29 November 2019

Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Via website: www.aasb.gov.au

Dear Kris

Submission on AASB Exposure Draft 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (ED 295)

As the representatives of over 200,000 professional accountants in Australia, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia thank you for the opportunity to comment on ED 295.

This joint submission has been informed by our previously developed policy positions on reporting framework reform and by recent member and stakeholder feedback. CA ANZ's policy positions have been further informed by the findings of a survey of 512 professionals (mostly members), conducted between June and August 2019. A copy of the survey report is attached to this submission.

We are appreciative of the efforts of the AASB to date in developing its proposals to reform the Australian financial reporting framework and incorporating a number of refinements to accommodate feedback received from constituents in response to consultations and outreach.

CA ANZ and CPA Australia are generally supportive of the approach taken by the AASB in developing its proposals for simplified disclosures in a single disclosure Standard. Our members support reduced disclosure for Tier 2 entities and we have previously recommended that the AASB should consider a role for the IASB's IFRS for SMEs Standard in Australia's reporting framework. These views have been supported by the CA ANZ survey referred to above, with over 70% of respondents supporting reduced disclosure in the for-profit sector and over 65% supporting a role for IFRS for SMEs in Australia's reporting framework.

However, we do not support the proposed implementation date of 1 July 2020 for these proposals. Instead we recommend that a two-year implementation window be made

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available, making the reforms optional for financial reporting periods that begin before 1 July 2022 and requiring mandatory application only after that date.

CA ANZ and CPA Australia have also considered these proposals in conjunction with those contained in Exposure Draft 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (ED 297). Our joint response to ED 297 also recommends a similar two-year implementation window with respect to the proposals included in that consultation.

Our recommendation is based on a number of practical implementation issues that, in our view, need to be addressed before these proposals are sufficiently developed to be suitable for mandatory adoption. A two-year implementation window should provide the time needed to ensure these issues are adequately considered. The key reasons for recommending a longer implementation period are set out below and referred to in our answers to the specific questions included in the **Attachment** to this letter.

Transition timing and due process

These proposals, along with the proposals in ED 297, are a significant change to the Australian financial reporting framework. In our view, there is insufficient justification to support an accelerated implementation date that does not adhere to the AASB's Due Process Framework principles (see below). We do not consider an adoption time window of less than one year appropriate. It is a considerably shorter period than is usually offered for reforms of this nature, particularly given that the final scope and requirements are unlikely to be issued until mid-2020.

Accelerating the implementation timetable does not provide enough time for many practitioners, their clients and other stakeholders to develop an effective transition timetable and identify the manpower and educational resources needed to make the necessary changes before being required to begin transition. It also does not provide the AASB, relevant regulators, and our two professional organisations with sufficient time to identify, develop and provide essential resources supporting the transition.

The proposed accelerated timing approach is inconsistent with the AASB's recently issued Due Process Framework which states, at paragraph 7.9.2 that "When determining the effective date of Standards, the AASB seeks to ensure that stakeholders have adequate time to prepare for their implementation. Typically, the AASB will issue a Standard with at least 2 years before its effective date (e.g. a year before the beginning of the comparative reporting period) and generally permits entities to apply those requirements early should they wish to do so".

Subsidiaries that are SMEs project

We note the comment in paragraph BC24 of ED 295 that the proposed disclosure Standard arising from this consultation may ultimately be replaced with the Standard developed by the International Accounting Standards Board (IASB) through its "Subsidiaries that are SMEs" project. We appreciate that the proposals in ED 295 may assist the IASB with its project, however we believe that it would be helpful to obtain some insights into the direction the IASB will take before requiring mandatory implementation for all impacted entities. A two-year implementation window will allow time for the AASB to ensure its own proposals are aligned with the IASB's future thinking. If the IASB approach does move differently, this window will then have minimised any unnecessary cost being incurred by preparers and others who otherwise may have to transition twice within a relatively short period of time.

Comprehensive review of IFRS for SMEs

The ED 295 Tier 2 disclosure proposals have been based on the disclosures in the IFRS for SMEs Standard, with modifications. These modifications have accommodated both new IFRS Standards that are not reflected in the IFRS for SMEs and disclosures which are included in the current version of IFRS for SMEs that are not contained in the full IFRS Standards. We have identified some issues with these modifications, including a concern that important disclosure objectives for some of the new IFRS Standards have not been incorporated in the proposed Standard. Please see our responses to specific questions in the **Attachment** for further details.

The IASB's current comprehensive review of IFRS for SMEs is expected to address these issues. Again, a two-year implementation window is likely to provide some certainty regarding the direction of these reforms that is important for those entities required to transition to a new Tier 2 disclosure regime.

Public sector and not-for-profit (NFP) private sector entities

We note that these proposals include public sector and NFP private sector specific modifications that are being made only as an "interim measure" whilst the AASB develops the financial reporting frameworks applicable to these sectors. We do not believe it is appropriate to impose an interim measure of this magnitude on both sectors, especially when they include many entities that are already preparing General Purpose Financial Statements (GPFS) under the current Tier 2 Reduced Disclosure Requirements (RDR) framework. The benefits of moving across to the proposed Tier 2 framework may not exceed the costs associated with the transition, particularly if affected entities have to transition to a different Tier 2 framework at a later date. Therefore, entities in these sectors should have the option of choosing whether they will early adopt or await the clarity offered by progress in their respective sector's reform program.

In addition, as noted in our ED 297 submission, there is a need to ensure all private sector entities can clearly identify which reporting framework (FP or NFP) will be applicable to them before making any fundamental changes to their reporting practices. Therefore, the AASB also needs to ensure that the new NFP definition is in place before these reforms are implemented.

Trans-Tasman harmonisation

The ED 295 proposals will impact the ability of some entities already doing Tier 2 financial statements to maintain their Trans-Tasman harmonisation. Adopting a two-year implementation window will allow the AASB, in conjunction with the New Zealand External Reporting Board (XRB), to refine its Tier 2 proposals in light of the IASB's "Subsidiaries that are SMEs" project referred to above and enable continued Trans-Tasman harmonisation for those entities for whom it remains important.

Interaction with ED 297 proposals

The proposals in ED 295 need to be considered in conjunction with the proposals in ED 297 because the Tier 2 reporting framework proposed in this consultation will effectively replace special purpose reporting for those entities within the scope of ED 297. Since both sets of proposals need to be implemented in tandem, our recommendation for a two-year implementation window for the proposals in ED 295 is consistent with our recommendation on the implementation of the ED 297 proposals set out in our ED 297 submission.

Other matters

Finally, we thank the AASB for extending the submission deadline to 30 November 2019. However, we consider the three-month consultation period too short for proposals of this significance and size, particularly as this consultation needs to be considered in conjunction with equally significant proposals in ED 297.

We have used our best endeavours to reach out to our members and stakeholders to obtain feedback in the time provided in order to develop this submission. We also appreciate the AASB's work in hosting roundtables and webinars.

We recommend that, when conducting the NFP and Public Sector framework reform consultations, the AASB offers a longer consultation period to allow more careful and detailed scrutiny of the proposals, particularly if the timing coincides with the "busy season" for many practitioners within the profession.

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If you have any questions about our submission, please contact either Amir Ghandar (CA ANZ) amir.ghandar@charteredaccountantsanz.com or Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au. Questions regarding CA ANZ's survey should be directed to the former.

Simon Grant FCA
Group Executive – Advocacy, Professional Standing and International Development
Chartered Accountants Australia and New Zealand

Gary Pflugrath CPA
Executive General Manager, Policy and Advocacy
CPA Australia

Attachment

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.

In general, we agree with the overarching principles on which the proposed Simplified Disclosure Standard is based. However, we are of the view that the approach does need some further refinement to facilitate effective implementation. As stated in our cover letter, a two-year implementation window is likely to allow the AASB to address certain issues, refining them for existing Tier 2 entities while still providing a suitable platform for those entities moving from SPFS to a Tier 2 GPFS framework or wishing to early adopt.

These issues are as follows:

- **Disclosure objectives**

There is no clear disclosure objective for each of the distinct areas of disclosure addressed in the proposed Standard. Paragraph 7.5 of the Conceptual Framework for Financial Statements states "Including presentation and disclosure objectives in Standards supports effective communication in financial statements because such objectives help entities to identify useful information and to decide how to communicate that information in the most effective manner". However, the current drafting of ED 295 means that the disclosures objectives in the applicable Australian Accounting Standards (AAS) are effectively "turned off" for Tier 2 entities applying the proposed Standard.

Therefore, we recommend the AASB considers including Section 2 of IFRS for SMEs, outlining the qualitative characteristics of information, into the final Standard, or reference Chapter 2 of the Conceptual Framework in this regard.

- **Accounting Standards not addressed in IFRS for SMEs**

We appreciate the AASB has undertaken an extensive mapping exercise to ensure that its proposed disclosures have been appropriately reduced in line with IFRS for SMEs. This has required adopting a 'hybrid' approach for Standards such as AASB 16 Leases that are not currently addressed in IFRS for SMEs. Given the significantly different approach to lease accounting under AASB 16 compared to that adopted in IFRS for SMEs (based on IAS 17/AASB 117 Leases) we are concerned that this approach has resulted in the omission of some important disclosures, which may not have been excluded if AASB 16 itself was examined. For example, some users of

Tier 2 GPFS may consider disclosures in paragraph 53 of AASB 16 (e.g. deprecation of right-of-use assets or the interest expense on lease liabilities) important.

Since a review of the disclosures for leasing will occur as part of the IFRS for SMEs comprehensive review, adopting a two-year implementation window will allow any refinements from the IASB's work on both this project and the related 'Subsidiaries that are SMEs" project to be identified and accommodated within these current proposals. The need to get these disclosures right is emphasised by the CA ANZ survey, referred to in the cover letter, which identified Leases as a key area of transition challenge by over half of the survey respondents.

We also note the AASB has decided not to address AASB 4 Insurance Contracts, AASB 17 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts in these proposals. This is on the presumption that entities applying these AAS would all have public accountability and therefore would not be able to avail themselves of the proposed simplified disclosures.

However, these Standards apply to contracts rather than entities and so it is possible that these Standards are being applied by entities such as Captive Insurance Companies, owned by a non-insurance company parent, which insure or reinsure the risks of its parent and/or affiliated companies. Therefore, we suggest the AASB conduct further research to establish clear evidence that disclosures reductions for these Standards are not necessary.

- **Additional disclosures from IFRS for SMEs that are not in IFRS Standards**

Paragraph BC59 states that a number of disclosures are included based on the principle of avoiding differences with the IFRS for SMEs Standard as far as possible, but with no further justification that these additional disclosures are required. Therefore, we recommend that the AASB remove any such disclosures that are in excess of the IFRS requirements at this time and allow the IASB's work on its two IFRS for SMEs projects to determine whether these disclosures are still necessary.

Question 2

Do you agree that these proposals should replace the current RDR framework? If you disagree, please explain why.

We are generally supportive of the proposed approach of a single simplified disclosures Standard as a means of addressing identified concerns about the level of disclosures contained in the current RDR framework. We agree that it will provide a suitable starting point for those wishing to transition immediately from SPFS. However, before its adoption becomes mandatory for all Tier 2 entities, we believe the AASB should give further consideration to its approach for the following reasons:

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- As stated in our cover letter, the proposals indicate that this will be an "interim measure" for public sector and private sector NFP entities whilst the AASB develops the financial reporting frameworks for those sectors. Similarly, the AASB has indicated that it will replace any Standard that may arise out of these proposals with any Standard that may be issued through the IASB's "Subsidiaries that are SMEs" project. Both of these observations suggest that these proposals are likely to have a limited "shelf life" for entities in these sectors already applying the Tier 2 RDR framework.
- Similarly, Trans-Tasman harmonisation of Tier 2 entities remains desirable and therefore the AASB should avail itself of the opportunity provided by a two-year implementation window to work with the New Zealand XRB to ensure continued alignment of the two disclosure frameworks in light of the developments both domestically and internationally.

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):**

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

a) We agree with this change in principle but note the comment in BC47 that some of the guidance included in the Standards (as per paragraph BC46) has also been removed for the sake of maintaining simplicity of the disclosure requirements. While consistency with IFRS for SMEs is important, it must not be adhered to at the expense of removing material that is useful for entities applying the proposed Standard under a different recognition and measurement regime. For example, we believe the guidance surrounding the current/non-current classification in AASB 101 is important in supporting the current/non-current distinction made when preparing financial statements. Therefore, we suggest the AASB reconsiders the guidance that it proposes removing and include any that will be helpful for the preparation of Tier 2 financial statements. The need for such guidance can then be reassessed when the relevant international projects affecting IFRS for SMEs are better progressed.

b) See our comments in response to Question 1 above in relation to AASB 16 Leases.
c) We agree.
d) See our comments in response to Question 1 above in relation to AASB 17 Insurance Contracts.
e) See our response to Question 1 regarding additional IFRS for SMEs disclosures.

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.

We agree.

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))

Subject to the comments in our cover letter and our response to Question 1 we broadly agree with the disclosures proposed in the new Standard.

However, we recommend that the AASB reinstate the income tax reconciliation, as it is a more meaningful disclosure than the “explanation of significant differences”, currently proposed.

In addition, we note that there is an inconsistency between the NFP specific leasing disclosures in paragraph AusNFP20.35.1 and the proposed amendment to AASB 16 through paragraph AusE1 disapplying paragraphs 51-60 of AASB 16. Paragraph AusNFP20.35.1 refers to, and requires, disclosures that meet the disclosure objectives for lessees in AASB 16. However, as stated above, the relevant paragraph of AASB 16 containing the disclosure objective, paragraph 51, is not applicable to an entity that applies the proposed Standard. We also note that references are made to disclosure objectives in paragraphs AusNFP20.35.2 and AusNFP36.9. As stated previously, we are of the view that the proposed Standard should incorporate relevant disclosure objectives, and with this in mind, we recommend that the AASB clarify or amend these paragraphs.

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.

As stated in our cover letter, we note that these proposals are being offered as an “interim measure” for public sector and NFP private sector entities whilst the AASB develops the financial reporting frameworks applicable to these sectors. We do not believe it is appropriate to impose an interim measure of this magnitude on both sectors that include many entities that are already preparing GPFS under the current Tier 2 RDR framework. The benefits of moving across to the proposed Tier 2 framework may not exceed the costs associated with the transition, particularly if affected entities have to transition to a different Tier 2 framework at a later date.

Therefore, entities should be offered a two-year implementation window which will allow those entities for whom it is beneficial to early adopt. It will also allow the AASB to further refine these proposals for those entities whose individual circumstances do not make early adoption a cost-effective exercise.

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.**

Please see our response to Question 6 above in relation to costs and benefits.

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 NFP private sector and public 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)

Subject to our previous comments, we agree with the proposals.

Question 9

Do you agree with using the proposed title of AASB 10XX *Simplified Disclosures for Tier 2 Entities*? If you disagree, please explain why.

We agree with the proposed title.

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.

Subject to our previous comments, we agree with the proposals to include all the disclosure requirements for Tier 2 entities in one stand-alone Standard.

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 BC78-BC80)?

As stated in our cover letter we recommend that the board provide a two-year implementation window such that these reforms do not become mandatory until 1 July 2022. However, we do agree that the proposed Tier 2 disclosure requirements should be made available for early application.

Our reasons for this recommendation are detailed in our cover letter, and are outlined again below:

Transition Timing and Due process

- These proposals represent a significant change to the Australian financial reporting framework and in our view, there is insufficient justification to support an accelerated implementation date of less than one year which is considerably less than what is usually available for reforms of this magnitude.
- The accelerated implementation date does not adhere to the AASB's Due Process Framework principles where paragraph 7.9.2 indicates that the AASB would usually allow a two-year implementation process for reforms of this magnitude.
- It does not provide enough time for all stakeholders to develop an effective transition timetable and identify the manpower and educational resources needed to make the necessary changes before being required to begin transition.
- It does not provide the AASB, relevant regulators, and our two professional organisations, with sufficient time to identify the nature of and develop essential resources to support transition.

Relevant IASB projects

- An extended implementation will allow for progress on the IASB's "Subsidiaries that are SMEs" project and the "Comprehensive review of IFRS for SMEs" project so there is clarity on the direction being taken by the IASB on these projects and the potential impact they may have on Tier 2 financial reporting in Australia (see our response to Questions 1, 2 3 and 5). It is not appropriate to require entities already using the current Tier 2 RDR framework to change to the proposed new framework now and require them to change again to a new Tier 2 framework issued by the IASB when that occurs. A two-year implementation window will mitigate the risk of unnecessary additional costs being incurred by Tier 2 entities with two potential changes within a relatively short period of time.

Public and NFP sector reform

- The proposals in this ED need to be considered in conjunction with the proposals in ED 295 because the Tier 2 reporting framework it proposes will effectively replace special purpose reporting for those entities within the scope of ED 297. However, the scope of ED 295 is much wider, impacting all entities reporting in accordance with AAS, including for-profit and not-for-profit (NFP) private and public sector entities that are already reporting using the Tier 2 requirements (see our response to Question 6 and 14).
- All private sector NFP entities need an appropriate NFP definition that will clearly distinguish between for-profit and NFP entities and so provide clarity around the appropriate applicable reporting framework. (see our response to Question 2 and 13).

Trans-Tasman harmonisation

- An extended implementation will minimise the challenges faced by those entities for whom trans-Tasman harmonisation is important by providing time for the AASB and New Zealand XRB to ensure continued alignment of their frameworks at the disclosure level (see our responses to Question 2 and 14).

Interaction with ED 297 proposals

- The proposals in this ED need to be considered in conjunction with the proposals in ED 297 because the Tier 2 reporting framework proposed through this consultation will effectively replace special purpose reporting for those entities within the scope of ED 297. Our submission on ED 297 recommends a two-year implementation window for the proposals in that ED consistent with the recommendation in this submission.

Question 12

Do you agree with the transitional requirements proposed in this ED (as explained in BC72-BC77)? If you disagree, please explain why.

Please see our cover letter and responses to earlier questions recommending a two-year implementation window and the reasons for this recommendation.

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Appendix 2: General matters for comment

Question 13

Whether *The AASB's For-Profit Standard-Setting Framework* and *Not-for-Profit Standard-Setting Framework* have been applied appropriately in developing the proposals in this ED?

In our response to ED 297, we noted the need to complete the NFP definition project (see ED 291) in order to provide clarity around the applicable reporting framework depending on whether an entity is a for-profit or NFP. Whilst the NFP definition does not necessarily have a direct impact on the Tier 2 proposals included in this consultation, this ED needs to be considered in conjunction with ED 297. Therefore, we consider completion of the NFP definition project as a necessary part of the broader financial reporting framework initiative.

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?

As noted in our cover letter, the impact of these proposals on the Trans-Tasman harmonisation objective needs to be considered further. Also, we are unable to predict the outcome of the Australian Charities and Not-for-profits Commission Independent Review and the potential impact of that review on these proposals. If the AASB adopts a two-year implementation window, as recommended, it will have an opportunity to identify any further regulatory issues in addition to those identified above that may need to be considered as part of these proposals. We have not identified any issues related to GFS implications.

We note that these proposed simplified disclosure requirements will equally apply to any grandfathered large proprietary companies that meet the Tier 2 reporting criteria. Such entities will be required to comply with the proposed Tier 2 reporting requirements, even though these financial statements do not need to be lodged. We are of the view that, given the underlying objective of the project is to achieve consistency and transparency, the AASB should encourage Treasury to revisit the grandfathered large proprietary company lodging exemptions as an additional means of furthering the quality of information on the public record. Absent removal of the current lodgement exemption provided to grandfathered proprietary companies, we do not believe the proposed objective of consistency, comparability and transparency through the Australian financial reporting framework will be truly achieved.

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Question 15
Whether, overall, the proposals would result in financial statements that would be useful to users?

We believe that once the issues identified in this submission are adequately addressed, the proposals are likely to have positive impacts on the consistency, comparability and transparency of financial statements and are therefore likely to benefit users.

Question 16
Whether the proposals are in the best interests of the Australian economy?

Subject to the AASB addressing the issues identified in this submission, the proposals are potentially in the best interests of the Australian economy.

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.

No additional comments.

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Future of Special Purpose Reporting Survey

November 2019

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Foreword

Australia's financial reporting landscape is currently being significantly reshaped as the AASB progresses plans to reform the place of special purpose reporting within its reporting framework.

CA ANZ has actively engaged with Chartered Accountants to ensure they are informed about the reform project and that their views are then represented to the AASB. Member feedback on the AASB's initial consultation (ITC 39) saw us successfully advocate for the government to change the Corporations Act lodgement thresholds in late 2018. We also encouraged the AASB to consider what entities would be impacted by its reforms in the for-profit space initially and how reporting by these non-public entities could be streamlined and made more proportionate than initial proposals.

We now present feedback from a major survey of Chartered Accountants and other industry professionals designed to help understand their views on the issues surrounding framework reform and on what a workable and effective outcome would look like. We are pleased to report that the AASB's current proposals appear to be heading in a direction that is sympathetic to the feedback shared here, in particular streamlining disclosure requirements for non-publicly accountable entities. However, there is still work to be done in informing and connecting with the profession on the benefits of change, how challenges will be addressed and the nature and impacts of the changes being put forward.

CA ANZ wishes to thank all its members for the time they took to provide us with this valuable feedback.

It will continue to be valuable as CA ANZ looks forward to our further strong advocacy on behalf of members as reforms in the not-for-profit and public sector progress in 2020.

Simon Grant FCA
Group Executive, Advocacy & Professional Standing

Amir Ghandar CA
Reporting & Assurance Leader

Executive summary

This report presents the findings of quantitative research with members from Chartered Accountants Australia and New Zealand (CA ANZ) and other industry professionals, all of whom have a role interacting with financial statements. The final sample contained 512 respondents who completed an online questionnaire between June and August 2019.

Aim of the research

The main objective of the research was to identify the views of respondents on the financial reporting reform proposed by the AASB. Specific topics included the cost vs. benefits of the reform, the potential impact(s) resulting from the reform, capacity to accommodate the changes brought on by the reform and the preferred approach for the direction of reform.

Change in the balance

- 82% of the respondents that work with for profit entities use special purpose financial statements (see page 6).
- Over 60% of respondents thought that the costs of removing SAC 1 would outweigh the benefits while around 30% were convinced that benefits would outweigh costs (see page 7).
- Over 40% of respondents anticipate that, for each financial statement, the proposed reform will cost an additional $501 – $5,000 in initial transition, ongoing preparation and ongoing audit costs (see page 9).
- Respondents expect that the key transition challenges lie in the areas of leases, related parties, financial instruments, consolidation, impairment and revenue (see page 12).
- 33% of respondents indicated that they had the resources needed to implement change internally, 48% believed they may, but could need some external support, and 19% believe they will definitely need external support (see page 14).

> "From a regulator's view, special purpose financial statements are a waste of the preparer's resources. They are simply not as robust as general purpose financial reports."
> *User*

The desired direction of reform

- Simplified recognition and measurement is sought by over 60% of respondents for the FP sector and over 80% for the not-for-profit (NFP) sector (see page 15).
- Reducing disclosures to that which is significant and necessary is supported by over 70% of respondents for the FP sector and over 87% for the NFP sector (see page 16).
- Over 65% of respondents agree that there is a role for the IFRS for SMEs standard in our framework (see page 17).

> "The inconsistency in special purpose reports needs to be addressed. The starting point should be those entities lodging with regulatory bodies. It will have a large cost but is needed for accountability."
> *Preparer*

> For the technically minded, this proposal looks simple but from a practitioner's perspective, and for private entities preparing financial statements, it is a significant compliance cost burden."
> *Director*

Survey results

Over **60%** of survey respondents

thought that the costs of **removing SAC 1** would outweigh the benefits

while around 30% were convinced that benefits would outweigh costs (see page 7).

Simplified recognition and **measurement is sought**

by over **60%** of respondents for the FP sector and over **80%** for the NFP sector (see page 15).

Over **40%** of respondents

anticipate that, for each financial statement, the proposed reform will

cost an additional **$501–$5,000**

in initial transition, ongoing preparation and ongoing audit costs (see page 9).

Reducing disclosures to those which are significant and necessary is supported by over **70%** of respondents

for the FP sector and over 87% for the NFP sector (see page 16).

33% of respondents

indicated that they had the resources needed to implement change internally,

48% believed they may, but could need some external support, and 19% believe they will definitely need external support (see page 14).

Over **65%** of respondents

agree that there is a role for IFRS for SMEs in our framework (see page 17).

(figures rounded to the nearest whole percent)

Where to from here?

For-profits

The AASB's plans appear to be heading in the right direction in the for-profit space. The joint CA ANZ/CPA Australia submissions on ED 295 and ED 297 supported their implementation, subject to recommending a two year implementation window that will provide more time for an effective education campaign on the benefits of these reforms and an orderly transition.

For-profit

- Reforms are expected to be applied to companies, financial services licensees, higher education providers and some cooperatives and associations where there is evidence of proven user need (higher Corporations Act thresholds have also been applied).
- All other for-profit entities will be able to continue to use special purpose reporting.
- Disclosures for Tier 2 entities will be reduced and simplified based on IFRS for SMEs.
- AASB is proposing 1 July 2020 application date with early adoption permitted and substantial transition assistance.
- Need for ongoing education on benefits ahead of implementation, especially to facilitate cost recovery from clients.

Not-for-profits

While reform in the NFP space will be more fully consulted on next year, early indications are that the AASB's plans are also consistent with this member feedback. In addition, those NFPs already reporting as Tier 2 entities will benefit from the new for-profit "simplified disclosure package" that will be extended to them in the interim.

Not-for-profit

- Current NFP Tier 2 entities will be able to use the new simplified disclosure package.
- NFP project is expected to consider three or more tiers (based on consistent thresholds) and be based on a more robust definition of "not-for-profit".
- Reduced recognition and measurement is expected for the middle tier and cash for the lowest tier.
- Audit and review requirements will also be revised.
- Consultation paper due in early 2020 based on ongoing AASB research.

> "Having been to the roundtables and heard the AASB staff present on this I believe that removing special purpose financial statements will enhance comparability for users."
> *Auditor*

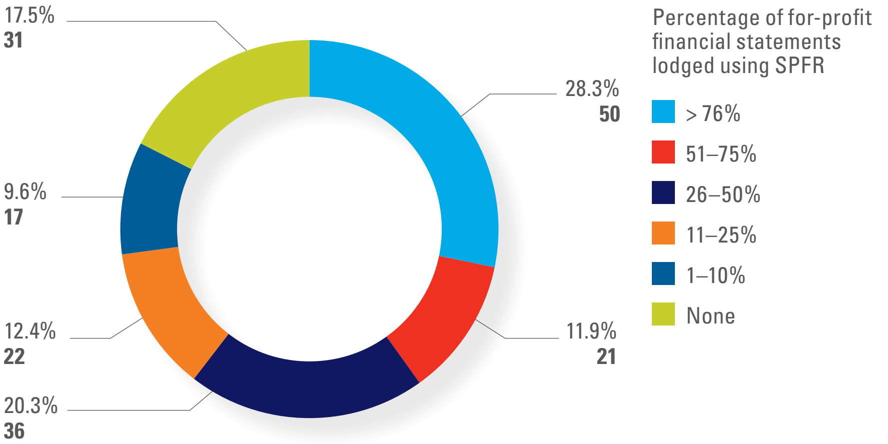
> "Enforcement of change by regulators will be critical for success to ensure comparability."
> *Auditor*

Change in the balance

Usage of special purpose financial statements in the for-profit sector.

82% of the respondents that work with for profit entity financial statements use special purpose

Q. What percentage of lodged financial statements for for-profit entities were also special purpose financial statements?

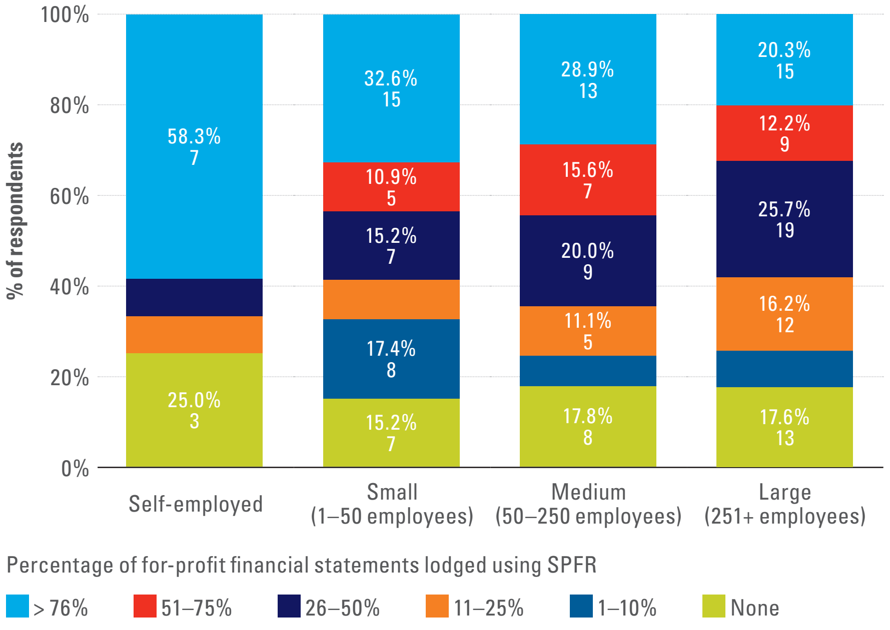


"The changes add unnecessary cost and complexity which is not useful nor wanted by the users of financial statements."
Director

"Aligning all entities would provide users with a true like to like comparison, and also allow better decision making."
Preparer

"The costs privately held businesses will incur to comply with standards that their users do not understand nor care about will outweigh the benefits."
Auditor

Views split by organisation size



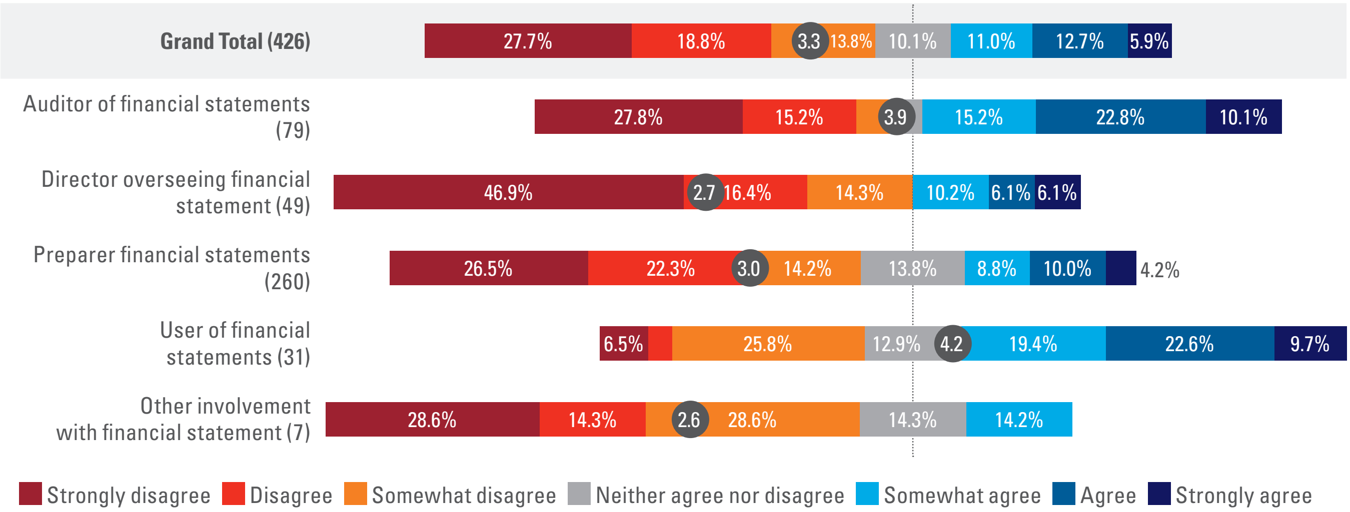
n=177, Q8.1 – What percentage of these lodged financial statements for for-profit entities are also special purpose financial statements?
Sample size for sub-group 'self-employed' is relatively small. Results for this sub-group should be treated with due caution.

Change in the balance

Assessing the costs and benefits of changes

Over 60% of respondents thought that the costs of removing the option to prepare special purpose financial statements would outweigh the benefits

Q. Do the benefits of removing the option to prepare special purpose financial statements outweigh the costs? Split by financial statement role.



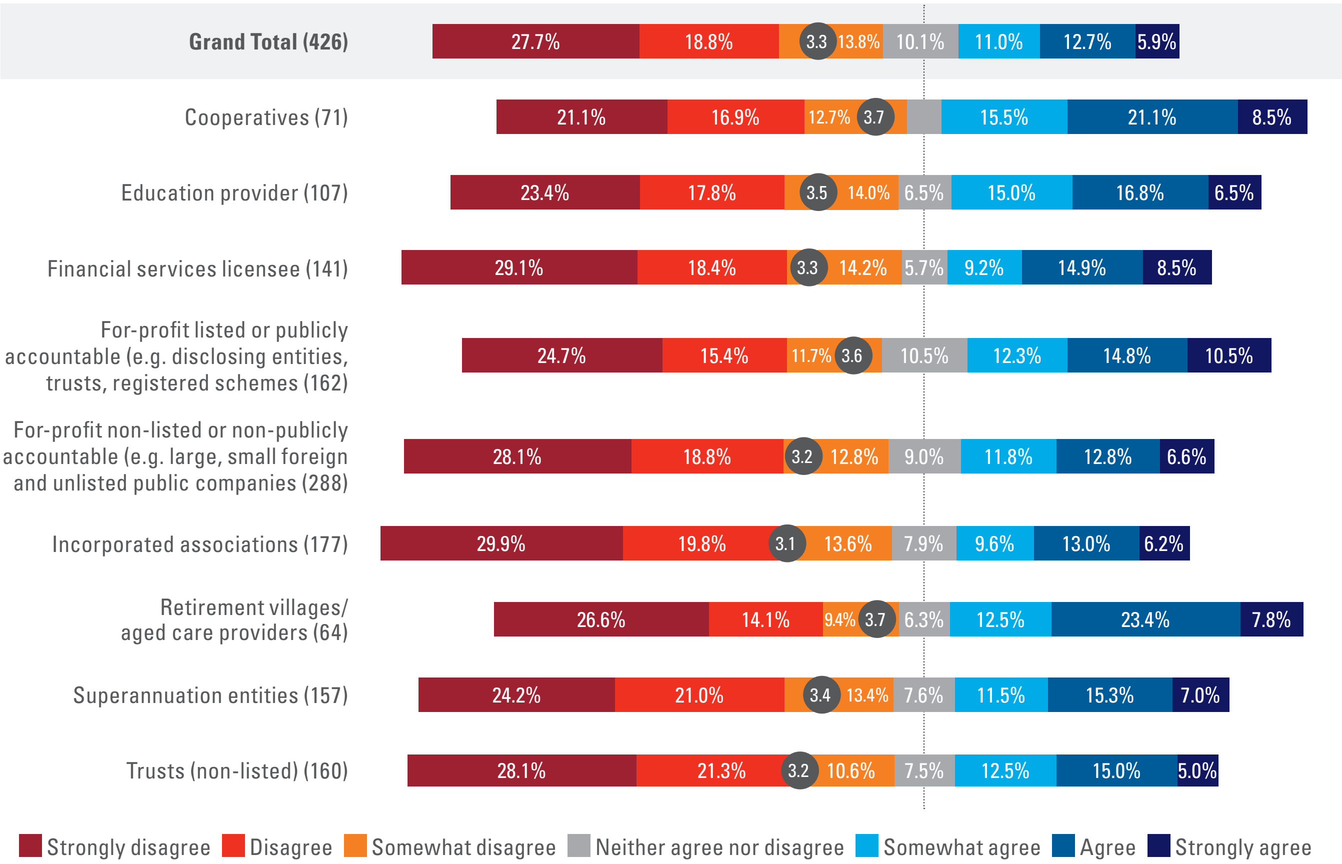
> "The removal of the special purpose option can in fact make the financial statements less user friendly. Their whole point is to create customised financial statements which users find relevant and useful."
> *Preparer*

> "Requiring extensive changes to existing financial statements isn't going to improve the interpretation and understanding of the current primary users of the financial statements if they do not understand or care about the changes."
> *Preparer*

n=426, Q15 – Do the benefits of removing the option to prepare special purpose financial statements, outweigh the costs associated with this transition? Split by financial statement role.
Sample size for sub-groups 'other involvement with financial statements' and 'users of financial statements' are relatively small. Results for these sub-groups should be treated with due caution.
Percentages may not add to 100% due to rounding.

Concerns about costs outweighing benefits exist for financial statements of all entity types that respondents are involved in

Q. Do the benefits of removing the option to prepare special purpose financial statements outweigh the costs? Split by entity type associated with financial statement.



> "It is extremely costly to prepare general purpose financial statements and some companies cannot afford such a cost"
> *Preparer*

> "Those who need to understand the position of a company can do so in a more timely way by doing their own due diligence."
> *Preparer*

n=426, Q15 – Do the benefits of removing the option to prepare special purpose financial statements, outweigh the costs associated with this transition? Split by client type associated with financial statement

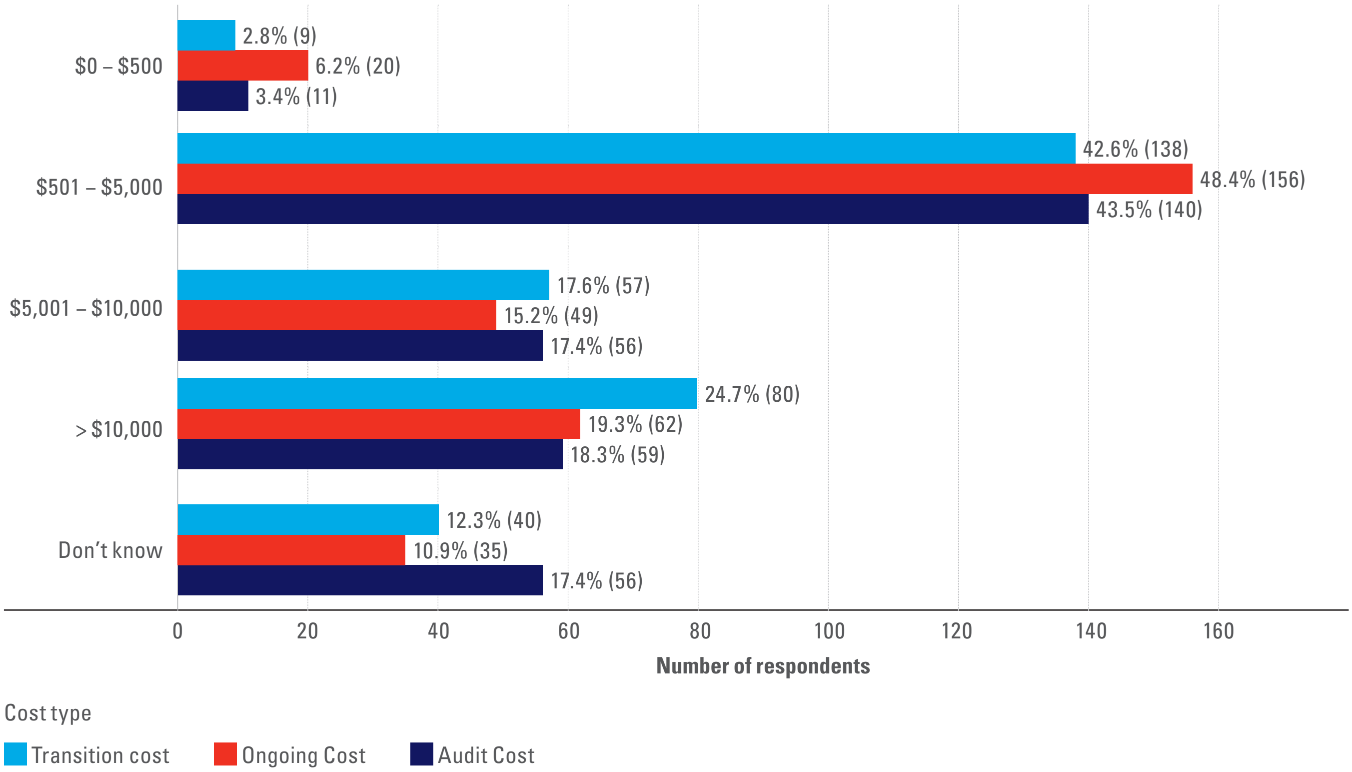
Percentages may not add to 100% due to rounding.

Change in the balance

Estimates of the costs of change

Over 40% of respondents anticipate transitional, ongoing and additional audit costs of $501-$5,000 per financial statement

Q. What are the expected cost implications of adopting general purpose financial statements as compared to special purpose financial statements prepared now?



> "The debate this issue is causing is an indication of the significant amount of education about financial statement preparation that these changes will require."
> *Auditor*

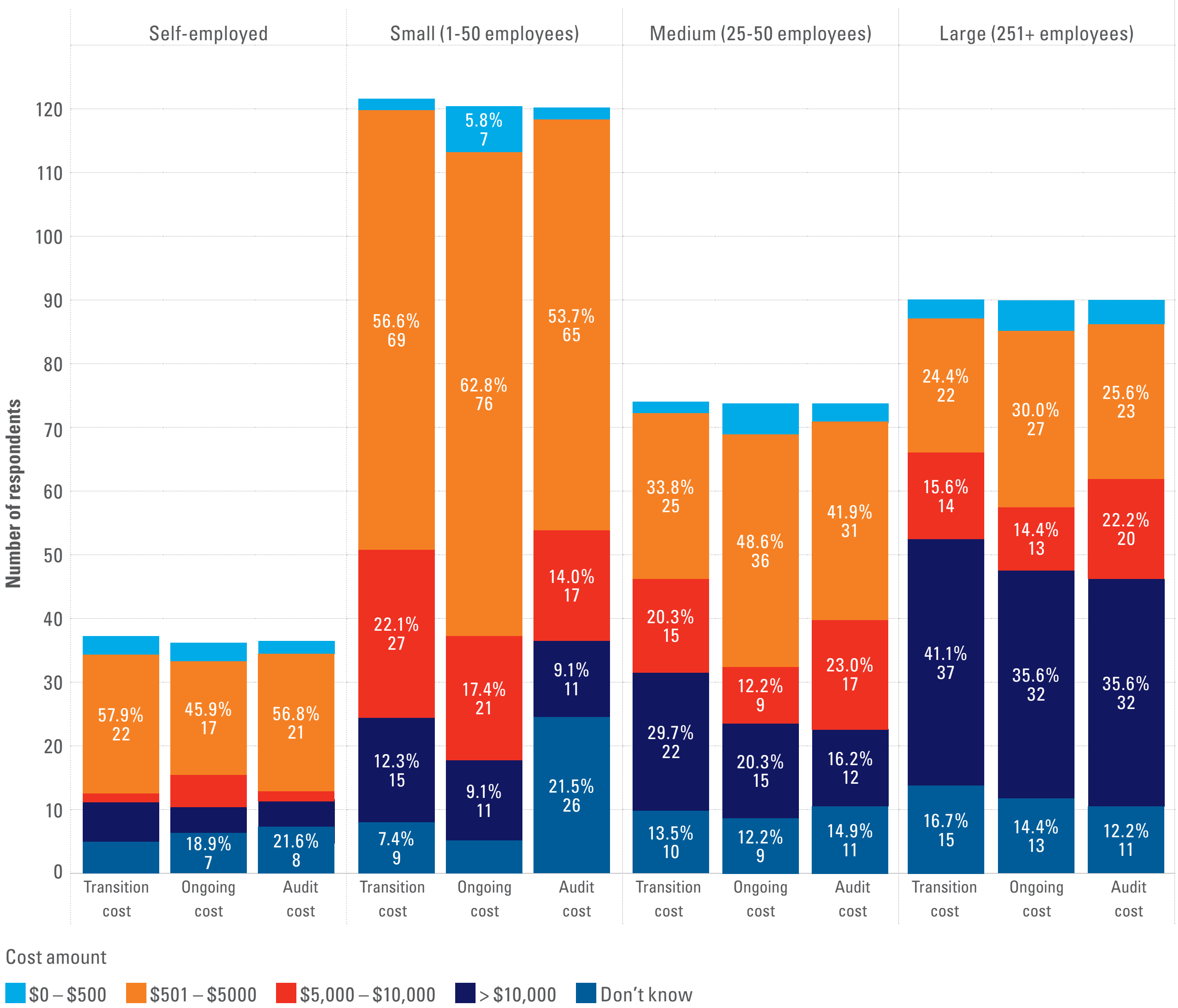
n=324, Q11 – What do you estimate would be the likely extra cost per financial statement of transitioning to a general purpose financial report (GPFR) that adopted the AASB's full recognition and measurement proposal?

n=322, Q12 – Once full recognition and measurement (including consolidation if appropriate) has been applied, what do you estimate will be the likely additional ongoing cost per financial statement of preparing/ auditing GPFRs for these entities (as compared to the SPFRs prepared now)?

n=322, Q13 – What do you think will be the average increase in the audit fee for these GPFRs as compared to SPFRs you do now?

Most respondents expect a minimum increase in transition, ongoing and audit costs of $501–$5,000 regardless of organisation size

Q. What are the expected cost implications of adopting general purpose financial statements as compared to special purpose financial statements prepared now? Split by organisation size and cost type.



> "This change will add to the cost of doing business in an already overregulated country."
> *Preparer*

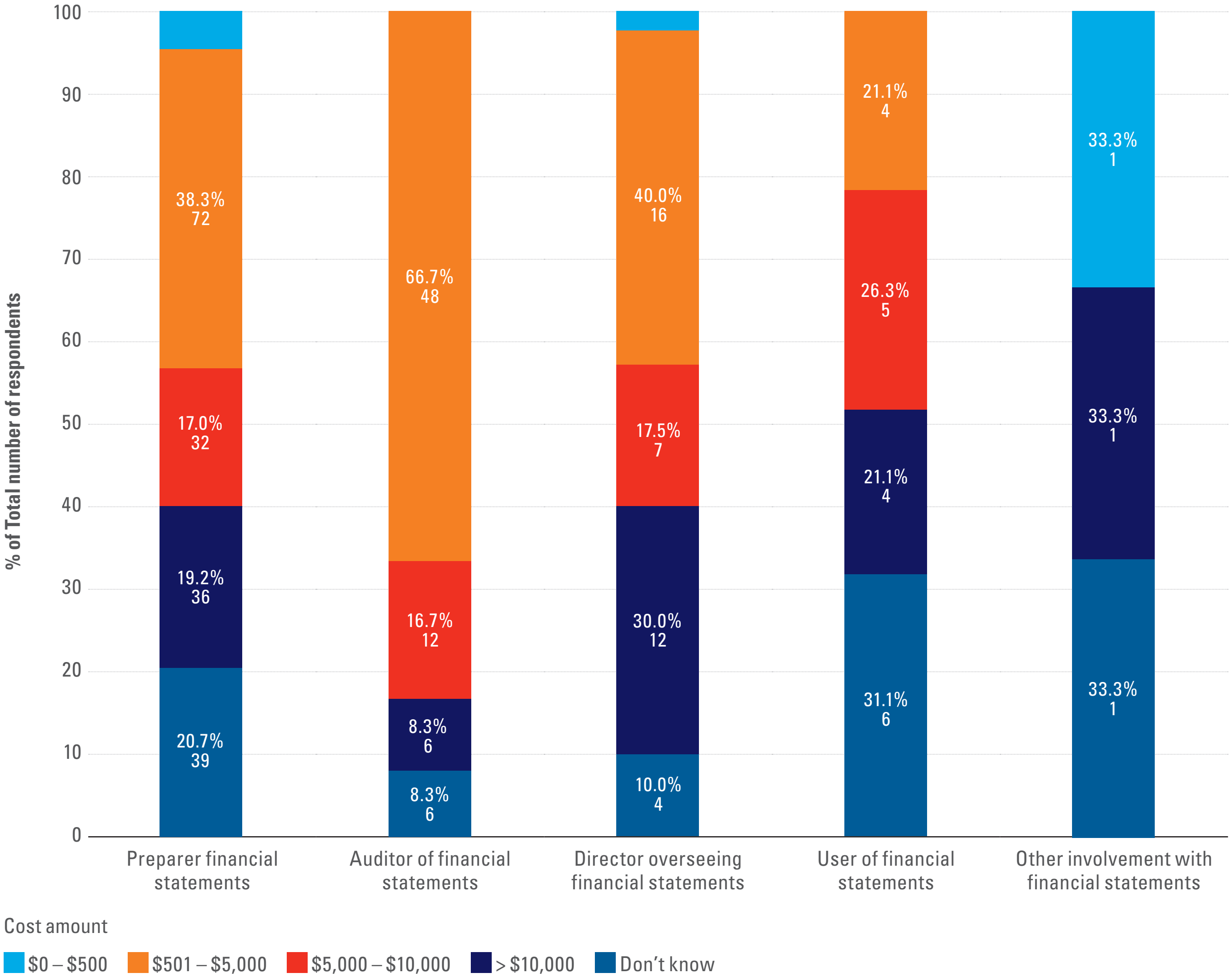
n=324, Q11 – What do you estimate would be the likely extra cost per financial statement of transitioning to a general purpose financial report (GPFR) that adopted the AASB's full recognition and measurement proposal? Split by organisation size.

n=322, Q12 – Once full recognition and measurement (including consolidation if appropriate) has been applied, what do you estimate will be the likely additional ongoing cost per financial statement of preparing/ auditing GPFRs for these entities (as compared to the SPFRs prepared now)? Split by organisation size.

n=322, Q13 – What do you think will be the average increase in the audit fee for these GPFRs as compared to SPFRs you do now? Split by organisation size.

Most respondents, regardless of their role with financial statements, expect a minimum increase in audit fees of at least $501-$5,000

Q. What are the expected cost implications for auditing financial statements following the adoption of general purpose financial statements as compared to special purpose financial statements prepared now? Split by financial statement role.



> "Clients might simply refuse to accept the additional costs."
> *Auditor*

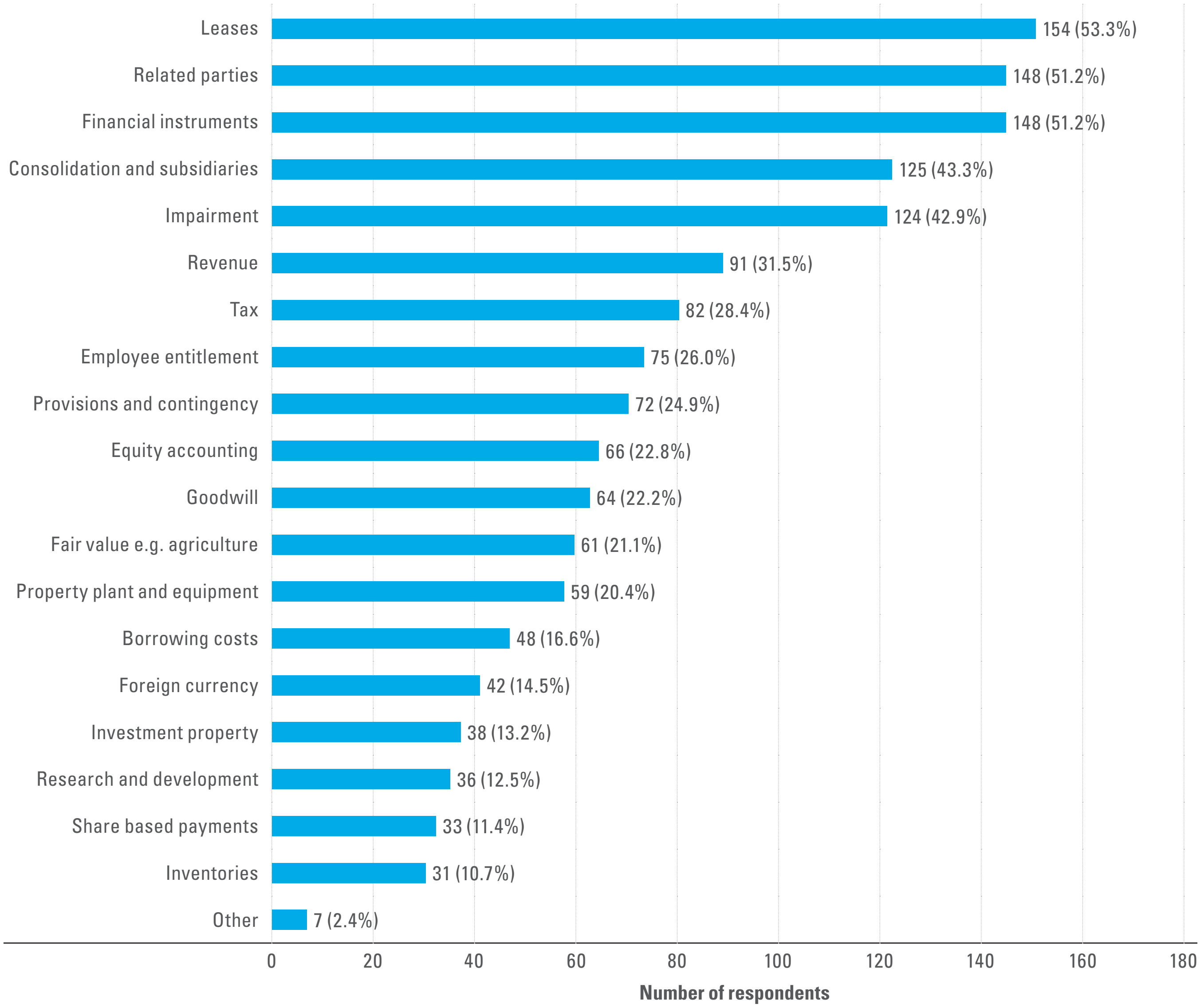
n=322, Q13 – What do you think will be the average increase in the audit fee for these GPFRs as compared to SPFRs you do now? Split by financial statement role.
Sample size for sub-groups 'other involvement with financial statements' and 'users of financial statements' are relatively small. Results for these sub-groups should be treated with due caution.

Change in the balance

Main areas of implementation challenge

Respondents identified the key transition challenges as leases, related parties, financial instruments, consolidation, impairment and revenue

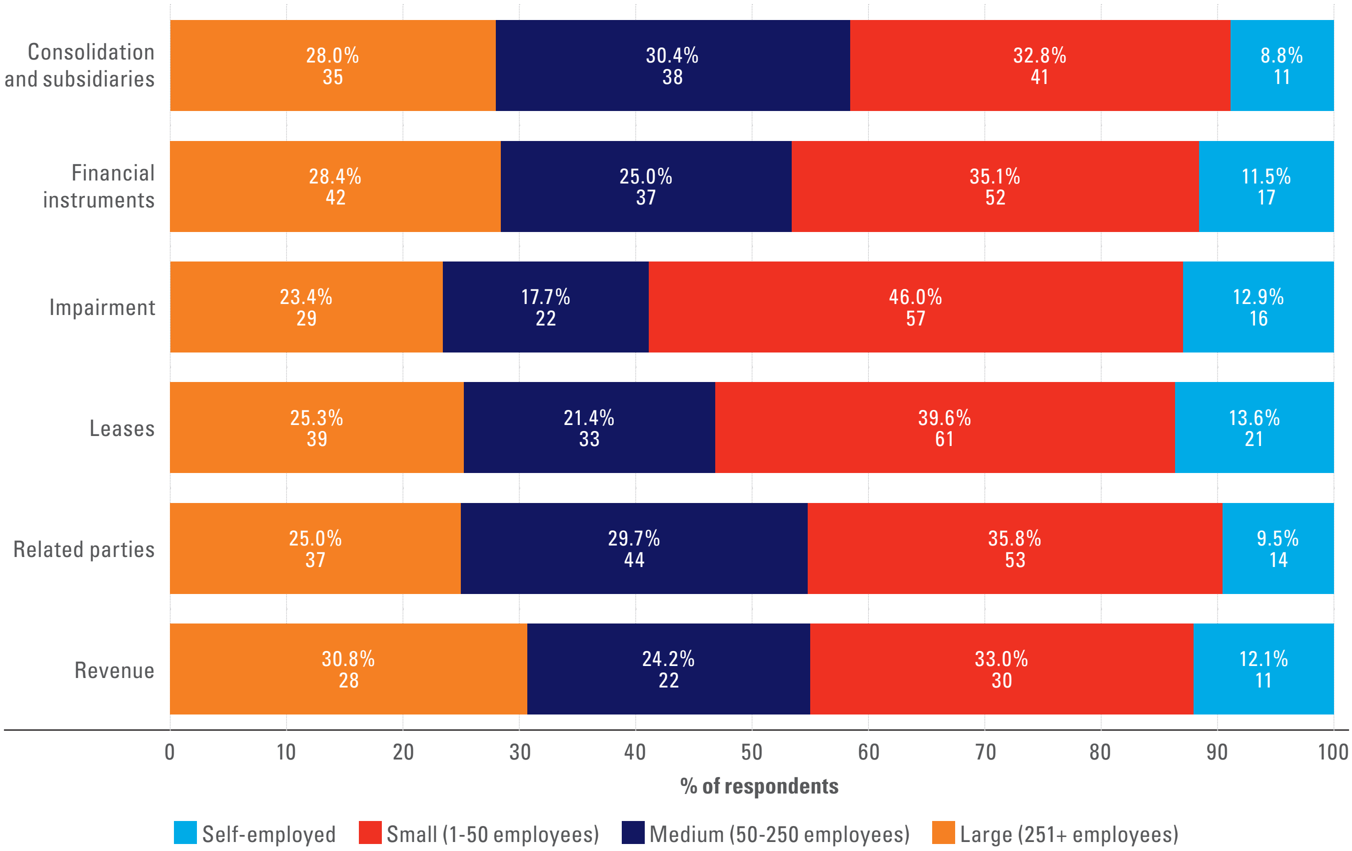
Q. Which areas are likely to cause the greatest challenges when preparing/auditing financial statements if the AASB removed the option to prepare special purpose financial statement?



> "I expect a lot of people might whinge but I like the fact there will now be enhanced enforcement to apply recognition and measurement."
> *Auditor*

n=289, Q10 – If the Australian Accounting Standards Board (AASB) removes the option to prepare special purpose financial statements, and requires adoption of all the recognition and measurements of its standards, which area(s) are likely to cause the greatest challenges when preparing/auditing revised financial statements that will meet these new requirements?

Top 6 challenges associated with the removal of the option to prepare special purpose financial statements split by organisation size



> "Consolidation should not be considered as part of recognition and measurement."
> *Auditor*

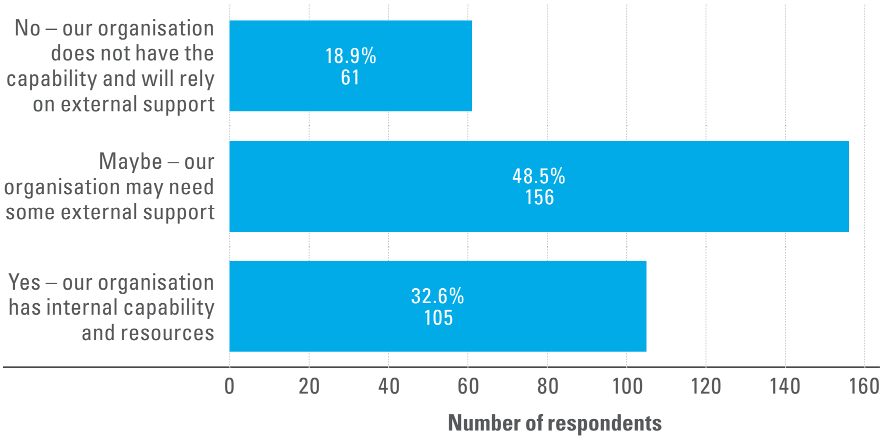
n=289, Q10 – If the Australian Accounting Standards Board (AASB) removes the option to prepare special purpose financial statements, and requires adoption of all the recognition and measurements of its standards, which area(s) are likely to cause the greatest challenges when preparing/auditing revised financial statements that will meet these new requirements?

Change in the balance

Resourcing the change

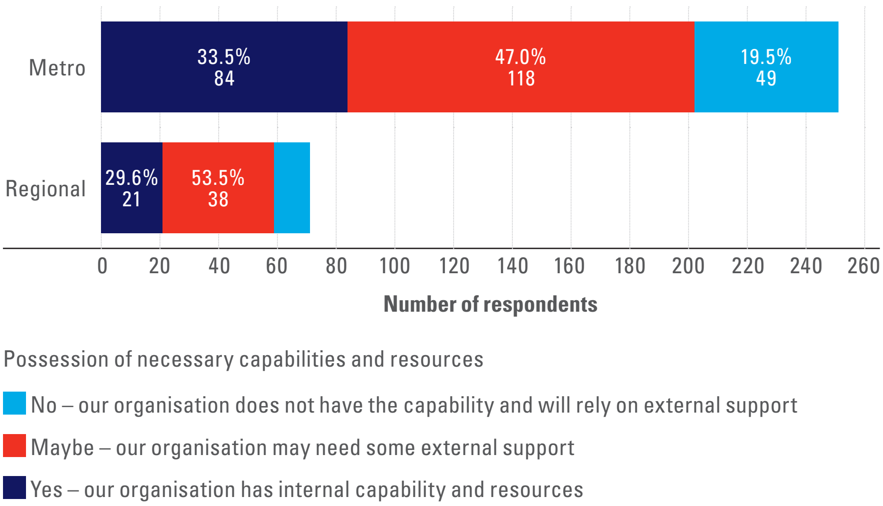
33% of respondents indicated that they had the resources needed to implement change, over 48% that they may need help and 19% that they will need external support

Q. If the AASB implements these changes to reporting standards, does your organisation have the internal capability and resources to meet these new requirements?



"Our firm has mostly non-reporting entities and so retraining will be required which may be very extensive and very costly."
Preparer in practice

Views on resourcing split by location



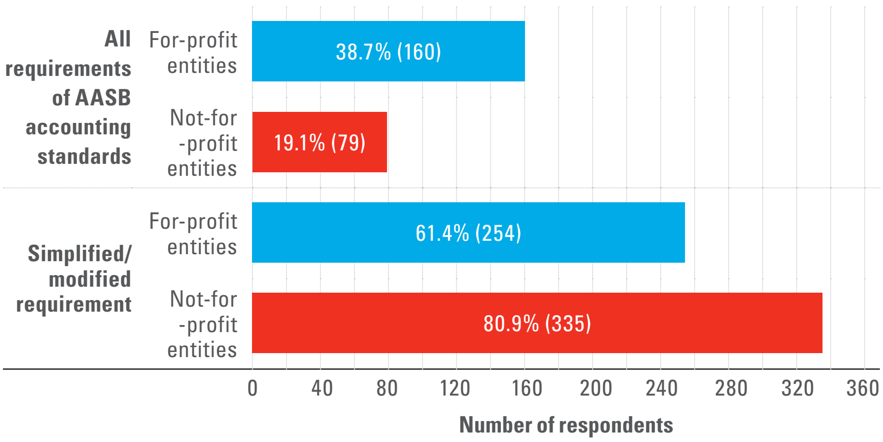
"Where groups are simple and have pragmatic auditors impacts should be able to be managed."
Director

n=322, Q14 – If the AASB implement these changes, does your organisation have the internal capability and resources to meet these new requirements?

Desired direction for the proposed reform

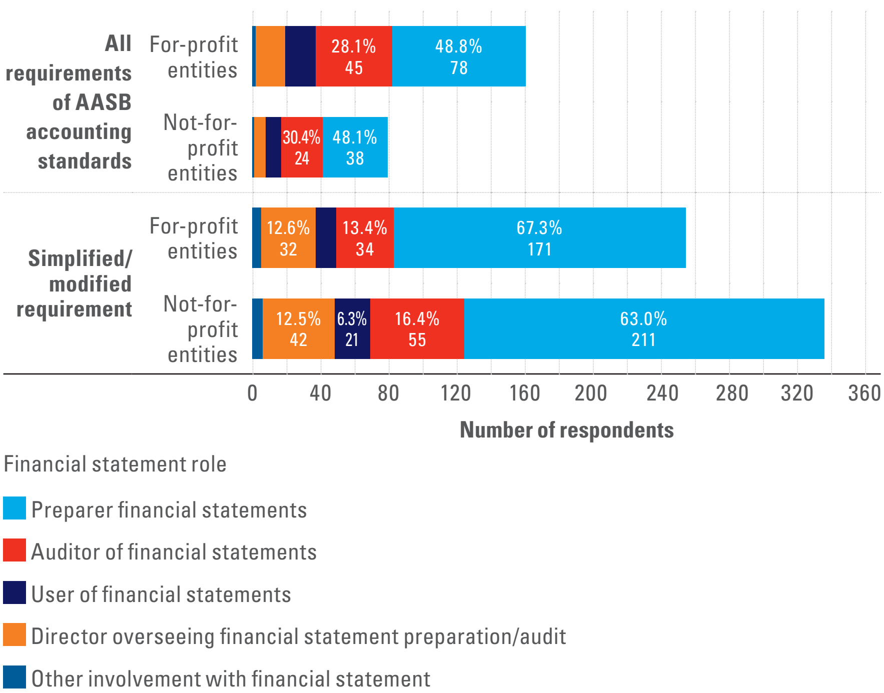
Simplified recognition and measurement is sought by over 60% of respondents for the FP sector and over 80% for the NFP sector

Q. "If SAC 1 is removed, what is your preferred basis for mandating recognition and measurement?



> "The trend in accounting standards is toward an overly academic approach. The preservation of simpler accounting standards for SMEs is essential for the survival of these businesses."
> *User*

Views split by financial statement role

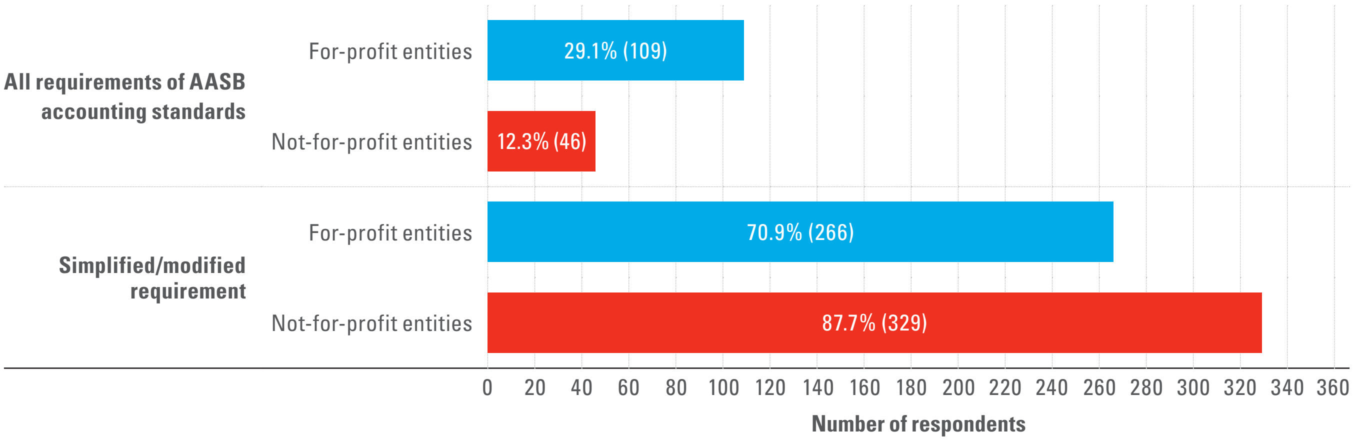


> "SME owners (even the larger ones), as well as their banks/creditors, do not perceive much value in certain IFRS recognition and measurement requirements."
> *Preparer*

n=414, Q16 – If SAC 1 is removed, what is your preferred basis for mandating recognition/measurement for both 'for profit' and 'not for profit' lodging entities that currently prepare special purpose financial statements?
Sample size for sub-groups 'other involvement with financial statements' and 'users of financial statements' are relatively small. Results for these sub-groups should be treated with due caution.

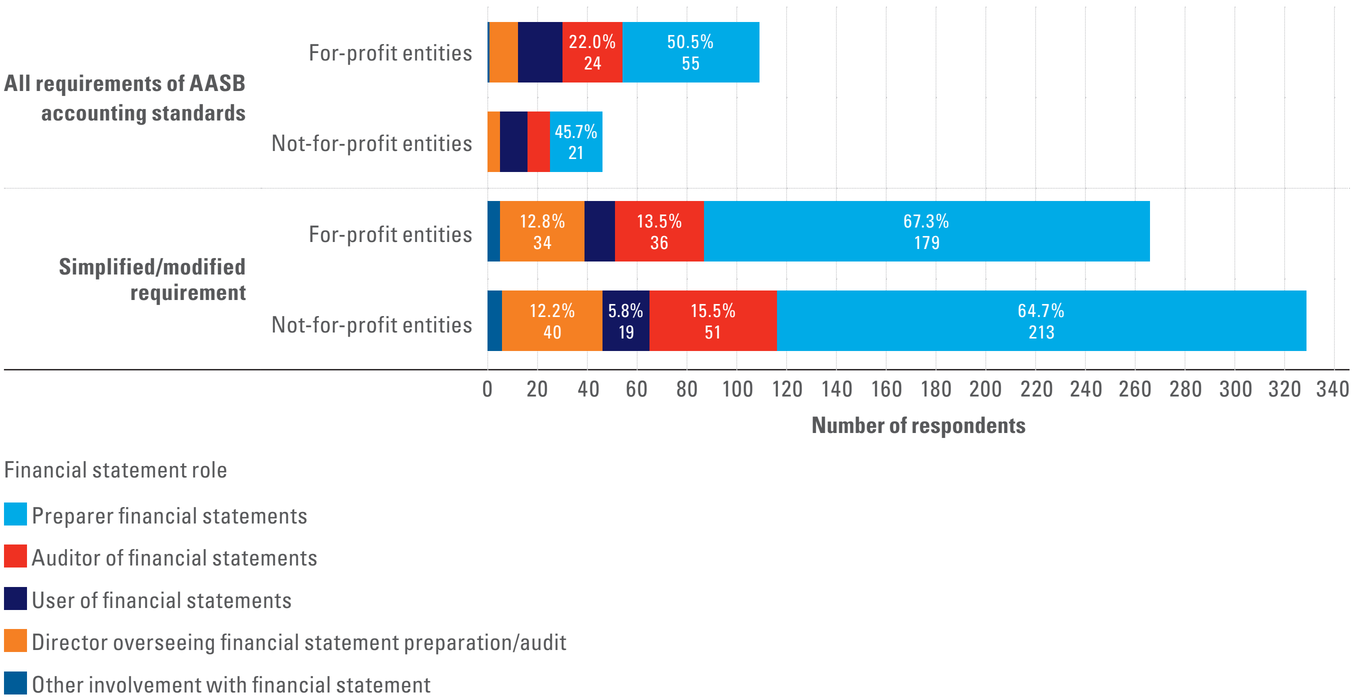
Reduced disclosure is supported by over 70% of respondents for the FP sector and over 87% for the NFP sector

Q. If SAC 1 is removed, what is your preferred basis for mandating disclosure?



> "I believe that most users of financial statements don't need or understand the excessive disclosures required in general purpose financial reports."
> *Preparer*

Views split by financial statement role

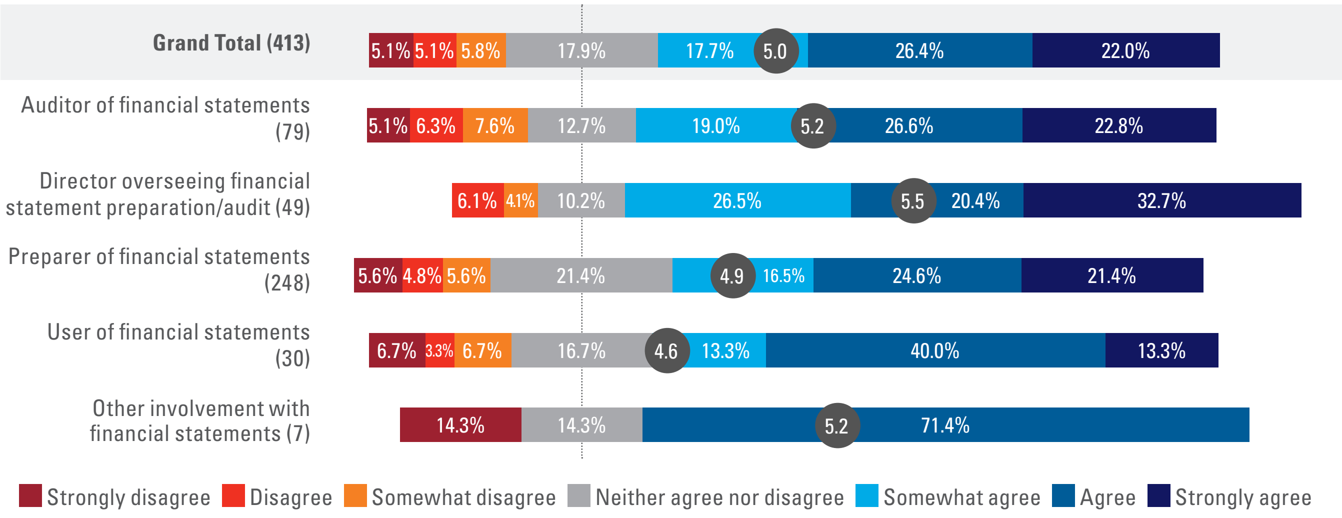


n=375, Q16.1- If SAC 1 is removed, what is your preferred basis for mandating disclosure for both 'for profit' and 'not for profit' lodging entities that currently prepare special purpose financial statements?

Sample size for sub-groups 'other involvement with financial statements' and 'users of financial statements' are relatively small. Results for these sub-groups should be treated with due caution.

Over 65% of respondents agreed that there should be a role for IFRS for SMEs in our framework

Q. To what extent do you agree that the AASB should reconsider the inclusion of IFRS for SMEs in the Australian reporting framework?



> "The simplified recognition and measurement in IFRS for SMEs makes things worse, as it creates differences that are completely unnecessary."
> *Preparer*

> "While IFRS for SMEs is not perfect, it is better that we comply with a universal standard than create Australian specific ones."
> *Auditor*

n=413, Q17 – To what extent do you agree or disagree with the following statement? The AASB should reconsider the inclusion of the IASB's International Financial Reporting Standards for SME's (IFRS for SME's into the Australian reporting framework). Split by financial statement role.

Sample size for sub-groups 'other involvement with financial statements' and 'users of financial statements' are relatively small. Results for these sub-groups should be treated with due caution.

Percentages may not add to 100% due to rounding

Details of the approach

When was the research conducted

12th June – 22nd August 2019

Length of the survey

10 minute online survey

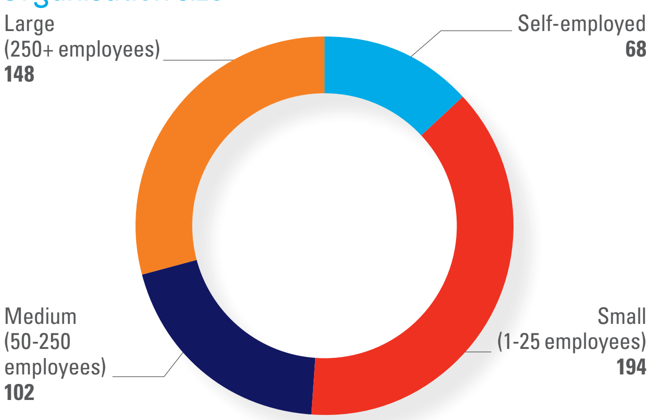
Respondents

- 512 Australians who are mostly members of Chartered Accountants Australia and New Zealand.
- They work in practice, corporate, education, government and NFP sectors from regional and metropolitan areas across all Australian states.

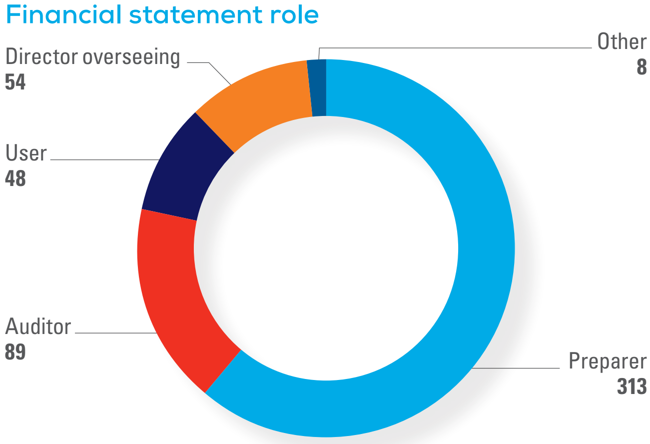
Who was included in the research

- Respondents had some level of involvement with financial statements either as a user, preparer, auditor, director overseeing preparation or other e.g. academic or advisor
- This involvement covered financial statements prepared for at least one of the following entity types (cooperatives, education providers, financial services licensees, for profit listed or publicly accountable, for profit non-listed or non-publicly accountable, incorporated associations, retirement villages/aged care providers, superannuation entities and trusts (non-listed)).

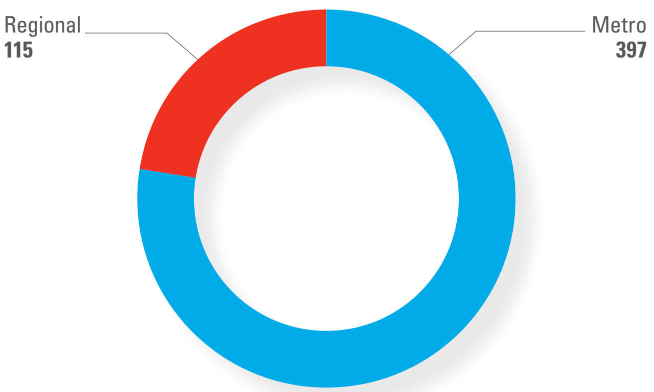
Organisation size



Financial statement role



Metro vs. regional



Client type associated with statement

Respondents could select multiple choices