 *Consolidated Financial Statements*, to be applied.

9. We are concerned that entities that have been granted licences (e.g. gaming, transport concessions etc.) from state, local or commonwealth governments or awarded government contracts should, in the

interest of transparency, be required to lodge full reporting entity financial statements that are publicly accessible.

10. We consider the requirement to lodge general purpose financial statements in such circumstances provides transparency and public scrutiny of the financial outcomes of such transactions, particularly when the decisions to grant contracts and licences are not always afforded public disclosure.

Australian specific guidance

11. In conjunction with the introduction of public interest test, AASB 1054 *Australian Additional Requirements* should include requirements to disclose the amounts and nature all non-tax payments made to and received by governments, including political donations.

12. The AASB should not shy away from requiring specific Australian disclosures nor addressing specific recognition and measurement issues, including the issue of interpretations. We are concerned that the primacy of IFRS compliance overrides the interest of Australian investors and other users.

13. While we support consistency with IFRS measurement and recognition requirements, we do not believe additional Australian disclosure or application/implementation guidance would necessarily impinge upon the ability for Australian preparers' ability to include statements of compliance with IFRS in their financial statements.

14. We note ASIC on half year basis issues "areas of focus" and while these releases provide insight on troublesome areas of IFRS application and interpretation, they provide little in the way of transparency as to the determinations ASIC has made in requiring restatement by individual preparers. As such, the "learnings" from such ASIC regulatory responses are unavailable to the general population of preparers and auditors. We believe that ASIC, in conjunction with the AASB, should issue the results of the application of ASIC interpretative determinations as guidance, either in the nature of "accounting bulletins" or, alternatively, as an interpretative accounting standard such as AASB 1057 *Application of Australian Accounting Standards*.

2. Foreign entity preparers

15. We are concerned that foreign owned entities, when they are required to prepare financial statements often prepare special purpose financial statements regardless of the scale of their Australian operations. We believe in light of current concerns in relation to Tax Base Erosion and Profit Shifting (BEPS) and foreign owned entities may hold government licences or contracts there is a public interest transparency requirement supporting the preparation and lodgement of general purpose financial statements by such entities.

16. As interim measure, we believe the AASB should reintroduce the pre-IFRS AASB 1025 *Application of the Reporting Entity* concept that deemed a foreign company that was not a subsidiary of an Australian holding company and was a subsidiary of listed overseas foreign entity as a reporting entity. We believe consideration should be given to extending this definition to all subsidiaries of foreign entities not just listed foreign entities.

17. We do not believe the current exemptions in the Corporations Act and those granted under ASIC class orders to foreign own entities are in the public interest. We believe the AASB should liaise with ASIC and Treasury in this regard to remove such exemptions.

3. ASIC accounting class orders (and like guidance)

18. We consider that ASIC, in conjunction with the AASB, should undertake a review of all current ASIC accounting-related class orders with a view to understanding the basis for their issue. We prefer

including ‘Aus’ guidance in the applicable accounting standard to address such issues. We do not believe ASIC should be a defacto standard-setter for corporates.

4. Financial reporting for Self-Managed Superannuation Funds

- 19.** We are concerned that the withdrawal of AAS 25 *Financial Reporting by Superannuation Plans* will leave a vacuum for self-managed superannuation funds (SMSFs). AASB 1056 *Superannuation Entities* has been geared to meet the requirements of public sector and APRA regulated funds.
- 20.** Currently, all three major providers of superannuation reporting packages to SMSFs (Class, SuperMate and BGL) use AASB 25 for their financial reporting template.
- 21.** We believe that most members of SMSFs are dependent users the entities that provide administration services to SMSFs provide a “turn-key” service and there is limited or no ability for the users of such services to demand any reporting other than provided by the administrators’ product offering.
- 22.** The large administration providers handle thousands of SMSFs; the AMP alone has over 10,000 SMFS under administration. SMSFs represent a significant proportion of the superannuation system with 566,735 SMFS out of 569,291 funds in total holding \$594B assets out of a total \$2.04T (29%).
- 23.** We are of view that SMSFs members, due to the administration arrangements, are not in position to demand information other provided by the administrators in accordance with SIS requirements.
- 24.** We, therefore, believe the AASB has responsibility to ensure the financial statements provided to SMSFs members are appropriate. As such, we strongly recommend that the AASB include a project to establish the needs of SMSFs members and produce an appropriate financial reporting standard for SMSFs.

5. Reported performance measures

- 25.** We are concerned that a number of industry specific performance measures are not reported by the industry participants on consistent basis, e.g., Net Interest Margin (NIM) in the banking sector and retail industry metrics such as comparable/same store sales, sales per square metre and gross margins.
- 26.** These industry performance metrics are used as key indicators of trend performance and are often the basis of comparison between industry participants.
- 27.** In relation to NIM, we understand there are differences arising from alternative treatments of trading book securities, the inclusion or not of margins arising from RMBS and conduit entities, and the effect of bank bill rediscounting. Similarly in retail, differences in when old and new stores are dropped and included impact same store and sales per square metre metrics, while gross margins are affected by diverse treatment of slotting and line fees and advertising contributions.
- 28.** As many of these metrics are derived from financial reporting numbers, we are of the view that the AASB, in conjunction with ASIC, need to review key industry performance metric, determine the existence of diversity in practice, and issue appropriate authoritative measurement guidance.

6. IFRS post-implementation review

Use of the IFRS designation

- 29.** IFRS is the global financial reporting language. It is time to remove the AASB designation for profit-seeking entities. It is recognised, inter alia, changes to the Corporations Act will be required.

30. Not-for-profit entities in the public and private sectors would continue to use AASB designation based on IFRS.

Alternative performance measures

31. We are concerned with post-IFRS the incidence of use alternative performance measures (APMs) to report 'profit' from an entity perspective other than profit determined in accordance with accounting standards has risen alarmingly. We are of the opinion that such APMs overshadow statutory profit and users of financial statements are misled.

32. While pre-IFRS there were attempts to "game" profit figures by the use of extraordinary items (while they existed) and abnormal items, the adoption of IFRS has seen an increase in the number of adjustments to IFRS profit resulting in such reporting terms as underlying profit or cash earnings.

33. As part of the post-implementation review of IFRS, we believe the AASB should determine if there is correlation between the perceived increased use of APMs and what aspects of IFRS has resulted in the observed behaviour. It is our view that APMs should not be permitted.

Australian specific guidance

34. The post-implementation review of IFRS needs to consider whether the AASB's current approach of making no supplements to IFRS is in the interests of Australian investors and users and the broader public interest.

35. We believe that if current IFRS requirements do not meet investor or public interest needs the AASB has a responsibility to appropriately supplement IFRS. This responsibility also extends to addressing diversity in implementation that arises in Australia.

36. The post-implementation review should also examine the extent and manner by which other jurisdictions have dealt with amendments to IFRS.

7. Public accountability for Not For Profits

37. AASB 1053 *Application of Tiers of Australian Accounting Standards* in Appendices A and B deals with public accountability in relation to the NFP private sector. However, the AASB has not addressed the issue public accountability in relation to the NFP sector. The AASB should.

38. We believe consideration on the inclusion of definition of public accountability for NFPs needs to be addressed by the AASB as matter of urgency. In considering, the definition the application of the public accountability concept to NFPs the AASB should include:

- The receipt of funds, assets and grants from government (Commonwealth, State or Local), and
- The receipt of donations or bequests from the public.

39. In such circumstances, many NFPs should prepare general purpose financial statements.

8. Alternative reporting and forward looking statements

40. We strongly support the AASB in the issue of the Reporting Service Information for NFPs exposure draft and consider that the AASB should be expanding its responsibility beyond historical financial information.

41. We believe the AASB should include in its projects:

- *Integrated reporting* – the AASB should monitor the development of integrated reporting with a view of the application of the principles to for-profit and NFP sectors
- *Management Discussion and Analysis (MDA)* – see 9 below, and
- *Forward looking statements* – the AASB should consider the development of standards covering forward looking statements by both the for-profit and NFP sectors including:
 - Pro-forma information included public offer documents including the application of AASB measurement standards to forward looking information
 - Preparation of forecast information for the inclusion in public offer documents including the basis of measurement and the extent AASB recognition and measurement requirements are to apply, and
 - Budget and Forward expenditure estimates prepared by governments including Commonwealth and State Budgets. It is arguable particularly at the whole of government level that Budgets receive more interest than historical financial results (other than the overall deficit/surplus), as such the basis for their preparation should be subject to an independently determined criteria.

9. Management commentary

42. We are of the opinion that financial statements without adequate Management Discussion and Analysis (MDA) does not provide sufficient information to assess the financial performance of an entity.

43. We believe the AASB should include a project to upgrade the existing IASB Management Commentary Practice Statement to enable it to form the basis of an MDA standard. The ASIC regulatory guide RG 247 *Effective Disclosure in an operating and financial review* could also be an input along with other existing guidance available. In due course, we envisage this regulatory guide would be unnecessary.

10. Profit Announcements

44. We believe the Annual Report as the primary source of financial information has been supplanted by the profit announcement (e.g. ASX preliminary final report). The profit announcement often precedes the annual report by as much as two months and has the potential to effect markets in an entity's securities emphatically than a three month old annual report.

45. While there are requirements such as ASX listing rule Chapter 4 *Periodic Reporting* and Appendix 4E *Preliminary final report*, we are the view a more comprehensive approach to reporting in profit announcements is warranted.

46. Such a review should build upon the existing Appendix 4E requirements (including examining the existing requirements for continued relevance or enhancement), address the use of industry performance measures, APMs and the nature and extent of MDA to be included.

Conclusion

47. The AASB should be the lead domestic standard-setter.
