

XX September 2020

Dr. Keith Kendall  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
MELBOURNE VIC 8007

Dear Dr Kendall,

***AASB Exposure Draft 302 Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities***

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on the Australian Accounting Standards Board (AASB) Exposure Draft 302 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities* (ED 302).

APESB is governed by an independent board of directors whose primary objective is to develop and issue, in the public interest, high-quality professional and ethical pronouncements. These pronouncements apply to the membership of the three major Australian professional accounting bodies (Chartered Accountants Australia and New Zealand (CA ANZ), CPA Australia and the Institute of Public Accountants (the IPA)). In Australia, APESB issues APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110) as well as a range of professional and ethical standards, including APES 205 *Conformity with Accounting Standards* (APES 205) and APES 315 *Compilation of Financial Information* (APES 315).

**Overall comments**

APESB has significant concerns about the proposals in ED 302 to require additional disclosures in Special Purpose Financial Statements (SPFS) being imposed on all the entities needed by their constituting or other documents to comply with AAS. These proposals would capture a wide range and size of entities, including large trading trusts, small family trusts, partnerships and self-managed superannuation funds (SMSFs).

APESB does not believe that the proposed additional disclosures are necessary for all of these entities, in particular, for those entities where there are no external users or the only external users are those that can demand specific reports or disclosures (i.e., banks), as these users could request this additional information.

APESB notes there are already prescribed minimum disclosures and requirements to disclose information about accounting policies applied in APES 205 *Conformity with Accounting Standards* and that APES 205 and its predecessor standards have been in existence for almost fifty years. Members of CA ANZ, CPA Australia and the IPA who are involved in, or are responsible for, the preparation, presentation, audit, review or compilation of Special Purpose Financial Statements (SPFS) must take reasonable steps to ensure that the report clearly identifies:

- that the financial statements are SPFS;
- the purpose for which the SPFS have been prepared; and
- the significant accounting policies adopted in the preparation and presentation of the SPFS.

ED 302 does not include research findings that indicate that users of SPFS for entities required to comply with AAS by their constituting or other documents have determined that the disclosure requirements under APES 205 are insufficient. Further, since 2006, APESB has not received feedback from any stakeholder that the disclosure requirements for SPFS in APES 205 are deficient.

We encourage the AASB to undertake research and gather empirical evidence in respect of users of SPFS and their needs, including a cost-benefit analysis of the anticipated costs and benefits of the proposed new disclosures.

We note that the AASB considered whether to include a 'threshold' above which the proposals in ED 302 would be applicable, but ultimately determined that this may be too complex to apply. However, if even after the above research and analysis, the AASB believes additional disclosures are required, then we strongly suggest that a threshold should be determined.

APESB also has some concerns that the costs of the proposals for entities required by legislation to comply with Australian Accounting Standards (AAS) or accounting standards for only one year (i.e., years ending 30 June 2021 and 31 December 2021) will outweigh the benefits due to the temporary nature of these changes. These entities must transition to preparing General Purpose Financial Statements (GPFS) from 2022 onwards (i.e., years ending 30 June 2022 or 31 December 2022) under AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (AASB 2020-2).

## Recommendations

APESB's key recommendations in relation to the proposals in ED 302 for the AASB's consideration are that the AASB:

- re-evaluate the temporary one-year requirement to produce the proposed additional disclosures for entities required under legislation to comply with AAS or accounting standards;
- in respect of entities only required by their constituting or other documents to comply with AAS, undertake research and gather empirical evidence in respect of whether there is a deficiency for users of these SPFS to inform the standard-setting process in this non-legislated environment, including a cost-benefit analysis of these proposals;

## Technical Staff Working Draft

- if the research and analysis listed above do not identify issues in respect of these entities, continue to maintain this non-legislated environment subject to the requirements in APES 205. As noted in this submission, to date we are not aware of any deficiencies being reported with respect to the existing reporting environment for these entities; and
- alternatively, if after the above research and analysis of these entities, the AASB believes additional disclosures are required, then it is strongly recommended that an appropriate threshold be determined. This approach will then mean that only entities above the threshold will provide the additional disclosures.

### Concluding comments

We strongly encourage the AASB to reconsider the impact entities only required by their constituting or other documents to comply with AAS. As our high-level analysis has indicated, there may be somewhere between 300,000 to 1,000,000 entities affected by the proposals, and its annual cost impact is likely to be in the vicinity of \$90m-\$500m in most circumstances where the users can demand the financial information that they require.

We trust you find these comments useful in your final deliberations. Should you require additional information, please contact APESB's Chief Executive Officer, Mr. Channa Wijesinghe, at [channa.wijesinghe@apesb.org.au](mailto:channa.wijesinghe@apesb.org.au).

Yours sincerely

Nancy Milne OAM  
**Chairman**

## APPENDIX A

### APESB's Specific Comments

APESB's responses to the specific matters for comment raised by the AASB on the proposals in ED 302 for the AASB's consideration are as follows:

- 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 more transparency to users of special purpose financial statements and improve the comparability of special purpose financial statements? If not, please provide your reasons.**

APESB does not agree that the proposals in ED 302 should be imposed on all the entities and that this will result in a suboptimal impact on entities where there are no users of financial reports other than the entity and its funders.

#### Entities required by legislation

APESB has some concerns that the costs of the proposals for entities required by legislation to comply with AAS or accounting standards for only a one-year period may outweigh the benefits.

The proposals for entities that are required by legislation to prepare financial statements that comply with AAS or accounting standards will only apply the additional disclosures temporarily for one year (i.e., years ending 30 June 2021 or 31 December 2021) after which these entities will be required to transition to GPFS under AASB 2020-2 from 2022 onwards (i.e., years ending 30 June 2022 or 31 December 2022).

In July 2019, the AASB considered requiring similar additional disclosures under ED 293 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements* (ED 293) for not-for-profits lodging with the ACNC and for-profit entities lodging with ASIC. However, the AASB subsequently deemed that the cost of requiring for-profit entities to include the additional disclosures for just one year before they had to transition to GPFS did not outweigh the benefits.

While we note that the transition to GPFS has been delayed to 2022, APESB does not believe sufficient evidence has been presented that the benefits of the additional disclosures for a one-year period will outweigh the costs associated with preparing these disclosures.

#### Entities required by constituting or other documents

APESB has significant concerns about the proposals for additional disclosures being imposed on all entities required by their constituting or other documents to comply with AAS.

ED 302 states that entities required by their constituting or other documents to comply with AAS, and will continue to be able to prepare SPFS, have no prescribed minimum disclosures or requirements to disclose information about accounting policies applied.<sup>1</sup> However, this statement disregards the requirements in [paragraph 6.1 of APES 205](#) that members who are involved in or are responsible for, the preparation, presentation, audit, review or compilation of SPFS (unless solely for internal purposes) to take reasonable steps to ensure that the report clearly identifies:

- that the financial statements are SPFS;
- the purpose for which the SPFS have been prepared; and
- the significant accounting policies adopted in the preparation and presentation of the SPFS.

APES 205 was first issued in 2007 and replaced Miscellaneous Professional Standard APS1 *Conformity with Accounting Standards and UIG Consensus Views* (APS 1). APS 1 had previously superseded the Institute of Chartered Accountants in Australia (ICAA) Statement K1 *Conformity with Accounting Standards* in 1979, and ICAA Statement K1 was first issued in May 1971. As such, various iterations of a professional standard on conformity with accounting standards have been in existence for almost fifty years.

ED 302 refers to the findings in Research Report No. 12 *Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements* (August 2019), which indicates that disclosures within SPFS on the basis of preparation and extent of compliance with recognition and measurement requirements of AAS were insufficient. We note that this Research Report only focuses on for-profit entities that lodge public financial statements with ASIC, being large proprietary, small foreign-controlled and unlisted public companies and concerns of users of the SPFS of these entities.

However, the AASB has extrapolated these findings more broadly to all entities that prepare SPFS, including those entities that are only obligated by their constituting or other documents to prepare financial statements in compliance with AAS. We believe that the users of SPFS for these entities are different to those lodging with ASIC (which are publicly available documents) and in many instances would be limited to the owners and those who provide funding (such as banks) who are in a position to demand the information that they require (as per examples 2, 3 and 4 in ED 302).

ED 302 does not include research findings that indicate that users of SPFS for entities required to comply with AAS by their constituting or other documents have determined that the disclosure requirements, including those required under APES 205, are insufficient. Further, APESB has not received feedback from stakeholders that the disclosure requirements for SPFS in APES 205 are deficient. Accordingly, mandating such a disclosure based on observations from a substantially different population may lead to suboptimal outcomes for users of financial reports.

The proposals in ED 302 in relation to entities required by their constituting or other documents to comply with AAS would capture a large number and wide range and size of entities, including large trading trusts, small family trusts, partnerships and SMSFs.

APESB is of the view that, generally, the larger and more complex an entity is, there is a greater likelihood of external users of the SPFS. If users are reliant on the additional

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<sup>1</sup> Page 3 and paragraph BC16 of ED 302.

disclosures proposed in ED 302, and cannot demand the information, then the additional disclosures may be warranted. However, the AASB has not provided any research or empirical evidence in ED 302 of the number and breakdown of entities affected by the proposals and the likely users and those users' needs.

APESB is of the view that ED 302 proposals may create an unnecessary regulatory burden to require new disclosures for all entities, including those with either no external users or external users that can demand specific reports or disclosures, who could request this additional information if required on an ad hoc basis. This additional burden may be contrary to the government's desire to reduce red-tape, particularly for small businesses.

APESB notes that ED 302 does not apply to small proprietary companies, which are those with less than \$50m consolidated gross revenue, \$25m consolidated gross assets and 100 employees. Whereas, ED 302 applies to all entities required by their constituting or another document to comply with AAS regardless of size. This would include for example, a family trust with \$200,000 revenue, \$100,000 assets and no employees. It does not appear equitable to require an entity that could be less than 1% of the size of a small proprietary company to disclose additional information.

APESB recommends that the AASB undertake research and gather empirical evidence in respect of whether there is a deficiency for users of these SPFS to inform the standard-setting process in this non-legislated environment, including a cost-benefit analysis of these proposals;

Should this research and analysis not identify issues in respect of these entities, we recommend that this non-legislated environment should be maintained subject to the requirements in APES 205 as no reports of deficiencies have been reported to date.

*Threshold for entities required by constituting or other documents*

Paragraph BC10(c) of ED 302 notes that the AASB considered when developing these proposals as to whether a 'threshold,' such as for large proprietary companies, should be applied to limit the entities to which the proposed additional disclosures will apply to. However, the AASB decided that this would be too complex to apply and would result in exemptions for entities that are already subject to exemptions (paragraph BC11(b) of ED 302).

APESB recommends that if after the above research and analysis, the AASB believes additional disclosures are still required, then it is strongly recommended that an appropriate threshold be determined. This approach will then mean that only entities above the threshold will provide the additional disclosures.

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**

APESB has some concerns that the costs of imposing the proposed new disclosures on for-profit entities required by legislation to comply with AAS or accounting standards may outweigh the benefits, as this is a temporary measure that only applies for one year in 2021 (refer to further comments on Question 1 above).

- 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.**

APESB has significant concerns about the proposed new disclosures being imposed on all entities required only by their constituting or other documents to comply with AAS (refer to further comments on Question 1 above).

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

- a. **The basis for the preparation of the special purpose financial statements (see proposed new paragraph 9C(a));**

APESB is of the view that members who are involved in, or are responsible for, the preparation, presentation, audit, review or compilation of SPFS are already required to take reasonable steps to ensure that the report clearly identifies this information. Paragraphs 6.1(a) and (b) of APES 205 requires that the report clearly identifies that the financial statements are SPFS and the purpose for which the SPFS have been prepared (except where the SPFS is solely for internal purposes).

- 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 9C(c));**

APESB is of the view that members who are involved in, or are responsible for, the preparation, presentation, audit, review or compilation of SPFS are already required to take reasonable steps to ensure that the report clearly identifies this information. Paragraph 6.1(c) of APES 205 requires that the report clearly identifies the significant accounting policies adopted in the preparation and presentation of the SPFS (except where the SPFS is solely for internal purposes).

- c. **information about the consolidation or non-consolidation of subsidiaries and accounting for associates and joint ventures (see proposed new paragraph 9C(d));**

As detailed in Question 3b above, paragraph 6.1(c) of APES 205 requires that the report clearly identifies the significant accounting policies adopted in the preparation and presentation of the SPFS (except where the SPFS is solely for internal purposes). Therefore, if an entity consolidates subsidiaries and accounts for associates and joint ventures, it is highly likely this would be a significant accounting policy required to be disclosed.

APESB has significant concerns about the proposed new disclosures being imposed on all entities required only by their constituting or other documents to comply with AAS (refer to further comments on Question 1 above).

- 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 disclose an indication of how they do not comply) (see proposed new paragraph 9C(e)); and**

APES 205 does not require this specific disclosure. APESB has significant concerns about the proposed new disclosures being imposed on all entities required only by

their constituting or other documents to comply with AAS (refer to further comments on Question 1 above).

- e. **an explicit statement as to whether or not the financial statements overall comply with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) (see proposed new paragraph 9C(f))?**

APES 205 does not require this specific disclosure. APESB has significant concerns about the proposed new disclosures being imposed on all entities required only by their constituting or other documents to comply with AAS (refer to further comments on Question 1 above).

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.**

APESB agrees that examples 1 to 4 in ED 302 appropriately illustrate the application of the proposed disclosure requirements.

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 explain why.**

As noted above, APESB has some concerns that the costs of these proposals would outweigh the benefits in requiring this for a one-year period in relation to the entities required by legislation to comply with AAS or accounting standards.

APESB has significant concerns about the proposed new disclosures being imposed on all entities required only by their constituting or other documents to comply with AAS (refer to further comments on Question 1 above).

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

APESB agrees that this is not necessary. If the entity has subsidiaries, investments in associates or joint ventures they would be required under proposed paragraph 9C(d) of ED 302 to disclose whether they have complied or not with AASB 10 Consolidated Financial Statements and/or AASB 128 Investments in Associates and Joint Ventures. Therefore, by default, if the entity does not have such interests, it would not need to make any disclosure in this regard, and requiring them to make this disclosure would be redundant.

7. **Do you have any other comments on the proposals?**

APESB has no further specific comments.



## APESB's General Comments

APESB's responses to the general matters for comment raised by the AASB on the proposals in ED 302 for the AASB's consideration are as follows:

### 8. **Whether the AASB's For-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft?**

Paragraph 12 of the AASB's For-Profit Entity Standard-Setting Framework (AASB For-Profit Framework) states:

*The AASB currently does not set standards for special purpose financial statements (SPFS), as these financial statements should only be prepared where users can tailor the SPFS to their own information needs, and therefore do not need a standard setter or regulator to require the information for them.*

However, the proposed additional disclosure requirements are part of a 'standard' for SPFS, which is contrary to the above.

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

Paragraph 17 of the AASB For-Profit Framework states:

*Enforcement of preparation of financial statements and compliance with accounting standards is the responsibility of other regulators (e.g., Australian Securities and Investments Commission). It is not the responsibility of the AASB.*

APESB is of the view that if the proposals are imposed on all entities required only by their constituting or other documents to comply with AAS, not only will it result in an unnecessary regulatory burden, but this could result in a regulatory and monitoring gap. That is, there is no entity such as ASIC to regulate compliance, meaning any monitoring of compliance would fall on the professional bodies over what would be a significant number of entities.

### 10. **Whether the proposals create any auditing or assurance challenges?**

For entities that require an audit, as the financial statements will include additional disclosures, these will have to be audited as well, which will increase the cost of the audit. APESB recommends that the AASB consider this additional cost when undertaking a cost-benefit analysis of the proposals.

### 11. **Whether, overall, the proposals would result in special purpose financial statements that would be more useful to users?**

APESB is of the view that, generally, the larger and more complex an entity is, there is a greater likelihood of external users of the SPFS. If users are reliant on the additional disclosures proposed in ED 302, then they may be warranted. However, the AASB has not provided any research evidence in ED 302 of the number and breakdown of entities affected by the proposals, the likely users and their needs or that APES 205 requirements are deficient. As such, APESB makes no comment on whether the proposals would result in SPFS that would be more useful for users.

**12. Whether the proposals are in the best interests of the Australian economy?**

The AASB has not provided evidence of the number and type of entities that will be affected by the proposals, the users of SPFS for these entities, whether there is a deficiency for the users of SPFS, and how the proposals are rectifying any deficiency. Without this evidence, the APESB does not believe that the proposals are in the best interests of the Australian economy as the costs would likely outweigh the benefits of:

- requiring those entities required by legislation to comply with AAS or accounting standards for a one-year period before they are required transition to GPFS;
- making all entities required by their constituting or other documents to comply with AAS include the proposed new disclosures, particularly where there are either no external users or external users that can demand specific reports or disclosures, who could request this additional information if required on an ad hoc basis.

**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.**

APESB recommends that the AASB undertake a cost and benefits analysis of the proposals, including determining:

- the number and types of entities that are impacted. The AASB Staff Paper [Agenda Item 3.1](#) from the April 2020 AASB Board meeting states that staff expected more than 359,000 entities would be affected but were unable to quantify the number of other affected entities, including partnerships, joint arrangements and SMSFs. Based on information on the [ATO website](#), there are almost 600,000 SMSFs in Australia;
- the potential additional costs, such as external accounting fees and potentially audit fees, of making the disclosures at the outset and on an ongoing annual basis; and
- the anticipated benefit of the proposed new disclosures particularly where there are either no external users or external users that can demand specific reports or disclosures.

Based on the above, there may be somewhere between 300,000 to 1,000,000 entities affected by the proposals. If the additional annual costs were between \$300 and \$500 per entity, the impost of the proposals could range from **\$90m** to **\$500m** per annum. Without an understanding or quantification of the expected benefits of the proposals, it is unclear whether the costs are warranted.

ED 302 states at paragraph BC25 that the AASB did not expect the disclosures to be onerous, and entities had the option to amend their constituting, or other documents do not refer to compliance with AAS to avoid having to do the disclosures. However, APESB believes changing constituting documents could result in significant legal/accounting fees and potentially unintended tax consequences such as capital gains tax.