

Reporting Entities, Non-Reporting Entities and the Reduced Disclosure Regime

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Background

Most entities would rather be non-reporting entities when it comes to preparing their accounts as the preparation of the accounts is much simpler and easier to do. Simpler and easier accounts preparation was the reason that reduced disclosure regime was introduced a while back, and which can be applied now. This Paper reviews the new regime and discuss the circumstances in which entities will or will not be reporting entities, including:

The definition of reporting entity and the differences in preparing accounts for reporting and non-reporting entities – general purpose vs. special purpose accounts

Determining whether entities are reporting entities

- Large proprietaries
- Other unlisted entities
- Not for profits and charities

The role of the auditor in auditing non-reporting entity status

The reduced disclosure regime

To which entities will it apply and from when?

The nature of the reduced disclosures – a detailed review

Auditing reduced disclosures

1. Introduction

The Australian Accounting Standards Board's(AASB) attempt to provide relief from reporting requirements for the non-listed company market is Accounting Standard AASB 1053 'Application of Tiers of Australian Accounting Standards' and is better known as the RDR (Reduced Disclosure Requirements). AASB 1053 was issued in June 2010 and can be applied early (i.e. 30 June 2010 financial statements), although its actual application date is financial reporting periods commencing as from 1 July 2013. However given that the RDR standard is just an option for reporting entities that are not publicly accountable (i.e. essentially other than listed companies) the actual application date is irrelevant.

In this Program we will look at the financial reporting requirements that can be applied by various organisations and proposals to further reform the financial reporting landscape.

For 30 June 2013 financial reporting periods, there are no changes from what applied in 2012, although there are options to reduce the 'clutter' in financial statements by adopting the RDR, or for non-reporting entities to just adopt the A4 AASB disclosure accounting standards.

At this time there is no requirement to follow the ASIC thinking of applying all the recognition and measurement requirements of the AASBs as there has been no change in the application paragraphs of the AASB accounting standards. In particular the newish Australian Charities and Not-for-profits Commission (ACNC) dispels the ASIC view by clearly stating that non-reporting Charities do not need to apply recognition and measurement!

The on-going research into Differential Reporting, or as some commentators have stated – how to get rid of non-reporting simplified accounting, rolls on with the AASB forming the view that the reporting entity concept is being applied inconsistently and funding some academic research to support this argument. Others argue that the AASB, ASIC and the academic research has fundamentally misinterpreted the Reporting Entity concept and tried to apply guidance based on economic factors, instead of considering just what the definition is all about – are there users who demand high quality financial statements? To date there has been little criticism from the users, so is there an issue? The AASB is also conscious that forcing non-reporting entity companies to adopt AASB accounting standards, even in RDR guise, will significantly add to costs of preparation and audit, and given the debate about reducing red tape compliance costs, major reform is likely to be some years away, and will probably be overtaken by the 2013 Commonwealth Election given that both major political parties are embracing reducing un-necessary compliance costs by cutting red tape and simplifying business costs which is a mantra for non-reporting entity accounting. Even the Parliamentary Secretary Bernie Ripoll on 23/7/2013 stated that as part of the Government's review of dividend payment rules for companies:

“And lastly, stakeholders expressed concern that the requirement for companies to calculate assets and liabilities with reference to accounting standards increases the regulatory burden on non-reporting entities that are not otherwise required to adhere to accounting standards. Submissions on the exposure draft Bill closed in March. The Government received extensive feedback from a range of stakeholders, including professional associations and advisory bodies. We are carefully considering all the submissions. In particular, I consider there is scope to further refine the dividends test, and to simplify its operation.”

2. Reporting Entity

A reporting entity is defined as an entity where it is reasonable to expect the existence of users dependent on general purpose financial reports (which adopt most of the requirements of AASB accounting standards) for information which will be useful to them for making and

evaluating decisions about the allocation of scarce resources (refer to References – AASB Glossary).

(a) Publicly accountable entities

A publicly accountable entity is defined as an entity whose equity or debt is or is due to be listed on a stock exchange or it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks. (refer to References – AASB Glossary). So essentially listed entities or major financial institutions.

(b) Non-publicly accountable entity

A non-publicly accountable entity that is a reporting entity is by definition other than a publicly accountable reporting entity. It has the option of either adopting all the AASB accounting standards (excluding the non-applicable governmental standards – AASB 1049-1052 and AASB 1054) and listed specific standards – AASB 133 earnings per share and AASB 134 interim financial statements) or it can at its option choose the RDR accounting standards that have significantly reduced disclosures but still full recognition and measurement AASB standards requirements.

The RDR is based on the International Accounting Standards Board's (IASB) IFRS for SMEs accounting standard but without the recognition and measurement simplifications, and with some additional disclosures given that the AASB still requires full recognition and measurement. It is estimated (BDO March 2010 survey) that compared to the full AASB standards which have around 1550 disclosures, the RDR has around 625 disclosures so a 60% reduction. However the IFRS for SMEs accounting standard has only 325 disclosures (80% reduction), and the AASB disclosure only accounting standards that non-reporting entities can use have only 185 (88% reduction) disclosures.

(c) Public Sector

Whilst in theory the RDR could be followed, the Commonwealth, State and Local Governments have yet to embrace the RDR so it is all the AASB accounting standards that need to be followed, plus the specific government accounting standards (AASB 1049-1052 & AASB 1055).

3. Non-Reporting Entities

(a) Companies that are Charities

Although the ACNC is now in operation, the 30 June 2013 financial reporting requirements remain under the Corporations Act so no change, although an ACNC registered Charity is required to lodge a simple Annual Information Statement (refer to References - ACNC for details).

For financial periods commencing as from 1 July 2013 (i.e. 30 June 2014 balancers) ACNC Charities are covered by the new ACNC financial Reporting Regulations, however they effectively grandfather the current AASB accounting standards framework. One important distinction though is that the ACNC has stated that the recognition and measurement provisions of the AASB accounting standards, do not have to be applied by non-reporting

entities. This is contrary to what the Australian Securities and Investments Commission (ASIC) has argued, and simply reflects the reality that ASIC's view on recognition and measurement is not applied in practice. This also has implications for any future reform of Not-for-profit (NFP) financial reporting requirements, as the AASB has stated that it is not interested in any non-reporting entities.

(b) Other Companies

(i) Small Proprietary Companies

The Corporations Act does not have any financial reporting requirements and whilst the Australian Professional & Ethical Standards Board (APESB) has APES 205 Conformity with Accounting Standards which members of the accounting bodies are required to follow it is an un-regulated market. In theory APES 205 requires non-reporting entities to adopt the AASB disclosure accounting standards being AASB 101 Presentation, AASB 107 Cash Flow, AASB 108 Accounting Policies, and AASB 1054 Additional Disclosures – i.e. general or special purpose, audit fees and dividend imputation details).

(ii) Large Proprietary Companies and Public Companies

Provided that these companies are non-reporting entities, the only specific AASB applicable accounting standards are: AASB 101, 107, 108 and 1054.

ASIC argues that all the recognition and measurement requirement of the AASB need to be followed in order for a 'true and fair view' to be given, but as the AASB academic research has confirmed, such a view is not followed by many non-reporting entities in practice, and ASIC as not tried to enforce its view, most probably because it is not legally enforceable, given that it is the AASB accounting standards that set out the enforceability, and the recognition and measurement AASBs are clearly identified in each of the accounting standards as only being applicable to reporting entities. Again the ACNC has adopted this approach by specifically stating that the recognition and measurement provisions of AASB accounting standards do not apply to non-reporting Charities.

(c) Non-corporate entities

As with small proprietary companies, unless there are specific governing rules in their constitution or specific legislative requirements, then there is a free choice as to what financial reporting TVED paper

4. Should the RDR be adopted for Reporting entities that are non-publicly accountable?

Unless there is a need for the entity to stay with all the AASB disclosures and that would generally only be if the entity is considering a stock exchange listing in the next year and hence needs comparatives, there is good reason to adopt the RDR and get rid of a lot of the clutter that is contained in the AASBs (up to 60% according to the BDO Survey).

However it is estimated that less than 5% of eligible entities, have made the decision to adopt the RDR option. Why, well that illustrates the reality that the significant savings in financial reporting is not so much the disclosures but more the complicated recognition and measurement rules contained in the AASBs. The reason that the IASB brought in the IFRS for SMEs accounting standard, is that the full IFRS framework (AASBs) are only relevant for

capital markets and hence publicly accountable listed entities. IFRS for SMEs is or has been adopted by some 85 countries, it will apply in the UK from 2015, and even the US is considering simplified recognition and measurement rules when it starts to issue accounting standards for non-SEC listed entities. Why hasn't Australia allowed significantly reduced financial reporting requirements, is a good question!

5. The RDR accounting standards

As stated earlier, the RDR disclosures are broadly the IFRS for SMEs disclosures but with some additional Australian requirements that the AASB has added as it still requires recognition and measurement. The AASB's website contains the text of each of the RDR accounting standards and has a shaded section that

6. The role of the auditor in a differential reporting environment

essentially the auditor needs to be satisfied with the directors' view that an entity is a reporting or non-reporting entity and therefore the financial statements comply with the applicable AASB accounting standards. There are no particular issues that an auditor faces in auditing RDR financial statements, as the disclosures are just less than what the auditor has dealt with in a full AASB accounting standards environment.

For non-reporting entities that are preparing special purpose financial reports, Statement of Australian Auditing Standards ASA 800 Special Considerations – Audits of Financial Reports prepared in accordance with Special Purpose Frameworks requires the auditor to include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial report is prepared in accordance with a special purpose framework and that, as a result, the financial report may not be suitable for another purpose.

7. References

Shading added for ease of reference!

1. AASB

AASB's Glossary of Defined Terms

http://www.aasb.gov.au/admin/file/content102/c3/AASB_Glossary_30_September_2012.pdf

general purpose financial report/statements

A financial report/statement intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs. AAS 25.10, SAC 1.6, SAC 2.5

special purpose financial statements (referred to as 'financial statements')

Financial statements other than general purpose financial statements. AASB 101.Aus7.1, AASB 1054.6

reporting entity

An entity (including an economic entity) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources. AAS 25.10, SAC 2.5, AASB 101.Aus7.2, AASB1053.A

public accountability

Public accountability means accountability to those existing and potential resource providers and others external to the entity that makes economic decisions but is not in a position to demand reports tailored to meet their particular information needs.

A for-profit private sector entity has public accountability if:

- (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks. AASB 1053.A

Accounting Standard AASB 102 Inventories – Reporting Entities

http://www.aasb.gov.au/admin/file/content105/c9/AASB102_07-04_COMPdec12_01-13.pdf

Application

Aus1.1 This Standard applies to:

- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;

- (b) general purpose financial statements of each other reporting entity; and
- (c) financial statements that are, or are held out to be, general purpose financial statements.

Accounting Standard AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors – Corporations Act Part 2M.3 preparing entities both reporting & non-reporting entities

http://www.aasb.gov.au/admin/file/content105/c9/AASB108_07-04_COMPdec12_01-13.pdf

Application

Aus2.1 This Standard applies to:

- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;
- (b) general purpose financial statements of each reporting entity; and
- (c) financial statements that are, or are held out to be, general purpose financial statements.

Accounting Standard AASB 1053 Application of Tiers of Australian Accounting Standards– Corporations Act Part 2M.3 preparing entities both reporting & non-reporting entities

http://www.aasb.gov.au/admin/file/content105/c9/AASB1053_06-10.pdf

COMPARISON WITH IFRS FOR SMES

The disclosures required by Tier 2 and the disclosures required by the IASB's International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) are highly similar. However, Tier 2 requirements and the IFRS for SMEs are not directly comparable as a consequence of Tier 2 including recognition and measurement requirements corresponding to those in IFRSs, whereas the IFRS for SMEs includes limited modifications to those requirements.

In addition, the recognition, measurement and disclosure requirements that apply in accordance with Tier 2 are to be revised as Australian Accounting Standards are revised, whereas the IFRS for SMEs is expected to be revised only periodically for revisions of IFRSs.

Objective

1 The objective of this Standard is to set out the application of Tiers of Australian Accounting Standards to different categories of entities preparing general purpose financial statements.

Application

2 This Standard applies to:

- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;
- (b) general purpose financial statements of each reporting entity;
- (c) Financial statements that are, or are held out to be, general purpose financial statements; and
- (d) Financial statements of General Government Sectors (GGs) prepared in accordance with AASB 1049 Whole of Government and General Government Sector Financial Reporting.

Footnote 1 This application paragraph does not amend the application paragraphs of other Standards that are restricted to reporting entities.

Statement of Accounting Concepts

SAC 1 Definition of the Reporting Entity 8/1990

http://www.aasb.gov.au/admin/file/content102/c3/SAC1_8-90_2001V.pdf

INTRODUCTION

3 The purpose of this Statement is to define and explain the concept of a reporting entity and to establish a benchmark for the minimum required quality of financial reporting for such an entity. This Statement outlines the circumstances in which an entity or economic entity should be identified as a reporting entity. It also outlines the criterion for determining, for financial reporting purposes, the boundaries of a reporting entity.

DISCUSSION

The Reporting Entity Concept

12 This Statement adopts a concept of the reporting entity which is tied to the information needs of users and the nature of general purpose financial reports. The concept requires that individual reporting entities be identified by reference to the existence of users who are dependent on general purpose financial reports for information for making and evaluating resource allocation decisions. This means that a class of entity defined under another concept, such as the legal or fund concepts (for example, proprietary companies or special and general purpose funds), may include some entities which should be identified as reporting entities, by virtue of the existence of users dependent on general purpose financial reports prepared by the entity, and other entities which should not be so identified.

15 However, the concept of the reporting entity established by this Statement is one linked to the information needs of users of general purpose financial reports in making and evaluating resource

allocation decisions. The provision of information for these purposes is the criterion used to determine the boundaries of a particular reporting entity.

Identification of Whether Dependent Users Exist

19 For the purposes of this Statement, the identification of an entity as a reporting entity is linked to the information needs of users of general purpose financial reports. In many instances, it will be readily apparent whether, in relation to an entity, there exist users who are dependent on general purpose financial reports as a basis for making and evaluating resource allocation decisions. For those entities in respect of which it is not readily apparent whether such dependent users exist, the factors outlined in paragraphs 20 to 22 are identified as the primary factors to be considered in determining whether a reporting entity exists. These factors are indicative only, and are not the only factors that will be relevant in determining whether, in a particular circumstance, an entity is a reporting entity.

Separation of management from economic interest

20 The greater the spread of ownership/membership and the greater the extent of the separation between management and owners/members or others with an economic interest in the entity, the more likely it is that there will exist users dependent on general purpose financial reports as a basis for making and evaluating resource allocation decisions.

Economic or political importance/influence

21 Economic or political importance/influence refers to the ability of an entity to make a significant impact on the welfare of external parties. The greater the economic or political importance of an entity, the more likely it is that there will exist users dependent on general purpose financial reports as a basis for making and evaluating resource allocation decisions. Reporting entities identified on the basis of this factor are likely to include organisations which enjoy dominant positions in markets and those which are concerned with balancing the interests of significant groups, for example, employer/employee associations and public sector entities which have regulatory powers.

Financial characteristics

22 Financial characteristics that should be considered include the size (for example, value of sales or assets, or number of employees or customers) or indebtedness of an entity. In the case of non-business entities in particular, the amount of resources provided or allocated by governments or other parties to the activities conducted by the entities should be considered. The larger the size or the greater the indebtedness or resources allocated, the more likely it is that there will exist users dependent on general purpose financial reports as a basis for making and evaluating resource allocation decisions.

Implications of Application of the Reporting Entity Concept

Implications of the criterion for identification of a reporting entity

23 As the concept of the reporting entity reflected in this Statement is related to the information needs of users, it is evident that the creation of a company, statutory authority or other organisational structure does not of itself mean that the entity or organisation will qualify as a reporting entity. Judgement will be required in determining whether an entity satisfies the criterion for being so classified.

24 For entities which operate in the public sector, the implications of the factors listed in paragraphs 20 to 22 are that most government departments and statutory authorities will be reporting entities. This arises by virtue of the separation between the parties with an economic interest in the activities undertaken in the sector and the parties responsible for the management of those activities..... In such circumstances, information about the medical centres controlled by the hospital would be incorporated into the general purpose financial report of the hospital. This does not mean that the hospital will not require financial information from each of the centres for making resource allocation decisions. Rather, the implication is that financial reports prepared for this purpose by the centres would not be in the nature of general purpose financial reports, but instead would be in the nature of special purpose financial reports.

25 An implication of applying the reporting entity concept in the public sector is that a government as a whole, whether at the Federal, State, Territorial or local government level, would be identified as a reporting entity because it is reasonable to expect that users will require general purpose financial reports to facilitate their decision making in relation to the resource allocations made by, and the accountability of, those governments. At a lower level of reporting, a number of individual statutory authorities and departments (and the entities they control) may also be defined as individual reporting entities because of their economic or political significance and/or their financial characteristics (for example, resources controlled and level of indebtedness). In some cases, these factors may also identify a ministerial portfolio as a reporting entity

26 In the private sector, the factors listed in paragraphs 20 to 22 will identify as reporting entities all entities in which there is significant separation of ownership/membership and management, for example public companies and listed trusts. In contrast, entities in which the members and management are an identical group, as would be the case for most sole traders, partnerships and exempt proprietary companies, would usually not be identified as reporting entities on the basis of this factor. However, there will exist circumstances in which entities such as these ought to be regarded as reporting entities. For example, an entity which undertakes the raising of debt or equity funds from the public will become a reporting entity because there will exist potential resource providers who require general purpose financial reports as a basis for making resource allocation decisions. For similar reasons, undertaking to sell an entity may result in the identification of the entity as a reporting entity. Also, the size and/or economic significance of some entities to their suppliers, clients or employees or to the public may dictate that those entities are reporting entities even though the members manage the entity. Examples of this would be professional partnerships which service a very large number of customers or clients and which enjoy a special status in the community, and exempt proprietary companies which attract a special public interest because of their financial characteristics.

27 There will exist some entities which will not be regarded as reporting entities, but which form part of an economic entity which is a reporting entity. This would be the case, for example, where a

company is a wholly-owned subsidiary of another entity in the economic entity, and the size and other economic characteristics of the company are such that there do not exist users dependent on general purpose financial reports as a source of information for making and evaluating resource allocation decisions about the wholly-owned company.

Implications of the reporting entity concept for current practice

33 ...In this regard, however, it should be noted that the fact that this Statement may not require a particular entity to prepare general purpose financial reports does not preclude other parties, for example, regulatory authorities and financial institutions, from imposing a requirement on that entity to prepare general purpose financial reports.

Implications of the Reporting Entity Concept for Differential Reporting

Concepts and Accounting Standards, or differential reporting.

35 Bases that have been proposed for identifying the entities which should be permitted to depart from these Statements and Standards are:

- (a) the size of the entity - that is, entities classed as small in relation to certain size benchmarks, based on any combination of turnover, assets and number of employees, would be permitted to depart;
- (b) ownership characteristics - for example, privately-owned entities would be permitted to depart, whereas publicly owned entities would not be permitted to depart; and
- (c) a combination of size and ownership characteristics – for example, privately-owned entities which are classed as small would be permitted to depart from the Statements and Standards.

36 In this Statement the need to prepare general purpose financial reports is linked to the existence of users dependent on those reports as a basis for making and evaluating resource allocation decisions. The existence of users dependent on general purpose financial reports is not determined by either the size or the ownership characteristics of an entity. Accordingly, the bases outlined in paragraph 35 are not supported by this Statement. However, the reporting entity concept enunciated herein embodies a concept of differential reporting in that certain entities will not be identified as reporting entities and thus would not be required to prepare general purpose financial reports or comply with Statements of Accounting Concepts and Accounting Standards in the preparation of other financial reports. The entities which need not prepare general purpose financial reports are those in respect of which it is reasonable to expect that users dependent upon information contained in general purpose financial reports for making and evaluating resource allocation decisions do not exist.

37 As paragraphs 24 to 28 outline, it is likely that some types of entities will be identified as reporting entities by this Statement, while others will not. Accordingly, in most instances the following private sector entities are unlikely to be required by this Statement to prepare general purpose financial

reports: sole traders, partnerships, privately-owned companies and trusts other than those where funds are subscribed by the public. There may be some instances when it is considered necessary or desirable that a general purpose financial report about an entity in these categories is prepared, for example when a privately-owned company intends to raise funds from the public. In these circumstances the report is required to comply with all Statements of Accounting Concepts and Accounting Standards. In the public sector, although most government departments and statutory authorities are likely to be required to prepare general purpose financial reports, the financial characteristics of some authorities and government agencies will mean that they will not be required by this Statement to prepare such reports. Types of entities which always would be identified as reporting entities and types of entities that are or are not likely to be identified as reporting entities are indicated in Professional Statement APS 1 "Conformity with Statements of Accounting Concepts and Accounting Standards"...

Reduced Disclosure Requirements

<http://www.aasb.gov.au/Work-In-Progress/Reduced-Disclosure-Requirements.aspx>

The AASB is continuing its efforts to rationalise financial reporting in Australia through its Differential Reporting project.

In June 2010, the AASB issued Standards establishing a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements (GPFs):

- (a) Tier 1: Australian Accounting Standards; and
- (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements (RDR).

Compared with Tier 1, Tier 2 significantly reduces the disclosure burden and the costs of preparing and auditing GPFs for most entities, whether for-profit or not-for-profit in the private and public sectors.

The AASB is now undertaking research to assess the implications of earlier proposals relating to clarifying the meaning of GPFs and changing the application focus of Standards from reporting entity to GPFs. The AASB is considering the potential impact of these proposals on entities that currently prepare special purpose financial statements.

In this section of the website, you will find links to information regarding all aspects of the Differential Reporting project, including:

- [Project updates](#) on the progress of the Differential Reporting Project
- [Tier 2 work program](#) setting out the estimated times for the release of Tier 2 Supplements to Tier 1 Exposure Drafts/ Standards
- [Tier 2 requirements](#) including Standards establishing Tier 2 and compiled RDR versions of Australian Accounting Standards for early adopters
- An [explanation of the principles](#) used to determine Tier 2 disclosure requirements
- An [archive](#) of consultative documents, submissions, media releases and other material relating to the Differential Reporting project

An Update on the Differential Reporting Update – 23/4/2013

http://www.aasb.gov.au/admin/file/content102/c3/Differential_Reporting_Project_Update_23_4_2013.pdf

The AASB's Differential Reporting project is being progressed in stages. Stage 1 involved the development of reduced disclosure requirements (RDR) for Tier 2 entities and resulted in publication of AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements on 30 June 2010 (see paragraph 8 below regarding the application dates). The AASB is maintaining the RDR and monitoring its implementation by early adopters.

Maintaining RDR requirements involves issuing Tier 2 Exposure Drafts and amending standards as well as preparing annual compilations of RDR versions of Standards for early adopters.

Currently the AASB is monitoring the work of Australian Charities and Not-for-profits Commission (ACNC) and the IASB's deliberations in regard to the first comprehensive review of the IFRS for SMEs.

Stage 2 involves further research on the remaining AASB proposals in ED 192 Revised Differential Reporting Framework, in particular, the use of the reporting entity concept for differential reporting purposes.

The following provides the history and further details of the current status of each stage.

STAGE 1

Background to issuance of Stage 1 Standards

4. At its May 2010 meeting, the Board decided that revisions to the differential reporting framework should be made in two stages. In the first stage, the Reduced Disclosure Requirements (RDR) should be introduced as a second Tier of reporting requirements for preparing general purpose financial statements (GPFs). The Board noted that the aim of this stage is to attend to the immediate reporting needs of entities that currently apply full IFRSs as adopted in Australia but find the disclosures under full IFRSs as adopted in Australia burdensome. 23 April 2013

5. In the second stage the other proposals of ED 192, including clarification of the meaning of general purpose financial statements and the change of application focus of AASB Standards from 'reporting entity' to 'general purpose financial statements' will be further considered.

6. Consistent with the Board's decision at its June 2010 meeting, as part of the first stage, AASB 1053 Application of Tiers of Australian Accounting Standards was made and:

(a) identifies the following type of entities would be required to apply full IFRSs as adopted in Australia (Tier 1) in preparing general purpose financial statements:

(i) for-profit private sector entities that have public accountability; and

(ii) the Australian Government and State, Territory and Local Governments.

Further, subject to AASB 1049 Whole of Government and General Government Sector Financial Reporting, GGSs of the Australian Government and State and Territory Governments shall apply Tier 1 reporting requirements in preparing financial statements; and

(b) requires the following types of entities, as a minimum, to apply the RDR

(Tier 2) in preparing general purpose financial statements:

(i) for-profit private sector entities that do not have public accountability;

(ii) all not-for-profit private sector entities; and

(iii) public sector entities other than those in (a)(ii).

These types of entities may elect, or be directed by a regulator, to apply Tier 1 reporting requirements in preparing general purpose financial statements.

7. The Board also decided that under the first stage of revisions to the differential reporting framework, the reporting entity concept should continue to be used for differential reporting purposes.

8. The Board decided that any mandatory application of Tier 2 requirements should be annual reporting periods beginning on or after 1 July 2013. Entities may apply the Tier 2 requirements to annual reporting periods beginning on or after 1 July 2009 but before 1 July 2013

IASB's IFRS for SMEs

9. At the time of approving the RDR the AASB confirmed that the IASB's IFRS for SMEs is not presently a suitable set of requirements for a second tier of requirements for general purpose financial statements in Australia. However, it was noted the AASB would continue to monitor further changes in the IFRS for SMEs and that it is open to the possibility of adopting the IFRS for SMEs in future should the changes in that Standard make it practicable in an integrated public sector/private sector reporting environment.

First review of the IFRS for SMEs

10. The IFRS for SMEs was published by the IASB in July 2009. At the time the IASB noted that it would assess entities' experiences after two years of the 23 April 2013 standard's implementation, and thereafter it expected to review the standard approximately once every three years.

11. In June 2012, the IASB commenced the process for the first review of the standard by issuing a 'Request for Information' with a comment deadline of 30 November 2012.

12. The AASB contributed to the review of the IFRS of SMEs by submitting detailed comments on the IASB's Request for Information and offering its experience in determining RDR disclosure requirements to the IASB. It is expected that any consideration by the AASB of the possibility of adopting the IFRS for SMEs would await the completion of the above review and the publication of the revised IFRS for SMEs.

STAGE 2

Work performed on Stage 2

13. ED 192 Revised Differential Reporting Framework included proposals for changing the focus of application of Standards from reporting entity to GPFs and clarifying the meaning of GPFs in an Australian context, including that financial statements that are made publicly available and held out to be prepared in accordance with Australian Accounting Standards are GPFs. The proposals in (a) gave rise to AASB 1053 Application of Tiers of Australian Accounting Standards.

The comments from constituents on these proposals, particularly the divergence of views (84% supported no change to the Reporting Entity Concept, and 77% supported allowing non-publicly accountable entities the option of adopting IFRS for SMEs!), as to the functionality of the reporting entity concept, led to the Board's decision to defer a decision on those proposals pending further research into the incidence and nature of special purpose financial reporting.

14. A research project was actioned utilising the services of research contractors. The thrust of the research is to profile the characteristics of lodging entities and their accounting policies with a view to shedding some light on (i) whether there is a consistency in the population of entities currently being treated as non-reporting entities; and (ii) the nature of the accounting policy choices being made by those entities.

Policy implications of research results

17. At its February and April 2013 meetings, the Board discussed the results emerging from the research into special purpose financial reporting, the possible policy implications arising from the research and a tentative road map to addressing those implications. The Board tentatively decided that:

(a) in light of the high incidence of special purpose financial statements (SPFs) amongst lodged financial statements, there is doubt as to whether the reporting entity concept is being applied as intended by SAC 1 Definition of the Reporting Entity in identifying entities that should prepare general purpose financial statements (GPFs);

(b) a proportion of SPFs lodged with the ASIC appear not to have applied the recognition and measurement requirements of all applicable Australian Accounting Standards;

(c) as the exemption from lodgement of financial statements of grandfathered large proprietary companies does not stem from accounting standards, if any changes were to be made to the lodging requirements applicable to such entities, they would need to arise from legislative change;

(d) the reporting entity concept should continue to be used as the basis for identifying entities that, in concept, should be subject to general purpose financial reporting requirements. The concept would be used by the Board as the basis for its own deliberations on matters relating to general purpose financial reporting and for its discussions with others in the financial reporting environment. Accordingly, the Board tentatively decided that SAC 1 would not be part of the AASB Framework if there were to be a change of application focus from reporting entity to GPFs but that material based on SAC 1 could be made available in another form for use in the identification of entities that should be required to prepare and lodge GPFs (whether under Tier 1 or Tier 2);

(e) in regard to the role of the Board as a standard setter:23 April 2013

(i) its mandate should be to set accounting standards for preparing general purpose financial statements under Tier 1 and Tier 2; and

(ii) reporting requirements for special purpose financial statements should be outside its mandate and should be a matter for consideration by preparers and identified users and regulators who are not dependent on general purpose financial statements;

(f) consistent with the suggested implementation road-map considered at the Board's April 2013 meeting, staff should liaise with regulators, including the Treasury, the ASIC, the ACNC and relevant State government bodies, with a view to coordinating the Board's and those regulators' efforts in dealing with the issues emerging from the research; and

(g) an Exposure Draft should be developed, based on a redeliberation of the ED 192 Revised Differential Reporting Framework proposals in relation to the change of the application focus of Australian Accounting Standards from 'reporting entity' to 'general purpose financial statements' and the clarification of general purpose financial statements in the Australian context, and include any amendments to those proposals that might arise from the research report and the liaison with other regulators in regard to any proposed transition.

The Board noted that as its work progresses, that will help inform the Board on what further work should be undertaken. At this stage, the Board intends publishing a paper setting out its assessment of the policy implications of the research conducted on entities lodging with the ASIC and the three State registrars for Cooperatives and Associations that supplied research data, after it has consulted with the relevant regulators. That paper is expected to be published concurrently with the research report.

18. The research is continuing, and will include extending statistical tests to financial statement practices of entities lodging with state registrars for Cooperatives and Associations.

10/4/2013 AASB Meeting Action Alert

http://www.aasb.gov.au/admin/file/content102/c3/AASB_Action_Alert_M130_Apr13.pdf

2. Possible Policy Implications of Research into SPFSs and a Road Map to Implementation

Following on from discussions at its February 2013 meeting (see Action Alert No. 156), the Board continued discussing the results emerging from the research into special purpose financial reporting, the possible policy implications arising from the research and a tentative road map to addressing those implications.

The Board reflected back on its discussions in February and tentatively decided that:

(a) in light of the high incidence of SPFSs amongst lodged financial statements, there is doubt as to whether the reporting entity concept is being applied as intended by SAC 1 Definition of the Reporting Entity in identifying entities that should prepare GPFs;

(b) a proportion of SPFSs lodged with the Australian Securities and Investments Commission (ASIC) appears not to have applied the recognition and measurement requirements of all applicable Australian Accounting Standards;

(c) as the exemption from lodgement of financial statements of grandfathered large proprietary companies does not stem from accounting standards, if any changes were to be made to the lodging requirements applicable to such entities, they would need to arise from legislative change;

(d) the reporting entity concept should continue to be used as the basis for identifying entities that, in concept, should be subject to general purpose financial reporting requirements. The concept would be used by the Board as the basis for its own deliberations on matters relating to general purpose financial reporting and for its discussions with others in the financial reporting environment. Accordingly, at this meeting, the Board tentatively decided that SAC 1 would not be part of the AASB Framework if there were to be a change of application focus from reporting entity to GPFs but that material based on SAC 1 could be made available in another form for use in the identification of entities that should, conceptually, be required to prepare and lodge GPFs (whether under Tier 1 or Tier 2);

(e) in regard to the role of the Board as a standard setter:

(i) its mandate should be to set accounting standards for preparing general purpose financial statements under Tier 1 and Tier 2; and

(ii) reporting requirements for special purpose financial statements should be outside its mandate and should be a matter for consideration by preparers and identified users and regulators who are not dependent on general purpose financial statements;

(f) consistent with the implementation road-map considered at this meeting, staff should liaise with regulators, including the Treasury, the ASIC, the Australian Charities and Not-for-profits Commission (ACNC) and relevant State government bodies, with a view to coordinating the Board's and those regulators' efforts in dealing with the issues emerging from the research. In regard to such liaison, staff reported the results of their recent meeting with staff of the ASIC; and

(g) an Exposure Draft should be developed, based on a redeliberation of the ED 192 Revised Differential Reporting Framework proposals in relation to the change of the application focus of Australian Accounting Standards from 'reporting entity' to 'general purpose financial statements' and the clarification of general purpose financial statements in the Australian context, and include any amendments to those proposals that might arise from the research report and the liaison with other regulators in regard to any proposed transition.

Staff will report the results of its ongoing liaison with other regulators at future meetings. The Board noted that as its work progresses that work will help inform the Board on what further work should be undertaken. At this stage, the Board intends publishing a paper setting out its assessment of the policy implications of the research conducted on entities lodging with the ASIC and the two State jurisdictions that supplied research data, after it has consulted with the relevant regulators. That paper is expected to be published concurrently with the research report.

AASB Academic contracted Research on Reporting Entity

The academic researchers who are contracted to the AASB to consider the reporting entity presented a Paper to the 7-9/7/2013 Accounting & Finance Association of Australia & New Zealand Conference, and extracts from that Paper that was made available to those who attended the Conference that are detailed below:

“Our aim is to document empirically the financial reporting choices, more specifically the application of the *reporting entity* concept, by for-profit private and not-for-profit entities in Australia. For decades, the reporting entity concept has been the foundation of differential reporting in Australia – a primary factor determining whether particular organisations across Australia should produce full GAAP-based financial reports. In recent years, the application of the concept, as originally set out in Statement of Accounting Concepts (SAC) 1, has come under increasing criticism on several grounds – most notably, on the grounds that it does not yield the reporting outcomes originally intended by regulators. Our results show that the factors identified in SAC 1 as being indicative of the existence of a reporting entity, do not systematically explain its application. Rather, the decision whether an entity classifies as a reporting entity appears to be driven by factors other than those identified in SAC 1. Our results have relevance for researchers seeking to gain a better understanding of the factors affecting the accounting and reporting choices of these entities and for regulators interested in the means by which these choices might be more effectively regulated in future.”

2. ACNC

For Charities the Australian Charities & Not-for-profits Commission (ACNC) is the regulator, although for Charities that are companies limited by guarantee, the financial reporting requirements for the 30/6/2013 and 31/12/2013 financial year are still governed by the Corporations Act. However for financial years commencing as from 1/7/2013 the ACNC’s Financial Reporting Regulations whilst mirroring the current Corporations Act requirements, specifically stat that a non-reporting entity need not follow the recognition & measurement requirements of the AASB accounting standards. This whilst consistent with what most non-reporting entities have done to date, is at odds with eh Australian Securities & Investments Commission’s (ASIC) view that for a true and fair view, the recognition & measurement requirements should be followed. So it is interesting that the ACNC is at odds with the view of ASIC and also the AASB that intends to abolish the non-reporting entity concept.

http://www.acnc.gov.au/ACNC/FAQs/FAQ_CLG.aspx

What does my company need to do now about annual financial reporting?

For the 2013 reporting period (that is, for reporting periods starting on or after 1 July 2012), your company must submit the 2013 AIS (which does not request any financial information apart from categorisation based on revenues of: Small – Revenue less than \$250,000, Medium – Revenue between \$250,000 and \$999,999, and Large – Revenue of \$1,000,000 or more) to the ACNC. It must also still submit financial statements to ASIC for one more year (i.e. 2013) so there is no gap in the information collected by ASIC and the ACNC.

<http://www.acnc.gov.au/ACNC/Manage/AIS/ACNC/Report/2013AISsample.aspx>

For the 2014 reporting period onwards (that is, for reporting periods starting on or after 1 July 2013), medium and large charities must submit financial reports to the ACNC, instead of ASIC. That is, Parts

2M.1 (overview of financial reports and audits), 2M.2 (financial records) and 2M.3 (financial reports, including annual financial, directors' and audit reports) of the Corporations Act will no longer apply. (Note: These Parts still apply to charities that issue debentures.)

These Corporations Act requirements are replaced by the financial reporting requirements under the ACNC Act. The ACNC requirements include keeping, as well as for medium or large charities, providing financial reports to the ACNC. The [size of your company](#) is decided in the same way as under the Corporations Act, except that deductible gift recipient (DGR) status is no longer relevant. This means more companies will be 'small' for ACNC purposes.

3. ICAA Guidance on Reporting Entities

Business Practice Guide 12/2006

1. Purpose and Scope of Business Practice Guide (BPG)

1.1 Requirements for the preparation of Financial Statements are contained in the Corporation Act, Accounting Standards and Urgent Issues Group (UIG) Interpretations for companies and various other legislation for some non-corporations (e.g. various Commonwealth and State Legislation for public sector entities, various State Legislation for clubs and associations) and the Institute's APS 1 "Conformity with Australian Accounting Standards".

a) The BPG is guidance developed by the Institute of Chartered Accountants in Australia (ICAA) that is designed to provide some assistance for small to medium entities that are non-reporting entities when they are preparing Financial Statements given the absence of specific reporting requirements. The BPG is not mandatory, and as such can be tailored or not utilised at all, depending on the circumstances of the particular non-reporting entity. The Guide will be regularly updated as a result of feedback from Members and Constituents and any comments should be emailed to best_practice@icaa.org

b) ASIC has expressed the view in their Guide "Reporting Requirements for Non-reporting Entities" that companies required to prepare financial reports under Chapter 2M of the Corporations Act should comply with the recognition and measurement requirements of accounting standards. As such in ASIC's view this Guide should not be applied by entities that are required to prepare financial reports under Chapter 2M of the Corporations Act 2001. For further details see Appendix H of the BPG. This view is not held by the ICAA, since the standards themselves (with the exception of AASBs 101, 107, 108 and AASB 1048) are drafted as applying to reporting entities. Consequently this Guide contains some simplifications of measurement principles to ease the compliance burden on small business. However for Chapter 2M Companies, Members will need to determine the applicability of this Guide. Appendices G and H set out the background to the Reporting Entity Concept and a Summary of ASIC's Guide.

Case Study Questions

1. How do I determine whether I am a non-reporting entity?
2. I am currently preparing general purpose financial reports as a non- listed reporting entity. Is it worth considering whether I should adopt the RDR accounting standard?
3. Given the AASBs view that companies should be producing general purpose financial reports that comply with all the AASB accounting standards, what should I do as a current non- reporting entity that is producing specific purpose financial reports?
4. I am a non-reporting company and only adopt the AASB disclosure accounting standards and do not follow the recognition and measurement requirements of the other accounting standards. Do I need to do anything given that ASIC has stated that all companies should be adopting the recognition and measurement requirements of the accounting standards?
5. As a charity I am producing non-reporting entity financial statements. Given that the ACNC is the new regulator, do I need to think about general purpose financial statements?
6. I am a non-reporting entity and I have never had any concern raised about the financial report. Is there anything I should do to confirm that I am still a non-reporting entity?

Case Study Answers

1. How do I determine whether I am a non-reporting entity?

Suggestion: If there are no 'users' of the financial report that are only relying upon the financial report to make their own economic decisions, then the entity is a non-reporting entity. It is the opposite of what is a reporting entity being an entity where it is reasonable to expect the existence of users dependent on general purpose financial reports (which adopt most of the requirements of AASB accounting standards) for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources (SAC 1 and the AASB's Glossary). SAC 1 paragraph 37 states that most private companies would not be reporting entities.

2. I am currently preparing general purpose financial reports as a non- listed reporting entity. Is it worth considering whether I should adopt the RDR accounting standard?

Suggestion: Absolutely unless you are likely to list on the ASX in the next year or so as then you may wish to keep the comparatives that the full AASB's require for publicly accountable entities

(i.e. mostly listed). The BDO March 2010 Survey indicated that the RDR disclosures result in up to a 60% reduction of the disclosures required by the full AASB accounting standards. However the take-up for RDR has been low (around 5% of those that could adopt the RDR) and the reason is that the major savings are in the IFRS for SMEs simplified recognition and measurement requirements, instead of complex full IFRS/AASBs.

3. Given the AASB's view that companies should be producing general purpose financial reports that comply with all the AASB accounting standards, what should I do as a current non-reporting entity that is producing specific purpose financial reports?

Suggestion: No need to do anything for the moment, as the AASB's proposal has yet to be publicly debated and even if the AASB does move to abolishing the reporting entity concept for companies (and that's debateable!), it will be at least 3 or more years away (2017).

4. I am a non-reporting company and only adopt the AASB disclosure accounting standards and do not follow the recognition and measurement requirements of the other accounting standards. Do I need to do anything given that ASIC has stated that all companies should be adopting the recognition and measurement requirements of the accounting standards?

Suggestion: There is some debate on this. In the author's opinion, the ASIC view is not legally enforceable as the AASB standards are clear and the recognition and measurement requirements only apply to reporting entities. The AASB has stated that it is reviewing this issue, so on that basis, the author believes that you need not do anything. ASIC has taken minimal enforcement on this issue, and given the current policy of the Government and Opposition to reduce un-necessary business compliance costs, one could expect political pressure being brought on this issue if ASIC ramped up its inspection program. Additionally the ACNC has provided support on this issue (see Question 5 below). The author (Keith Reilly – wally2088@hotmail.com is happy to further advise on this issue!

5. As a charity I am producing non-reporting entity financial statements. Given that the ACNC is the new regulator, do I need to think about general purpose financial statements?

Suggestion: No. The ACNC's Financial Reporting Regulations make it quite clear that non-reporting entities can continue to prepare and lodge with the ACNC from 2014, specific purpose financial reports that are not required to adopt the recognition and measurement requirements of the full AASB accounting standards that apply to reporting entities.

6. I am a non-reporting entity and I have never had any concern raised about the financial report. Is there anything I should do to confirm that I am still a non-reporting entity?

Suggestion: Probably not, although it does no harm to periodically test that the identified users of the financial statements being the shareholders are still satisfied with special purpose financial reports and that can be easily done as a Note to the financial statements.

