



The Institute of Public Accountants

**Submission to AASB:  
ED 277-RDR**



**IPA** INSTITUTE OF PUBLIC  
ACCOUNTANTS

*Partnership beyond numbers*

**June 2017**

7 June 2017

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

Dear Chris

### **Exposure Draft 277 Reduced Disclosure for Tier 2 Entities**

#### **Introduction**

Thank you for the opportunity to comment on the Exposure Draft 277 *Reduced Disclosure for Tier 2 Entities*.

While the Institute of Public Accountants (IPA) supports the Board pursuing the concept of differential reporting, we are not convinced that Reduced Disclosure Regime (RDR) and the proposed amendments represents the most effective means of doing.

#### **Need to start with public accountability**

The IPA is of the opinion that the issue of differential reporting needs to be addressed not by initially creating "Tier 2" general purpose financial statements, but rather starting with the concept of public accountability.

The IPA considers the current definition of public accountability in AASB 1053 *Application of Tiers of Australian Accounting Standards* to not reflect a broad enough concept of public accountability.

This narrow definition together with the abuse of the reporting entity concept and special purpose financial reports has, in the IPA's opinion, contributed to a decreased trust in public and private entities and increased agency risk.

The IPA's view is the need to support good governance and transparency must be a consideration in the determination of public accountability. From a public accountability basis, the emphasis should not necessarily be simply on shareholders who have a direct economic exposure, but should also include other users such as:

- Users or other consumers of a service e.g. members of an organisation
- Taxpayers where the entity has been granted licences by governments or are the beneficiaries of government contracts or concessions, and
- Taxpayers in relation to bodies that can influence governments and parliament e.g. political parties, industry and union related entities and lobby groups.

In determining public accountability factors that need to be considered include:

- The nature of the entity – i.e. entities of public interest e.g. charities, industry organisation, trade unions, political parties and lobby groups and their affiliated entities

- Entities that have received licences or service concessions from any level of government e.g. broadcasting licences, gambling licences, concessions to operate toll roads, hospitals or other public infrastructure or services
- Entities that receive significant funds from the government either by way of grant or government contracts e.g. charities and other not-for-profit entities
- The spread of shareholders or members – where there is a larger diverse shareholder or member base the agency risk is greater, and
- Disclosing entities other than listed entities.

As the nature, activities and users of publicly accountable entities is diverse an appropriately layered approach to differential reporting is required to ensure that transparency and governance objectives for the various user groups are achieved without excessive burden for the preparers.

### **Accountability deficiency in current standards**

It is the IPA's opinion that the responsibility for promoting governance and transparency through financial reporting rests primarily with the AASB. While there have been regulatory and audit failure in the application of the reporting entity concept and the use of special purpose financial reporting, the IPA is of the view the lack of a layered differential reporting regime has contributed to the current poor reporting outcomes.

In addition, the IPA is of a view that the current body of IFRS standards and hence AASB standards are deficient when it comes to promoting governance and transparency. In particular, we are of the opinion AASB 124 *Related Party Disclosures* is weak not only in relation to the requirements for related parties but also disclosures for Key Management Personnel. While the Corporations Act provides extensive requirements for listed entities, many other entities are subject to the scant reporting requirements of AASB 124 which are insufficient to support transparency and good governance and exacerbate agency risk.

The IPA also has a view the current disclosure requirements in relation to the transactions with government (primarily AASB 120 Accounting for Government Grants and Disclosure of Government Assistance) is inadequate due to its limited scope. The IPA does not support the proposition that IASB standards cannot be amended or supplemented at least in respect to disclosures. The IPA believes the AASB has a responsibility to Australian users that sufficient disclosures are incorporated in financial reporting to support good governance and transparency.

### **RDR should not detract from preparers and auditor decision making**

The IPA also considers that the application of the concept of materiality and user-decision making (under the Framework) by preparers and auditors, in the individual entity circumstances, should not be undermined by the RDR generalised and arbitrary checklist approach to disclosure for certain types of entities.

We would rather the AASB concentrate on educating preparers and users on the appropriate application of the Framework and the forthcoming materiality guidance rather than giving them a flawed checklist approach to disclosures considerations.

While RDR does make financial reporting compliance easier for preparers (and auditors), it does so at the expense of users of financial reports.

## Conclusion

In summary, the IPA would prefer a more nuanced approach to differential reporting than is proposed in the draft policy statement and believes enhancements are required to AASB disclosures to support good governance and transparency.

Our 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](mailto:stephenlagreca@aol.com)) or Mr Colin Parker ([colin@gaap.com.au](mailto:colin@gaap.com.au)) (a former member of the AASB), GAAP Consulting.

Yours sincerely



Vicki Stylianou  
Executive General Manager, Advocacy & Technical  
Institute of Public Accountants

## About the IPA

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 80 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting our members, the profession and the public interest. The IPA merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.

## Appendix

### Question 1

*Do you agree the overarching principles on which the RDR decision-making framework identified in the proposed joint policy statement is based (user needs and cost)? If you disagree, please explain why (see [draft] joint Policy Statement paragraph 6 of this ED).*

### IPA Response

As we note in our covering letter we believe the issues of transparency and governance need to be considered in determining differential reporting requirements. While we agree with the broad context of user needs, the IPA is of the view user needs should include the requirement for transparency. Furthermore, disclosure requirements need to be viewed within the context of those needed to reinforce good governance.

### Question 2

*Do you agree with the two Key Disclosure Areas identified in the proposed joint Policy Statement as being essential for meeting user needs? If you disagree with either Key Disclosure Area (identifying any specific disclosures about transactions and other events significant or material in understanding the entity's operations as represented by the financial statements) please explain which one(s) you disagree with and why? (see [draft] joint Policy Statement paragraph 8 to this ED).*

### IPA Response

As indicated in our response to Question 1 and our covering letter, the IPA believes any disclosure requirements need to be framed in the overall context of governance and transparency. As the IPA is of the opinion the disclosure framework of RDR does not adequately deal with governance and transparency, the IPA is not satisfied the Key Disclosure Areas are sufficient.

### Question 3

*Do you agree with the proposed joint Policy Statement as a whole for determining Tier 2 entities? If you disagree, please explain why (see [draft] joint Policy Statement to this ED). In relation to the proposed joint Policy Statement, the AASB is particularly seeking to know whether the disclosures required for not-for-profit entities are appropriate relative to disclosures of for-profit-entities.*

### IPA Response

As we note in our covering letter, while the IPA supports the concept of differential reporting, the IPA is unconvinced that RDR represents the best way to implement differential reporting and therefore does not support the proposed joint Policy Statement.

#### **Question 4**

*Do you agree with the approach in the proposed joint Policy Statement taken by the AASB regarding disclosures about accounting policies? If you disagree, please explain why (see [draft] joint Policy Statement paragraph Aus12.1 to this ED).*

#### **IPA Response**

The IPA agrees with the approach at paragraph Aus12.1 of the draft joint Policy Statement.

#### **Question 5**

*Do you agree with the approach in the proposed joint Policy Statement taken by the AASB regarding guidance for disclosure requirements? If you disagree, please explain why (see [draft] joint Policy Statement paragraph Aus25.1 to this ED).*

#### **IPA Response**

Subject to the IPA's overall concerns relating to the RDR disclosure framework, the IPA agrees with the approach at paragraph Aus25.1 of the draft joint Policy Statement.

#### **Question 6**

*Do you agree with the approach in the proposed joint Policy Statement taken by the AASB regarding cross-reference to other standards that are general rather than specific? If you disagree please, explain why (see [draft joint Policy Statement paragraph Aus29.1 of this ED).*

#### **IPA Response**

The IPA agrees with the approach at paragraph Aus29.1 of the draft joint Policy Statement.

#### **Question 7**

*Do you agree with the outcome of the application of the proposed joint Policy Statement to the disclosure requirements in Australian Accounting Standards to determine the disclosures that Tier 2 entities should be required to provide? (see proposed Tier 2 Disclosures) If you disagree with the outcome, please identify, with reasons:*

- (a) Which disclosures that are identified as requirements that you believe Tier 2 entities should not be required to provide; and*
- (b) Which disclosures that are identified as concessions that you believe Tier 2 entities should be required to provide.*

#### **IPA Response**

As noted in our covering letter the IPA would prefer a more nuanced approach to differential reporting. We do not think the proposed joint Policy Statement would result in a disclosure regime that would promote transparency and good governance. We are also of the view that certain disclosure requirements to support the objectives and good governance are absent in the base AASB standards and hence RDR.

## Question 8

*Which approach do you prefer for identifying RDR for Tier 2 entities:*

- (a) The approach taken in this ED with the Proposed Tier 2 Disclosures to include an Australian Appendix to each Australian Accounting Standard that identifies the disclosures that Tier 2 entities are required to provide; or*
- (b) Use the approach taken in the New Zealand ED to use an asterisk (\*) for disclosures that are not required and explaining partial paragraphs by means of an RDR paragraph? The approach taken in the New Zealand ED is illustrated in Appendix A to this ED.*

## IPA Response

The IPA prefers the approach taken in the ED i.e. the Australian approach. However, the IPA would consider an approach with a separate RDR standard as an acceptable alternative.

## Question 9

*Do you agree that when an Australian Accounting Standard does not have separate sections for disclosure and presentation requirements, both presentation and disclosure requirements are included in the Australian Appendix to each Australian Accounting Standard that identifies the disclosures that Tier 2 entities are required to provide? If you disagree, please explain why.*

## IPA Response

The IPA agrees that both presentation and disclosure requirements be included in the Australian RDR appendix of Australian Accounting Standards.

## Question 10

*Do you agree that, once approved, the amended Tier 2 disclosure requirements should be effective for annual periods beginning on or after 1 January 2019 with early application permitted? Early application is permitted for periods beginning on or after 1 January 2018 (with early adoption of the amended Tier 2 disclosures in AASB 140 Investment Properties when an entity first applies AASB 16 Leases), with AASB 101 Presentation of Financial Statements, AASB 107 Statement of Cash Flows and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors as revised by this [draft] Standard applied at the same time an entity applies a standard that is revised by this [draft] Standard.*

## IPA Response

The IPA supports the proposed operative date of the amended Tier 2 disclosure requirements.

## Question 11

*The Exposure Draft does not propose any specific transition requirements. Do any issues warrant transitional provisions and, if so, what transitional provisions do you suggest?*

## IPA Response

The IPA does not believe any transition requirements are necessary.

## Question 12

*Do you think that when approved, the amended Tier 2 disclosures would encourage eligible entities that currently?*

- (a) Prepare Special Purpose Financial Statements to prepare Tier 2 General Purpose Financial Statements; and*
- (b) Prepare Tier 1 General Purpose Financial Statements to prepare Tier 2 General Purpose Financial Statements.*

## IPA Response

The IPA expects that while the revised RDR disclosures will be more attractive to those entities required to prepare general purpose financial statements and are able to take advantage of RDR, the IPA does not believe RDR will be attractive to entities that have the option to produce special purpose financial statements.

## Question 13

*Whether:*

- (a) There are any regulatory or other issues arising in the Australian environment that may affect the implementation of the proposals by not-for-profit entities, including any issues relating to public sector entities, such as GAPP/GFS implications?*
- (b) Overall, the proposals would result in reporting that would be useful to users;*
- (c) The proposals are in the best interests of the Australian economy?*

*Unless provided in response to the matters for comment 1-12 above, the costs and benefits of the proposals relative to the current Australian Accounting Standards, 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 existing requirements.*

## IPA Response

The IPA is unaware of any regulatory or other issues that may affect the implementation of the proposals for not-for-profit entities.

As the IPA has mentioned in our covering letter we do not necessarily believe the proposals are in the best interests of users and also not necessarily in the best interests of the Australian economy as a whole.

\*\*\*\*\*