



The Chair
Australian Accounting Standards Board
PO Box 2014
Collins Streets West VIC 8007
Australia

9 November 2018

Dear Madam

Response to the AASB Consultation Paper – Applying the IASB’s Revised Conceptual Framework (RCF) and Solving the Reporting Entity and Special Purpose Financial Statement Problems

Insurance Australia Group Limited (IAG) is pleased to provide its response to the request for feedback on Phase 2 of the AASB Consultation Paper. IAG is supportive of the AASB’s continued efforts to align the Australian Accounting Standards with the IASB’s RCF.

IAG has responded to the specific matters for comment on Phase 2 (Q11 to Q20). If you require any additional information then, in the first instance, please contact Kiran Rathod, Executive Manager – Financial Control on (02) 9292 3140.

A handwritten signature in blue ink that reads 'Peter Grant'.

Peter Grant

Group General Manager, Finance

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?

IAG Response

IAG's preference is Option 2: Operate with two Conceptual Frameworks – apply IASB's RCF to some entities to maintain IFRS compliance and retain the existing Framework for others (i.e. retain the Australian reporting entity concept and SPFS for others).

We believe the costs associated with moving to Option 1 would exceed the benefits. For an entity to be eligible to apply the SPFS framework, it generally does not have public accountability or is classified as a non-reporting entity. Hence, in their nature, the financial statements of these entities are relied upon by a limited audience. The consultation paper raises the issue of self-assessment on the type of financial reporting required (paragraph 44) which may be addressed through consultation with ASIC and the introduction of more prescriptive rules around the self-assessment process.

Q12 Which of the AASB's two GPFS Tier 2 alternative (described in paragraphs 167-170) do you prefer?

Please provide reasons for your preference.

IAG Response

If Option 2 were to be mandated then IAG would prefer Alternative 2: GPFS – Specified Disclosure Requirements. The reasons this is our preferred position are:

- This alternative adopts a more prescriptive approach to disclosure requirements, with specific requirements set out for all entities;
- The resultant consistency in disclosures will allow for greater comparability across entities; and
- Adoption would be less onerous given the alignment with the recognition and measurement requirements under the SPFS regime.

We note that this alternative would potentially introduce new disclosure Standards (Related Party Disclosures, Impairment of Assets, Revenue and Income Taxes) and the AASB is consulting on these specified disclosures as part of its consultation process. IAG would welcome the opportunity to participate as part of this consultation process.

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 – RDR described in paragraphs 167-170)?

Why or why not?

IAG Response

Yes, we agree there should only be one Tier 2 GPFS alternative in Australia. We believe providing optionality has the potential to constrain the comparability of reporting across entities.

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.

IAG Response

The IFRS for SMEs includes differential recognition and measurement requirements when compared with other IFRS standards and limits accounting policy options. For those entities preparing SPFS that have adopted the full measurement and recognition standards, moving to

IFRS for SMEs would reduce comparability and create inconsistencies when these entities are consolidated for Group reporting purposes. Hence, we agree with 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.

- 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)? Should AASB 1 be applied, or simpler relief provided?**

Please provide specific examples and information.

IAG Response

Entities preparing SPFS are generally less complex in nature and have a limited cohort of financial statement users'. We believe application of AASB 1 is not needed as the SPFR already comply with the recognition and measurement principles and hence the application of AASB 1 will not provide any meaningful information.

We note that the RCF will apply to publicly accountable entities from 1 January 2020 onwards and for all other entities from 1 January 2021 onwards and there will be outreach activities with the preparers in the interim duration. We are supportive of this approach and would appreciate the opportunity to participate in the targeted outreach activities and provide further feedbacks on the implementation guidance as they are framed.

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

Please provide specific examples and information.

IAG Response

Where the reporting entity cannot get the exemption under AASB 10, *Consolidated financial statements*, the costs of applying these new requirements may be onerous on smaller entities which produce financial statements for a limited pool of users and have been classified as non-reporting entities. The users of these financial statements may not have the required financial literacy to understand the consolidated financial statements or the impact of equity accounting associates and joint ventures. In our opinion, the costs associated with this change exceed the benefits, in particular for smaller entities.

- 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.**

IAG Response

We agree that the specified disclosures will meet the needs of most users of the financial statements as they incorporate the basic requirements as well as areas where significant judgement has been applied, e.g. impairment of assets and income taxes. However, the extent of disclosures will also be a key consideration when determining their appropriateness and viability.

Q18 Do you have any other suggested alternatives 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).

IAG Response

We do not suggest any alternatives but suggest AASB consider Option 2: Operate with two Conceptual Frameworks. As noted in our response to Q11, we believe the costs associated with this change would exceed the related benefits.

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).

IAG Response

We believe this question will be better addressed by NFP private sector entities.

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

IAG Response

We are not aware of any legislation that refers to SPFS that might be impacted by these proposals.

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).

IAG Response

We believe the AASB has followed due process in the standard setting process.

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

IAG Response

None that we are aware of, other than the cost/benefit considerations noted earlier.

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

IAG Response

As noted earlier, IAG's preference is Option 2. We strongly believe the SPFS regime adequately meets user needs in a practical and cost-effective manner.

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

IAG Response

Many small and medium-sized businesses that do not have public accountability and are currently classified as non-reporting entities prepare SPFS. The change may result in a material additional compliance burden for these companies without, in our view, commensurately increasing the value the resultant financial statements to users' of the financial statements.

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 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.

IAG Response

As noted in the earlier responses, we do not expect the benefits of transitioning to Option1 would exceed the related costs as, in our experience, the current reporting framework is meeting the needs of the users of financial statements. IAG has yet to perform a detailed cost estimation and impact assessment of the potential alternative approaches.