

11 September 2020

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

Dear Chair

Re: Exposure Draft 302 – Amendment to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities

Thank you for the opportunity to comment on the Exposure Draft *ED 302 Amendment to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities*.

While the IPA supports many of the proposals included ED 302, we find the need to create a class of entities that purport to apply Australian Accounting Standards, but in fact do not, an anomaly that needs correction.

While we are sympathetic to the need to allow legislators and private sector entities time to amend legislation and constituting documents, the amendments should have a sunset clause limiting the application of the proposals to a term of no greater than three years after the commencement of the standard.

A sunset clause is necessary for the following reasons:

- The assertion that the financial statements are in compliance with accounting standards is misleading when not all recognition and measurement requirements have been complied with
- The proposals create an unlevel playing field where similar entities are required to comply with accounting standards
- The proposals reduce accountability and comparability of financial statements as users are restricted in their ability to assess management performance and make informed decisions on the allocation of resources
- Some of the entities to which these proposals relate maybe economically significant and therefore should be required to prepare general purpose financial statements, and
- Where legislation requires compliance with accounting standards such a requirement indicates the existence of third-party interests in the accountability of such entities and, therefore, general purpose financial statements should be prepared – otherwise transparency and accountability are compromised.

In addition to our comments above and in the appendix to this letter, the proposals in the ED raise the following related issues:

1. Presents Fairly/True and Fair View

The terms “presents fairly” and “true and fair view” are closely related to the Conceptual Framework and embedded in accounting standards (i.e., AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting estimates and Errors*). We are concerned that there is a policy vacuum in relation to the use of such terms when presenting financial statements.

We advocate that where these terms are used, the AASB should state that Australian Accounting Standards apply.

Alternatively, the AASB should liaise with the Accounting Professional and Ethical Standards Board to co-ordinate the requirements of AASB standards with APES 205 *Conformity with Accounting Standards* where financial statements purport to be prepared on “true and fair” basis or a basis that “presents fairly”.

2. Special Purpose Financial Statements/APES 205 “Conformity with Accounting Standards”

The scope of ED 302 excludes:

- For profit private sector entities required by legislation to prepare financial statements where there is no mention of compliance with Australian Accounting Standards/accounting standards, and
- For profit private sector entities required by their constituting documents (or equivalent) to prepare financial statements that comply with generally accepted accounting principles.

It is unclear whether such financial statements are still classed as SPFS.

We are concerned the absence of any guidance, except for the narrow application of the amendments proposed in ED 302, such circumstances will provide challenges for professional accountants and auditors. In particular, we are concerned as to the usefulness of the current iteration of APES 205. The AASB and the APES Board liaise to update APES 205 as a result of the proposals in this exposure draft.

3. Self-Managed Superannuation Reporting (SMSFs)

We note the response to the changes in APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* and the guidance on independence for SMSF audits together with the ATO comments in *SMSF auditors: New Independence Guide and Commissioner’s focus for 2020-21* have cast doubts that many of the financial statements prepared for SMSFs are not, in fact, SPFS as the users cannot command information to meet their specific needs. Then, by default general purpose financial statements should be prepared.

It is clear that decisions in relation to financial reporting are often undertaken not by the users of the financial statements (or the trustees of the SMSFs) but rather by the firms providing administration and other related services to SMSFs.

It has long been our contention that users of SMSF financial statements often receive financial reporting services as part of “turn-key” service and are not in a position to demand reporting other than the standard reporting provided by the service. Furthermore, this limitation often extends to investment reporting which is provided as part of the standard “platform” service.

The SMSF sector represents 600,000 funds with \$730 billion funds – 27% of Australian retirement funds which have no adequate standard for reporting to members. Three software suppliers (Class,

BGL and SuperMate) represent 40% of the market for superannuation reporting and financial reports are still often based on the long defunct AAS 25 *Financial Reporting by Superannuation Plans*

As it clear that the appropriateness of preparing SPFS for SMFS is questionable given the circumstance of the sector and the importance of the SMSF sector, the AASB in conjunction with the ATO address the deficiency in reporting requirements for SMSFs.

4. AASB 1056 *Superannuation Entities*

While on the topic of superannuation reporting, we recommend that the AASB undertake a post-implementation review of AASB 1056.

The IPA has noted there has been concern expressed in the financial media in relation to reporting by large superannuation, particularly, in relation to the measurement and disclosure relating to non-listed investments. Given the importance of superannuation system, should review AASB 1056 to ensure it meets user needs and the application of AASB 13 *Fair Value Measurement* to non-listed investments.

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

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

Yours sincerely



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CC Chair – APESB

About the IPA

The IPA, formed in 1923, is one of Australia's three legally recognised professional accounting bodies. In late 2014, the IPA acquired the Institute of Financial Accountants in the UK and formed the IPA Group, with more than 38,000 members and students in over 80 countries. The IPA Group is the largest SME focused accountancy organisation in the world. The IPA is a member of the International Federation of Accountants, the Accounting Professional and Ethical Standards Board and the Confederation of Asian and Pacific Accountants.

Appendix

Specific matters for comment

Question 1

Do you agree that an amendment to Australian Accounting Standards to require entities to disclose information about their special purpose financial statements – including the material accounting policies applied in the special purpose financial statements, changes in those policies, and whether or not the entity has complied with all the recognition and measurement requirements in Australian Accounting Standards – is needed to provide transparency to users of special purpose financial statements and improve the comparability of special purpose financial statements? If not, please provide your reasons.

IPA response

Subject to the comments in our covering letter the IPA supports, the proposed amendments to Australian Accounting Standards relating to the disclosure of accounting policies, changes in accounting policies and compliance with recognition and measurement requirements of Australian Accounting Standards. The IPA is of view such disclosures would enhance the financial transparency and comparability of special purpose financial statements (SPFS) for users.

Question 2

Do you agree that the proposed new disclosures should apply only to those entities preparing special purpose financial statements that are:

- (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 private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards.*

If not, please provide your reasons?

IPA response

As noted in our covering letter, the IPA does not support the “grandfathering” of classes entities, particularly those covered required by legislation to prepare financial statements in accordance with Australian Accounting Standards. There should be a “sunset” period for any grandfathering provisions in which time legislation or constituting documents are modified to remove the requirement to produce financial statements in accordance with accounting standards otherwise the application of accounting standards is to be required.

Question 3

Do you agree with the proposed amendments to AASB 1054 requiring the disclosure of:

- (a) the basis of preparation of special purpose financial statements (see proposed new paragraphs 9C(a));*
- (b) the material accounting policies applied in the special purpose financial statements, including information about changes in those policies (see proposed new paragraphs 9C(b) and 9(c));*
- (c) information about the consolidation or non-consolidation of subsidiaries and accounting for associates and joint ventures (see proposed new paragraph 9C(d));*
- (d) an explicit statement as to whether or not the accounting policies applied in the financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards (including the requirement to an indication of how they do not comply) (see proposed paragraph 9C(e); and*
- (e) an explicit statement as to whether or not the financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards (except for the requirements set out in AASB 10 and AASB 128) (see proposed new paragraph 9C(f))?*

If you disagree with any aspect of the proposed disclosures, please provide your reasons.

IPA response

Subject to the comments in our covering letter and response to Question 2, we support the proposed amendments to AASB 1054 with the following recommendations:

- As we consider the proposals in relation to subsidiaries, joint ventures and associates to be inadequate, disclosure should be required of the carrying value of the investment, the nature of the operations of the entity, the net assets and the operating profit. Preferably, the disclosure requirements in AASB 12 *Disclosure of Interests in Other Entities* should be required; and
- The proposed paragraph 9C(f) be revised as it omits AASB 11 “Joint Arrangements” from the excluded requirements. AASB 11 includes measurement and recognition requirements for joint operations i.e. proportionate share of assets and liabilities based on rights and obligations (“proportionate consolidation”).

Question 4

The proposed Standard includes implementation guidance and illustrative examples illustrating the application of the proposed disclosure requirements. Do you agree it provides appropriate illustration of the application of the disclosure requirements? If not, please provide your reasons.

IPA response

Subject to our comments in our covering letter and response to Questions 2 and 3, we support the proposed illustrative guidance and illustrative examples accompanying the proposed disclosure requirements.

Question 5

Do you agree with the proposed effective date of annual periods ending on or after 30 June 2021 with early adoption permitted? If not, please provide your reasons.

IPA response

Subject to the comments in our covering letter and our response to Question 2, we support the proposed effective date.

Question 6

Do you agree that an entity with no subsidiaries, investments in associates or investments in joint ventures should not be required to make a statement to this effect? If not, please provide your reasons?

IPA response

Of the suggested disclosure in our response Question 3 providing details of investments in material subsidiaries, joint ventures and associates, we support no requirement to state that an entity had no subsidiaries, joint ventures and associates.

Question 7

Do you have any other comments on the proposal?

IPA response

Other than the comments in our covering letter, we have no further comments.

General matters for comment

Question 8

Whether the AASB's For -Profit Standard-Setting Framework and Nor-for-Profit Standard-Setting Framework have been applied appropriately in developing the proposals in this ED?

IPA response

For the reasons stated in our covering letter relating to grandfathering of certain entities purporting to be preparing financial statements in accordance with /Australian Accounting Standards/accounting standards, we are of the opinion that the AASB has not applied *AASB's For -Profit Standard-Setting Framework and Nor-for-Profit Standard-Setting Framework* appropriately.

Question 9

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

IPA response

We are unaware of any regulatory or other that may affect the implementation of the proposals

Question 10

Whether the proposals create any auditing or assurance challenges?

IPA response

We do not consider that the proposed amendments will create any significant auditing and assurance challenges.

Question 11

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

IPA response

While the proposals would increase the utility of SPFS, for the reasons set-out in our covering letter we consider that the proposals do not represent the optimal outcome for users.

Question 12

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

IPA response

For the reasons stated in our covering letter, the proposals are not in interest of the Australian economy unless the proposals include a sunset clause removing the exemptions for for-profit entities with constituting documents requiring compliance with Australian Accounting Standards/accounting standards and for-profit public sector entities required by legislation to produce financial statements in accordance with Australian Accounting Standards/accounting standards from preparing General Purpose Financial Statements at the end of the sunset period.

Question 13

Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

IPA response

We are unable make specific comments on the quantitative costs of the proposals.
