

Level 13, 664 Collins Street
Docklands, Victoria 3008

Postal Address
GPO Box 5193
Melbourne, Victoria 3001

Level 1, 80 Monash Drive
Dandenong South, Victoria 3175

Tel +61 3 8610 5000
Fax +61 3 8610 5999
www.pitcher.com.au

Ref: KLB/dr

9 August 2018

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

Dear Ms Peach

SUBMISSION – INVITATION TO COMMENT (ITC) 39, PHASE 1: SHORT-TERM APPROACH

We appreciate the opportunity to provide comment to the Australian Accounting Standards Board (the AASB) on its Consultation Paper: *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*, as contained in ITC 39 (ITC 39 or the Consultation Paper).

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In our opinion, it is essential that Australian entities that are currently claiming compliance with IFRS are able to continue to do so. In order to achieve this outcome under the proposed 'Phase 1: Short-term approach', in our opinion, the IASB's Revised Conceptual Framework (the RCF) should be applied to:

- (a) Australian for-profit private sector entities that have public accountability (consistent with the existing requirements of paragraph 11(a) of AASB 1053 *Application of Tiers of Australian Accounting Standards*); and
- (b) other Australian for-profit entities that are voluntarily reporting compliance with IFRS, with effect no later than the date on which the RCF takes effect internationally.

B J BRITTEN
J BRAZZALE
R RIGONI
M W PRINGLE
G M RAMBALDI
D A THOMSON

D A KNOWLES
M J LANGHAMMER
M C HAY
S SCHONBERG
V A MACDERMID
S DAHN

P A JOSE
A R YEO
M J HARRISON
P W TONER
T SAKELL
G I NORISKIN

A T DAVIDSON
K L BYRNE
C D WHATMAN
S D WHITCHURCH
A E CLERICI
D J HONEY

P MURONE
G J NIELSEN
A D STANLEY
N R BULL
D C BYRNE
A M KOKKINOS

P B BRAINE
G A DEBONO
R I MCKIE
F V RUSSO
M R SONEGO
A T CLUGSTON

S J DALL
M G JOZWIK
D W LOVE
B POWERS
A SULEYMAN
K J DAVIDSON

D R DOHERTY
J C CHENG
J L BEAUMONT
M DAWES
B A LETHBORG
M J WILSON

I CULL
B FARRELLY
A O'CARROLL

Our detailed responses to the questions contained in ITC 39 are attached to this letter.

Please contact either myself or Darryn Rundell, Director - Audit & Accounting Technical (03 8610 5574 or darryn.rundell@pitcher.com.au), in relation to any of the matters outlined in this submission.

Yours sincerely



K L Byrne
Partner



D J Rundell
Director, Audit & Accounting Technical

Specific matters for comment:

Question 1

Do you agree with the short-term approach to maintain IFRS compliance by introducing the RCF in Australia? That is, do you agree that the RCF should be applicable for publicly accountable for-profit entities that are required to prepare Tier 1 GPFS and other entities that are voluntarily reporting compliance with IFRS, and the existing *Framework* should continue to be applicable to other entities in the short term until the medium term solution is implemented? Please indicate reasons for your response and if you disagree, please provide suggestions for an alternative approach for the AASB to consider.

Response:

In our opinion, it is essential that Australian entities that are currently claiming compliance with IFRS (mandatorily or voluntarily, as the case may be) are able to continue to do so. In order to achieve this outcome under the proposed 'Phase 1: Short-term approach', in our opinion, the RCF should be applied to:

- (a) Australian for-profit private sector entities that have public accountability (consistent with the existing requirements of paragraph 11(a) of AASB 1053 *Application of Tiers of Australian Accounting Standards*); and
- (b) other Australian for-profit entities that are voluntarily reporting compliance with IFRS (e.g., Australian for-profit private sector entities, and Australian for-profit public sector entities, that voluntarily elect to apply Tier 1 reporting requirements in the preparation of general purpose financial statements),

with effect no later than the date on which the RCF takes effect internationally.

Although we support the intended outcome of the proposed 'Phase 1: Short-term approach', we encourage the AASB to reconsider the wording of the proposed amendments to pronouncements that will give effect to the proposals to ensure that the amendments:

- (a) do in fact achieve the intended outcome; and
- (b) do not give rise to any unintended outcomes.

For example, we note that the wording of the proposed 'Phase 1: Short-term approach' (as contained in the body of ITC 39) and the wording of the proposed amendments to pronouncements resulting from Phase 1 (as contained in Appendix A of ITC 39) do not align with the existing requirements of paragraph 11(a) of AASB 1053 *Application of Tiers of Australian Accounting Standards*. In particular, the proposed 'Phase 1: Short-term approach' states that this phase involves the RCF being applied to "*publicly accountable for-profit entities*" to enable them to maintain compliance with IFRS. In our opinion, the mandatory application of the RCF under the proposed 'Phase 1: Short-term approach' should be limited to "*for-profit private sector entities that have public accountability*" (consistent with the existing requirements of paragraph 11(a) of AASB 1053 *Application of Tiers of Australian Accounting Standards*).

Limiting the mandatory application of the RCF to "*for-profit private sector entities that have public accountability*" would not preclude, for example, for-profit public sector entities that are voluntarily reporting compliance with IFRS from applying the RCF, as the proposed amendments cater separately for such entities to enable them to maintain IFRS compliance. Moreover, amending all of the affected Standards consistent with the wording of the existing requirements of paragraph 11(a) of AASB 1053 should ensure no uncertainty arises among preparers and users as to the interpretation of the definition of 'public accountability' in Appendix A to AASB 1053.

We provide no comments on the application of the RCF to other entities (i.e., other than Australian for-profit private sector entities that have public accountability and other Australian for-profit entities that voluntarily elect to apply Tier 1 reporting requirements in the preparation of general purpose financial statements). Any comments we may have in relation to other entities will be made in a separate submission to the AASB on the proposed 'Phase 2: Medium-term approach'.

Question 2

Do you agree that the short-term approach should be made applicable to both publicly accountable for-profit private sector and public sector entities? That is, do you agree that the RCF should be applicable for publicly accountable public sector entities that are required to prepare GPFS in accordance with Tier 1 reporting requirements (who are currently claiming compliance with IFRS) as well? Please indicate reasons for your response and if you disagree please provide suggestions for an alternative approach for the AASB to consider.

Response:

As outlined in our response to Question 1, in our opinion, the mandatory application of the RCF under the proposed 'Phase 1: Short-term approach' should be limited to *"for-profit private sector entities that have public accountability"* (consistent with the existing requirements of paragraph 11(a) of AASB 1053 *Application of Tiers of Australian Accounting Standards*).

Limiting the mandatory application of the RCF to *"for-profit private sector entities that have public accountability"* would not preclude, for example, for-profit public sector entities that are voluntarily reporting compliance with IFRS from applying the RCF, as the proposed amendments cater separately for such entities to enable them to maintain IFRS compliance.

In addition, we do not believe it would be appropriate to expand the proposed 'Phase 1: Short-term approach' to also involve the RCF being applied to the Australian Government and State, Territory and Local Governments, and GGSs of such Governments (subject to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*) that are required to prepare Tier 1 general purpose financial statements (under the existing requirements of paragraph 11(b) and paragraph 12 of AASB 1053 *Application of Tiers of Australian Accounting Standards*). Given that the Australian Government and State, Territory and Local Governments, and GGSs of such Governments, do not currently claim compliance with IFRS, in our opinion, it is not essential for the RCF to be applied to Australian not-for-profit public sector entities that are required to prepare Tier 1 general purpose financial statements in the short term.

Question 3

Are you aware of publicly accountable for-profit entities currently self-assessing as non-reporting entities and preparing SPFS that would have implications under the AASB's short-term approach? If so please provide specific examples including why these entities are not currently applying AASB 1053 and preparing Tier 1 GPFS although they would otherwise meet the definition of public accountability.

Response:

We are not aware of any specific examples.

Question 4

Do you agree with the AASB's amendments to the definition of 'public accountability' in AASB 1053 per IFRS for SMEs Standard (refer to Appendix A)? Please indicate reasons for your response and if you disagree, please provide suggestions for the AASB to consider.

Response:

We agree with the proposed amendments to the Australian definition of 'public accountability' in AASB 1053 *Application of Tiers of Australian Accounting Standards*.

To clarify that holding assets in a fiduciary capacity for a broad group of outsiders for reasons incidental to an entity's primary business is not, in itself, sufficient for them to qualify as publicly accountable, we recommend the AASB amend the second sentence in proposed paragraph B3 by:

- (a) replacing 'a' with 'their' (to read '...if they do so for reasons incidental to *their* primary business'); and
- (b) inserting ', in itself,' between 'not' and 'make' (to read '...that does not, *in itself*, make them publicly accountable').

Question 5

Do you agree with the proposed amendments to SAC 1 *Definition of the Reporting Entity* and the following Australian Accounting Standards, as set out in Appendix A:

- (i) AASB 9 *Financial Instruments*;
- (ii) AASB 14 *Regulatory Deferral Accounts*;
- (iii) AASB 101 *Presentation of Financial Statements*;
- (iv) AASB 1048 *Interpretation of Standards*;
- (v) AASB 1053 *Application of Tiers of Australian Accounting Standards*; and
- (vi) AASB 1057 *Application of Australian Accounting Standards*.

Response:

As outlined in our response to Question 1, above, we encourage the AASB to reconsider the wording of the proposed amendments to pronouncements that will give effect to the proposals to ensure that the amendments do in fact achieve the intended outcome.

For example, we note that the wording of the proposed 'Phase 1: Short-term approach' (as contained in the body of ITC 39) and the wording of the proposed amendments to pronouncements resulting from Phase 1 (as contained in Appendix A of ITC 39) do not align with the existing requirements of paragraph 11(a) of AASB 1053 *Application of Tiers of Australian Accounting Standards*. In particular, the proposed 'Phase 1: Short-term approach' states that this phase involves the RCF being applied to "*publicly accountable for-profit entities*" to enable them to maintain compliance with IFRS. In our opinion, the mandatory application of the RCF under the proposed 'Phase 1: Short-term approach' should be limited to "*for-profit private sector entities that have public accountability*" (consistent with the existing requirements of paragraph 11(a) of AASB 1053 *Application of Tiers of Australian Accounting Standards*).

In addition, we note that the proposed amendments to pronouncements resulting from Phase 1 (as contained in Appendix A of ITC 39) do not incorporate other Australian for-profit entities that are voluntarily reporting compliance with IFRS (e.g., Australian for-profit private sector entities, and Australian for-profit public sector entities, that voluntarily elect to apply Tier 1 reporting requirements in the preparation of general purpose financial statements). In our opinion, the proposed amendments to pronouncements resulting from Phase 1 should be amended accordingly.

Consistent with our comments above, as well as the AASB's intention to clearly delineate the entities to which each of the Conceptual Frameworks will apply during Phase 1, we also recommend the AASB amend the proposed changes to the definition of a reporting entity in Appendix A of AASB 1053 to read as follows:

'This reporting entity definition is not applicable to...'

General matters for comment:

Question 6

Whether the AASB's For-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in Phase 1.

Response:

In our opinion, the AASB's For-Profit Entity Standard-Setting Framework has been appropriately applied in developing the Phase 1 proposal to apply the RCF to Australian publicly accountable for-profit private sector entities that are required to prepare Tier 1 general purpose financial statements and other for-profit entities voluntarily reporting compliance with IFRS.

Question 7

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

Response:

We are not aware of any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the Phase 1 proposal to apply the RCF to Australian publicly accountable for-profit private sector entities that are required to prepare Tier 1 general purpose financial statements and other for-profit entities voluntarily reporting compliance with IFRS.

Question 8

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

Response:

In our opinion, overall, the Phase 1 proposal to apply the RCF to Australian publicly accountable for-profit private sector entities that are required to prepare Tier 1 general purpose financial statements and other for-profit entities voluntarily reporting compliance with IFRS should result in financial statements that would be useful to users in the Australian environment.

Question 9

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

Response:

In our opinion, the proposals are in the best interests of the Australian economy.

Question 10

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.

Response:

We make no comment in relation to the costs and benefits of the proposals relative to the current requirements.