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

Dear Kris

Invitation to Comment – ITC 39 Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems

We are pleased to respond to the AASB’s invitation to comment in respect of the matter listed above.

We are supportive of the AASB’s approach to tackling this issue. We strongly support the need for Australia to maintain compliance with International Financial Reporting Standards (“IFRS”) within its financial reporting framework. We also believe that Special Purpose Financial Statements (“SPFS”) represent an issue that the AASB needs to tackle. The current self-assessment framework to determining an entity’s reporting status is no longer fit for purpose, and results in the provision of financial statements on public record that serve little use, and may even in some cases provide information that is misleading. We believe that the requirement for General Purpose Financial Statements (“GPFS”) to be prepared instead of SPFS would result in financial statements that would be more useful to users.

We are therefore supportive of Option 1 of the approaches considered by the AASB, as we believe this offers a viable long-term solution, while allowing sufficient time for transition for affected entities. From the two options provided for the new Tier 2 reporting framework, we support continuation of the Reduced Disclosure Regime (“RDR”) and have a strong preference for this over Specified Disclosure Requirements (“SDR”), about which we have some concerns. Our reasons for supporting RDR are set out below. However, we would encourage the AASB to revisit the RDR in order to assess whether any further reductions to required disclosures could be implemented.

Our response to each of the AASB’s questions in its Invitation to Comment is set out below.

We would be pleased to discuss our firm’s views further with you. Please contact me on 08 9261 9374 should you wish to discuss our comments above.

Ralph Martin
National Technical Director

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RSM Australia's Response to Specific Matters for Comment requested by the AASB

Q11 – Do you agree with the AASB's Phase 2 approach

We agree with the AASB's proposal to split the project into two phases. Maintaining compliance with IFRS for Public Interest Entities ("PIEs") should be considered non-negotiable, and therefore requires immediate action by the AASB. Since any changes to SPFS are likely to impact a majority of current preparers of financial statements, and may increase costs in some instances, it is appropriate that these proposals are more widely consulted on, and that any transition period is longer.

We support the AASB's proposal that all entities required to prepare financial statements which are publicly available, in accordance with Australian Accounting Standards, should prepare general purpose financial statements. In our view, once legislation requires an entity to prepare financial statements which are available on public record, those financial statements can no longer be considered special purpose, since the directors of the preparing entity will be unaware of who is using the financial statements. Indeed, the current framework effectively places directors in an impossible position. To determine their reporting requirements, directors must assess who the users of their financial statements are. However, once financial statements of an entity are made publicly available, the entity's directors could have no knowledge of who might be reading their financial statements, or for what purpose.

We also note with interest the results of the AASB's research into financial statements filed with ASIC and other regulators, in particular, that there are ratings agencies and others who download all publicly available data, and use it for the purpose of data analytics, credit ratings, or similar. We believe this supports the AASB's position that it can no longer be stated with confidence that there are no users who are placing reliance on a particular set of financial statements.

If entities are required by law to report their results publicly, then it should be done in a meaningful, consistent, and transparent way. The current reporting entity framework does not achieve this. We believe that the preparation of GPFS by all entities who are required to publicly report under Australian Accounting Standards would provide greater clarity and consistency.

Q12 – Which of the AASB's two GPFS Tier 2 alternatives

We would be strongly in favour of the retention of the Reduced Disclosure Regime ("RDR"). We believe there are several reasons that support this position:

- The Reduced Disclosure Regime was introduced by the AASB in 2010. It was designed to match disclosures to user needs and cost-benefit principles, and was largely consistent with the disclosure requirements of IFRS for SMEs.
- Among those entities who have adopted it, we have found that it has been broadly accepted, and that where entities were already preparing SPFS based on full adoption of the recognition and measurement requirements of Australian Accounting Standards, the additional disclosures have generally not been onerous to prepare.
- We believe it would be burdensome and unjust for those entities who already prepare RDR financial statements to have to transition to a new reporting framework. We note that the number of such entities is likely to have increased over the past year, as a result of the new requirements for Significant Global Entities ("SGEs") to prepare GPFS. In our experience, users of RDR financial statements have been satisfied with the reports presented to them.
- The Reduced Disclosure Regime has also been adopted by New Zealand as part of its differential financial reporting framework. Retention of the RDR would be consistent with the AASB's objective of Trans-Tasman harmonisation wherever possible.
- We believe the SDR's "all or nothing" approach to disclosure would not result in the best outcome for users, and, in some circumstances, could be onerous for preparers. For example, it contains no disclosure of the liquidity or profile of borrowings, which is likely to be a key disclosure for some users. On the other hand, it requires full-IFRS disclosure of other areas, such as related party transactions and impairment. These may be onerous to prepare, and would be of questionable relevance in some

instances. For example, it is doubtful whether detailed disclosures on the impairment testing of goodwill, including the key assumptions and related sensitivity analysis, would be useful or relevant for the readers of the financial statements of many proprietary companies.

From the initial discussions that the AASB has held, we are aware that our view may be in the minority on this matter. However, if there are concerns that the RDR, as currently applied, is too onerous for some current preparers of SPFS, we would see that as an opportunity to revisit and, where necessary, reduce the disclosures required by the RDR. We believe it would be a disappointing backward step for the AASB to abandon the RDR altogether.

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)?

Our preference would be for RDR to be the only alternative available, in order that the Australian financial reporting framework remain as simple as possible. However, if the AASB does believe that the introduction of SDR is necessary, we would prefer that it is introduced as an alternative to RDR, not as a replacement for it.

Our reasons for this are set out above, but we would again highlight that we believe that those entities that have already adopted RDR should not be effectively penalised for this choice, and should have the option to continue preparing their financial statements on this basis in future.

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?

We concur with the AASB’s decision not to introduce IFRS for SMEs as an option within Australia at this time. The purpose of the proposed changes is to increase consistency and comparability, and the inclusion of an alternative basis of recognition and measurement would appear inconsistent with that aim.

A key argument in favour of allowing IFRS for SMEs in Australia would be for the benefit of foreign-owned subsidiaries where the parent reports consolidated results under IFRS for SMEs in its home jurisdiction. We note that this issue may occur, as IFRS for SMEs is available as an option in nearly 100 other jurisdictions. However, in many of these, it exists as an alternative to local GAAP rather than a replacement for it, and take-up remains relatively low. In our experience, this issue is therefore rare in practice. Should IFRS for SMEs gain wider recognition globally in future, we would support the AASB revisiting this decision.

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?

AASB 1 provides an appropriate framework for the recognition and measurement of the transition to Australian Accounting Standards for the first time. For many entities, where recognition and measurement have been followed previously in their SPFS, the impact of transition to GPFS will be minimal. This has been our experience with entities which have already transitioned from SPFS to RDR.

We believe that it would not be appropriate to apply the disclosure requirements of AASB 1 in full on transition from SPFS to GPFS, and that some level of relief should be provided. In particular the presentation of a third balance sheet is unlikely to be useful for many users.

We note that the impact will be greatest for those entities that will need to apply consolidation and equity accounting for the first time on transition. There may be an argument in favour of allowing transitional relief in respect of the presentation of comparative information for such entities. Instead, a “modified retrospective” approach conceptually similar to that in the new revenue and leases standards could be developed.

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?

We support the AASB’s approach of requiring consolidation and equity accounting for all financial statements prepared under Australian Accounting Standards. The approach taken by some preparers of SPFS in not applying the consolidation standard, on the basis that it was a disclosure standard, was technically questionable, given that consolidation affects the recognition and measurement of some assets and liabilities. The non-consolidation approach could be used to obscure information about the true financial position and performance of a group of companies.

On this basis, we would not be supportive of any transitional relief which resulted in the consolidation requirements of AASB 10 not being applied in full. However, as noted above, we do believe that there should be relief from the full presentation of comparative information in the initial year of adoption.

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?

As noted in our response to Q12, we have concerns about the proposed scope of the SDR disclosures. We believe they would be too onerous in some areas and lacking in others.

We believe that users’ needs would be met best by retention and reform of the existing RDR framework.

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?

We do not believe that the AASB should consider any other alternatives in the for-profit sector.

We note that the AASB has already raised the possibility of a third tier of disclosure in the not-for-profit sector. We believe this idea has merit. We would encourage the AASB to continue working together with the ACNC to develop its proposals in this area.

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?

We believe that this would be best addressed through a separate project, involving the AASB, the ACNC and other interested stakeholders.

Q20 – Are you aware of any legislation that refers to SPFS that might be impacted by these proposals?

We are not aware of any legislative impediment to the implementation of these proposals.