



Grant Thornton

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Kris Peach  
Chair and CEO  
Australian Accounting Standards Board

Submission via online form

2 December 2019

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## Grant Thornton Australia Submission – ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*

Dear Ms Peach

We welcome this opportunity to provide our views on ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*. Grant Thornton's global network maintains an open and constructive relationship with national governments, standard-setters and regulators, consistent with our policy of embracing external oversight.

Grant Thornton's response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations.

In responding to ED 297, we have also considered the proposals in ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-profit Tier 2 Entities* given the interrelationships between these two proposals.

Overall, we support the proposals in ED 297 requiring certain for-profit entities to prepare General Purpose Financial Statements (GPFS), subject to our comments below on the transition period and our recommendation on the effective date.

We note that the Australian Accounting Standards Board (AASB) is expected to finalise and publish the final requirements around March/April 2020 with the changes becoming effective for financial years beginning on or after 1 July 2020. In our view, the proposals in the ED (along with ED 295) represent significant reforms to the Australian financial reporting framework and the implementation timeframe proposed by the AASB does not provide sufficient lead time for entities to prepare for, and implement, changes of this magnitude. The AASB should in line with the *Due Process Framework for Setting Standards* (September 2019) increase the timeframe for implementation to ensure that stakeholders have adequate time to prepare for the implementation when determining the effective date of standards.

We recommend the AASB provide at least 12-months implementation period by moving the proposed mandatory effective date from 1 July 2020 to at least 1 July 2021. This will allow practitioners, businesses, and other stakeholders (such as legal professionals) adequate time to educate and understand the extent of the changes, develop a transition plan, make appropriate systems changes, capture necessary data, and implement the changes in an orderly manner.

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Should you have any queries related to our submission, please contact either me (merilyn.gwan@au.gt.com) or Siva Sivanantham (siva.sivanantham@au.gt.com).

Yours sincerely

A handwritten signature in black ink, appearing to read 'MGo', with a long horizontal stroke extending to the right.

Merilyn Gwan  
Partner - Audit & Assurance  
Head of National Assurance Quality

## Answers to specific and general matters for comment in ED 297

In this section, Grant Thornton Australia offers feedback on the specific and general matters for comment requested by the AASB in ED 297.

1. The proposed amendments identify the for-profit entities required to comply with Australian Accounting Standards (or accounting standards) that would no longer have the ability to prepare SPFS. Do you agree that:
  - a. the amendments set out in this ED effectively remove the ability to prepare SPFS for the for-profit entities identified in AASB 1057 *Application of Australian Accounting Standards* as entities for which the reporting entity definition is not relevant (also identified in paragraph Aus1.1 of the *Conceptual Framework for Financial Reporting*)? If not, please provide your reasons.
  - b. as an exception, other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with AAS should retain the ability to prepare SPFS, provided that the relevant document was not created or amended on or after 1 July 2020? If not, please provide your reasons (see paragraphs BC73-BC83).
  - c. for-profit public sector entities should also retain the ability to prepare SPFS as discussions about the public sector reporting framework are continuing? If not, please provide your reasons.

We generally agree with the removal of SPFS as proposed in the ED, however as noted in our covering letter, we urge the AASB to allow adequate implementation period for these important reforms by extending the mandatory application date to at least 1 July 2021.

While appreciating the effort the AASB has been making to engage and inform various stakeholders, we are concerned that not all affected stakeholders might be aware of the proposed changes and that there will be a significant need for stakeholder education once the final standard is published. We are also concerned that businesses and legal professionals may be making changes to their constitution and other documents post-1 July 2020 (subject to our recommendation to change the application date to 1 July 2021), unintentionally triggering a change to their financial reporting obligations due to their lack of awareness of the changes being introduced by the AASB. Our recommended deferral of the effective date by at least 12-months should help in addressing this issue.

We do agree with providing grandfathering relief for existing entities whose constitution or other documents were not created or amended on or after 1 July 2020 (subject to our recommendation to change the application date to 1 July 2021) and we see this as a practical and sensible measure. However, we do not support providing grandfathering relief to such entities indefinitely as this affects the transparency and comparability of financial reporting, contrary to the objective of the Australian financial reporting framework. We encourage the AASB to consider adding a sunset clause, requiring those entities benefiting from grandfathering relief to revisit their constitution or other documents and make the necessary changes before the expiry of the sunset clause.

2. Have you identified any arguments additional to those addressed in the Basis for Conclusions or unintended consequences that should be considered by the AASB in determining whether the ability to prepare SPFS should be removed from certain for-profit private sector entities as set out in this ED?

As noted in our covering letter, we consider the implementation period currently proposed by the AASB to be inadequate for an orderly implementation of these significant reforms. We urge the AASB to extend the mandatory effective date of these reforms by at least 12-months.

3. Do you agree that:
  - a. for-profit private sector entities that are neither required by legislation to prepare financial statements that comply with AAS or accounting standards nor required by a document (created or amended on or after 1 July 2020) to prepare financial statements that comply with AAS; and

b. for-profit public sector entities; should be able to voluntarily prepare GPFS and in doing so apply either the *Conceptual Framework for Financial Reporting* or the *Framework for the Preparation and Presentation of Financial Statements*? Please provide your reasons, including whether there are any adverse or unintended consequences that should be considered by the AASB in determining whether the *Framework for the Preparation and Presentation of Financial Statements* should not be permitted to be applied in these circumstances.

We agree that these entities should be permitted to prepare GPFS.

4. Do you agree that entities that are not explicitly required to comply with accounting standards, but are required by legislation or otherwise to provide financial statements or financial information that gives a true and fair view, should not be covered by these proposals? If not, please provide your reasons (see paragraphs BC68- BC69).

We concur with the proposed scope of the ED. Financial information is often prepared by entities for various purposes with no specific requirement to comply with accounting standards. Such financial information may or may not need to provide a 'true and fair view' depending on the legislative or other requirement requiring the financial information. We believe it is up to the relevant regulators (and other bodies as appropriate) to determine the extent to which such financial information must comply with Australian accounting standards. While the AASB has a role to play in educating such stakeholders (including the relevant regulators and other bodies), it is ultimately those regulators and other relevant bodies who need to ensure the requirements for preparation of financial information or financial statements are clear to ensure the quality and comparability of financial reporting.

5. Do you agree with the proposal to amend AASB 1 to provide optional relief from the restatement of comparative information in the year of transition from SPFS to GPFS Tier 2 (see paragraphs BC112-BC122)? If not, please provide reasons. If yes, do you agree with the proposed disclosures in relation to the comparative period (see paragraph AusE8.4 for AASB 1 on page 20)? If not, please provide your reasons. Please consider these matters in conjunction with the AASB's proposals regarding a revised Tier 2 disclosure framework as set out in ED 295.

We agree with the proposed transition relief, however as noted earlier, we recommend the AASB to defer the application to by at least 12-months.

6. Do you agree that additional transition relief is not required (see paragraphs BC112-BC122)? If not, what transition relief should be provided and what are your reasons?

We agree with this proposal.

7. Do you agree with the proposal to amend AASB 1053 requirements for the first-time adoption of Tier 2 reporting requirements relating to whether a parent entity has complied with AASB 10 *Consolidated Financial Statements* in its previous SPFS (see paragraphs BC123-BC125)? If not, please provide your reasons. If non-compliance with AASB 10 was the only departure from AAS in the previous SPFS, should an entity be permitted to apply AASB 1, which could allow the restatement of amounts under various transition relief options?

We agree with the proposed measure, clarifying that consolidation is a recognition and measurement issue. If non-compliance with AASB 10 was the only departure from AAS in the previous SPFS, we support allowing such entities to apply AASB 1 as non-compliance with consolidation represents non-compliance with recognition and measurement requirements.

8. Do you agree with the proposed effective date of annual reporting periods beginning on or after 1 July 2020 (see paragraphs BC126-BC129), with earlier application permitted? If not, please provide your reasons.

As noted in our cover letter, we do not agree with the proposed effective date of 1 July 2020 as it does not provide sufficient lead time for practitioners, businesses and other stakeholders to educate and understand the extent of the changes, develop a transition plan, make appropriate systems changes, capture necessary data and implement the changes in an orderly manner. Significant changes of this nature typically warrant at least a two-year lead time prior to mandatory implementation. We recommend the AASB to allow at least 12 months lead time by extending the proposed effective date to 1 July 2021.

#### **General matters for comment**

9. Whether *The AASB's For-Profit Entity Standard-Setting Framework* has been applied appropriately in developing the proposals in this ED?

We have no specific comments.

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

As noted earlier, to ensure effective application, we encourage the AASB to allow for adequate time for implementation, and that the board works with other regulators to ensure any requirements for preparation of financial statements or financial information are clear going forward. There is also a significant education need relating to these reforms as all affected stakeholders (including directors) need to clearly understand the changes introduced by these amendments and potential implications of changing constituting or other documents going forward.

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

We believe that the proposals will result in financial statements that would be useful to users.

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

We have no specific comments.

13. Unless already provided in response to 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 specific comments.