INSTITUTE OF PUBLIC ACCOUNTANTS®

2 December 2019

The Chairperson
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
Australia

Dear Kris

Re: Exposure Draft 295 – General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities

Thank you for the opportunity to comment on the Exposure Draft ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities.*

While the IPA recognises the proposed Tier 2 disclosures in the ED are an incremental improvement over the current Reduced Disclosure Regime, the IPA believes the proposals need enhancements including:

a) Being more user focused and less anchored to the existing RDR requirements and *IFRS for SMEs*
b) Addressing material omissions in disclosures including credit quality, financial asset impairment and liquidity risk including maturity analysis of financial liabilities
c) Simplification of reporting requirements by the elimination of multiple reporting options, and
d) Culling of extraneous disclosures, such as, reconciliations.

The IPA is also of the view the AASB needs to address the issue of public accountability. The current definition of public accountability is inconsistent with community expectations regarding transparency, accountability and governance.

Our detailed comments and responses to the questions in the Exposure Draft are set out in the Appendix to this letter.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen La Greca (stephenlagreca@aol.com) or Mr Colin Parker (colin@gaap.com.au) (a former member of the AASB), GAAP Consulting.

Yours sincerely

V. Styl

Vicki Stylianou
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About the IPA

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 65 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting our members, the profession and the public interest. The IPA recently merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.

Appendix
Specific matters for comment

Question 1
Do you agree with the overarching principles on which the proposed Simplified Disclosure Standard is based and the methodology described in paragraphs BC33-BC43 to this ED? If you disagree, please explain why.
IPA response
The IPA does not believe basing a Tier 2 reporting framework on *IFRS for SMEs* produces a reporting framework appropriate to user needs.
The IPA is of the view *IFRS for SMEs* is a flawed standard, lacking appropriate consideration of user needs and represents a "grab bag" of disclosures without an underlying framework for the required disclosures.
The IPA holds the view that Tier 2 disclosure framework (with some modifications to the original proposals) set out by the AASB in ED 277 issued in 2017 is a superior basis for a Tier 2 framework than that proposed in the ED 295. Furthermore, while the proposals in ED 295 are an improvement over the current RDR, they could still be considered onerous. We consider that materiality needs to emphasised to reduce the checklist mentality to disclosures.

Question 2
Do you agree that these proposals should replace the current RDR framework? If you disagree, please explain why.
IPA response
As noted in Question 1, the IPA does not believe the current proposals are the appropriate basis for a Tier 2 disclosure regime. However, the IPA considers these proposals are an incremental improvement over the current RDR regime.
The IPA believes there are significant improvements required to make the proposal "fit-for-use" as noted in our comments to the questions below (Questions 3 and 5).

Question 3
Do you agree with the following key decisions made and judgements exercised by the AASB in drafting the proposed Simplified Disclosure Standard in relation to:

(a) the replacement of AASB 7 "Financial Instruments: Disclosures", AASB 12 "Disclosure of Interests in Other Entities", AASB 101 "Presentation of Financial Statements", AASB 107 "Statement of Cash Flows" and AASB 124 "Related Party Disclosures" and in their entirety as explained in BC46?
(b) adding, removing or amending disclosures, for example the disclosures for lessees, revenue, borrowing costs, revalued property, plant and equipment (PPE) and intangible assets as explained in BC46-BC62?
(c) the inclusion of the audit fees disclosures from AASB 1054 "Australian Additional Disclosures" for the reasons set out in BC62?
(d) not including certain Australian Accounting Standards and Interpretations in this Simplified Disclosure Standard as explained in BC63-BC65?
(e) retaining the following disclosures from the IFRS for SMEs Standard that are not currently required under RDR framework or full AAS (see BC59 for explanations):

Section in the Simplified Disclosure Standard	**Paragraph number**	**Nature of disclosure**
Additional disclosures compared to RDR framework		
Section 3 *Financial Statement Presentation*	3.24(a) and (b)	Domicile, legal form and description of the nature of the entity's operations and principal activities

Section in the Simplified Disclosure Standard	**Paragraph number**	**Nature of disclosure**
Section 12 *Other Financial Instrument Issues – Hedging disclosures*	12.29(a)	For cash flow hedges - the periods when the cash flows are expected to occur and when they are expected to affect profit or loss
Section 14 *Investments in Associates*	14.13	Amount of dividends and other distributions recognised as income
Section 19 *Business Combinations and Goodwill*	19.25(g)	Qualitative description of the factors that make up recognised goodwill
Section 20 *Leases*	20.13(b) 20.30(b)	Lessees: Maturity analysis of future lease payments Lessors with operating leases: Variable lease payments recognised as income
Section 28 *Employee Benefits*	28.41(g)(i), (j)	For defined benefit plans: - Amounts recognised in profit or loss as expense - Actual return on plan assets
Section 32 *Events after the End of the Reporting Period*	32.4	Requirement to adjust disclosures as a result of adjusting events
Section 33 *Related Party Disclosures*	33.11	Disclosure of parent-subsidiary relationship by government-related entities
Section 35 *Transition to Australian Accounting Standards – Simplified Disclosures*	35.12, 35.13(a) and (c), 35.14 and 35.15	Explanation of how transition has affected reported amounts, description of nature of each change in accounting policy, reconciliation of profit or loss with separate identification of errors, and (where applicable) a statement that the entity did not present financial statements for previous periods
Additional disclosures compared to full AAS		
Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings*	6.5 (a) to (e)	Disclosures where an entity has applied the option of not presenting a separate statement of changes in equity
Section 12 *Other Financial Instrument Issues – Hedging disclosures*	12.28 (a) and (b)	For fair value hedges: separate disclosure of the amount of the change in fair value of the hedging instrument and of the hedged item
Section 20 *Leases*	20.23 (d)	Lessors with finance leases:

Section in the Simplified Disclosure Standard	Paragraph number	Nature of disclosure
		Disclosure of the loss allowance for uncollectable minimum lease payment receivables
Section 28 *Employee Benefits*	28.41(g) and (j), 28.42 and 28.43	For defined benefit plans: - The cost relating to defined benefit plans for the period that have been included in the cost of an asset – for group plans, subsidiaries must make all of the disclosures for the plan as a whole, without exemption and without being able to cross-refer to another group entity's financial statements Information about the nature of termination benefits and other long-term benefits, in amount of the obligations and extent of funding.

If you disagree with any of the decisions, please explain why.

IPA response

The IPA supports the replacement of AASB 7, AASB 12, AASB 101, AASB 107 and AASB 124, with specific disclosures. However, as set out in our response to Question 5, the IPA has concerns with a number of the proposed disclosures including the omission of certain disclosures.

Subject to our response in Question 1 and 5, the IPA supports the addition, removal and amendment of disclosures as explained in BC46-BC-62.

The IPA support the inclusion of audit fee disclosures in accordance with AASB 1054.

The IPA supports excluding certain Australian Accounting Standards and Interpretations as set out in BC63-BC65, with the exception of AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* paragraph 39 and Interpretation 129 *Service Concession Arrangements Disclosures*. The IPA believes that these disclosures are important in promoting transparency and governance in relation to dealings with governments and should be retained.

The IPA supports the additional disclosures set-out in the table above.

Question 4

Do you agree with providing Tier 2 entities with an option of not having to prepare a separate statement of changes in equity as per paragraph 3.18 of AASB 10XX? If you disagree, or are concerned that this option could have unintended consequences, please explain why.

IPA response

The IPA agrees with providing Tier 2 entities with the option not to prepare a separate statement of changes in equity and believes the conditions set-out in the proposed paragraph 3.18 are sufficient to ensure this option will operate in an appropriate manner.

Question 5

Do you agree with the other disclosures for Tier 2 entities as set out in Sections 3 to 35 of the proposed new Simplified Disclosure Standard that have been identified by applying the proposed methodology and principles? If you disagree with the outcome, please identify, with reasons:

(a) which of the disclosures proposed should not be required for Tier 2 entities; and

(b) which disclosures not proposed in this ED should be required for Tier 2 entities.

(See Staff Analysis – Comparison of R&M requirements in IFRS for SMEs Standard and full IFRS and analysis of impact on disclosures (For for-profit private sector entities with no public accountability))

IPA response

The IPA has a number of concerns in relation to the proposed disclosures in Section 3 to 35 of the proposed standard:

(a) The IPA believes the following represents serious omissions of disclosure that relate to various risks the reporting entity may be exposed to:

   i. The lack of any information on credit quality and impairment of financial instruments, this is despite the requirement for information about the impairment of other assets and the prevalence of financial assets (including trade debtors) in most financial statements. While the AASB 7 credit quality requirements are quite extensive, the IPA is of the view that they are critical disclosures and should be included.

   ii. The lack of any liquidity information and in particular a maturity analysis of financial liabilities. Users should possess information that allows them to assess the timing liquidity events and this information should be readily available by most prepares as the directors would require such information to discharge their responsibilities in relation to going concern and insolvent trading. The IPA notes the oddity that maturity analysis is required for lease liabilities but not for other financial liabilities.

   iii. While there are disclosures of information in relation to joint ventures and associates, there are no disclosure requirements in relation to structured entities. The IPA believes the risks associated with structured entities are likely to be greater than those of associates or joint venture arrangements and, as such, users should be made aware of such risks. The IPA recommends that information be included in the Tier 2 disclosure requirements.

(b) In relation to related parties:

   i. The IPA believes the proposed remuneration disclosures are inadequate, there have been a number of highly visible concerns about remuneration arrangements for non-listed entities and it is obvious that users are unable to obtain satisfactory reporting of such arrangements. The AASB should address these shortcomings in the Tier 2 disclosure requirements, and

   ii. The IPA reiterates its view that AASB 124 represents a retrograde step from the pre-IFRS related party disclosure requirements which were hard won by users. The IPA believes this should be addressed not only in the Tier 2 context but for all.

(c) In the interest of simplification, the following options should be eliminated:

   i. The option to have a separate income statement and a statement of comprehensive income (paragraph 3.17(b)(ii), 5.2(b) and 5.7, and

   ii. The indirect method for the statement of cash flows (paragraphs 7.8 and Aus.7.8.1)

(d) The IPA believes the following have little user utility:

   i. There are a number of reconciliations which the IPA believe add little to the financial statements and are unlikely to be relevant to users, including:
      - Paragraph 17.31 relating to Property, Plant and Equipment
      - Paragraph 18.27(e) relating to Intangible Assets other than Goodwill
      - Paragraph 21.14(a) relating to Provisions, and
      - Paragraphs 28.41(e) & (f) relating to Defined Benefit Plans.

   ii. A number of disclosures in relation to Defined Benefit Plans (especially given the rarity of such plans) i.e. 28.41(h) & (i).

Question 6
Do you agree that the proposed Simplified Disclosure Standard should also be made available to NFP private sector entities and all public sector entities that can apply Tier 2 reporting requirements as set out in AASB 1053? If you disagree, please explain why.
IPA response
The IPA support sector neutral standards and agrees the Simplified Disclosure Standard (SDS) should be made available to NFP private sector entities and all public sector entities that can apply Tier 2 reporting requirements in accordance with AASB 1053.
However, as previously raised by the IPA, AASB 1053 definition of public accountability should be revisited and consider the public's desire for greater transparency, governance and accountability by both private sector and public sector entities.

Question 7
Do you agree:
(a) with the principles applied to identify the additional disclosures for NFP private sector and public sector Tier 2 entities (as explained in paragraph BC45)? If you disagree, please explain why.
(b) that previous decisions made under the RDR Framework in relation to the cost vs the benefits of these disclosures do not need to be revisited (as explained in BC68.) If you disagree, please explain why.
IPA response
The IPA believes there is merit for a specialised financial reporting framework (including relevant disclosure requirements) for private sector NFP entities and as such believes the current Tier 2 disclosure framework for such entities can only be addressed after the formulation of such a framework. The IPA agrees with the additional disclosures for public sector Tier 2 entities.

Question 8
Do you agree with the disclosures identified for NFP private sector and public sector Tier 2 entities in this Simplified Disclosure Standard? If you disagree, please identify, with reasons:
(a) which of the disclosures proposed should not be required for NPF private sector Tier 2 entities; and
(b) which disclosures not proposed in the ED should be required for NFP private sector and public sector Tier 2 entities.
(See Staff Analysis of NFP modifications paragraphs in AAS and NFP specific AASB Standards for detailed analysis)
IPA response
Please refer to our response to Question 7.

Question 9
Do you agree with using the proposed title for AASB 10XX Simplified Disclosures for Tier 2 Entities? If you disagree, please explain why.
IPA response
The IPA agrees with the proposed title of the standard.

Question 10
Do you agree with the approach taken in this ED to include all the disclosure requirements for Tier 2 entities in one stand alone standard (as explained in BC41)? If you disagree, please explain why.
IPA response
The IPA believes that including all Tier 2 disclosure requirements in a single standard would be beneficial to both preparers and auditors.

Question 11
Do you agree that, once approved, the amended Tier 2 disclosure requirements should be effective for annual periods beginning on or after 1 July 2020 with early application permitted (as explained in NC78-BC80)?

IPA response
The IPA agrees with the proposed effective date of the proposed Tier 2 disclosure requirements.

Question 12
Do you agree with the transitional requirements proposed in this ED (as explained in BC72-BC77)? If you disagree, please explain why.
IPA response
The IPA agrees with the proposed transitional requirements.
Specific matters for comment

Question 13
Whether the AASB's For -Profit Standard-Setting Framework and Nor-for-Profit Standard-Setting Framework have been applied appropriately in developing the proposals in this ED?
IPA response
The IPA is of the view the reporting frameworks have not been appropriately considered in the development of the standard by the use of *IFRS for SMEs* as the basis for the development of Tier 2 disclosure requirements. The IPA believes by using *IFRS for SMEs* as the framework document insufficient consideration has been given to needs of users of Tier 2 financial reports.

Question 14
Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Financial Statistics (GFS) implications?
IPA response
The IPA is unaware of any regulatory or other that may affect the implementation of the proposals.

Question 15
Whether, overall, the proposals would result in financial statements that would be useful to users?
IPA response
The IPA believes that for the reasons in our Questions 1, 3 and 5 the proposals are not optimal for users. However, the IPA does believe the proposals are superior to the existing RDR regime.

Question 16
Whether the proposals are in the best interests of the Australian economy?
IPA response
The IPA believes that for the reasons in our Questions 1, 3 and 5 the proposals are not optimal for the Australian economy. However, the IPA does believe the proposals are superior to the existing RDR regime.

Question 17
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.
IPA response
The IPA is not able make specific comments on the quantitative costs of the proposals.