



Project:	Australian Financial Reporting Framework	Meeting:	AASB February 2022 (M185)
Topic:	Extending Transition Relief under AASB 1	Date of this paper:	7 February 2022
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		Project Priority:	Medium
		Decision-Making:	High
		Project Status:	Consider feedback on ED and next steps

Objectives of this agenda item

- The objective of this agenda item is:
 - to **inform** the Board of feedback received on [AASB Exposure Draft ED 315 Extending Transition Relief under AASB 1](#); and
 - to **provide** staff analysis and recommendations on the issues raised by stakeholders.

Attachments

- Agenda Paper 8.2 Submissions received on ED 315 [supporting documents folder]
Agenda Paper 8.3 For noting: ED 315 [supporting documents folder]

Structure

- This paper is structured as follows:
 - Background and reasons for bringing this agenda item to the Board (paragraphs 3-15);
 - List of respondents to ED 315;
 - High-level summary of feedback from respondents (paragraphs 16-17);
 - Part A – Proposed amendment to AASB 1 (paragraphs 18-39);
 - Part B – Proposed amendment to AASB 1053 (paragraphs 40-62); and
 - Next Steps (paragraph 63).

Background and reasons for bringing this agenda item to the Board

- From 1 July 2021, certain for-profit private sector entities can no longer apply the reporting entity concept or prepare special purpose financial statements (SPFS) following the issue of *AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (AASB 2020-2). Instead, entities within the scope of AASB 2020-2 will be required to prepare general purpose financial statements (GPFS). Some of these entities may also be required to prepare

consolidated financial statements for the first time if they historically applied the exemption in AASB 10 *Consolidated Financial Statements*.¹

Optional exemption relating to the measurement of the assets and liabilities of subsidiaries, associates and joint ventures

- 4 One subset of entities affected by the removal of SPFS is foreign-controlled proprietary companies. In many cases, these entities are subsidiaries of an overseas parent that prepares consolidated financial statements that include information about the entity and comply with IFRS Standards.
- 5 At the September 2021 AASB meeting,² the Board confirmed that the optional exemption in AASB 1 *First-time Adoption of Australian Accounting Standards* paragraph D16(a) – that permits a subsidiary that becomes a first-time adopter later than its parent to measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements – is currently only available where the entity's parent has adopted Australian Accounting Standards. That is, currently, the optional exemption cannot be applied where the parent adopted IFRS Standards instead.³
- 6 However, the Board acknowledged that the ability to use the information included in the parent's IFRS Standards-compliant financial statements on transition is expected to be helpful to subsidiaries in preparing their first Australian-Accounting-Standards financial statements.
- 7 At the November 2021 AASB meeting,⁴ the Board considered a draft Exposure Draft (ED) and decided the ED would:
 - (a) propose an amendment to AASB 1 to allow affected entities to apply the optional exemption in AASB 1 where their parent has adopted either Australian Accounting Standards or IFRS Standards; and
 - (b) permit a for-profit or a not-for-profit (NFP) entity that becomes a first-time adopter of Australian Accounting Standards later than its parent to apply the optional exemption. This is because the objective of the optional exemption applies equally to all types of entities.⁵

Entities transitioning to consolidated Tier 2 – Simplified Disclosures financial statements

- 8 Another subset of entities affected by the removal of the reporting entity concept is entities that were preparing unconsolidated GPFS (Tier 2 – Reduced Disclosure Requirements). That is, the GPFS complied with all the recognition and measurement requirements in Australian Accounting Standards without presenting consolidated financial statements on the basis that

1 The exemption in AASB 10 paragraph AusCFAus4.2 (as applicable to for-profit private sector entities prior to 1 July 2021) did not require the presentation of consolidated financial statements if neither the ultimate Australian parent entity nor the group were reporting entities.

2 See [AASB Action Alert Issue No 210](#) for a summary of the Board's key decisions at the September AASB meeting.

3 The optional exemption in AASB 1 paragraph D16(a) is also available to an associate or joint venture that becomes a first-time adopter later than the entity that has significant influence or joint control over it. Where this is the case, a reference to 'parent' is to be read as a reference to 'investor' and a reference to 'subsidiary' is to be read as a reference to 'associate' or 'joint venture'.

4 See [AASB Action Alert Issue No 211](#) for a summary of the Board's key decisions at the November AASB meeting.

5 When the IASB included the optional exemption in IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the objective of the exemption was to eliminate the need for subsidiaries to keep two parallel sets of records, which would be burdensome and not beneficial to users. The exemption was also expected to ease some practical problems associated with the transition to IFRS Standards. The IASB was also of the view that the exemption would not diminish the relevance and reliability of the subsidiary's financial statements because it permits a measurement that is already acceptable in accordance with IFRS Standards in the consolidated financial statements of the parent.

neither the parent nor the group was a reporting entity. These entities include some Significant Global Entities (SGEs).

- 9 Some SGEs are required to prepare GPFS to comply with their SGE obligations to the Australian Taxation Office. However, some SGEs maintained they were non-reporting entities and therefore, if a parent entity, they continued to apply the exemption in AASB 10 that did not require the presentation of consolidated financial statements if neither the parent entity nor the group was a reporting entity.
- 10 However, as the 'reporting entity' definition in Australian Accounting Standards no longer applies to certain for-profit private sector entities, including SGEs, from 1 July 2021, these entities can no longer apply the consolidation exemption in AASB 10. Instead, they will be required to prepare consolidated financial statements for the first time.
- 11 These entities were not required to present consolidated financial statements in prior periods as outlined above. Further, their most recent Tier 2 GPFS complied with all relevant recognition and measurement requirements in Australian Accounting Standards. The Board noted an absence of specific guidance under Australian Accounting Standards for entities in this situation (i.e. transitioning from unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS to consolidated Tier 2 – Simplified Disclosures GPFS).
- 12 However, the Board noted that specific guidance for entities that were preparing SPFS on the same basis – that is, their SPFS complied with all the recognition and measurement requirements in Australian Accounting Standards, without presenting consolidated financial statements, on the basis that neither the parent nor the group was a reporting entity – was included in AASB 1053 *Application of Tiers of Australian Accounting Standards* (paragraph 18A(b)) and explicitly permitted such entities to apply AASB 1, including the relief for the first-time preparation of consolidated financial statements, set out in Appendix C of AASB 1, to their transition to Tier 2 GPFS.
- 13 At the November 2021 AASB meeting,⁶ the Board considered a draft ED and decided:
 - (a) the ED would propose extending the transition relief also to allow for-profit private sector entities transitioning from unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS to consolidated Tier 2 – Simplified Disclosures GPFS to apply AASB 1, when preparing consolidated financial statements for the first time; and
 - (b) the proposed transition relief should be limited to certain for-profit private sector entities. This is because NFP entities are not affected by the removal of SPFS and the reporting entity concept in Australian Accounting Standards at this time.

Proposed effective date

- 14 Affected entities are required to transition from SPFS or unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS from 1 July 2021 following the issue of AASB 2020-2. Therefore, the Board decided the ED would propose an effective date of annual periods ending on or after 30 June 2022.⁷
- 15 In December 2021, the Board issued AASB Exposure Draft ED 315 for public comments. Comments were due by 27 January 2022.

⁶ See [AASB Action Alert Issue No 211](#) for a summary of the Board's key decisions at the November AASB meeting.
⁷ Staff note that this date is different to the application date of AASB 2020-2 (periods beginning on or after 1 July 2021). However, the Board is unable to issue an Australian Accounting Standard where the effective date has already passed. Therefore, an application date of periods ending on or after 30 June 2022 is appropriate as that would, in substance, cover the same group of affected entities, as most entities with a reporting period ending on or after 30 June 2022 would be expected to have a reporting period that began on or after 1 July 2021.

List of respondents to ED 315

Category	Respondent
4 Professional Services firms	Deloitte
	PricewaterhouseCoopers (PwC)
	KPMG
	Ernst & Young (EY)
2 Professional Bodies	Chartered Accountants Australia & New Zealand/CPA Australia (CAANZ)
	Institute of Public Accountants (IPA)
1 Technical adviser	David Hardidge

High-level summary of feedback from respondents

- 16 Six of the seven⁸ respondents to ED 315 supported the proposed amendment to AASB 1. Some respondents also provided additional feedback, which is considered in Part A – Proposed amendment to AASB 1.
- 17 Five of the seven respondents to ED 315 supported the proposed amendment to AASB 1053, with two respondents also providing feedback on the proposed amendment's scope. However, two⁹ respondents suggested that the proposed amendment was not necessary. This feedback is considered in Part B – Proposed amendment to AASB 1053.

Part A – Proposed amendment to AASB 1

- 18 As noted in paragraph 16, most respondents were supportive of the proposed amendment to AASB 1. Deloitte, PwC, EY and David Hardidge provided additional feedback outlined below.

Editorial amendments

- 19 Deloitte suggested the Board consider an editorial amendment to AASB 1 paragraph E8 to align the wording of paragraph E8 with the remainder of AASB 1. Staff note that this editorial amendment was recently made by AASB 2021-7 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections*. Therefore, no further action is needed.

Question for Board members

Q1 Do Board members agree with the recommendation in paragraph 19 that no further action is required regarding AASB 1 paragraph E8? If not, what do Board members suggest?

- 20 EY suggested an amendment to AASB 1 paragraph D13A for consistency with the proposed amendment to AASB 1 paragraph D16(a). As paragraph D13A refers to paragraph D16(a), staff agree that for consistency, an amendment should be made as marked up below:

D13A Instead of applying paragraph D12 or paragraph D13, a subsidiary that uses the exemption in paragraph D16(a) may elect, in its financial statements, to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to Australian Accounting Standards or IFRSs, if no

8 David Hardidge does not support the proposed amendment.

9 EY and KPMG suggest that the proposed amendment is not necessary.

adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in paragraph 16(a).

Question for Board members

Q2 Do Board members agree with the recommendation in paragraph 20 that an amendment should be made to AASB 1 paragraph D13A as marked up? If not, what do Board members suggest?

- 21 EY also suggested an amendment to AASB 1 paragraph D17. EY suggested that it would be helpful to clarify, by adding an Australian-specific paragraph, that the "... carrying amounts as in the financial statements of the subsidiary..." can be Australian Accounting Standards or IFRS Standards compliant. In their view, if not clarified, given the definition of first-time adopter in AASB 1 refers to Australian Accounting Standards, paragraph D17 would be limited to parents with subsidiaries that apply Australian Accounting Standards.

Staff analysis and recommendation

- 22 Staff agree that AASB 1 paragraph D17 would only apply where a subsidiary complied with Australian Accounting Standards as currently drafted. However, staff note that if a parent has an overseas subsidiary (that prepares financial statements that comply with IFRS Standards), the parent could recognise amounts in the consolidated Australian Accounting Standards financial statements in respect of the subsidiary that are different from the amounts recognised in the subsidiary's separate IFRS Standards financial statements. Staff suggest this appears inconsistent with the objective of the exemption.
- 23 Staff note that, although AASB 1 paragraph D17 is included in an appendix of exemptions, paragraph D17 appears to be written as a requirement given the use of 'shall.' Further, the intention of paragraph D17 seems to be to ensure there is consistency between the amounts recognised in the consolidated financial statements and the subsidiary's separate financial statements. IFRS 1 paragraph BC63 states, "... if a parent adopts IFRSs later than a subsidiary, the parent cannot, in its consolidated financial statements, elect to change IFRS measurements that the subsidiary has already used in its financial statements, except to adjust for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary".
- 24 For this reason, staff recommend clarifying that AASB 1 paragraph D17 can be applied where a subsidiary complies with either Australian Accounting Standards or IFRS Standards.

Question for Board members

Q3 Do Board members agree with the recommendation in paragraph 24 that AASB 1 paragraph D17 should be clarified so that it can be applied where a subsidiary complies with either Australian Accounting Standards or IFRS Standards. If not, what do Board members suggest?

Application to NFP entities

- 25 As the proposed amendment to the optional exemption in AASB 1 paragraph D16(a) could be applied by NFP entities, PwC suggested the Board consider whether additional clarification is needed as to how NFP entities would comply with Australian Accounting Standards on an ongoing basis given the recognition and measurement differences between IFRS Standards and Australian Accounting Standards (as they apply to NFP entities). For example, if a NFP subsidiary measured its assets and liabilities at the amounts in the parent's IFRS Standards-compliant financial statements on initial recognition and those amounts differ from amounts that would otherwise have been recognised had the NFP entity applied the recognition and

measurement requirements in Australian Accounting Standards that apply specifically to NFP entities, what affect would this have.

Staff analysis and recommendation

- 26 As noted in paragraph 7(b), the Board previously discussed the application of the optional exemption to NFP entities. At the time, the Board tentatively decided that the proposed amendment could be applied by a for-profit or a NFP entity that becomes a first-time adopter of Australian Accounting Standards later than its parent because the objective of the optional exemption applies equally to all types of entities.
- 27 The application of the optional exemption, currently and with the proposed amendment, is consistent in respect of NFP entities (i.e. it cannot be applied if it does not result in compliance with Australian Accounting Standards (as they apply to NFP entities)).
- 28 Staff are aware of some NFP entities that claim compliance with IFRS Standards.¹⁰ However, staff note that even where a NFP entity claims compliance with Australian Accounting Standards, they cannot claim compliance with IFRS Standards where they are required to apply the NFP-specific recognition and measurement requirements in Australian Accounting Standards and those requirements differ from requirements in IFRS Standards. Staff note that NFP-specific requirements are not optional; NFP entities must apply them. Accordingly, staff recommend no change to the proposals in the ED for the following reasons:
- (a) a NFP entity cannot 'opt up' and elect to comply with for-profit entity accounting requirements where there is a NFP-specific requirement. The Board discussed this matter in March 2020 and decided "that any entity should not be able to elect to be a for-profit (FP) entity, due to concerns with possible abuse of such an election."¹¹ Further, paragraph BC2 of [AASB Exposure Draft ED 291 Not-for-Profit Entity Definition and Guidance](#) notes that "... The classification of an entity as a for-profit (FP) entity or a NFP entity is important because the application of the Standards can differ depending on whether an entity is classified as a FP or NFP entity. Different recognition, measurement, presentation and disclosure requirements can apply to an entity depending on whether it is a FP or NFP entity."
 - (b) a NFP entity would be unable to apply the optional exemption (including the proposed amendment) if the IFRS Standards compliant amounts in their parent's financial statements do not comply with Australian Accounting Standards (as they apply to NFP entities).¹²
 - (c) the proposals in the ED are consistent with the application of the optional exemption currently. That is, staff consider that currently, a NFP entity could also be unable to apply the optional exemption in a situation where the NFP entity has a for-profit parent.¹³

10 For example: see 'About this Report', [The Hospitals Contribution Fund of Australia Ltd 30 June 2021 Financial Report](#) and Note 1(b), [CPA Australia Ltd 31 December 2020 Financial Statements](#).

11 Minutes from the [AASB March 2020 meeting](#).

12 For example, this could be the case where a NFP entity received a donation of land and buildings. Under IFRS Standards, the land and buildings would likely be measured at their cost of nil, and under Australian Accounting Standards (as they apply to NFP entities), the land and buildings would be measured at fair value. As the IFRS Standards compliant information does not comply with Australian Accounting Standards (as they apply to NFP entities), including these amounts in the NFP entity's financial statements would result in the NFP entity preparing financial statements that do not comply with Australian Accounting Standards (as they apply to NFP entities).

13 For example, even if a for-profit parent prepares consolidated financial statements that comply with Australian Accounting Standards, the NFP entity would not be able to use the amounts included in the parent's consolidated financial statements if the amounts do not comply with Australian Accounting Standards (as they apply to NFP entities).

- (d) where a for-profit parent prepares consolidated financial statements for a mixed group (i.e. a group that includes for-profit and NFP entities), all entities are considered for-profit for the purposes of the consolidated financial statements.^{14,15}

- 29 In addition to the above, staff note that AASB 1 applies to an entity's first Australian-Accounting-Standards financial statements. An entity's first Australian-Accounting-Standards financial statements are the "first annual financial statements in which an entity adopts Australian Accounting Standards, by an explicit and unreserved statement of compliance with Australian Accounting Standards."¹⁶ Therefore, to apply AASB 1 and the optional exemption, the resulting financial statements must comply with Australian Accounting Standards (including NFP-specific requirements, where applicable). If applying the optional exemption would not result in financial statements that comply with Australian Accounting Standards (including NFP-specific requirements, where applicable), in staff's view, an entity cannot apply the optional exemption.
- 30 Whilst staff do not recommend any changes to the proposed amendment, staff recommend that the Basis for Conclusions clarifies that the optional exemption cannot be applied by an NFP entity where compliance by the parent with either Australian Accounting Standards or IFRS Standards does not result in compliance with Australian Accounting Standards (as they apply to NFP entities).¹⁷

Questions for Board members

- Q4 Do Board members agree with the recommendation in paragraph 28 that no changes are required to the scope of the proposed amendment to AASB 1 paragraph D16(a). That is, the proposed amendment should be available to for-profit and NFP entities. If not, what do Board members suggest?
- Q5 Do Board members agree with the recommendation in paragraph 30 to clarify in the Basis for Conclusions that the optional exemption cannot be applied by an NFP entity where compliance by the parent with either Australian Accounting Standards or IFRS Standards does not result in compliance with Australian Accounting Standards (as they apply to NFP entities). If not, what do Board members suggest?

The interpretation of 'Australian Accounting Standards' is too narrow

- 31 Whilst understanding the reasoning for the change, one respondent (a technical adviser) disagrees with the proposed amendment. In their view, the reference to Australian Accounting Standards in AASB 1 paragraph D16(a) should not be read as excluding financial statements prepared on a measurement basis that is equivalent to Australian Accounting Standards (e.g. IFRS Standards).

14 AASB 10 paragraph 19 requires that a "parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances". Paragraph B87 also states that if "a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies."

15 Staff also understand there could be circumstances where a for-profit entity subsidiary might be unable to use the information in their parent's IFRS Standards compliant financial statements due to different accounting treatments (e.g. entities in the exploration and evaluation sector).

16 AASB 1 Appendix A.

17 Alternatively, the Board may prefer to limit the application of the proposed amendment to for-profit entities only. However, staff do not recommend this option as it could disadvantage NFP entities transitioning to Australian Accounting Standards that would be able to use the information in their parent's IFRS Standards compliant financial statements because none of the NFP-specific requirements in Australian Accounting Standards apply to the NFP entity. Staff also note that transition might become more relevant subject to the outcomes of the NFP Financial Reporting Framework Project.

- 32 The respondent noted that the provisions of AASB 1 paragraph D16(a) have been around since the start of IFRS in Australia and they are not aware of this issue being raised, either for companies moving to IFRS [as applied in Australia] on initial adoption in 2005, or subsequently moving from SPFS to GPFS. The respondent also noted that it was common for Australian subsidiaries to adopt IFRS [as applied in Australia] later than their parents when IFRS Standards were first introduced. This is because overseas parents often have December balance dates, and Australian entities often have June balance dates, so overseas parent entities had usually already commenced applying IFRS Standards in their jurisdiction when the Australian subsidiary transitioned. Further, the drafting of paragraph D16 in the accounting standards of other jurisdictions such as New Zealand and Singapore is consistent with AASB 1 (as currently drafted). Therefore, if the reference to Australian Accounting Standards in AASB 1 is limiting to Australian Accounting Standards only, and does not include IFRS or IFRS-equivalent Standards, the respondent suggested that presumably other jurisdictions would have similar concerns about applying the optional exemption.
- 33 Even though in the respondent's view, the proposed amendment is too narrow, they also noted that the proposed amendment would not be effective for countries adopting IFRS-equivalent Standards. This could include financial statements prepared in the European Union, Singapore and Hong Kong that do not include a statement of compliance with IFRS Standards. Consequently, an entity would not be able to use information included in its parent's financial statements, where those financial statements comply with IFRS-equivalent Standards and not IFRS Standards.

Staff analysis and recommendation

- 34 When the Board first discussed this issue at the September 2021 AASB meeting, staffs' view was that the reference in AASB 1 paragraph D16(a) to Australian Accounting Standards, when the first principal version of AASB 1 was issued in 2004, was intentional and limited the application of the paragraph to the circumstance where the parent entity has applied Australian Accounting Standards only. Staff also noted that the 'double reference' to Australian Accounting Standards or IFRS Standards in other sections of AASB 1 was intentional. Further, Australian Accounting Standards are defined, so the reference to Australian Accounting Standards could not be read to include IFRS Standards (for example). Therefore, staff presumed the omission of a reference to IFRS Standards in AASB 1 paragraph D16(a) was intentional. The Board agreed.
- 35 The Board also noted that the limitation or otherwise of the reference to Australian Accounting Standards in AASB 1 paragraph D16(a) may not have been an issue when Australia transitioned to IFRS-equivalent Standards in 2005 as all entities (i.e. parent and subsidiaries) were transitioning simultaneously. For this reason, AASB 1 paragraph D16(a) was not practically available.
- 36 For these reasons, staff continue to be of the view that the proposed amendment to paragraph D16(a) is required.
- 37 However, staff acknowledge that the drafting of the proposed amendment would limit the application of the optional exemption to circumstances where a parent's financial statements state compliance with IFRS Standards (or Australian Accounting Standards) and would not include circumstances where a parent complies with accounting standards that are IFRS-equivalent Standards.
- 38 Staff note that the 'limitation' of the proposed amendment to IFRS Standards or IFRS-equivalent Standards was also considered by the Board at the September 2021 AASB meeting.
- 39 Staff considered that there could be merit in expanding the scope of the proposed amendment to include circumstances where a parent's financial statements comply with

IFRS-equivalent Standards rather than just IFRS Standards. However, staff do not recommend any changes. Staff note that the reference to IFRS Standards in the proposed amendment is consistent with the remainder of AASB 1. Further, staff are concerned there could be unintended consequences if the drafting of the proposed amendment was extended to include IFRS-equivalent Standards. This could include difficulty assessing what IFRS-equivalent Standards are. Instead, staff suggest noting in the Basis for Conclusions that the Board considered this issue and decided not to expand the scope of the amendment.

Question for Board members

Q6 Do Board members agree with the recommendation in paragraph 39 that no changes are required to the proposed amendment to AASB 1 paragraph D16(a). That is, the proposed amendment should only be available where an entity's parent has applied IFRS Standards (or Australian Accounting Standards). If not, what do Board members suggest?

Part B – Proposed amendment to AASB 1053

Is the proposed amendment necessary?

- 40 As noted in paragraph 17, most respondents to ED 315 supported the proposed amendment. For this reason, only dissenting comments have been considered in this section.
- 41 However, two respondents to ED 315 suggested that the proposed amendment to AASB 1053 was unnecessary. In summary, both KPMG and EY suggested that because the unconsolidated GPFS are separate financial statements, in preparing the consolidated financial statements, the entity would be applying Tier 2 requirements (in the consolidated financial statements) for the first time (if they have not previously prepared consolidated financial statements in the past). Therefore, the entity can use AASB 1 without the proposed amendment, as they would be a first-time adopter of Australian Accounting Standards in the consolidated financial statements.
- 42 This is because an entity can be a first-time adopter in relation to a set of financial statements – for example, each of its separate and individual or consolidated financial statements – rather than in relation to the (legal) entity.
- 43 AASB 1 paragraph D17, although written in the context of a parent becoming a first-time adopter later than its subsidiary and vice versa, appears to support the view that two 'first-time adoptions' are possible for separate and consolidated financial statements, respectively. AASB 1 paragraph D17 states, "... if a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments."
- 44 As EY consider the proposed amendment is unnecessary, they suggested the Board could explain in the Basis for Conclusions that an entity should apply AASB 1 for the first-time adoption of Australian Accounting Standards in its separate financial statements and, if at a different date, then also for its consolidated financial statements.

Staff analysis and recommendation

- 45 Staff note that the term 'entity' is not defined in Australian Accounting Standards. However, the *Conceptual Framework for Financial Reporting* (CF) considers the 'reporting entity,' which is the entity preparing the financial statements.¹⁸

18 Paragraph 3.10 of the CF states that "A reporting entity is an entity that is required, or chooses, to prepare financial statements. A reporting entity can be a single entity or a portion of an entity or can comprise more than one entity. A reporting entity is not necessarily a legal entity."

- 46 Whilst typically separate financial statements are prepared in addition to consolidated financial statements,¹⁹ staff note that, "An entity that is exempted in accordance with paragraphs 4(a), Aus4.1 and Aus4.2 of AASB 10 from consolidation or paragraphs 17, Aus17.1 and Aus17.2 of AASB 128 from applying the equity method may present separate financial statements as its only financial statements".²⁰
- 47 Therefore, if the rationale that an entity can be a first-time adopter in both its separate and consolidated financial statements is applied to the SGE fact pattern, the unconsolidated GPFS (Tier 2 – Reduced Disclosure Requirements) prepared by the SGE would be considered separate financial statements. Consequently, from 1 July 2021, the SGE can no longer apply the exemption in AASB 10 paragraph Aus4.2 and if a parent must prepare consolidated financial statements (Tier 2 – Simplified Disclosures GPFS). If they have not previously prepared consolidated financial statements that complied with Australian Accounting Standards, they would be a first-time adopter. They could apply AASB 1 in the consolidated financial statements without the proposed amendment.
- 48 Staff acknowledge that the proposed amendment might not be strictly necessary on a technical reading of Australian Accounting Standards. However, staff note that the relief provided by the proposed amendment is consistent with the relief provided by paragraph 18A(b) of AASB 1053. Paragraph 18A(b) was added to AASB 1053 as part of the removal of SPFS and the reporting entity concept.
- 49 Whilst KPMG has suggested that paragraph 18A(b) is also unnecessary for the reasons outlined in paragraph 41, staff note that the Board decided to add the relief to explicitly state that entities in such circumstances could apply AASB 1.²¹ Notwithstanding the Board's reasons for including paragraph 18A(b) in AASB 1053, the rationale outlined in paragraph 42 could suggest that the issue of whether or not consolidation is a recognition and measurement requirement was irrelevant to an entity's ability to apply AASB 1. The entity could have used AASB 1 regardless.
- 50 On balance, whilst the amendment to AASB 1053 proposed in ED 315 might not be strictly necessary due to the requirements in AASB 1 paragraph D17, in staffs' view, the proposed amendment is helpful to stakeholders. The proposed amendment clarifies that an entity can apply AASB 1 on transition and is consistent with the approach adopted by the Board in AASB 2020-2. The proposed amendment also provides entities with an accounting policy choice that would otherwise be unavailable; that is, they can choose whether to apply AASB 1 or AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*²² to their transition. Staff do, however, acknowledge that most entities are expected to choose AASB 1, so they can apply the consolidation relief set out in Appendix C.

19 AASB 127 *Separate Financial Statements* paragraph 6.

20 AASB 127 paragraph 8 (as it applied to annual periods beginning before 1 July 2021).

21 The intention of paragraph 18A(b) was to provide specific guidance for entities that were preparing SPFS that complied with all the recognition and measurement requirements in Australian Accounting Standards, without presenting consolidated financial statements, on the basis that neither the parent nor the group was a reporting entity. The Basis for Conclusions to AASB 1053 notes that paragraph 18A(b) was added to AASB 1053 "as the Board was aware there were mixed views amongst stakeholders as to whether or not consolidation was to be considered a R&M requirement. The Board decided to make amendments to paragraph 18A to explicitly state that entities would be able to apply either AASB 1 (including the relief for preparing consolidated financial statements in Appendix C) or AASB 108 for first-time adoption of GPFS where a parent entity either:

- (a) did not apply the requirements of AASB 10 and hence did not prepare consolidated financial statements; or
- (b) did not prepare consolidated financial statements on the basis that neither the entity nor the consolidated entity was not a reporting entity, and hence was not required by paragraph Aus4.2 to prepare consolidated financial statements where the entity was an ultimate Australian parent."

22 AASB 1053 paragraph BC17 explains the Board's rationale for allowing an entity preparing Tier 2 GPFS for the first time to apply AASB 1 or AASB 108 to their transition. BC17 notes that, in some cases, it is envisaged that such entities might find application of Tier 2 reporting requirements retrospectively in accordance with AASB 108 more appropriate on cost-benefit grounds and should, therefore, be able to avail themselves of such a treatment.

- 51 Staff note that whilst some respondents suggested the relief was not necessary, they did not object to the proposed amendment. They also did not indicate that it would give rise to any unintended consequences (except for the scope being too narrow – see below). Staff, therefore, recommend the Board proceed with the proposed amendment.
- 52 Alternatively, as suggested in paragraph 44, instead of the proposed amendment, the Board could explain in the Basis for Conclusions that an entity should apply AASB 1 for the first-time adoption of Australian Accounting Standards in its separate financial statements and, if different, then also for its consolidated financial statements.

Question for Board members

- Q7 Do Board members agree with the recommendation in paragraph 51 that whilst the proposed amendment to AASB 1053 might not be strictly necessary, the proposed amendment is helpful to stakeholders, and therefore the Board should proceed with the proposed amendment? If not, what do Board members suggest?

Use of the term 'entity'

- 53 Whilst not directly related to ED 315, KPMG suggested that "AASB 1053 would benefit from some further clarity around the use of the term 'entity.' This may help with interpretation of the intended meaning of the first-time adoption and reapplication of Australian Accounting Standards paragraphs of the Standard." For example, in a scenario where a group prepares consolidated financial statements in year one then prepares separate financial statements only in year two, in year three, certain transition and application requirements in AASB 1053 may not be able to be applied due to their drafting.

Staff analysis and recommendation

- 54 Whilst clarifying or defining the term entity could resolve some possible challenges in applying AASB 1053, these challenges are not directly related to the removal of SPFS or the reporting entity concept. Accordingly, staff are of the view that these issues are outside the scope of the current project. Staff recommend that the issues of the first-time adoption and reapplication requirements in AASB 1053 are considered as part of a post-implementation review (PIR). This approach would allow staff to consider these possible issues in more detail, including understanding how prevalent or significant they might be and any consequences that might arise from clarifying the term entity.

Question for Board members

- Q8 Do Board members agree with the recommendation in paragraph 54 that whilst clarifying or defining the term entity could resolve some possible challenges in applying AASB 1053, it is more appropriate to consider the first-time adoption and reapplication requirements in AASB 1053 as part of a PIR? If not, what do Board members suggest?

Scope of the proposed amendment

- 55 EY, Deloitte and one other respondent (a technical adviser) provided feedback that, in their view, the scope of the proposed amendment is too narrow.
- 56 EY suggested that the proposed amendment, particularly paragraph 20A(b), is too narrow as there could be additional circumstances where an entity could become a first-time adopter in its consolidated financial statements either because it is no longer entitled to the exemption or may choose not to use the exemption.
- 57 Deloitte and one other respondent (a technical adviser) suggested that proposed paragraph 20A should also be available to NFP entities:

- (a) Deloitte acknowledges the Board's rationale for limiting the proposed amendment to for-profit private sector entities (i.e. because NFP entities are not currently affected by the removal of SPFS and the reporting entity concept, and accordingly, the proposals should be limited to entities within the scope of AASB 2020-2). However, in their view, AASB 2020-2 primarily deals with the removal of SPFS for private sector for-profit entities, rather than the requirements for NFP entities already preparing GPFS in accordance with Tier 2 – Reduced Disclosure Requirements. As a result, they believe a broadening of the scope of the amendments to AASB 1053 is appropriate and will avoid any unforeseen impacts on NFP entities; and
- (b) the other respondent is aware of NFP entities preparing unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS and is of the view that they should have the same relief as for-profit entities if they were to move to consolidated Tier 2 – Simplified Disclosures GPFS.

Staff analysis and recommendation

- 58 Staff acknowledge EY's feedback in paragraph 56 that there could be other circumstances where an entity could become a first-time adopter and would be unable to apply the proposed amendment. However, staff suggest that as those circumstances are not directly related to the removal of the SPFS or the reporting entity concept, it might be more appropriate to consider them as part of a PIR.
- 59 Staff also acknowledge Deloitte and the other respondent's feedback in paragraph 57 and agree that for-profit and not-for-profit (NFP) entities are affected by the replacement of Tier 2 – Reduced Disclosure Requirements GPFS with Tier 2 – Simplified Disclosures GPFS. Staff also acknowledge that the scope of the proposed relief in ED 315 was limited to for-profit private sector entities for consistency with AASB 2020-2 and that the context of AASB 2020-2 was the removal of special purpose financial statements.
- 60 However, the removal of the reporting entity concept does not affect NFP entities at this time, and the relief (as drafted, and if extended) would only apply to a NFP entity that was preparing unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS that then prepared consolidated Tier 2 – Simplified Disclosures GPFS. As NFP entities can continue to deem themselves to be non-reporting entities, apply the exemption in AASB 10 paragraph AusCFAus4.2 and prepare unconsolidated Tier 2 – Simplified Disclosures GPFS should they choose to, in staffs' view the preparation of consolidated financial statements should be a considered decision made by the entity (including any 'consequences' of doing so).
- 61 Staff acknowledge that it is also possible a NFP entity may no longer be able to deem themselves to be a non-reporting entity and would be required to prepare consolidated financial statements. However, staff do not expect this to be common and note that such a scenario would have existed historically (i.e. before any relief was contemplated by the Board). Therefore, such a scenario is arguably not a new circumstance for NFP entities to consider.
- 62 Therefore, staff recommend that the proposed amendment remain limited to certain for-profit private sector entities.

Question for Board members

- Q9 Do Board members agree with the recommendation in paragraph 58 that whilst there might be other circumstances where an entity could become a first-time adopter in its consolidated financial statements, as those circumstances are not directly related to the removal of the SPFS or the reporting entity concept, they should be considered as part of a PIR? If not, what do Board members suggest?

Q10 Do Board members agree with the recommendation in paragraph 62 that the scope of the proposed amendment should remain limited to certain for-profit private sector entities only? If not, what do Board members suggest?

Next Steps

63 Subject to Board member agreement with the staff recommendations in this paper, staff recommend preparing a pre-ballot draft version of an Amending Standard for Board member comments and consideration before proceeding to the ballot draft version for voting. Therefore, staff suggest the following timeline:

Staff to prepare a pre-ballot draft version of the Amending Standard for consideration out-of-session (two-week comment period).	Week commencing 14 March 2022
Comments on the pre-ballot draft version of the Amending Standard are due.	Week commencing 28 March 2022
Staff to finalise a ballot draft version of the Amending Standard, incorporating any feedback from Board members on the pre-ballot draft version.	Week commencing 28 March 2022
Staff to circulate a ballot draft version of the Amending Standard for out-of-session voting (one-week voting period).	Week commencing 4 April 2022
Votes on the ballot draft version of the Amending Standard are due.	Week commencing 11 April 2022
Staff to finalise and issue the Amending Standard.	Week commencing 18 April 2022

Questions for Board members

Q11 Do Board members agree with the staff recommendation in paragraph 63 to prepare a pre-ballot draft version of the Amending Standard for comments before proceeding to a ballot draft version? If not, what do Board members suggest?

Q12 Do Board members have any other comments on the suggested next steps and timeline?