

15 August 2022

Mr Channa Wijesinghe
Chief Executive Officer
Accounting Professional & Ethical Standards Board Limited
Level 11, 99 William Street
MELBOURNE VIC 3000

via email: sub@apesb.org.au

Dear Channa

APESB Exposure Draft 03/22 Proposed Standard: APES 205 Conformity with Accounting Standards

Deloitte is pleased to respond to the Accounting Professional & Ethical Standards Board ('APESB' or 'Board') Exposure Draft 03/22 Proposed Standard: APES 205 Conformity with Accounting Standards (the 'Exposure Draft').

We appreciate the opportunity to comment on the Exposure Draft and welcome the Board's action in this area. We are supportive of the Board aligning professional requirements with recent changes to Australian Accounting Standards to ensure Members are aware of those changes when they prepare, present, audit, review or compile financial statements.

However, we believe that the proposals could be further enhanced by more closely aligning the requirements of APES 205 Conformity with Accounting Standards (APES 205) with the requirements of Australian Accounting Standards. We believe that the proposals in the Exposure Draft could lead to confusion among preparers and users of special purpose financial statements, and may result in inconsistency between SPFS prepared under different frameworks.

While we acknowledge that there are differences between SPFS due to their very nature, APES 205 has to date ensured consistency in critical disclosures in financial statements and we recommend the Board consider retaining this objective and outcome. Accordingly, we do not support extending the exemption from the SPFS disclosure requirements beyond the existing exemption in APES 205 for SPFS to be used solely for internal purposes.

Additionally, the proposed requirement to retain the reference to "significant accounting policies" rather than "material accounting information" is likely to create difficulties in interpretation, particularly in the medium term as the "significant accounting policies" concept is eliminated from accounting concepts globally.

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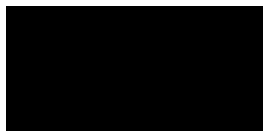
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Our detailed comments on the specific matters for comments are attached in Appendix A and other comments for the Board to consider in Appendix B.

Please contact me at +61 2 9322 5304 or aliswhite@deloitte.com.au if you wish to discuss any of our comments.

Yours sincerely



Alison White
Partner

APPENDIX A – RESPONSE TO REQUESTS FOR SPECIFIC COMMENT

Request for Specific Comment 1–Do you agree with the APESB's approach to not amend subparagraphs 6.1(b) and (c) of APES 205 to align to the terminology in the AASB's SPFS disclosure requirements? Please provide reasons and justification for your response.

Whilst we acknowledge and understand the Board's rationale for not amending subparagraphs 6.1(b) and (c) of APES 205, we do not agree with the proposal.

We believe that the requirements of APES 205 Conformity with Accounting Standards (APES 205) should be consistent with the requirements of Australian Accounting Standards. We believe that the proposals in the Exposure Draft could lead to confusion among preparers and users of special purpose financial statements, and may result in inconsistency between SPFS prepared under different frameworks.

We appreciate that the disclosures required in SPFS in accordance with AASB 1054 Australian Additional Disclosures are more extensive than required by APES 205. We do not believe it is necessary for APES 205 to fully align with all of the requirements in AASB 1054, but believe where there is commonality in required disclosures, the wording should be consistent. Set out below are our suggested treatment of the various disclosure requirements of AASB 1054 (for for-profit entities):

AASB 1054 requirement	Suggested approach in APES 205
Statutory basis or other reporting framework, if any, under which the financial statements are prepared, and the basis on which the decision to prepare SPFS was made	This is equivalent to the purpose for which the SPFS have been prepared required under paragraph 6.1(b) of APES 205 and accordingly, we do not expect any implications in practice if the wording in APES 205 was aligned with AASB 1054.
Information about the material accounting policies applied in the SPFS, including information about changes in those accounting policies	This is more explicit than the current requirements in paragraph 6.1(c) of APES 205, particularly the requirement to discuss information about changes in accounting policies. We would support adopting (simplified) language that is consistent with the wording with AASB 1054 so that entities within the scope of the AASB 1054 requirements could meet both requirements simultaneously.
Disclosures regarding compliance with the recognition and measurement requirements of Australian Accounting Standards	Whilst this disclosure is supportable for entities exempted from the requirement to prepare general purpose financial statements under Australian Accounting Standards, due to the broad range of SPFS that might be prepared in accordance with APES 205 only, we do not suggest that equivalent requirements be introduced into APES 205.
Information about consolidation and equity accounting where the entity has interests in other entities	We believe that this information would be useful in some form in all SPFS. The AASB's research when developing AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities indicated clear deficiencies in reporting the basis of preparation in SPFS. The Illustrative Examples to AASB 1054 indicate that "information about the accounting for subsidiaries and investments in associates and joint ventures is fundamental for a user's understanding of the scope of the financial statements". For this reason, we believe this information could be useful to include in SPFS to which APES 205 is applied.

We recommend the Board consider the above suggestions in finalising the proposals in the Exposure Draft.

Request for Specific Comment 2—Do you agree with the APESB's approach to not amend subparagraphs 6.1(c) of APES 205 to align to the terminology in AASB 2021-2 and AASB 2021-6? Please provide reasons and justification for your response.

We suggest that the Board reconsider this proposal.

The proposal to retain the reference to “significant accounting policies” rather than “material accounting information” could:

- Create difficulties and diversity in interpretation, particularly as the “significant accounting policies” concept is eliminated from accounting concepts in general purpose financial statements in Australia and globally
- Require preparers to develop additional knowledge to apply the concept of “significant accounting policies” only for the purposes of SPFS prepared in accordance with APES 205, which will become more acute as time progresses
- Result in more voluminous and non-specific accounting policy disclosure being included in SPFS when compared to general purpose financial statements prepared under Australian Accounting Standards, which may be counterintuitive and unhelpful to users of SPFS.

Accordingly, we recommend that the Board consider introducing the “material accounting policy information” concept into APES 205 in a manner suggested in our response to Request for Specific Comment 1 above.

Request for Specific Comment 3—Do you believe there are other entity types than those listed in proposed paragraph 6.2 of APES 205 that should be scoped-out of the SPFS disclosure requirements in APES 205? Please provide reasons and justification for your response.

While we acknowledge that there are differences between SPFS due to their very nature, APES 205 has to date ensured consistency in critical disclosures in financial statements and we recommend the Board consider retaining this objective and outcome. The proposals would also result in different requirements for for-profit and not-for-profit entities which may cause additional uncertainty in application.

We believe the requirements should be straightforward so to be easy to understand and apply. Creating complexity in the scope of the SPFS disclosure requirements in APES 205 to mirror the manner in which the Australian Accounting Standards Board has implemented the removal of SPFS for the majority of for-profit private sector entities may cause confusion among preparers. Due to the vast array of non-legislative reporting mandates encountered in practice, we have also seen complexity in applying the scope of the SPFS disclosure requirements in AASB 1054 (and the entities impacted by AASB 2020-2) and this complexity would then be also introduced into APES 205 if the Exposure Draft proposals were implemented. This could undermine the Board's objective of not imposing additional compliance costs on preparers of SPFS prepared in accordance with APES 205.

Accordingly, we do not support exempting some SPFS from the requirements in APES 205 and do not believe any exemption proposals should be extended in scope. This ensures that preparers of SPFS are aware they must comply with APES 205 in all SPFS, except the current exemption for SPFS to be used solely for internal purposes.

However, we would support the Board including commentary in the finalised pronouncement to the effect that entities that are required to comply with the relevant disclosures in AASB 1054 would simultaneously meet the requirements of APES 205.

APPENDIX B – OTHER COMMENTS

In addition to our comments elsewhere in this letter, we wish to bring the following matters to the Board's attention.

Member's responsibilities in respect of general purpose financial statements

We believe the Board should consider whether specific requirements should be introduced or noted in APES 205 in respect of member's responsibilities where an entity is required to prepare general purpose financial statements under an Australian legislative or non-legislative requirement.

APES 205 currently has requirements in respect of the reporting entity concept and where general purpose financial statements are purported as complying with the Australian Financial Reporting Framework, and in respect of departures required by legislation, ministerial directive or other government authority that requires a departure from Australian Accounting Standards. However, it does not impose a positive obligation on members to ensure that general purpose financial statements are prepared when required by legislation, ministerial directive or other government authority, or in respect of non-legislative requirement to prepare financial statements in accordance with Australian Accounting Standards (unless exempted by those standards).

Other matters

We wish to draw the Board's attention to the following editorial suggestions:

- We believe that the footnotes attached to references to SAC 1 Definition of the Reporting Entity could also be applied to the definition of Reporting Entity
- The Board could give consideration to changing the definitions of Reporting Entity and General Purpose Financial Statements to be references to relevant pronouncements where those items are defined (i.e. SAC 1 and the two Conceptual Frameworks currently in place). This would eliminate the potential for differences in definitions.