



**CHARTERED SECRETARIES
AUSTRALIA**

Leaders in governance

3 September 2007

Mr David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
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AUSTRALIA

By email: standard@asb.com.au

Dear Mr Boymal

**ITC 12: Proposed Revised Differential Reporting Regime for
Australia and IASB Exposure Draft of a Proposed IFRS for SMEs**

Chartered Secretaries Australia (CSA) welcomes the opportunity to comment on the Australian Accounting Standards Board's (AASB's) Exposure Draft of an Australian differential reporting regime and the proposed IFRS for SMEs issued by the International Accounting Standards Board (IASB).

CSA is the peak professional body delivering accredited education and the most practical and authoritative training and information on governance, as well as thought leadership in the field. Our members are all involved in governance, corporate administration and compliance with the *Corporations Act* (the Act), and its requirements concerning financial reporting. A number of our members work for smaller public unlisted companies, or serve as officers of not-for-profit organisations or manage the affairs of subsidiary companies of public listed companies, both of which are frequently smaller public unlisted companies. We have drawn on their experience in the preparation of this submission.

Support for the principle of IFRS for SMEs

CSA supports relief for unlisted SMEs from full IFRS and therefore supports the principle of an IFRS for SME standard.

However, CSA is strongly opposed to the proposed IASB standard, which would impose financial reporting requirements on proprietary, public unlisted and not-for-profit companies, for no benefit to stakeholders and at great unnecessary effort and expense.

CSA notes that the SME sector makes a significant contribution to economic growth in Australia, yet the proposed IASB standard would impose additional financial reporting requirements and expense in direct conflict with the Australian government's ongoing 'red tape' reduction program.

Moreover, the financial reporting requirements in the major capital countries generally do not require IFRS or equivalent. Imposing the IFRS for SMEs in its current form would place Australian SMEs at a competitive disadvantage globally.

The proposed IFRS for SMEs is far too complex for small unlisted entities

CSA is concerned that the IFRS for SMEs Exposure Draft is much too complex for small unlisted entities. This in part may have been due to the development of the Exposure Draft from a 'top-down' rather than a 'bottom-up' approach. CSA believes that the proposed standard should focus on the actual needs of reporting entity SMEs rather than which parts of the full IFRS can be simplified or cut back.

Under the proposed AASB revised differential reporting regime, the application of AASB standards would no longer depend on whether entities are reporting entities; rather the focus of application would be general purpose financial reports. Accordingly, all entities that prepare general purpose financial reports would apply either the Australian equivalents to IFRS or an Australian equivalent to the IFRS for SMEs, based on criteria that establish which set of these standards would apply.

The revised differential reporting regime proposed by the AASB would replace the 'reporting entity' approach to determining the application of accounting standards. Currently almost all not-for-profit companies can select not to be reporting entities and therefore need only produce 'special purpose accounts'. CSA notes that many not-for-profit companies, particularly larger ones, choose to produce full accounts for a variety of reasons beyond the scope of this submission. The important issue is that not-for-profit companies currently have a choice to select 'special purpose accounts', which choice brings with it a significantly reduced reporting requirement and consequential potential for savings.

The new SME standard proposed by the IASB would force all small not-for-profit companies to comply with the new SME reporting standard, which carries considerably greater reporting requirements than the current 'special purpose accounts'. As a result, small not-for-profit companies will incur significantly greater costs in order to produce financial reports, for no benefit to their stakeholders. It is important to remember that members of not-for-profit companies are not investors seeking to examine the accounts to ascertain the deployment of and return on their investment. Rather, members are seeking to ascertain whether the quality of the services provided by the not-for-profit company is fulfilling the company's mission and values.

CSA is also concerned that any acceptance of the SME standard proposed by the IASB has the capacity to change the current reporting requirements of small proprietary companies. The *Corporations Legislation Amendment (Simpler Regulatory System) Act 2007*, enacted in June 2007, defines a proprietary company as large if it satisfies two of the following tests: revenue of \$25 million; assets of \$12.5 million and 50 employees, with future changes to thresholds prescribed by regulations. Those companies that do not meet two of these three threshold tests are classified as small proprietary companies and are exempt from statutory financial reporting.

The introduction of the proposed SME standard could alter this situation and impose a regulatory burden on small proprietary companies. The AASB Exposure Draft says that:

'the proposals would not affect small proprietary companies. However, if they prepare and lodge financial reports (such as when the ASIC directs them or they are controlled by a foreign company, or 5% of shareholders require them), they would be required to apply an Australian equivalent to the IFRS for SMEs; and large proprietary companies would apply the Australian equivalents to IFRSs if they exceed either of the nominated size thresholds for important for-profit entities, or an Australian equivalent to the IFRS

for SMEs if they fall below those thresholds, because they produce general purpose financial reports as a result of having to lodge their financial reports on a public register.'

Connected to this potential regulatory imposition is the fact that, at present, large proprietary companies have the option of producing 'special purpose accounts'. The AASB proposals could force all large proprietary companies to produce full financial reports, as a large public listed company may have a number of subsidiaries, of which a certain number could be large proprietary companies. Such an outcome would negate the recent reform of financial reporting for proprietary companies.

A further consequence of accepting the IASB standards as laid out in AASB's *A Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of a Proposed IFRS for Small and Medium-sized Entities* is that a public company may have subsidiaries that are also public companies. As subsidiaries, the public companies currently only need to produce 'special purpose accounts'. The proposed new standard will force such companies to produce full financial accounts.

CSA is strongly opposed to the proposed IFRS for SMEs in its current form, which would impose financial reporting requirements on proprietary, public unlisted and not-for-profit companies, for no benefit to stakeholders and at great unnecessary expense.

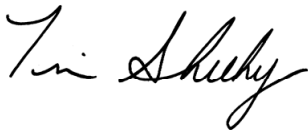
CSA also opposes the elimination of the 'reporting entity' approach to determining the application of accounting standards. In the absence of any evidence of abuse or problem with the 'reporting entity' concept, CSA queries why the AASB promotes its removal.

Regulatory impact of the proposed changes as part of its consultation process

The AASB should publish a regulatory impact study of its proposed changes and issue this as part of its invitation to comment. The lack of impact analysis concerning the expansion of reporting requirements beyond current 'reporting entities' is a major deficiency in the AASB's Exposure Draft. CSA believes that the AASB should be adopting the approach of the Office of Best Practice Regulation.¹ The Business Checklist for Commonwealth Regulatory Proposals² is also relevant in this regard.

CSA would welcome further contact during the consultation process and seeks the opportunity to be involved in further deliberations.

Yours sincerely



Tim Sheehy
CHIEF EXECUTIVE

¹ <http://www.obpr.gov.au/reform.html>

² Refer to

http://www.csaust.com/Content/NavigationMenu/NewsAdvocacy/Discussionpapers/Thought_leadership.htm