[Draft] AASB Consultation Paper February 2018

Conceptual Framework for Financial Reporting – Application of the IASB's Revised *Conceptual Framework* in Australia

Comments to the AASB by:

- 31 March 2018 for Part 1 *Short-term Approach*; and
- 31 August 2018 for Part 2 *Longer-term Approach* (refer to inside cover)

Australian Government
Australian Accounting Standards Board

How to Comment on this AASB Consultation Paper

Comments on Part 1 - Short-term approach and Appendix A of this Consultation Paper are requested by 31 March 2018

Comments on Part 2: Longer-term approach of this Consultation Paper are requested by 31 August 2018

Formal Submissions

Submissions should be lodged online via the "Work in Progress – Open for Comment" page of the AASB website (www.aasb.gov.au/comment) as a PDF document and, if possible, a Word document (for internal use only).

Other Feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@aasb.gov.au
Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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CONSULTATION PAPER

CONCEPTUAL FRAMEWORK **FOR FINANCIAL REPORTING – APPLICATION OF THE IASB'S REVISED** ***CONCEPTUAL FRAMEWORK*** **IN AUSTRALIA**

Introduction

Australian Accounting Standards

1 The Australian Accounting Standards Board (AASB) develops, issues and maintains Australian Accounting Standards, including Interpretations. The AASB is a Commonwealth entity under the *Australian Securities and Investments Commission Act 2001*.

2 AASB 1057 *Application of Australian Accounting Standards* identifies the application of Standards to entities and financial statements. AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements.

Consultation Paper

3 The publication of a Consultation Paper is part of the due process that the AASB follows before making a new Australian Accounting Standard or amending an existing one. Consultation Papers are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

Why are we making these proposals?

Objective

4 The objective of this Consultation Paper is to propose a short-term and a longer-term approach for making the International Accounting Standards Board's (IASB's) revised *Conceptual Framework* applicable in Australia. The longer-term approach will remove the AASB's reporting entity concept outlined in Statement of Accounting Concept (SAC) 1 *Definition of the Reporting Entity* as it conflicts with the IASB's revised *Conceptual Framework* reporting entity concept.

5 The consequential impact of the longer-term approach will be to remove the ability to prepare special purpose financial statements (SPFSs) when a regulator requires preparation of financial statements that comply with accounting standards. The short-term approach maintains IFRS compliance for publicly accountable for-profit private sector entities and maintains the status quo for other entities to enable the AASB to adequately consult on the impact of the proposals.

Background

6 The AASB's *Framework for the Preparation and Presentation of Financial Statem*ents ('existing *Framework*') incorporates the *Conceptual Framework for Financial Reporting* ('current *Conceptual Framework*') as issued by the IASB in July 2004 and revised in 2013.

7 However, there are some important topics, for example, Measurement, Presentation and Disclosure that are not covered in the IASB's current *Conceptual Framework*. The IASB's current *Conceptual Framework* is also unclear and out of date in some of its guidance, for example, on what role 'uncertainty' should play in decisions about recognition and measurement and when assets and liabilities should be recognised. In light of this, the IASB, in 2013, embarked on the latest phase of its project to revise its current *Conceptual Framework* to provide a more complete, clear and up-to-date set of underlying concepts for IFRS Standards.

8 After considering feedback from companies, investors and regulators, the IASB is finalising its revisions to its current *Conceptual Framework* and a revised *Conceptual Framework* ('revised *Conceptual Framework*') is expected to be issued in March 2018. The IASB has tentatively decided that the IASB and the IFRS Interpretations Committee will start using the revised *Conceptual Framework* once issued.

9 The revised *Conceptual Framework* will also result in consequential amendments to IFRS Standards that make reference to it. The IASB tentatively confirmed that the transition period for these consequential amendments will be approximately 18 months after the issue of the revised *Conceptual Framework*.

Issues with revising the existing *Framework* to incorporate the IASB's revised *Conceptual Framework*

10 To enable publicly accountable for-profit private sector entities in Australia to state that they are IFRS compliant, the AASB has to issue the IASB's revised *Conceptual Framework* in Australia. This is because paragraph 11 and the related footnote 3 in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* state that when applying judgement in developing and applying accounting policies, management shall refer to the existing *Framework*. To enable IFRS compliance for publicly accountable for-profit private sector entities, this paragraph needs to be amended to refer to a revised AASB *Framework*, which incorporates the IASB's revised *Conceptual Framework*. This would align with the Financial Reporting Council's (FRC's) strategic directive that requires the AASB to adopt accounting standards that are the same as those issued by the IASB for such entities.

11 It is also worth noting that paragraph 12 of AASB 108 permits management to also 'consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework…to the extent that these do not conflict with the sources in paragraph 11'. However, the revised *Conceptual Framework* does conflict with the existing *Framework* as it introduces new topics and concepts (for example Measurement and the 'Reporting Entity' - discussed in more detail below). It also provides revised and updated guidance on several other areas like recognition of assets and liabilities. As such, if references in Australian Accounting Standards, for example AASB 108, are not updated to refer to the revised *Conceptual Framework*, then there would be a perception of non-compliance with IFRS Standards.

12 As mentioned above, the revised *Conceptual Framework* will have a chapter on 'Financial Statements and the Reporting Entity' which defines a 'reporting entity' differently from the notion of 'reporting entity' referred to in Australian Accounting Standards.

13 The term 'reporting entity' in the revised *Conceptual Framework* refers to a circumscribed area of economic activities that could be reported in a set of general purpose financial statements (GPFSs). In other words, a reporting entity per the revised *Conceptual Framework* could be a single entity, a portion of an entity or a group of entities, in which case consolidated financial statements would be prepared. Accordingly, references to reporting entity in the revised *Conceptual Framework* are about the boundary of the economic activities that would be included in a set of GPFSs.

It is also worth noting that the use of the term reporting entity in the revised *Conceptual Framework* is consistent with the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* published by the International Public Sector Accounting Standards Board (IPSASB) in 2014. The IPSASB's *Conceptual Framework* defines a public sector reporting entity as 'a government or other public sector organisation, program or identifiable area of activity that prepares GPFSs'.

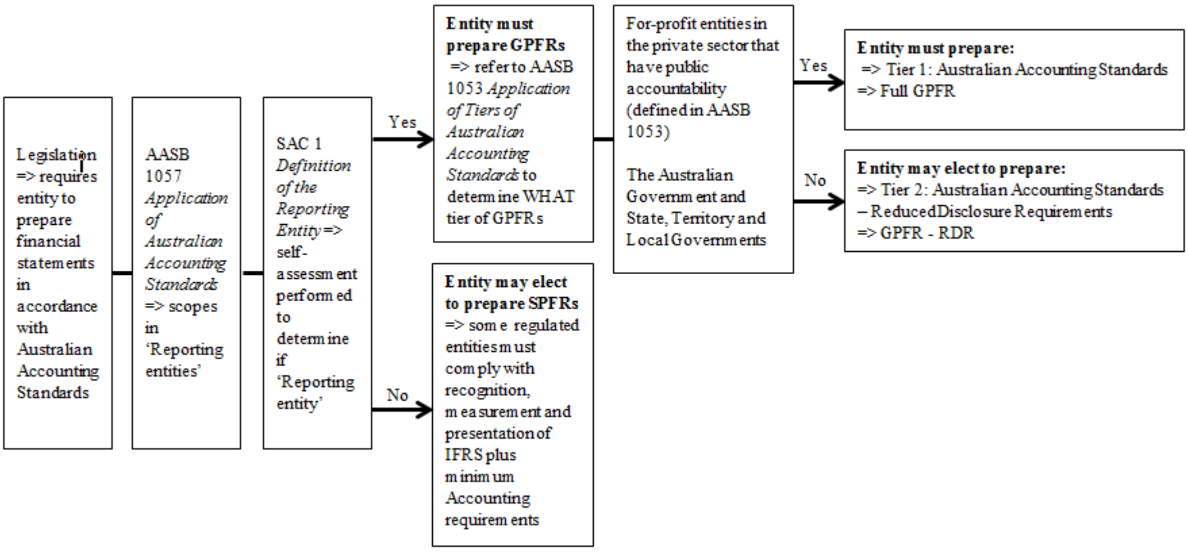
14 The use of the term 'reporting entity' in Australian Accounting Standards, for example AASB 1057 and AASB 1053 refer to entities that are required to prepare GPFSs because they have users who depend on the GPFSs to make decisions. This concept was introduced in Australia through the publication of Statement of Accounting Concept (SAC) 1 *Definition of the Reporting Entity* in 1990. SAC 1 created a notion of differential reporting in Australia by distinguishing reporting entities from non-reporting entities. The use of the term 'reporting entity' in Australian Accounting Standards is consistent with the definition of 'general purpose financial statements' in IAS 1 *Presentation of Financial Statements* which states that 'General purpose financial statements (referred to as 'financial statements') are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.' However, IAS 1 does not determine 'who' needs to prepare GPFSs nor does any other IFRS Standards. The IASB relies on regulators of the jurisdictions that adopt IFRS to specify which entities should prepare GPFS through legislation. This is expressed in paragraph BC3.16 of the *Basis of Conclusion on Conceptual Framework for Financial Reporting* which points out that the revised *Conceptual Framework* '…provides a general description of a reporting entity, rather than stating who must, should or could prepare general purpose financial statements. The Board has no authority to determine who must, should or could prepare such statements.' The IASB's presumption is that regulators requiring entities to comply with IFRS must prepare GPFSs.

15 In Australia, current legislation generally requires specified entities to prepare financial statements in accordance with Australia Accounting Standards. The reporting entity concept is given effect by AASB 1057, which only requires 'reporting entities' to prepare GPFSs. If an entity self-assesses itself (via the criteria in SAC 1) to not be a reporting entity, it can elect to prepare SPFSs, which need not comply with

Australian Accounting Standards (other than a limited number[1]). AASB 1053 sets out that there are currently two tiers of GPFS with both requiring compliance with all recognition and measurement requirements of Australian Accounting Standards but different levels of disclosure. AASB 1053 distinguishes those entities required to prepare full GPFS (Tier 1) and those entities which may elect to prepare GPFS with reduced disclosures requirements (Tier 2). This distinction is based on the IASB's concept of 'public accountability'. Accordingly, in Australia, there has been no presumption that regulators requiring preparation of financial statements require those financial statements to be GPFSs.

16 Figure 1: *Flowchart depicting the application of Australian Accounting Standards to determine who should report and what level of reporting* depicts how entities in Australia are required to self-assess to determine whether they are reporting entities, which then means that they must prepare GPFSs. In other words, the references to reporting entity in Australian Accounting Standards like AASB 1057 and AASB 1053 address the questions of **who** should report GPFSs rather than **what is the boundary** of the GPFSs. As such, the use of the term reporting entity in the Australian Accounting Standards is quite different from what is used in the revised *Conceptual Framework* (and also the IPSASB's *Conceptual Framework*).

17 Figure 1 – Flowchart depicting the application of Australian Accounting Standards to determine who should report and what level of reporting



18 It is imperative for the revised *Conceptual Framework* to be issued in Australia so that publicly accountable for-profit private sector entities can maintain IFRS compliance. However, as indicated in paragraphs 11 to14, the revised *Conceptual Framework* has a definition of a 'reporting entity' that is different from the definition of reporting entity in Australian Accounting Standards and SAC 1. Accordingly, issuing the revised *Conceptual Framework* in Australia without removing the references to 'reporting entity' in SAC 1 and Australian Accounting Standards would result in having conflicting definitions of 'reporting entity' within the Australian Accounting Standards, SAC 1 and the revised *Conceptual Framework*, which in turn would cause confusion for preparers and users of financial statements.

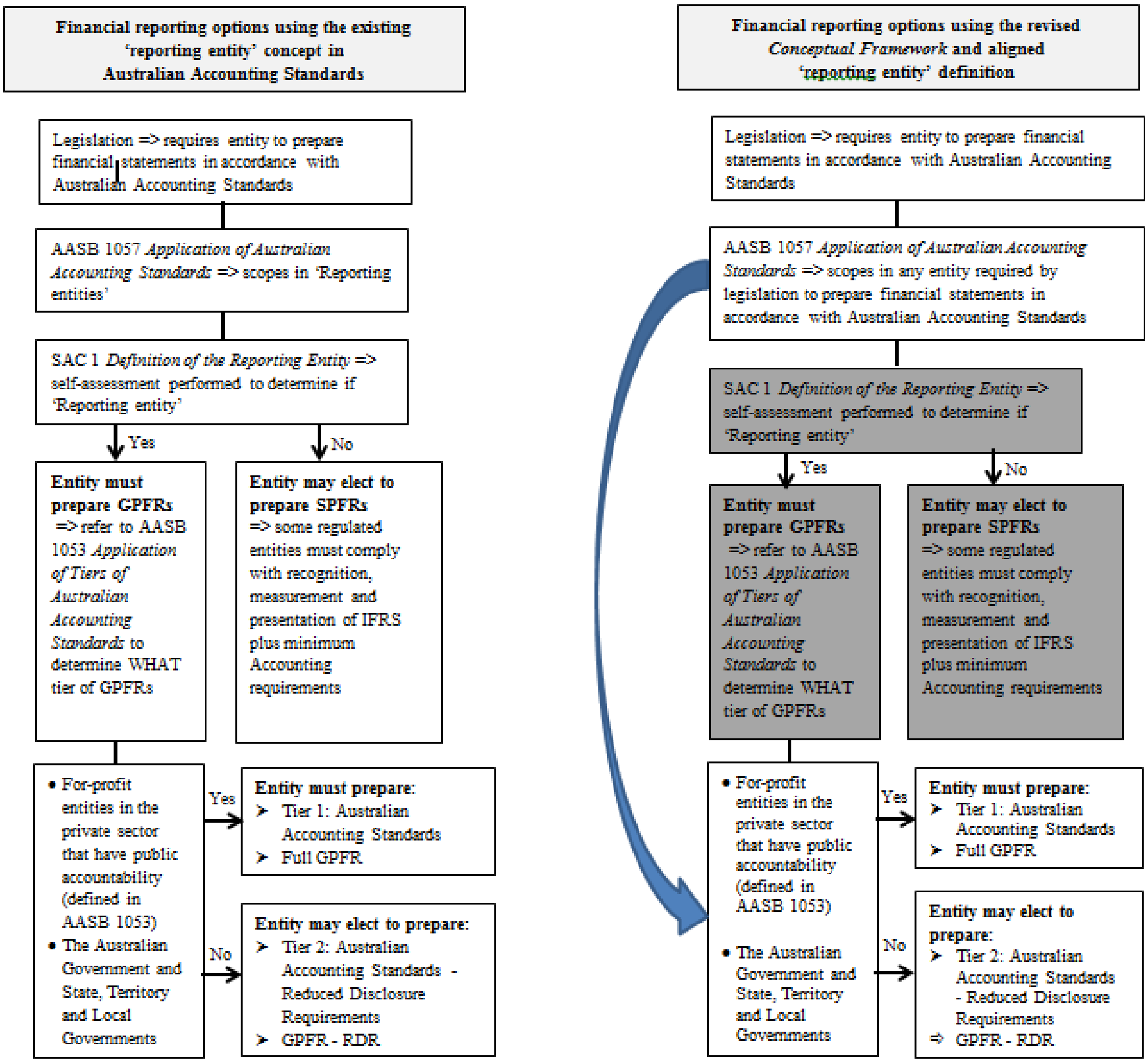
Specific issues for entities that are not preparing GPFSs

19 If the references to 'reporting entity' are removed from Australian Accounting Standards to ensure there is no confusion about what the term 'reporting entity' means when the revised *Conceptual Framework* is issued in Australia, this would mean that all entities that publicly lodge financial statements in accordance with Australian Accounting Standards would have to prepare GPFS and apply the requirements of all the Australian Accounting Standards, where relevant. In other words, entities that are currently self-assessing as non-reporting entities and preparing special purpose financial statements (SPFSs) would no longer be able to

[1] Australian Securities & Investments Commission's (ASIC's) Regulatory Guide (RG) 85: *Reporting requirements for non-reporting entities* applies the following Australian Accounting Standards to all entities required to prepare a financial report in accordance with Chapter 2M of the Corporations Act 2001, whether they are reporting entities or not: AASB 101 *Presentation of Financial Statements*; AASB 107 *Statement of Cash Flows*; AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*; AASB 1048 *Interpretation of Standards*; and AASB 1057 *Application of Australian Accounting Standards*.

do so. This is because, with the removal of the term 'reporting entity' in AASB 1057, all Australian Accounting Standards, as referred to in AASB 1057, would apply to all entities that have to publicly lodge their financial statements in accordance with Australian Accounting Standards. This is depicted in Figure 2 below.

20 **Figure 2 – Flowchart depicting the financial reporting options available to other entities in terms of existing Australian Accounting Standards compared with the financial reporting options available when Australian Accounting Standards are revised to align with the revised *Conceptual Framework*.**



21 The AASB notes that the removal of the 'reporting entity' term and definition from AASB 1057 and other Australian Accounting Standards may result in additional costs for entities that have currently assessed themselves to be non-reporting entities and preparing SPFSs as they would then need to prepare GPFSs. This is not an outcome that the AASB would like to impose on these entities without extensive consultation and engagement with stakeholders and regulators and applying necessary due process.

22 The AASB also notes that it is currently undertaking a major project on reshaping the Australian Financial Reporting Framework for entities in all sectors (ie for-profit and not-for profit private sector entities as well as public sector entities). As such, the AASB strongly prefers that any removal of the term 'reporting entity' from Australian Accounting Standards is done as part of its work in the Australian Financial Reporting Framework project, in collaboration with key stakeholders and regulators in all sectors.

What are we proposing?

23 The AASB proposes, as an interim, short-term approach, having two *Conceptual Frameworks* as outlined below:

(a) A revised AASB *Conceptual Framework*; which incorporates the IASB's revised *Conceptual Framework*, applicable to publicly accountable for-profit private sector entities; and

(b) existing AASB *Framework*, applicable to all other entities.

24 Publicly accountable[2] for-profit private sector entities (for example publicly listed entities or entities that hold assets in a fiduciary capacity like a financial institution) are currently required to prepare GPFSs in accordance with Tier 1 reporting requirements (which incorporate all requirements in IFRS Standards) in accordance with AASB 1053. This enables these entities to state compliance with IFRS. Hence the short-term approach would ensure these entities can continue to state compliance with IFRS and, as these entities already prepare Tier 1 GPFSs, the short-term approach would not impose any additional reporting burden on these entities. The short-term approach would also align with the FRC's strategic directive for AASB to adopt accounting standards that are the same as those issued by the IASB for such entities. Further, Australian constituents have expressed strong support for compliance with IFRS for publicly accountable for-profit private sector entities as detailed in AASB Research Report No. 4*: Review of Adoption of International Financial Reporting Standards in Australia*[3] (refer below to Part 1 - Short-term Approach of this Consultation Paper for more details).

25 The short-term approach would also maintain the status quo for all other entities ('other entities'). This ensures entities that are currently preparing SPFSs can continue to do so as the references to 'reporting entity' in AASB 1057, other the Australian Accounting Standards and SAC 1 would not be removed for these entities (refer below to Part 1 – Short-term approach of this Consultation Paper for more details).

26 The AASB acknowledges that the approach of having two *Conceptual Frameworks* would lead to confusion about which *Conceptual Framework* applies to which entities, and this in turn could possibly lead to diversity of application. Therefore, having two *Conceptual Frameworks* can only be an interim, short-term approach. A longer-term approach proposed by the AASB is to move towards having a single *Conceptual Framework* for all entities. As indicated in paragraph 22, the AASB is currently working on the Australian Financial Reporting Framework project which aims to engage with regulators and encourage legislative changes to indicate 'who' should publicly lodge GPFSs. However, legislative changes can prove to be an onerous and lengthy process and so this may necessitate the AASB adopting the longer-term approach proposed in Part 2 of this Consultation Paper. The longer-term approach includes a number of options to amend AASB 1053 to minimise the reporting burden for other entities, so that the revised *Conceptual Framework* can be applied to all entities.

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2 The term 'public accountability' is defined in AASB 1053 and this definition is referenced from the IFRS for SMEs Standard. In 2015, the definition of public accountability was revised in IFRS for SMEs, as follows:
'An 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.'

3 For the full report, see [AASB Research Report No. 4: Review of Adoption of International Financial Reporting Standards in Australia]

Part 1 Short-term Approach

Short-term Approach proposed in this Consultation Paper

27 The AASB is, as an interim short-term approach, proposing having two *Conceptual Frameworks* as outlined below:

(a) a revised AASB *Conceptual Framework*; , which incorporates the IASB's revised *Conceptual Framework*, applicable to publicly accountable for-profit private sector entities; and

(b) existing AASB *Framework*, applicable to all other entities.

28 This would allow publicly accountable for-profit private sector entities to immediately apply the revised *Conceptual Framework* and remain IFRS compliant. It would also maintain the status quo for other entities, including those that are currently preparing SPFS.

29 As part of Stage 1, the AASB is proposing amendments to SAC 1 and the following four Australian Accounting Standards:

(a) AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;

(b) AASB 1057 *Application of Australian Accounting Standards*;

(c) AASB 1053 *Application of Tiers of Australian Accounting Standards*; and

(d) AASB 1048 *Interpretation of Standards*.

30 The proposed amendments will ensure that there are no conflicts with Australian Accounting Standards when the revised *Conceptual Framework* becomes applicable for publicly accountable for-profit private sector entities. Specific details of the amendments to SAC 1 and the above mentioned standards are set out in Appendix A of this Consultation Paper.

Relative merits of the Short-term Approach

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Advantages (refer to paragraph 24 above)	**Disadvantages**
• Publicly accountable for-profit private sector entities can continue to be IFRS compliant whilst not having any additional reporting burden as they are already doing Tier 1 GPFSs. • Enabling publicly accountable for-profit private sector entities to be IFRS compliant is consistent with: o feedback received from constituents when AASB conducted a review of IFRS adoption in Australia; and o FRC directive for AASB to adopt same accounting standards as those issued by IASB. • Minimal impact (if any) on other entities since this approach retains the use of the existing *Framework* and the use of the t reporting entity concept and definition in Australian Accounting Standards and SAC 1 for these entities. • Short-term approach contributes towards the first efforts to align the reporting entity definition with other international frameworks. • This approach provides time for legislators, regulators, AASB and other key stakeholders to work together to reshape the Australian Financial Reporting Framework through extensive consultation and changes in legislation.	• The short-term approach would result in two concurrent *Conceptual Frameworks* that are applicable to different entities • This may cause confusion for preparers of financial statements and increases the risk of inaccurate financial reporting outcomes. • The reporting entity concept is retained for other entities. AASB Research Report No 1 provides empirical evidence which suggests that the basis on which this concept is applied is not consistent. Other shortcomings of the reporting entity concept include the: o significant judgment it requires; o difficulty to enforce it; and o view that it is not well understood by preparers or users. • This approach retains the ability for other entities to prepare SPFSs. Appendix C to the Charity Discussion Paper identified a number of shortcomings of SPFSs. A particular criticism of SPFSs is the variability in recognition, measurement and disclosures. Another shortcoming that was highlighted in Charity Discussion Paper is the view that SPFSs do not provide a level playing field because entities with similar economic circumstances are not consistently preparing GPFSs which reduces comparability and transparency.

Who would be affected?

Publicly accountable for-profit private sector entities

32 All publicly accountable for-profit private sector entities would be required to apply a revised *Conceptual Framework* which would incorporate the revised *Conceptual Framework* issued by the IASB. SAC 1, AASB 108, AASB 1048, AASB 1053 and AASB 1057 would be amended to enable this. The proposed amendments are set out in the Appendix. A consequence of these amendments would be that the references to 'reporting entity' and the definition of reporting entity in SAC 1 and other Australian Accounting Standards would no longer apply to publicly accountable for-profit private sector entities. However, this would not have any impact on these entities as they currently prepare full GPFSs (Tier 1) in accordance with the Australian Accounting Standards.

Other entities

33 All other entities would not be impacted by the short-term approach as the existing *Framework*, and the existing reporting entity references and definition in Australian Accounting Standards, would continue to apply to these entities. This means that other entities would still have the ability to prepare SPFSs

What happens next?

34 The AASB will consider feedback received on Part 1 of this Consultation Paper. Based on the information received, the AASB will determine whether the proposals should be finalised in the form of a Standard.

We need your feedback

35 Comments are invited on the proposals in Part 1 of this Consultation Paper by 31 March 2018. Submissions play an important role in the decisions that the AASB will make. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue.

Specific matters for comment

36 The AASB would particularly value comments on the introduction, Part 1 and Appendix A:

Do you agree with the short-term approach to introduce the *Conceptual Framework* in Australia? That is, do you agree that the revised *Conceptual Framework* should be applicable for publicly accountable for-profit private sector entities and the existing *Framework* should continue to be applicable to other entities in the short-term until a longer-term solution is implemented? Please indicate reasons for your response and if you disagree, please provide suggestions for an alternative approach for the AASB to consider.

(a) Do you agree with the proposed amendments to SAC 1 *Definition of the Reporting Entity* and the following Australian Accounting Standards, as set out in the Appendix:

- (i) AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- (ii) AASB 1048 *Interpretation of Standards*;
- (iii) AASB 1053 *Application of Tiers of Australian Accounting Standards*; and
- (iv) AASB 1057 *Application of Australian Accounting Standards*.

General matters for comment

37 The AASB would also value comments on the following general matters with respect to the introduction, Part 1 and Appendix A of this Consultation Paper:

(a) Whether the AASB's Not-for-Profit Entity Standard Setting Framework [draft] has been applied appropriately in developing the proposals in the introduction, Part 1 and Appendix A of this Consultation Paper.

(b) Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Financial Statistics (GFS) implications.

(c) Whether, overall, the proposals would result in financial statements that would be useful to users.

(d) Whether the proposals are in the best interests of the Australian economy.

(e) Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

Part 2 Longer-term Approach

What are we proposing?

The need for a longer-term approach

38 As noted in paragraph 26 above, the key issue with the AASB's short-term approach of having two Conceptual Frameworks in Australia, ie issuing a revised *Conceptual Framework* for publicly accountable for-profit private sector entities, whilst retaining the existing *Framework* for other entities, is that it would lead to confusion about which *Conceptual Framework* applies to which entities, which in turn could lead to diversity of application (ie the risk of applying the wrong Conceptual Framework).

39 The longer-term approach of having a single *Conceptual Framework* for all entities and across all sectors is also consistent with:

(a) the FRC's strategic directive that requires the AASB to work towards the adoption of accounting standards that are the same as those issued by the IASB;

(b) s229 of the *Australian Securities and Investments Commission Act 2001* (ASIC Act), which requires the AASB to consider the suitability of a proposed standard for different types of entities and to ensure there are appropriate accounting standards for each type of entity that must comply with accounting standards; and

(c) maintaining transaction neutrality, as detailed in the AASB's Standard-Setting Frameworks, whereby like transactions and events should be accounted for in a like manner for all types of entities, reflecting their economic substance, unless there is a justifiable reason not to do so.

40 As such, in consideration of the factors discussed in paragraph 38 and 39 above, it is essential in the longer-term to move to a single *Conceptual Framework* that is applicable to all entities that publicly lodge financial statements prepared in accordance with the Australian Accounting Standards

Ideal long-term approach – change through legislation and regulations

41 Ideally, changes in legislation and accompanying regulation would facilitate the application of one *Conceptual Framework* in Australia that is applicable to all entities that publicly lodge financial statements prepared in accordance with Australian Accounting Standards. Specifically, changes to the legislation and regulations to stipulate 'who' (ie which entities) should publicly lodge their financial statements and 'what' they should report.

42 The AASB is playing a leading role in trying to make this happen via its *Australian Financial Reporting Framework* project (refer to Financial_Reporting_Framework_Project_Summary.pdf). Specifically, the AASB is working with regulators and government policy-makers to develop research and consultation papers for the not-for-profit private sector (for example charities), public sector and the for-profit private sector. In doing so, the AASB is gathering feedback from stakeholders on which entities should be required to prepare and lodge financial statements and the financial reporting requirements that would apply to these financial statements (perhaps even a simplified additional tier ie Tier 3).

43 Also of relevance is the Australian Charities and Not-For-Profit Commission's (ACNC's) submission to the review of the Australian Charities and Not-For-Profit Commission legislation[4], which noted concerns in relation to the current reporting framework for charities due to the subjective nature of the reporting entity concept and its practical application. The ACNC submission also questioned whether registered charities should continue to have the option of providing SPFSs.

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4 To view the full ACNC submission to the *Review of the operation of the Australian Charities and Not-for-profits Commission Act 2012 (Cth) and the Australian Charities and Not-for-profit Commission (Consequential and Transitional) Act 2012 (Cth)*, (refer https://www.acnc.gov.au/CMDownload.aspx?ContentKey=8771baeb-781b-4fa8-be74-4627370d9435&ContentItemKey=1c09cb53-7a32-4099-8199-328e5cfd2079).

44 Unfortunately, effecting change through legislation and accompanying regulations is an onerous and time-consuming process. This is consistent with the feedback that the AASB received when it issued AASB Discussion Paper: *Improving Financial Reporting for Australian Charities* and conducted roundtables and outreach sessions with key stakeholders in the sector.

45 Therefore, although the AASB will still proceed with its *Australian Financial Reporting Framework* project and strive for changes in legislation and accompanying regulations on 'who' should report publicly and 'what' should be reported, the AASB considers that it should propose an alternative longer- term approach to have a single *Conceptual Framework* in the event that changes through legislation and accompanying regulations do not happen in the foreseeable future. This is the longer-term approach that is outlined below.

Longer-term Approach proposed in this Consultation Paper

46 The AASB is proposing the following longer-term approach:

(a) publicly accountable for-profit private sector entities will continue to use the revised *Conceptual Framework* which incorporates the IASB's revised *Conceptual Framework*;

(b) the revised *Conceptual Framework* will be made applicable to other entities preparing financial statements in accordance with the Australian Accounting Standards, after amendments are made to SAC 1, AASB 1057 and other Australian Accounting Standards [5] to remove references to the 'reporting entity'.

(c) the Tier 2 framework in AAB 1053 will be revised to include one of the following options (these options are described in more detail in paragraph 51):

(i) Option 1 – GPFS - Reduced Disclosure Requirements (RDR) – Existing Tier 2 (full recognition and measurement with reduced disclosures from each Accounting Standard);

(ii) Option 2 – GPFS – Specified Disclosure Requirements (SDR) – New Tier 2 (full recognition and measurement with specified disclosures from some Accounting Standards); or

(iii) Option 3 - GPFS - IFRS for Small and Medium-Sized Entities (IFRS for SMEs) – New Tier 2 with modified recognition, measurement and disclosure.

(d) Consequential amendments to AASB 1048 *Interpretation of Standards* and other Standards will be required as a result of changes in paragraph 46(a)-(c) (these will be detailed in the next phase of the consultation process, once the option for revising Tier 2 has been determined); and

Transitional relief would be provided for entities moving from SPFS to GPFS and from one tier to another (transitional reliefs are described in more detail in paragraph 52).

47 The overarching benefit of this proposal is that regardless of which Tier 2 option is determined, all entities required to publicly lodge financial statements will be required to prepare transparent and comparable financial statements benefitting users. Preparers will have a simpler, objective and more transparent system with a level playing field. Regulators will have enforceable accounting standard requirements. Whilst there may be additional transitional costs, the AASB is proposing to assist with this by providing considerable transitional relief (detailed in paragraph 52).

Important considerations for a Tier 2 reporting framework

48 In deciding on whether to retain the existing GPFS – RDR – Tier 2 framework or embrace a new Tier 2 framework, consideration must be given on whether the proposed framework facilitates reporting that is transparent, comparable, objective, cost-effective and meets users' needs (including regulators and other key stakeholders). Specific consideration should be given to:

[5] Reporting entity is defined in AASB 1057, other Australian Accounting Standards and SAC 1 which the AASB can amend or remove, to ensure consistency with the term 'reporting entity' after the revised *Conceptual Framework* is made applicable to all entities in Australia as part of the proposed longer-term approach.

(a) **Current legislative requirements -** whether there are any specific legislative or regulatory requirements which define the 'reporting entity' in which case these requirements will also need to be amended when the revised *Conceptual Framework* is made applicable for all entities. The AASB has included a specific matter for comment asking constituents' whether they are aware of any specific legislative or regulatory requirements which may need amendments in paragraph 60. The AASB is also consulting with regulators and policy-makers to research this matter;

(b) **Red-tape reduction** - the Australian Government is committed to reducing red-tape, which means that each option of Tier 2 should be considered from a cost-benefit perspective, whilst striving to achieve international comparability and more transparency amongst like-entities. As such, when proposing options, the AASB has suggested options to maintain international comparability and transparency (ie Options 1 and 2 maintain the recognition and measurement requirements in IFRS and Option 3 is an IASB framework), whilst reducing the reporting burden of other entities through simplified and reduced disclosures; and

(c) **Users' needs** - when considering users' needs, the AASB reflected on the RDR Decision-making Framework, described in Exposure Draft (ED) 277 *Reduced Disclosure Requirements for Tier 2 Entities* (January 2017) including feedback from constituents on that ED (summarised in AASB staff analysis paper *Application of proposed RDR decision-making framework in AASB ED 277 to accounting standards and interpretations – Australian perspective)*, together with consideration of what reporting users' need, discussed in *AASB Discussion Paper: Improving Financial Reporting for Australian Charities*. In doing so, the AASB has aimed to balance users' needs with the Australian Government's aim to reduce red tape and cost-benefit considerations described in paragraph **Error! Reference source not found.**(b) above.

49 This Consultation Paper is seeking constituents' views on three possible options for Tier 2 reporting (detailed in paragraph 51 below). A list of advantages and disadvantages has been provided under each option in order to give some insight into the types of issues that should be considered in assessing the suitability for a revised Tier 2 framework in particular circumstances. This list of advantages and disadvantages is not exhaustive.

50 It should also be noted that the AASB has not made any recommendations within this Consultation Paper on which option it prefers. Instead, the AASB will publish an Exposure Draft after considering feedback received on this Consultation Paper and on similar matters contained in related projects including the AASB's *Australian Financial Reporting Framework* project.

Tiers of reporting GPFS in accordance with Australian Accounting Standards

51 The AASB is proposing that one[6] of the options described in the following table should be made available in AASB 1053 as tiers of reporting GPFS for other entities (other than publicly accountable for-profit private sector entities) after the revised *Conceptual Framework* is made applicable to all entities preparing and lodging financial statements in accordance with the Australian Accounting Standards ie as outlined in paragraph 46 of this Consultation Paper.

[6] The AASB is proposing only one Tier 2 framework in Australia as part of this longer-term approach. The reason being, there are not enough differences between the options to warrant giving two or more alternatives because the additional choice will lead to reduced comparability in GPFSs prepared by Tier 2 entities.

Option 1	Option 2	Option 3
GPFS – Reduced Disclosure Requirements (RDR) – Existing Tier 2	**GPFS – Specified Disclosure Requirements (SDR) – New Tier 2**	**GPFS – IFRS for Small and Medium-Sized Entities (IFRS for SMEs) – New Tier 2**
What is it		
Apply the existing Tier 2 reduced disclosure reporting requirements under AASB 1053, which requires: • full recognition and measurement requirements, this is consistent with RG 85 as well as the ACNC's expectations to meet a true and fair view as required by legislation; • reduced disclosure requirements (minimum disclosures specified in each standard); and • consolidation of subsidiaries, if the entity is required to prepare consolidated financial statements under AASB 10 *Consolidated Financial Statements*. Noting that this Standard includes an exemption (refer AASB 10 paragraph 4) from preparing consolidated financial statements if certain conditions are met (ie if the parent is a wholly- or partially- owned subsidiary and its owners have been informed and do not object to it not preparing consolidated financial statements, it is not traded in a public market place or a listed entity; and its ultimate or intermediate parent prepares publicly available IFRS-compliant consolidated financial statements). **Additional requirements** to be added to existing GPFS – RDR framework: • service performance reporting, fundraising and administration cost disclosures for not-for-profit entities.	Apply a new GPFS Tier 2 reporting framework. This framework is largely, based on what is currently required in ASIC's Regulation 85 *Reporting requirements for non-reporting entities* ('RG 85'), which is for entities currently lodging SPFSs with ASIC. This option would require: • full recognition and measurement, requirements, this is consistent with RG 85 as well as the ACNC's expectations to meet a true and fair view as required by legislation; • minimum disclosure requirements in specified standards including AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, and AASB 1054 *Australian Additional Disclosures*; • specified disclosures for significant matters, such as related party transactions, liquidity and solvency, commitments and contingencies, impairment, revenue, tax; • consolidation of subsidiaries, if the entity is required to prepare consolidated financial statements under AASB 10 (refer to comments on consolidation under Option 1)[7] and; • service performance reporting, fundraising and administration cost disclosures for not-for-profit entities.	Apply a new GPFS Tier 2 reporting framework, which incorporates the IFRS for SMEs® (as issued by the IASB). IFRS for SMEs® is not currently available for application in Australia for financial statements required by regulation. However it could be applied in other circumstances (eg small proprietary companies). IFRS for SMEs® is a modified and simplified version of full IFRS, which is aimed at meeting the needs of private company financial reporting users. It includes: • limited accounting policy options (ie some topics have limited policy options); • differential recognition and measurement requirements compared with IFRS; • the omission of topics not expected to be relevant to SMEs; and • consolidation of subsidiaries if the entity is required consolidated financial statements (under Section 9 *Consolidated and Separate Financial Statements* within *IFRS for SMEs®* which also includes a scope exemption from preparing consolidated financial statements where the parent is a subsidiary itself and its ultimate parent (or any intermediate parent) produces GPFSs that are fully compliant with IFRS or IFRS for SMEs® **Additional requirements** to be added to existing IFRS for SMEs® framework: • service performance reporting, fundraising and administration cost disclosures for not-for-profit entities.

[7] The AASB notes that RG 85 currently stipulates that only a group that is a reporting entity needs to prepare consolidated financial statements. In other words, many entities currently assessing themselves as non-reporting entities and lodging SPFSs with ASIC do not need to prepare consolidated financial statements. However, given the definition of reporting entity will change when the revised *Conceptual Framework* is issued, the impact in any case will be for all entities required to prepare consolidated financial statements under AASB 10 to consolidate (refer to exemption detailed within Option 1).
It should also be noted that the AASB expects to publish a Research Paper as part of its Australian Financial Reporting Framework project on consolidation and individual financial statements, which will provide research and background information on why consolidated financial statements are useful in decision-making (refer to AASB_Financial_Reporting_Framework_Project_Summary.pdf).

Option 1	Option 2	Option 3
GPFS – Reduced Disclosure Requirements (RDR) – Existing Tier 2	**GPFS – Specified Disclosure Requirements (SDR) – New Tier 2**	**GPFS – IFRS for Small and Medium-Sized Entities (IFRS for SMEs) – New Tier 2**
Advantages		
• This framework maintains the recognition and measurement requirements with full IFRS, which also satisfies the requirements in RG85 and facilitates a 'true and fair view' as is often required by legislation. • This framework provides a significant reduction in disclosure requirements compared to full IFRS. • This is an established framework within AASB 1053, which most entities are familiar with and a number of entities are already applying (ie no change for these entities). • This framework ensures better comparability with entities preparing full IFRS compared to SPFSs and IFRS for SMEs. It is also easier to transition to Tier 1 reporting (ie full IFRS) compared to those other frameworks; and makes consolidation easier for entities that are subsidiaries and need to be consolidated or equity accounted as part of the group's consolidated financial statements. • This framework requires the preparation of consolidated financial statements for entity's meeting the requirements of AASB 10. Refer to the AASB's *Australian Financial Reporting Framework* project[8] where a Research Paper is being prepared on consolidation and individual financial statements, which will provide research and background information on why consolidated financial statements are useful in decision-making. Entities applying this framework do not get to choose what disclosures they want to make (ie the disclosures, though reduced, are clearly specified). As such, there is more transparency, comparability and ability to enforce requirements compared to entities preparing SPFSs. • This framework includes specific	• This will be a prescribed framework which clearly specifies the disclosures required for entities applying it. This will remove ambiguity about what needs to be disclosed in current SPFSs and improve comparability amongst entities reporting under this option. It should also be noted that the prescribed disclosure requirements will be chosen to meet the minimum legislative and regulatory requirements for entities reporting in Australia as well as incorporate disclosures which will be useful for decision-making by users. • Similar to Options 1 and 3, having a prescribed framework will facilitate a more objective preparation process, comparability for users and enables more effective enforcement by regulators. • This framework will require the preparation of consolidated financial statements for entity's meeting the requirements of AASB 10. Refer to the AASB's *Australian Financial Reporting Framework* project[9] where a Research Paper is being prepared on consolidation and individual financial statements, which will provide research and background information on why consolidated financial statements are useful in decision-making. • It is anticipated that this framework will be easier to prepare than GPFS – RDR (Option 1) as disclosure requirements would be clearly specified as relating to only some standards (for example related parties) (ie preparers will not have to plough through all the Standards to determine what disclosures apply to them). That being said, Options 1 and 2 are very similar, just with different approaches to disclosure. • This framework includes specific modifications for not-for-profit private and public sector entities (through additional Australian specific paragraphs). These modifications are also available to entities in these sectors that are otherwise applying full IFRS). • There will be minimal additional costs	• This framework is an established international framework developed by the IASB, which AASB can leverage off. • This framework would remove any ambiguity about what needs to be reported, particularly amongst entities currently preparing SPFSs which would improve comparability. • This framework provides simplified recognition and measurement requirements compared to Options 1 and 2. This could be a cost effective alternative for many entities that currently prepare SPFSs. • For some entities, the simplified recognition and measurement requirements in this Option might appropriately meet the needs of users' of their financial statements and not result in overload of information. • The requirements of IFRS for SMEs are separately contained in a separate Standard/Book. This might make it easier for preparers to identify reporting requirements under this framework compared to preparers using frameworks described in Options 1 or 2. • This framework will require service performance reporting as well as fundraising and administration cost disclosures for not-for-profit entities, which would certainly be relevant to users of financial statements in this sector and would help enhance transparency of social accountability for such entities.

[8] Australian Financial Reporting Framework Project Summary
[9] Australian Financial Reporting Framework Project Summary

Option 1	Option 2	Option 3
GPFS – Reduced Disclosure Requirements (RDR) **– Existing Tier 2**	**GPFS – Specified Disclosure Requirements (SDR)** **– New Tier 2**	**GPFS – IFRS for Small and Medium-Sized Entities (IFRS for SMEs)** **– New Tier 2**
modifications for not-for-profit private and public sector entities (through additional Australian specific paragraphs). These modifications are also available to entities in these sectors that are otherwise applying full IFRS). • This option is consistent with Tier 2 reporting requirements in New Zealand (referred to as NZ IFRS RDR). • This framework will require service performance reporting as well as fundraising and administration cost disclosures for not-for-profit entities, which would certainly be relevant to users of financial statements in this sector and would help enhance transparency of social accountability for such entities.	for corporates who are currently preparing SPFSs, whilst complying with RG 85, as the main change will be the additional disclosures required under this framework. Noting that this framework is based on existing SPFS guidance with additional disclosure requirements necessary to meet users' needs. Additional disclosures have been identified based on feedback the AASB has received from users as part of its consultation on the existing RDR framework (refer to Comment letters to AASB ED 277 *Reduced Disclosure Requirements for Tier 2 Entities*) as well as ACNC submissions in relation to its legislative review (refer to ACNC submission). • This framework will require service performance reporting as well as fundraising and administration cost disclosures for not-for-profit entities, which would certainly be relevant to users of financial statements in this sector and would help enhance transparency of social accountability for such entities.	
Disadvantages		
• This framework contains more onerous disclosure requirements compared with Options 2 or 3. • This framework may be more difficult for preparers to apply (ie to determine what the disclosure requirements are) compared to Options 2 or 3 because preparers applying this framework need to go through each Accounting Standard to determine the disclosure requirements. • Some entities that were previously preparing SPFSs and were not preparing consolidated financial statements would need to prepare consolidated financial statements under this framework. However, the AASB also proposes providing considerable transitional relief for such entities (refer to paragraph 52).	• Some entities that were previously preparing SPSFs may not have been complying with all recognition and measurement requirements and may have transitional costs. • Some entities that were previously preparing SPFSs and were not preparing consolidated financial statements would need to prepare consolidated financial statements under this framework. However, the AASB also proposes providing considerable transitional relief for such entities (refer to paragraph 52). • Entities currently preparing SPFSs would have to provide more disclosure information under this framework than currently providing (as currently these entities only need to comply with the disclosure requirements in AASB 101, AASB 107, AASB 108 and AASB 1054 as a minimum).	• Simplified recognition and measurement within this framework is not consistent with ASIC's view that the full recognition and measurement requirements of accounting standards must be applied in order to give a 'true and fair view' of the financial position and performance of an entity. • Simplified recognition and measurement could disadvantage entities engaging in business combinations or being compared for funding or other reasons with peers applying Tier 1. • Significant modifications or amendments will need to be made to this framework to address Australian specific circumstances (e.g. IFRS for SMEs has a for-profit entity focus so may require substantial rework to ensure that it is applicable to not-for-profit and public sector entities). • Adopting this framework may result in additional short-term costs during the transition period. These transition costs include educating preparers and users, the accounting profession and regulators.

Option 1	Option 2	Option 3
GPFS – Reduced Disclosure Requirements (RDR) – Existing Tier 2	**GPFS – Specified Disclosure Requirements (SDR) – New Tier 2**	**GPFS – IFRS for Small and Medium-Sized Entities (IFRS for SMEs) – New Tier 2**
		• Additional maintenance costs will be required if this framework is adopted in Australia because this framework is introducing Standards which differ from the current suite of AASB Standards. Recognition and measurement exemptions within this framework may not be cost effective enough to warrant moving to this new framework (eg deferred taxes are required). Furthermore, this framework would lead to two sets of standards that would not always be synchronised, given the IASB's intended policy for updating the IFRS for SMEs, but whose relationship would need to be carefully tracked by professionals, commentators and students. • This framework may not meet some of the users' needs (ie insufficient information). Users may also find differing approaches to measuring equity, assets, liabilities and profit or loss compared to Tier 1 confusing. • This framework only undergoes periodic reviews (the first review after two years of adoption and subsequent reviews every three years) compared with Options 1 and 2 which are / will be updated in line with IFRS (at a minimum). • This framework results in reduced comparability with entities who are preparing full IFRS and will be more difficult to transition to Tier 1 reporting (ie full IFRS) because of different accounting policy options, differential recognition and measurement requirements and the disparity of when Standards are being updated (ie periodically versus 'as needs' basis). • Some entities that were previously preparing SPFSs and were not preparing consolidated financial statements would need to prepare consolidated financial statements under this framework (noting that the exception in this framework differs slightly to the exception in AASB 10, which is applicable to Options 1 and 2). However, the AASB also proposes providing considerable transitional relief for such entities (refer to paragraph 52).

Option 1	Option 2	Option 3
GPFS – Reduced Disclosure Requirements (RDR) **– Existing Tier 2**	**GPFS – Specified Disclosure Requirements (SDR)** **– New Tier 2**	**GPFS – IFRS for Small and Medium-Sized Entities (IFRS for SMEs)** **– New Tier 2**
		• Adopting this framework may put additional strain on the resources of smaller accounting firms that have to train staff on the different recognition and measurement requirements of this framework compared to Tier 1. However, after bearing the additional costs of training and updating manuals, there may be savings for firms that only deal with SMEs but this could adversely affect the ability of staff to move across the profession. Note: The AASB had considered IFRS for SMEs as an option for Tier 2 and decided not to pursue that option for the reasons outlined above. Please refer to *Regulation Impact Statement Reducing the Financial Reporting Burden: a second tier of requirements for general purpose financial statements* for more details.

Transitional relief for first-time other entity preparers of a new framework

52 The AASB is proposing considerable transition relief for entities that would be applying a new reporting framework (ie for entities moving from SPFSs to GPFSs) under the longer-term approach. For example, transition relief for consolidation might involve allowing entities to provide an aggregation of their balance sheet and income statement rather than requiring entities to apply the transition requirements for consolidation in AASB 1 *First-time Adoption of Australian Accounting Standards,* which might be quite onerous for some entities. The AASB has included a specific matter for comment asking constituents about the types of relief that would be helpful.

Other options

53 It should be noted that the AASB is not proposing a Tier 3 reporting framework as part of this Consultation Paper as the AASB considers that the regulators would be best placed to determine 'who' or which entities should be required to report GPFSs in a Tier 3 reporting framework. The AASB, through its *Australian Reporting Framework* project (discussed in paragraphs 42 to 45), is strongly encouraging regulators, government policy makers and key stakeholders to determine 'who' should lodge GPFSs and the criteria for different Tiers of GPFSs as they are in the best position in do this. The AASB is also working, as part of the *Australian Reporting Framework* project, to provide options of reporting requirements for the different Tiers of GPFSs, once the regulators have determined the types or criteria for entities in the different Tiers.

54 The introduction of a third tier requires a concept different to public accountability and would likely differ by sector (see *AASB Discussion Paper: Improving Financial Reporting for Australian Charities*).

55 AASB staff have also published a Staff Paper outlining simplified recognition and measurement frameworks, which are available internationally. For example the paper covers frameworks in the United Kingdom and New Zealand and compares them with GPFS - IFRS for SMEs and AASB Standards (refer to Australian Financial Reporting Framework Project Summary). These options could be considered when exploring the options for additional Tiers of GPFS for other entities. The AASB has included a specific matter for comment asking constituents' views on the availability of additional reporting tiers in paragraph 60.

Who would be affected?

Impact of the longer-term approach on publicly accountable for-profit private sector entities

56 Publicly accountable for-profit private sector entities would not be affected by these longer-term proposals, because the revised *Conceptual Framework* would have been made applicable to them as part of the Part 1 - Short-term approach. The longer-term approach does not propose to change this.

Impact of the longer-term approach on other entities

57 All other entities will be affected by the longer-term approach as follows:

(a) Entities that have self-assessed themselves to be non-reporting entities and are currently preparing SPFS will no longer be able to do so. Under the longer-term approach, these entities will need to prepare either (full) GPFS, GPFS – RDR or one of the other GPFS frameworks proposed by the AASB (ie Option 2 GPFS – Specified Disclosure Requirements or Option 3 GPFS - IFRS for SMEs); and

(b) Entities currently preparing either full GPFS or GPFS - RDR may have access to new Tier 2 frameworks for preparing GPFS (ie either Option 2 GPFS – Specified Disclosure Requirements or Option 3 GPFS - IFRS for SMEs) under the AASB's longer-term approach.

What happens next?

58 The AASB will consider feedback received on Part 2 of this Consultation Paper at future meetings and based on the information received and with consideration of feedback received in relation to the Australian Reporting Framework project will determine when and how the longer-term approach should be pursued. The next phase will include development of an Exposure Draft with more specific proposals on the Tier 2 GPFS, including transition provisions, to enable further consultation with stakeholders.

We need your feedback

59 Comments are invited on the proposals in Part 2 of this Consultation Paper by 31 August 2018. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue.

Specific matters for comment

60 The AASB would particularly value comments with respect to Part 2:

(a) Do you agree with the need for the AASB's longer-term approach (described in paragraph 38)? Why or why not?

(b) Do you agree with the AASB's overall longer-term approach (described in paragraph 41) in lieu of changing the legislation and accompanying legislation? Why or why not?

(c) Which of the AASB's three GPFS Tier 2 options (described in paragraph 51) do you prefer? Do you think that Option 3 GPFS – IFRS for SMEs should be made available in Australia for entities to apply, subject to determining the criteria for entities that can apply it? Please give reasons to support your response.

(d) If your preferred option is Option 2 GPFS – SDR (described in paragraph 51) and if that option is made available as an additional Tier 2 for preparing GPFSs in Australia, do you agree we would no longer need Option 1 GPFS – RDR for entities able to apply Tier 2 in Australia? Why or why not?

(e) Do you have any other suggested options for the AASB to consider as an additional GPFS Tier 2? Please explain rationale (including advantages and disadvantages).

If the AASB implements one of the three proposed options (described in paragraph 51) as an additional GPFS Tier 2, what additional transitional relief do you think would be helpful (in addition to what is available in AASB 1)? Please provide specific examples and information.

APPENDIX

Proposed amendments to pronouncements

Preface

This Appendix includes proposed amendments to Australian Accounting Standards and Statement of Accounting Concepts that would enable application of the revised *Conceptual Framework* by publicly accountable for-profit private sector entities. Refer to paragraph 32 of the Consultation Paper.

This Appendix uses underlining to identify new text and striking out to indicate deleted text.

Ellipses (…) are used to help provide the context within which amendments are proposed and also to indicate text that is not proposed to be amended.

Amendments to AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*

An additional sentence is added to footnote 1 to paragraph 6. The whole of footnote 1 has not been amended but has been included for ease of reference. New text is underlined.

Definitions

…

In December 2013 the AASB amended the *Framework for the Preparation and Presentation of Financial Statements*. The *Framework* is identified in AASB 1048 *Interpretation of Standards*. Paragraph 25 was superseded by Chapter 3 of the *Framework*. <u>AASB 1048 also identifies the revised *Conceptual Framework for Financial Reporting* for application by publicly accountable for-profit private sector entities.</u>

Amendments to AASB 1048 *Interpretation of Standards*

In paragraph 10, a new row is added to Table 3: *Australian Conceptual Framework Pronouncements*. New text is underlined.

Conceptual framework

10 **Each reference to the *Framework for the Preparation and Presentation of Financial Statements* (or *Framework*) in other Australian Accounting Standards (including Interpretations) is taken to be a reference to the relevant pronouncement listed in Table 3 below. Each row in Table 3 is to be treated as a separate provision of this Standard.**

Table 3: Australian conceptual framework pronouncements

Issue Date	**Title**	**Application Date** (annual reporting periods)
<u>[May 2018]</u>	<u>Conceptual Framework for Financial Reporting (or Framework) – applicable only to publicly accountable for-profit private sector entities</u>	<u>(beginning)</u> <u>[31 March 2018]</u>

Table 3: Australian conceptual framework pronouncements

Issue Date	Title	Application Date (annual reporting periods)
June 2014 [as amended to]	Framework for the Preparation and Presentation of Financial Statements (or Framework)	(beginning) 1 July 2014

…

Amendments to AASB 1053 *Application of Tiers of Australian Accounting Standards*

Paragraph 2A is added. The definition of 'public accountability' in Appendix A is amended to align with the definition in IFRS for SMEs. New text is underlined and deleted text is struck through.

Application

…

2A Any reference to a 'reporting entity' is not applicable to publicly accountable for-profit private sector entities that are required to prepare general purpose financial statements in accordance with Tier 1 reporting requirements.

…

Appendix A

Defined terms

…

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

~~A for-profit private sector~~An 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 investments banks.~~

…

Amendments to AASB 1057 *Application of Australian Accounting Standards*

Paragraph 2A is added.

Application of this Standard

…

2A Any reference to a 'reporting entity' is not applicable to publicly accountable for-profit private sector entities that are required to prepare general purpose financial statements in accordance with Tier 1 reporting requirements.

…

Amendments to SAC 1 *Definition of the Reporting Entity*

Paragraph 2A is added.

Application and Operative Date

…

2A This Statement does not apply to publicly accountable for-profit private sector entities in relation to reporting periods beginning on or after [31 March 2018].