

## Transitional Provisions – An Analysis of Various Scenarios

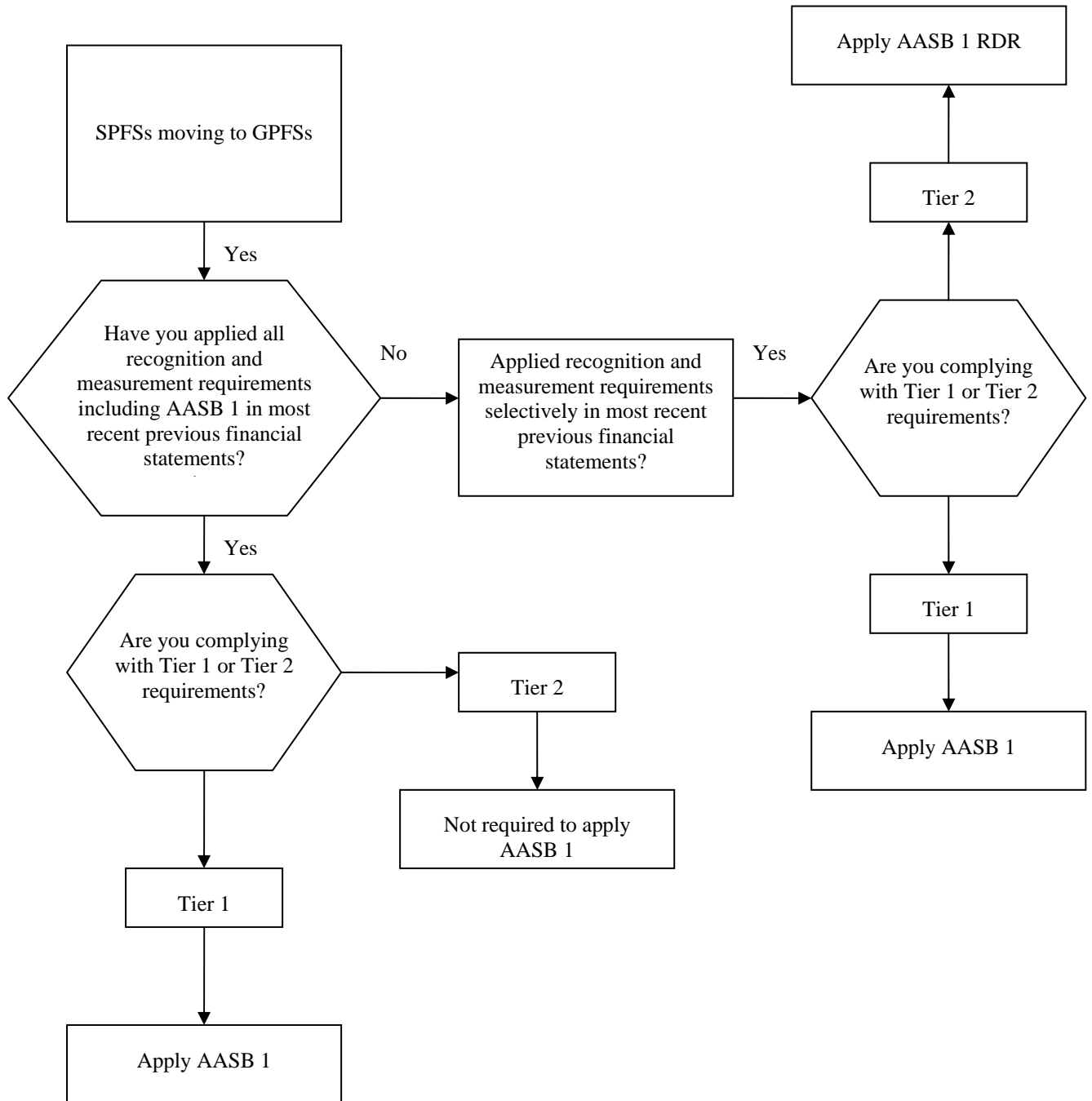
1. At its May meeting, the Board considered the transitional provisions included in ED 192 *Revised Differential Reporting Framework*. The Board considered various scenarios for transition to Tiers 1 and Tier 2 and moving between Tiers and asked staff to prepare flow charts depicting these scenarios. These charts are attached to this paper.
2. The following issue may need a resolution by the Board before approving the application Standard introducing the two-tier reporting system.

### Statement of compliance with IFRSs

3. Some entities have applied AASB 1 *First-time Adoption of Australian Accounting Standards* but may not be IFRS compliant because they did not make an explicit and unreserved statement of compliance with IFRSs either because they elected not to make the statement or were not aware of the significance the statement
4. This issue is not specific to the Reduced Disclosure Regime (RDR) and is also relevant to entities reporting under Tier 1.
5. Some Board members noted that the incidence of entities applying AASB 1 and failing to make the statement may be rare on the grounds that the entity would have received an audit qualification if it had failed to include the statement of compliance. Others noted that entities would often make sure such a statement is included since it will enhance their financial reporting standing internationally.
6. Some members argued that if an entity had failed to make the compliance statement, when it transitioned to IFRSs using AASB 1, it would need to reapply AASB 1 if in a future period it decided to make the statement. It was noted that at a minimum, it would be beneficial to inform entities of the consequences of failing to make the compliance statement.
7. Staff note there are two possible ways to deal with this issue:
  - (a) continue with the status quo on the grounds that the incidence of entities failing to make a compliance statement despite having complied with IFRSs in all other respects is rare and it should be seen as an educational issue for the profession; or
  - (b) include commentary in the Application Standard introducing the two-tier reporting system along the following lines:

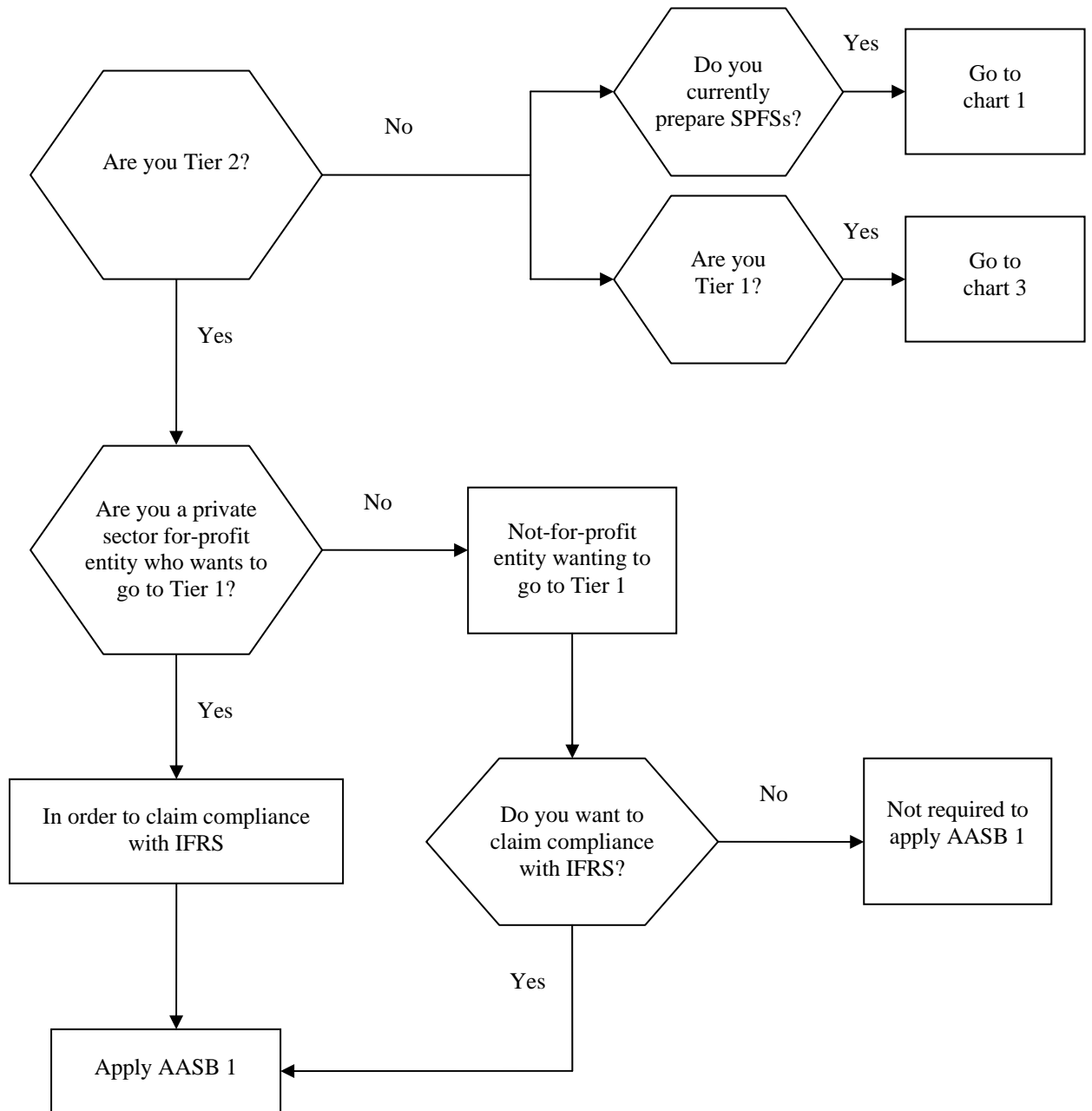
‘An entity complying with Australian Accounting Standards would need to make an explicit and unreserved statement of compliance with IFRSs to be able to claim IFRS compliance. An entity that fails to make such a statement would not be IFRS compliant even if it complied with IFRSs in all other respects. If an entity fails to make a statement of compliance in the year of transition to IFRSs and in a subsequent reporting period decides to make such a statement, it should apply AASB 1 again in that subsequent reporting period.’
8. Staff are of the view that including commentary similar to that set out in 7(b) would help preparers to avoid unwanted consequences of failing to include a compliance statement.

**First-time-Adoption: Moving from SPFSs to GPFSs**



**ED 192: Transitional Provisions – Chart 2**

**First-time-Adoption: Moving from Tier 2 to Tier 1**



**ED 192: Transitional Provisions – Chart 3**

**First-time-Adoption: Moving from Tier 1 to Tier 2**

