Grant Thornton
An instinct for growth™

Grant Thornton Australia Limited
Level 17
383 Kent Street
Sydney, NSW
2000

T +61 2 8297 2400
F +61 2 9299 4445

Kris Peach
Chair and CEO
Australian Accounting Standards Board

9 November 2018

Grant Thornton Australia Submission – Phase 2 of Consultations on Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems

Dear Kris

We welcome this opportunity to provide our view on Phase 2 of the AASB's Consultations on Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems. 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.

As we noted in our submission to Phase 1 of the Consultations, we acknowledge that the issues identified in the AASB's Consultation Paper have been discussed among stakeholders for many years.

We conclude from discussions with stakeholders and the AASB that our preferred revised framework is GPFS – Specified Disclosure Requirements, which we believe will result in a lower transitional cost, and will result in simpler financial reporting requirements in the longer term.

We note that our comments on the Consultations are in the context of the new framework being effective for the for-profit sector only at this stage.

Please see the attached Appendix for our answers to specific questions in the AASB's Discussion Paper. Should you have any queries related to our submission, please feel free to contact me.

Yours sincerely

MGo

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

Answers to specific questions in ITC 39 Discussion Paper for Phase 2 Consultations

In this section, Grant Thornton Australia offers feedback on the specific and general matters for comment requested by the AASB in ITC 39, paragraphs 195-196.

Specific matters for comment on Phase 2

Q11 – Do you agree with the AASB's Phase 2 approach (described in paragraph 166) Why or why not?

Grant Thornton Australia welcomes all measures and consultations by the Board that provide clarity, consistency, and simplicity to preparers and users of financial statements.

We acknowledge that the Board has invested a significant amount of resources to this consultation process. Having reached this phase of the consultation, we agree in principle with the AASB's Phase 2 approach.

Q12 – Which of the AASB's two GPFS Tier 2 alternatives (described in paragraphs 167-170) do you prefer? Please provide reasons for your preference.

Having examined the alternatives in the discussion paper, we conclude that our preferred revised framework is GPFS – Specified Disclosure Requirements (Alternative 2), which we believe will result in a lower transitional cost, and will result in simpler financial reporting requirements in the longer term.

Q13 – Do you agree that we only need one Tier 2 GPFS alternative in Australia (either Alternative 1 GPFS – RDR or the new Alternative 2 GPFS – SDR described in paragraphs 167- 170)? Why or why not?

We agree there is a need for only one new tier in the context of for-profit entities in the interests of consistency and clarity.

Creating more than one Tier 2 GPFS alternative for for-profit entities risks lending itself to confusion for both preparers and users of financial statements.

Q14 – Do you agree with the AASB's decision that GPFS – IFRS for SMEs (outlined in Appendix C paragraphs 18 to 36) should not be made available in Australia as a Tier 2 alternative for entities to apply? Please give reasons to support your response, including applicability for the for-profit and not for-profit sectors.

We agree with the AASB's determination not to implement GRFR – IFRS for SMEs. Australia already has recognition and measurement requirements for all financial statements prepared under Corporations Act, a move to IFRS for SMEs would not be favourable to the Australian market.

We acknowledge that IFRS for SMEs is a viable alternative for jurisdictions where SMEs would otherwise make a significant leap from their local GAAP to full IFRS compliance if not for the availability of IFRS for SMEs.

Q15 – If the AASB implements one of the two proposed alternatives (described in paragraphs 167- 170) as a GPFS Tier 2, what transitional relief do you think the AASB should apply (in addition to what is available in AASB 1)? Please provide specific examples and information.

Consistent with feedback at roundtables, we agree there would be a benefit in providing relief for the inclusion of comparative information in the first effective period of the new standard. In our view, the modified retrospective approach, in line with the transitional arrangements for new major standards such as AASB 15 *Revenue from Contracts with Customers,* would be the most appropriate option.

As it would not provide consistency, clarity nor simplicity for preparers and users of financial statements, we do not support the notion of grandfathering the existing Special Purpose Financial Statements regime for entities already applying it.

Q16 – What concerns do you have on consolidating subsidiaries and equity accounting associates and joint ventures as proposed in the AASB's medium-term approach? What transitional relief do you think the AASB should apply? Please provide specific examples and information.

Our discussions with our clients reflect that consolidation will be the most significant issue in the application of the new framework, as ASIC's RG 85 *Reporting requirements for non-reporting entities* does not make consolidation compulsory for entities preparing Special Purpose Financial Statements.

We agree there would be a benefit in providing relief for the inclusion of comparative information for consolidation in the first effective period of the new standard, as this is in line with the modified retrospective approach applied in new major standards such as AASB 15 *Revenue from Contracts with Customers*.

Q17 – If the new Alternative 2 GPFS – SDR described in paragraphs 167-170) is applied, do you agree that the specified disclosures would best meet users' needs? If not, please explain why and provide examples of other disclosures that you consider useful.

Whether the specified disclosures would meet users' needs would need further consultation with stakeholders.

We do note, however, that the proposed GPFS – SDR framework does not currently include the subsequent event disclosures in AASB 110 *Events after the Reporting Period*. We would recommend that the AASB considers adding subsequent event disclosures in line with AASB 110 to the proposed framework.

Q18 – Do you have any other suggested alternative for the AASB to consider as a GPFS Tier 2 and whether this would be applicable for for-profit and not-for-profit sectors? Please explain rationale (including advantages and disadvantages and the costs and benefits expected).

We have no specific comment on this question.

Q19 – Do you think service performance reporting, fundraising and administration cost disclosures for NFP private sector entities should be included as part of the chosen GPFS Tier 2 alternative? Please explain rationale (including advantages and disadvantages).

This NFP-centred question is for a later consultation round as advised by the AASB. However, for this topic, the answer is dependent on broader legislative requirements. For the moment, some of these issues are embedded within legislation. In future consultation rounds, harmonisation with the results of the ACNC legislative review will be key to smooth implementation of any reforms.

Q20 – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals? If yes, please provide specific information.

There are none of which we are aware.

General Matters for comment on Phase 2

Q21 – Whether The AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities have been applied appropriately in developing the proposals in Phase 2 regarding the reporting entity problem (note the AASB will consult further on other NFP amendments required for the RCF).

It appears that the AASB has been making an effort to be applying the frameworks appropriately. We have seen nothing to suggest otherwise.

Q22 – Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.

As mentioned in our answer to Q14, resourcing at the entity level may be a challenge when implementing the new regime.

Q23 – Whether, overall, the proposals would result in financial statements that would be useful to users.

The degree of usefulness will be on a case-by-case basis, but in general, we agree with proposals that will provide clarity, consistency and simplicity for users.

Q24 – Whether the proposals are in the best interests of the Australian economy.

All proposals that bring a level of consistency and clarity to end users of financial statements, as well as improved consistency with overseas usage, is welcomed and will surely be in the long-term interests of the Australian economy.

Going forward, there will be a need continually to critique the size criteria for the applicable tiers. The AASB will need to consider consistency for different types of entities e.g. different legal structures, as that will continue to deliver inconsistent reporting (trusts, partnerships, grandfathered entities).

More broadly, the idea of the consultations and the Standards is to look after stakeholders – we must ask ourselves why it continues to be in the interests of the Australian economy that a class of corporate citizens be exempt from reporting.

Q25 – 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 nonfinancial) 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 nothing to add on this point.