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27 November 2019

Ms Kris Peach  
Chairman  
Australian Accounting Standards Board  
Level 14, 530 Collins Street  
Melbourne VIC 3000

Dear Ms Peach

**SUBMISSION – AASB ED 297 REMOVAL OF SPECIAL PURPOSE FINANCIAL STATEMENTS FOR CERTAIN FOR-PROFIT PRIVATE SECTOR ENTITIES**

We appreciate the opportunity to provide comment to the Australian Accounting Standards Board (the AASB) on the AASB's Exposure Draft *297 Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (the Exposure Draft).

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We understand and support the need for for-profit entities that are required by legislation to prepare financial statements in accordance with Australian Accounting Standards to adopt the IASB's Revised Conceptual Framework (RCF) and therefore prepare general purpose financial statements (GPFS) rather than special purpose financial statements (SPFS).

However, we do not support the effective date for mandatory adoption being 1 July 2020. We consider the proposed removal of special purpose financial reporting to be a major accounting standard change for many entities, and hence consider a minimum of two years post issuing the standard should be provided to entities before the standard is made mandatory. A minimum two-year notice period for major accounting standard changes is common practice in Australia and internationally. This allows time for education initiatives to take place as well as allowing time for changes to be processed through IT software and various illustrative financial reporting guidance.

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Further, we do not support the application of the RCF to other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards. We consider the proposal to mandate the preparation of GPFs to those entities preparing financial statements outside of legislative requirements to be burdensome for no real user benefit, given that the users themselves, via the constituting document or other document, determine the appropriate form of financial statements to be prepared. The proposed grandfathering proposal will provide some relief; however, we consider such a proposal to be confusing for advisers, preparers and users in an environment that is wholly unregulated. In our opinion, such for-profit private sector entities should be permitted to continue to prepare special purpose financial statements.

We have included further comments on the certain questions outlined in the specific matters for comment section of the proposal in the following pages.

Please contact Ms Kerry Hicks, Director – Technical Standards (02 9228 2272 or [kerry.hicks@pitcher.com.au](mailto:kerry.hicks@pitcher.com.au)), in relation to any of the matters outlined in this submission.

Yours sincerely



K L Byrne  
Partner



Kerry Hicks  
Director, Technical Standards

**SPECIFIC MATTERS FOR COMMENT**
**Question 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.**

**(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.**

*Response:*

We do not support the application of the RCP to other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting. In our opinion, such for-profit private sector entities should be permitted to continue to prepare special purpose financial statements.

In circumstances where other entities prepare financial statements, they are prepared for specific users that have the ability to command whatever information they require from the entity, they are not regulated, and the financial statements are not lodged on the public record. Hence, we do not see a need for them to prepare general purpose financial statements unless specifically directed to do this from their users. The AASB has addressed this matter by allowing for the financial reporting of these entities to be 'grandfathered' at 1 July 2020, thereby allowing a form of relief to these entities. However, the 'grandfathering does not exist' in circumstances where the agreements or documents that require reporting under accounting standards is amended or is newly issued post 1 July 2020. We consider that such a requirement will add confusion to preparers and users of financial statements.

Instead, we prefer the following wording in place of the currently drafted Aus 1.1, as follows:

"This *Conceptual Framework* applies to:

- (a) For-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
- (b) Other for-profit entities (private sector or public sector) that elect to prepare general purpose financial statements and elect to apply the *Conceptual Framework* and the consequential amendments to other pronouncements set out in *Accounting Standards 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework* and *AASB 2019-Y Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*."

**SPECIFIC MATTERS FOR COMMENT (CONT'D)**

The AASB could then issue educative guidance on its website for advisers, preparers and users of financial statements of other entities, indicating the alternatives available and the necessary wording that would need to be put in agreements or constituting documents if general purpose financial statements were desired by these specific users of the financial statements.

**Question 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?**

*Response:*

Refer to our response to question 1.

**Question 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.

*Response:*

Yes, we agree that these entities should be able to voluntarily prepare GPFS.

**Question 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.**

*Response:*

Yes, we agree that these entities should not be covered by these proposals.

**SPECIFIC MATTERS FOR COMMENT (CONT'D)**
**Question 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? If not, please provide reasons. If yes, do you agree with the proposed disclosures in relation to the comparative period? If not, please provide your reasons.**

*Response:*

We 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.

We note the proposal requires the two columns on the face of the statement of financial position in the transition year to be the beginning and the end of the first Australian-Accounting Standards reporting period. Whereas, the two columns on the profit or loss and other comprehensive income statement are the current period and the previous reporting period.

We consider that such a proposal will be confusing to users, and that the better approach would be to have consistency between the profit or loss and other comprehensive income statement and the statement of financial position. Therefore, we recommend that both statements should present the current year and the prior year columns, noting that the prior year is not compliant with AAS. The opening balances for the statement of financial position would be better presented in the notes to the financial statements rather than on the face of the statement of financial position.

**Question 6**

**Do you agree that additional transition relief is not required? If not, what transition relief should be provided and what are your reasons?**

*Response:*

We support the transition relief proposed except for that in respect of comparatives where we consider that further relief could be provided.

The relief provided by the AASB in respect of restating comparatives only applies in either or both of the following circumstances in respect of the most recent previous financial statements:

- The entity has not applied, or has only selectively applied, the recognition and measurement requirements of Australian accounting standards; and/or
- In the case of a parent entity, have not been prepared in accordance with AASB 10 *Consolidated Financial Statements*.

However, we consider that comparative relief should be available for all entities transitioning from special purpose financial statements to general purpose financial statements. We consider that in circumstances where disclosures are 'new' for entity (for example, tax disclosures, related party disclosures, etc) relief should be provided for comparative disclosures regardless as to whether the most recent previous financial statements applied recognition and measurement or consolidation. One rule for comparatives applying to all entities will also reduce the complexity of these rules therefore be less confusing for users and preparers.

**SPECIFIC MATTERS FOR COMMENT (CONT'D)****Question 8**

**Do you agree with the proposed effective date of annual reporting periods beginning on or after 1 July 2020, with earlier application permitted?** If not, please provide your reasons.

*Response:*

We do not agree with the proposed effective date for annual reporting periods beginning on or after 1 July 2020.

It is common practice in Australia and internationally for major accounting standard changes to have a minimum of two years post issuing of the standard to be effective. This allows time for education initiatives to take place as well as allowing time for changes to be processed through IT software and various illustrative financial reporting guidance.

We consider the proposed removal of special purpose financial reporting to be a major accounting standard change for many entities, and hence consider a minimum of two years post issuing the standard should be provided to entities before the standard is made mandatory.

We do not consider the arguments raised by the AASB in the Basis for Conclusions to be persuasive in mandating an earlier application date. The entities to which this change will apply do not apply International Financial Reporting Standards and will vary in size and structure with the application to large proprietary companies as well as public companies of all sizes.

For those entities that wish to adopt the changes earlier, we support the standard allowing for earlier application.