



Australian Government

Australian Accounting Standards Board

AASB Webinar : Replacing the reporting entity concept and removing the option for special purpose financial statements

Presented by:

Kala Kandiah – Technical Director

*Justine Keenan – Senior Project
Manager*

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What sector do you represent (if multiple please just choose the most prevalent)?

- (a) For-profit
- (b) Not-for-profit – private (charity)
- (c) Not-for-profit – private (other)
- (d) Not-for-profit – public sector



Webinar Poll 1 - responses

What sector do you represent (if multiple please just choose the most prevalent)?





Your presenters



Kala Kandiah - Technical
Director
+61 3 9617 7626
kkandiah@asb.gov.au



Justine Keenan – Senior
Project Manager
+61 3 9617 7642
jkeen@asb.gov.au



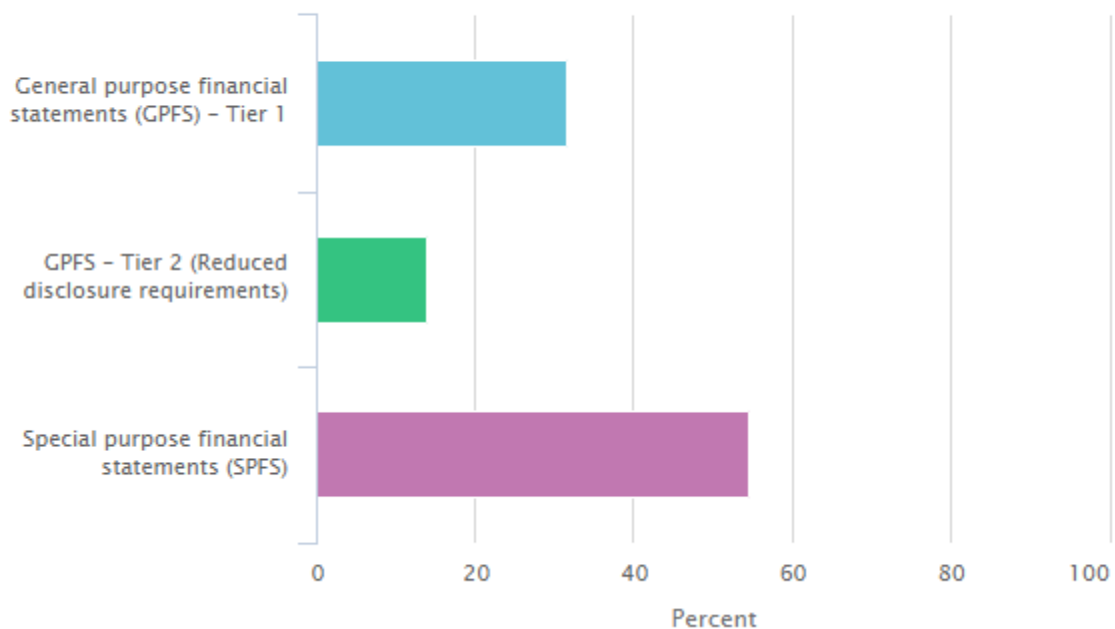
What type of financial statements do you or your clients prepare?

- (a) General purpose financial statements (GPFS) – Tier 1
- (b) GPFS – Tier 2 (Reduced disclosure requirements)
- (c) Special purpose financial statements (SPFS)



Webinar Poll 2 - responses

What type of financial statements do you or your clients prepare?



- What are our objectives?
- What problems are we trying to resolve and why now?
- What are we not changing?
- What is our preferred solution?
- What is the impact of our preferred option?
- What other options did we consider?
- What else is the AASB doing?
- Project timeline and Next steps

What are our objectives?

- Apply the RCF in Australia to achieve the AASB's strategy and FRC's directives
 - Maintain IFRS compliance for publicly accountable for-profit entities & voluntary Tier 1
 - Use IFRS as a base



- Two Problems:
 - The 'Reporting entity' concept clash
 - The SPFS problem



- **IASB's RCF concept of reporting entity:**
 - Required by legislation or other, or chooses, to prepare financial statements
 - Sets boundary (portion, controlled entities, not necessarily legal entity)



- **Australian Reporting entity concept:**
 - required to prepare financial statements and self assesses as needs GPFS

Refer to Section 5 Consolidated financial statements in ASIC's RG 85:

- ...Accounting standard AASB 127 'Consolidated and Separate Financial Statements' applies to each entity that is the parent of a group that is a **reporting entity** regardless of whether the parent entity itself is a **reporting entity**.

Why must Problem 1 be solved?

- It is too confusing to have two different concepts of reporting entity in AAS
- **Why must we adopt the RCF's concept?**
 - Maintain IFRS compliance and IFRS as a base
 - Australian concept rejected internationally
 - Avoid misinterpretation and incorrect application of AAS going forward
- **Why can't we just rename the Australian concept?**
 - We would need to amend the RCF and justifying this wouldn't meet Standard-Setting Framework criteria
 - Consolidation issue not resolved
 - SPFS problem not resolved



What is Problem 2 - the SPFS problem?

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- Self-assessment in SAC 1 and AAS:
 - Reporting entity (GPFS) versus Non-Reporting entity (SPFS)

AND

- “Free-for-all” SPFS for Non-reporting entities
 - Entities decide what to report in SPFS

Australia is the only country in the world to have this problem



VS



Why must Problem 2 be solved?

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Self-assessment issues:

- Concept not understood and/or applied properly
 - SAC 1 key factor **economic significance ignored**
- Two similar companies can prepare vastly different financial statements (i.e. GPFS vs SPFS)
- Additional risk for Directors, preparers and auditors
- Not enforceable

Consider two Australian proprietary companies

Company A

GPFS

- Both are subsidiaries of UK parents
- Both are market leading online betting businesses
- Both have **hundreds of thousands** of Australian active **customers**
- Both **employ hundreds of Australians**
- Both **earn millions of dollars** in underlying operating profit

Company B

SPFS

Why must Problem 2 be solved? (cont.)

‘Free-for-all’ SPFS cannot continue under AAS

- Lack of comparability in the application of:
 - Recognition and measurement
 - disclosure requirements
 - consolidation and equity accounting requirements

We’ve heard Directors are choosing SPFS to:

- **avoid complying with various accounting standards (such as leases);**
- or**
- **avoid disclosures (such as related party disclosures)**

There are users!

We've heard they assume full recognition and measurement with AAS

- Credit analysts
- Tax office
- Investors in multinational companies (particularly in the financial statements of Australian subsidiaries)
- The general public is interested in how much tax the corporates are paying (i.e. support for the Significant Global Entities tax requirements).
- The media is interested in parties who are not disclosing related party information and where similar entities in the same sectors are preparing different types of financial statements



Why is our action needed now?

To meet ASIC Act objectives and align with the FRC's strategic direction we need to:

- Maintain IFRS compliance for those required or voluntarily stating IFRS compliance
- Address the 'reporting entity' concept issue

It's also time for us to help:

- Improve **trust and transparency** for entities required to comply with AAS

Banking Royal Commission has also focused on quality of lending information!

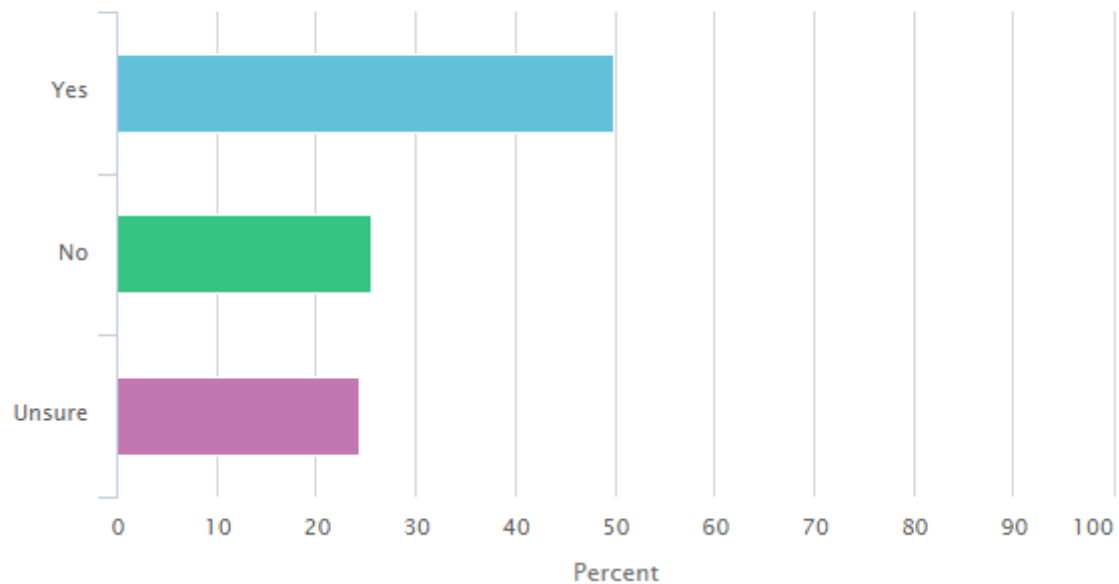


Does your or your client's SPFS meet all recognition and measurement requirements of the Australian Accounting Standards?

- (a) Yes
- (b) No
- (c) Unsure



Does your or your client's SPFS meet all recognition and measurement requirements of the Australian Accounting Standards?



Do you or your clients prepare consolidated and/or equity accounted SPFS (if required)?

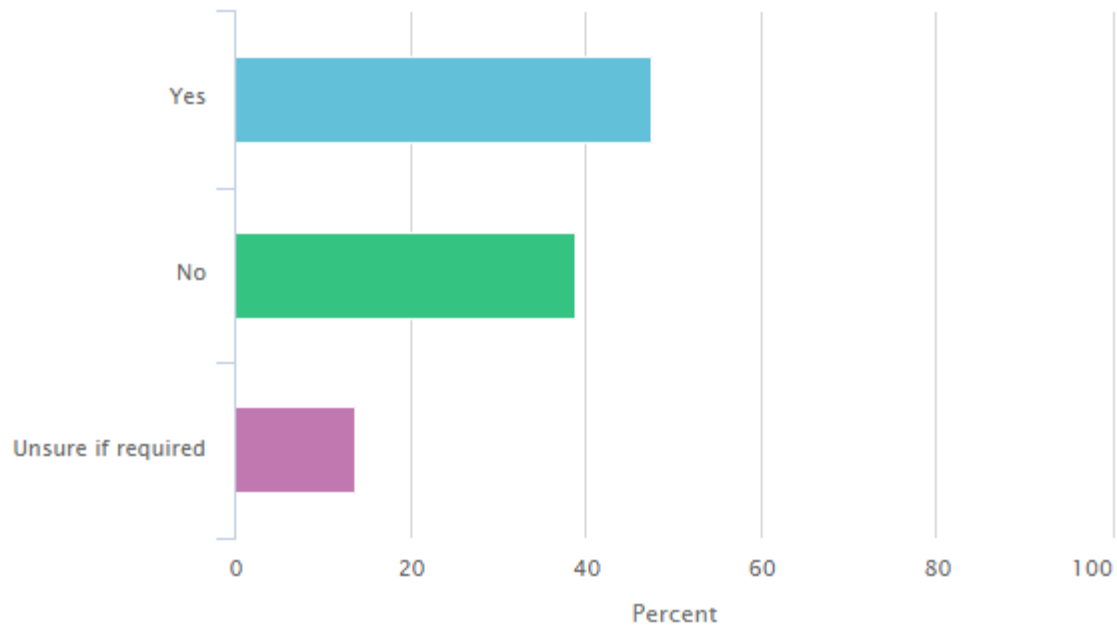
(a) Yes

(b) No

(c) Unsure if required



Do you or your clients prepare consolidated and/or equity accounted SPFS (if required)?

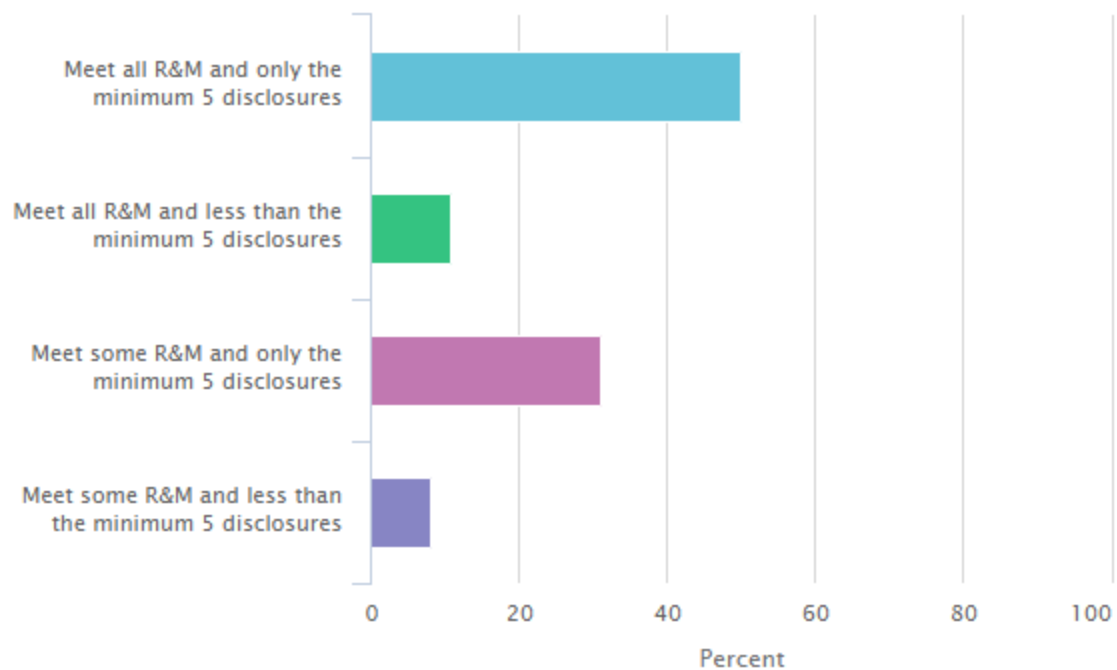


If you or your clients prepare SPFS, does the SPFS:

- (a) meet **ALL** recognition and requirements and disclose **ONLY** the **minimum** required by AASB 101, AASB 107, AASB 108, AASB 1048 and AASB 1054
- (b) meet **ALL** recognition and requirements and disclose **LESS than** the **minimum** required by AASB 101, AASB 107, AASB 108, AASB 1048 and AASB 1054
- (c) meet **SOME** recognition and requirements and disclose **ONLY** the **minimum** required by AASB 101, AASB 107, AASB 108, AASB 1048 and AASB 1054
- (d) meet **SOME** recognition and requirements and disclose **LESS than** the **minimum** required by AASB 101, AASB 107, AASB 108, AASB 1048 and AASB 1054



If you or your clients prepare SPFS, does the SPFS:



What are we not changing?



Change

No change to:

- **Public lodgement relief** granted to grandfathered proprietary companies
- ASIC's **small/large proprietary test**
- Trusts and other entities **not required** by legislation or otherwise to prepare financial reports in accordance with AAS

Small proprietary companies have at least **two** of the following:

- a) consolidated revenue for the financial year **< \$25 million**
- b) consolidated gross assets at the end of the financial year **< \$12.5 million**
- c) **< 50 employees** at the end of the financial year

- **Not quite!**

Entities NOT required by legislation or otherwise (e.g. constitutional document) to prepare financial reports **in accordance with AAS** can continue to prepare SPFS for example:

- **Trusts**
- **Small associations**
- **Small companies**
- **Small APRA funds**
- **Small Charities**
- **Self-Managed Super Funds**

A black square with white text that reads "IS THIS THE END ?". The text is arranged in three lines: "IS THIS" on the first line, "THE END" on the second line, and a question mark "?" on the third line.

Two-phased approach



Phase 1: Short-term approach

- Publicly accountable for-profit entities and other entities who voluntarily comply with IFRS
- RCF / amendments issued 2018
- Amendments effective 1 Jan 2020

Phase 2: Medium-term approach

- All other entities
- Extensive consultation 2018-2020
- RCF / amendments issued 2020
- Amendments effective TBD (For-profits and Not-for-profits staggered implementation?)

The AASB's preferred solution: Phase 1 (Short-term approach)

Apply RCF to publicly accountable for-profit entities and other entities who voluntarily comply with IFRS (Tier 1)

Amend 'public accountability' definition per *IFRS for SMEs*

Continue to apply existing *Framework* and use Australian reporting entity concept for all other entities



✓ IFRS
compliance
maintained

↔ No change

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

- (a) its debt or equity instruments are traded in a public market or are in the process of doing so
- (b) it holds assets in a fiduciary capacity



MUTUAL FUNDS



Are you currently preparing SPFS for for-profit entities which meet the definition of public accountability?

(a) Yes

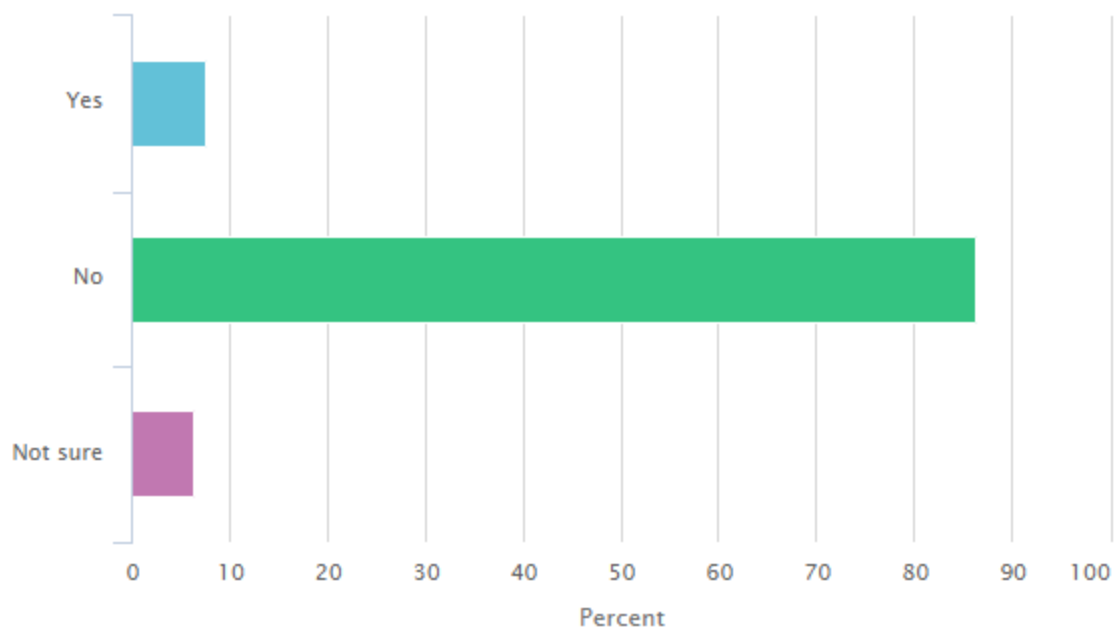
(b) No

(c) Not sure



Webinar Poll 6 - responses

Are you currently preparing SPFS for for-profit entities which meet the definition of public accountability?



The AASB's preferred solution: Phase 2 (Medium-term approach)

Apply RCF to all entities required by legislation or otherwise to comply with AAS

- ✓ IFRS compliance
- ✓ IFRS as a base

Remove SAC 1 and amend AAS to remove Australian reporting entity concept

- ✓ Resolves reporting entity definition clash
- ✓ Resolves self-assessment issue

Alternative 1: Retain existing Tier 2 GPFS – RDR framework; **OR**

Alternative 2: Adopt a new Tier 2 GPFS – SDR framework

- ✓ Resolves SPFS problem
- ✓ Improves trust and transparency

Allows time for extensive consultation, research and transitional support

What is Alternative 2: Tier 2 GPFS- SDR?

- Full recognition and measurement, consolidation and equity accounting

Specified Disclosure Requirements

- Based on RG 85 (5 disclosures to be made in full)

AASB 101
Presentation of FS

AASB 107
Statement of Cash
Flows

AASB 108
Acc. Policies, Changes
in Acc. Estimates &
Errors

AASB 1048
Interpretations of
Standards

AASB 1054 Australian
Additional Disclosures

- Plus 4 incremental disclosures (to be made in full)

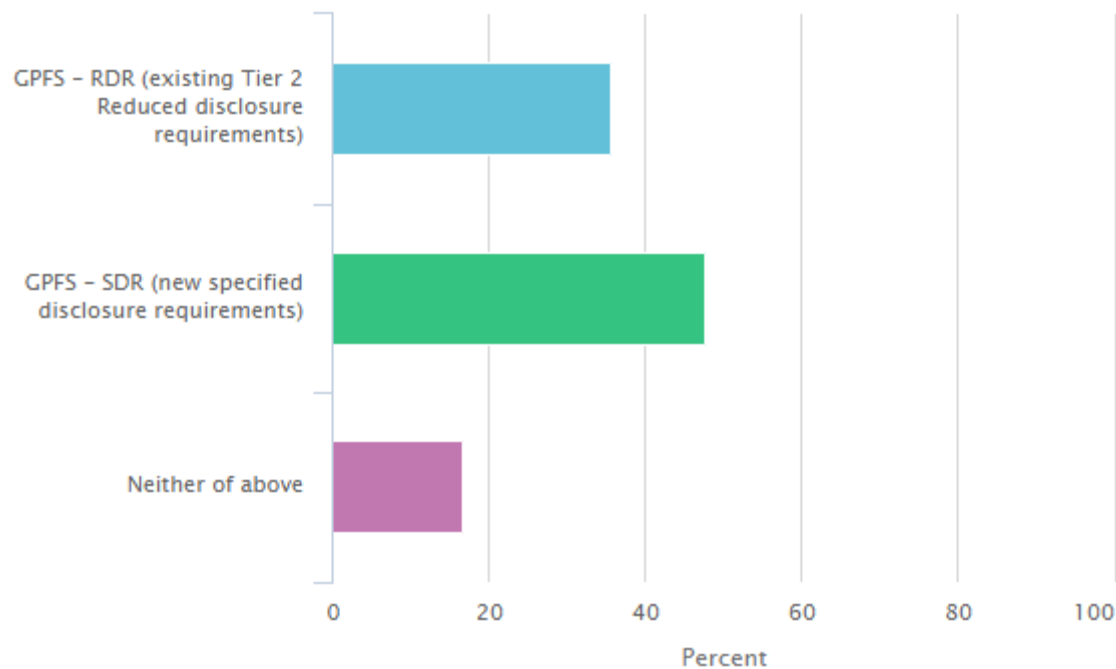


Which of the AASB's Tier 2 alternatives do you prefer?

- (a) GPFS – RDR (existing Tier 2 Reduced disclosure requirements)
- (b) GPFS – SDR (new specified disclosure requirements)
- (c) Neither of above



Which of the AASB's Tier 2 alternatives do you prefer?



What is the impact for you?

Benefits

Reduced risk for auditors, regulators

Trust and transparency

Resolves SPFS problem

IFRS Compliance

Costs

Increased regulatory burden

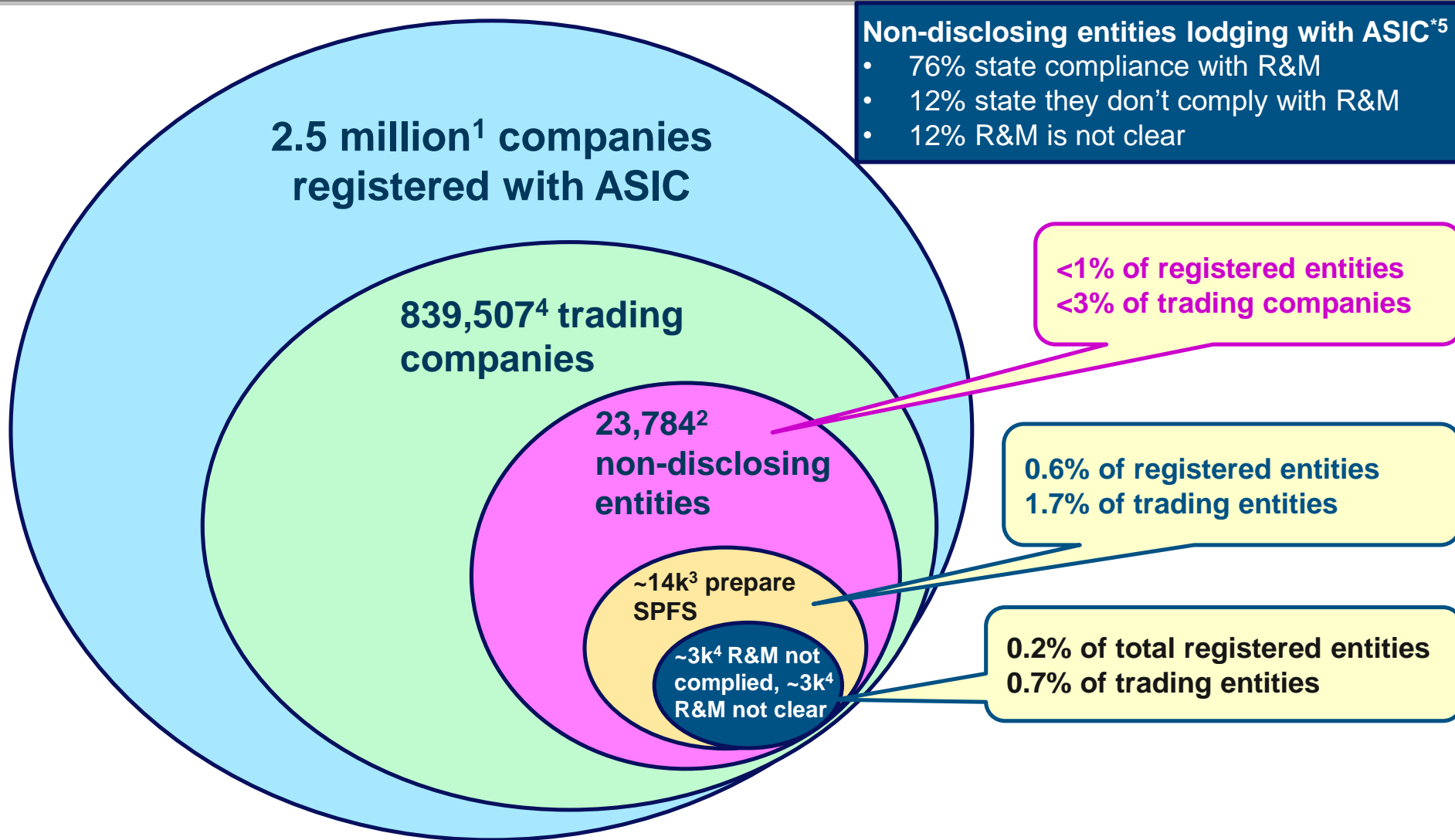
Consolidation and equity accounting

Mitigating actions

- GPFS Tier 2 alternative
- Education
- Transitional relief
- NFP Private – Possible Tier 3

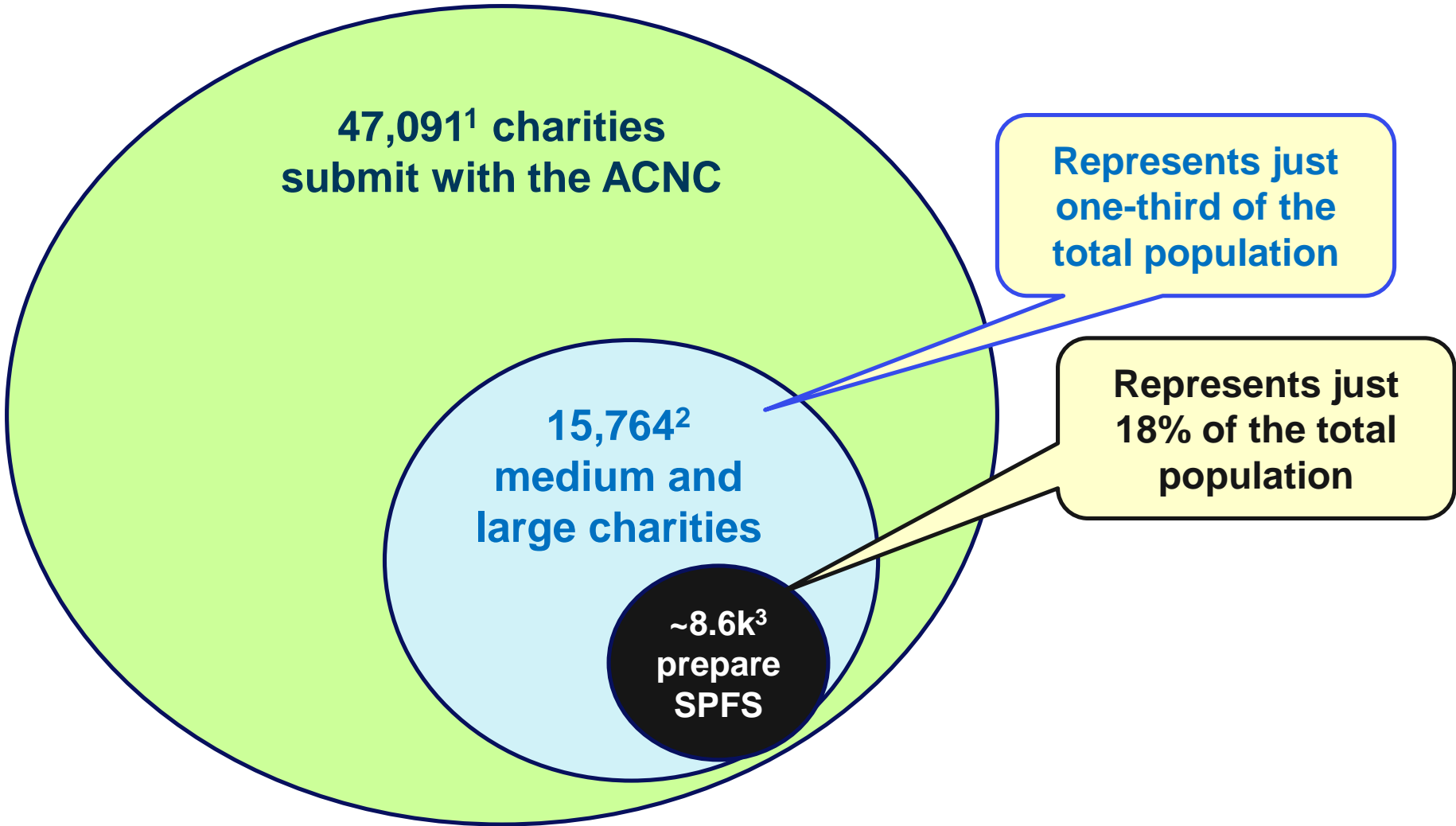


SPFS publicly lodged with ASIC



Notes: 1. Based on page 42 ASIC Annual Report 2016-2017, 2. Based on statistics provided by ASIC, 3. Calculated using proportion (59%) of entities preparing SPFS in findings from AASB Research Report No 1 *Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements* which includes analysis of data ranging from 2008-2011, 4. Sourced from Australian Bureau of Statistics website 5. Calculated using proportion (19%) of entities who state they do not comply with R&M or (21%) R&M not clear per AASB Research Report No 1.

SPFS publicly lodged with ACNC

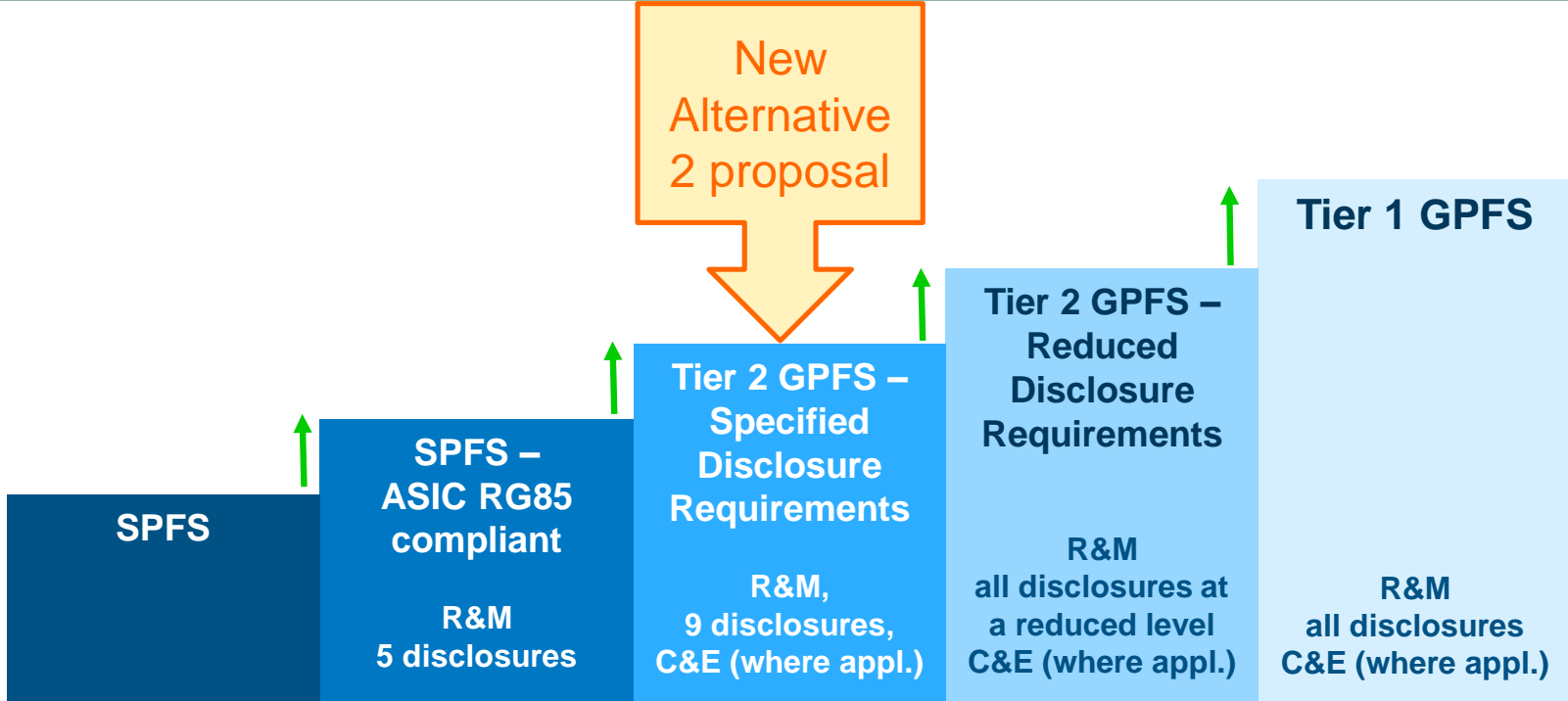


Statistics sourced from the Australian Charities and Not-for-profits Commission's (ACNC's) latest monitoring of Annual Information Statements and Annual Financial Reports, *Reporting trends in the 2016 Annual Information Statement* ('ACNC Report'), specifically:
1. Based on total Annual Information Statement submissions, 2. Based on total Annual Information Statement submissions of medium and large charities, 3. Calculated using proportion (55%) of entities preparing SPFS noted in findings of checks performed within the ACNC Report.

The spectrum of financial statements

Small entities, Trusts, SMFS etc that do not need to report in accordance with AAS

Entities required by legislation or otherwise to prepare financial reports in accordance with AAS



No change can continue to prepare SPFS where appropriate

Non-disclosing entities who lodge with ASIC:
<11% state non-compliance with R&M
<13% R&M compliance is not clear

>76% of non-disclosing entities who lodge with ASIC comply with R&M



Tier 1 – Full GPFS

Tier 2 – GPFS RDR, SDR or Modified accrual?

Tier 3?

- An **additional tier** of reporting strongly supported by the AASB **if** objective criteria determined from the ACNC's legislative review
- Longer Phase 2 implementation suggested for NFPs
- We will be making NFP private sector modifications to the RCF as part of the overall project

- Public sector entities are already doing full recognition and measurement with AAS, consolidation and equity accounting – therefore only change would be to disclosures (depending on RDR v SDR)
- We will be making NFP public sector modifications to the RCF as part of the overall project
- The AASB recently released a Research Report (No. 6) and Discussion Paper opening the conversation on public sector reporting. The longer Phase 2 implementation allows time for the public sector reporting framework to be considered.



What other options did the AASB consider?

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Option 2 – Operate with two conceptual frameworks

Apply RCF to publicly accountable for-profit entities and those voluntarily complying with IFRS

Retain existing *Framework* for other entities, retain Australian reporting entity concept and SPFS

Option 3 – Apply RCF to all entities when first applicable

Remove Australian reporting entity concept and remove SPFS

Option 4 – Do nothing

Retain existing *Framework* and lose IFRS compliance

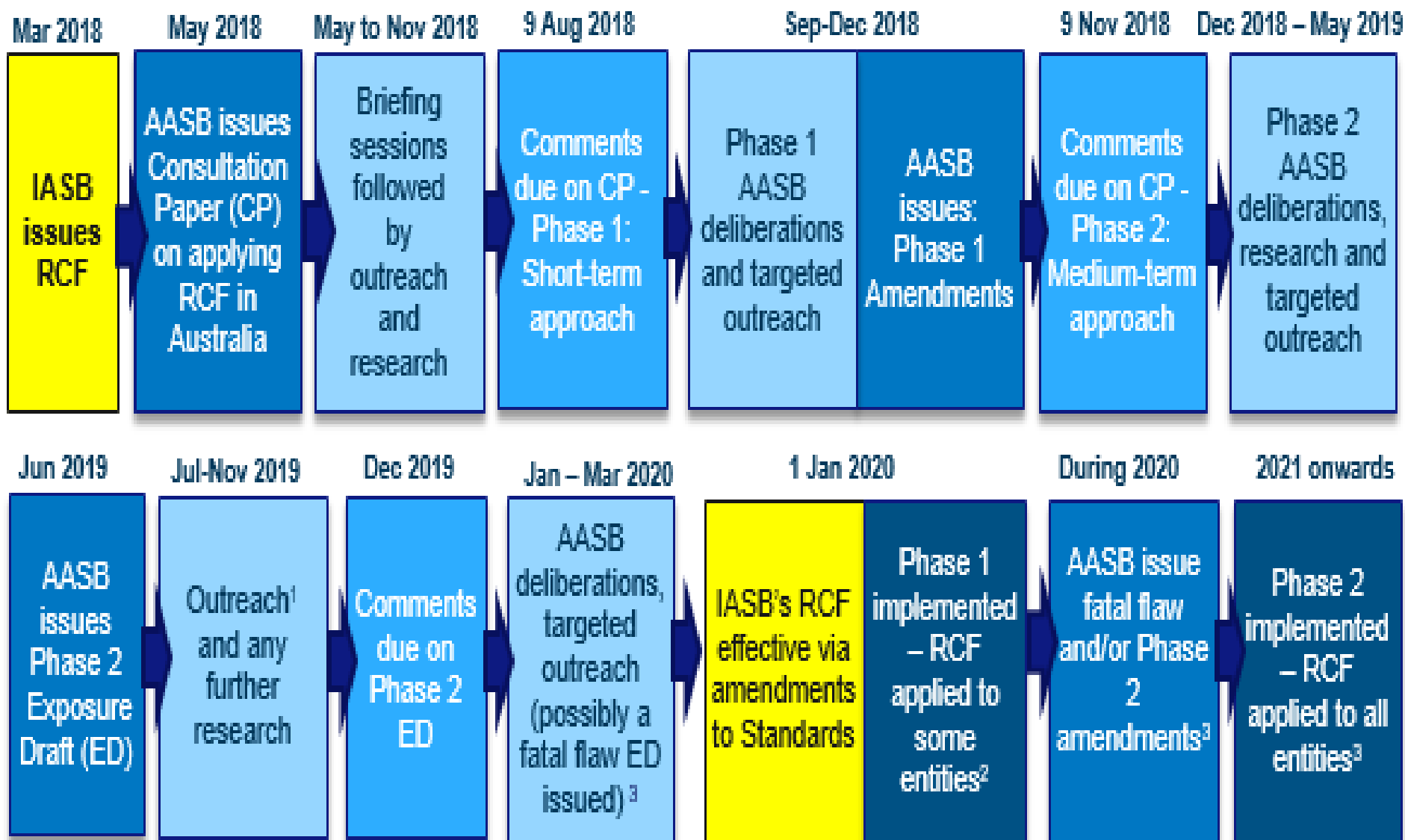
Option 5 – Apply RCF to all entities when first applicable, retain Australian reporting entity concept by another name and prescribe minimum requirements for SPFS





- IFRS for SMEs moves away from full recognition and measurement
- 75% of non-disclosing entities lodging with ASIC already complying with recognition and measurement requirements

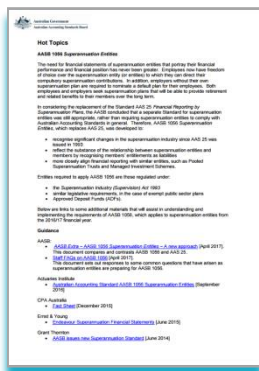
Project timeline







- Staff papers and research reports



- Hot Topics – guidance and reference material on the latest developments in standard setting



- YouTube channel – view AASB webinars & other recordings



Pronouncements

- ✓ identify Standards or Interpretations applicable to a reporting period

News & Alerts

- ✓ news alerts & media releases
- ✓ weekly newsletter

Outreach Events

- ✓ forums, roundtables, webcasts
- ✓ international guests & key experts

Work Program & Project Summaries

- ✓ the latest developments on AASB projects

Work in Progress

- ✓ see Exposure Drafts & AASB submissions





AASB Discussion group
Australian Accounting
Standards Board



@AASBAustralia
@krispeachAASB

Keep in touch with the AASB

standard@asb.gov.au