

Accounting Standard

AASB 105X
June 2010

Application of Different Tiers of Australian Accounting Standards



Australian Government
Australian Accounting Standards Board

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[Draft] Australian Accounting Standard AASB 105X *Application of Different Tiers of Australian Accounting Standards* is set out in paragraphs 1-29 and Appendices 1 and 2. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. AASB 105X is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Background

Australian Accounting Standards

- 1 The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards, including Interpretations, to be applied in preparation of general purpose financial statements.
- 2 The current Australian Accounting Standards incorporate International Financial Reporting Standards (IFRSs), including Interpretations, issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of each Standard in the Australian environment.
- 3 The current Australian Accounting Standards also include requirements that are specific to Australian entities. These requirements may be located in Australian Accounting Standards that incorporate IFRSs or in other Australian Accounting Standards. In most instances, these requirements are either restricted to the not-for-profit private or public sectors or include additional disclosures that address domestic regulatory or other issues.
- 4 In developing requirements for public sector entities, the AASB considers the requirements of International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.
- 5 The current Australian Accounting Standards are referred to in this draft Standard as 'Australian Accounting Standards' to distinguish them from 'Australian Accounting Standards – Reduced Disclosure Requirements' that would constitute the second tier of requirements for general purpose financial statements. Australian Accounting Standards' incorporate International Financial Reporting Standards (IFRSs) and include modifications for not-for-profit entity specific issues and also includes other domestic standards dealing with domestic and not-for-profit issues.
- 6 Private sector for-profit entities complying with Australian Accounting Standards would simultaneously comply with IFRSs. Many other entities complying with Australian Accounting Standards would also simultaneously comply with IFRSs.

Main Features of this Standard

- 7 This Standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:
- Tier 1: Australian Accounting Standards; and
Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.
- 8 Australian Accounting Standards – Reduced Disclosure Requirements comprises the recognition, measurement and presentation requirements of Australian Accounting Standards and substantially reduced disclosures corresponding to those requirements.
- 9 The following entities apply Australian Accounting Standards in preparing general purpose financial statements:
- (a) for-profit entities in the private sector that have *public accountability*; and
 - (b) Federal, State and Territory Governments (whole of government and general government sector) and Local Governments.
- 10 The following entities are eligible to apply Australian Accounting Standards – Reduced Disclosure Requirements or Australian Accounting Standards in preparing general purpose financial statements:
- (a) for-profit private sector entities that do not have public accountability;
 - (b) all not-for-profit private sector entities; and
 - (c) public sector entities other than those identified in paragraph 9(b) that must apply Australian Accounting Standards in presenting general purpose financial statements.
- 11 While Australian Accounting Standards – Reduced Disclosure Requirements would be available to all not-for-profit private sector entities and public sector entities other than those required to apply Australian Accounting Standards, regulators have the power to require the application of Australian Accounting Standards to the entities they regulate.

ACCOUNTING STANDARD AASB 105X
***APPLICATION OF DIFFERENT TIERS OF
AUSTRALIAN ACCOUNTING STANDARDS***

Objective

- 1 The objective of this Standard is to set out the application of Australian Accounting Standards to different categories of entities preparing general purpose financial statements.

Application

- 2 **This Standard applies to:**
- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;
 - (b) general purpose financial statements of each reporting entity; and
 - (c) financial statements that are, or are held out to be, general purpose financial statements.
- 3 **This Standard applies to annual reporting periods beginning on or after 1 July 2013.**
- 4 **This Standard may be applied to annual reporting periods ending on or after 30 June 2010 that begin before 1 July 2013. When an entity applies this Standard to an annual reporting period beginning before 1 July 2013 it shall disclose that fact.**
- 5 **The requirements specified in this Standard apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**

Australian Accounting Standards

- 6 Australian Accounting Standards consist of two tiers of reporting requirements for preparing general purpose financial statements:
- Tier 1: Australian Accounting Standards; and

- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.
- 7 Tier 1 incorporate International Financial Reporting Standards (IFRSs) and include modifications for not-for-profit entity specific issues and also other domestic standards dealing with domestic and not-for-profit issues.
- 8 Tier 2 comprises the recognition and measurement requirements of Tier 1 Standards and substantially reduced disclosures corresponding to those requirements. Except for the presentation of a third statement of financial position required under Tier 1¹, the presentation requirements under Tier 1 and Tier 2 are the same.

Application of Australian Accounting Standards under the Differential Reporting Framework

- 9 **Delete the application paragraph 2 of AASB 1049 and insert the following:**
- ‘2 This Standard applies to general purpose financial statements of:**
- (a) **each government’s whole of government; and**
- (b) **each GGS.’**
- 10 **Delete the application paragraph 2 of AASB 1051 and insert the following:**
- ‘2 This Standard applies to general purpose financial statements of:**
- (a) **local governments;**
- (b) **government departments;**
- (c) **whole of governments; and**
- (b) **GGSs.’**

¹ Under AASB 101 *Presentation of Financial Statements*, a complete set of financial statements includes a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

Application of Tier 1 reporting requirements

- 11 Tier 1 reporting requirements shall apply to the general purpose financial statements of the following entities:**
- (a) for-profit private sector entities that have public accountability; and**
 - (b) the following categories of public sector entities:**
 - (i) Federal, State and Territory Governments (whole of government and GGS); and**
 - (ii) Local Governments.**

Application of Tier 2 reporting requirements

- 12 As a minimum, the following entities shall apply Tier 2 reporting requirements in preparing general purpose financial statements:**
- (a) for-profit private sector entities that do not have public accountability;**
 - (b) all not-for-profit private sector entities; and**
 - (c) public sector entities other than those required to apply full Australian Accounting Standards as identified in paragraph 11(b).**

These entities may elect to apply Tier 1 reporting requirements in preparing general purpose financial statements.

- 13** While Tier 2 reporting requirements are available to all not-for-profit private sector entities and public sector entities other than those required to apply Tier 1 reporting requirements, regulators have the power to require the application of Tier 1 reporting requirements by entities they regulate.
- 14 The following Standards do not apply to Tier 2 entities.**
- (a) AASB 4 *Insurance Contracts***
 - (b) AASB 8 *Operating Segments***
 - (c) AASB 133 *Earnings per Share***

- (d) **AASB 134 *Interim Financial Reporting***
- (e) **AASB 1023 *General Insurance Contracts***
- (f) **AASB 1038 *Life Insurance Contracts***
- (g) **AAS 25 *Financial Reporting by Superannuation Plans***

Tier 2 entities may elect to apply these Standards. If a Tier 2 entity elects to apply any of these Standards, it shall apply that Standard in full.

- 15 AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* are excluded from Australian Accounting Standards – Reduced Disclosure Requirements on the grounds that an entity that applies any of these Standards is likely to have material insurance contracts and therefore be a registered insurer or a large fee-for-service organisation, such as a roadside assistance entity. Accordingly, an entity that applies AASB 4, AASB 1023 or AASB 1038 would generally be a publicly accountable entity and therefore required to prepare Tier 1 general purpose financial statements. Some insurers may not be publicly accountable, such as some ‘captive insurers’ that are wholly owned and deal only with insurance contracts with other wholly owned entities within their own group. Such insurers are considered likely to have relatively simple insurance arrangements and not be unduly impacted by the full disclosure requirements of AASB 4 and AASB 1023. However, the circumstances of each captive insurer need to be analysed to determine whether they meet the definition of public accountability set out in paragraph 20.
- 16 AAS 25 *Financial Reporting by Superannuation Plans* has been excluded from Australian Accounting Standards – Reduced Disclosure Requirements on the grounds that entities applying AAS 25 would be superannuation plans registered with the Australian Prudential Regulations Authority, which are regarded as publicly accountable in this Standard. Superannuation entities that apply AAS 25 and prepare general purpose financial statements are required, under the *Superannuation Industry (Supervision) Act 1993*, to hold assets in a fiduciary capacity for their members. In addition, most superannuation entities, particularly public offer superannuation plans and approved deposit funds, have a broad range of members who have no involvement in the day-to-day operations of the entity.

- 17 **The following Standards equally apply to Tier 1 and Tier 2 entities. The following Standards do not exempt Tier 2 entities from any of their disclosure requirements:**
- (a) **AASB 118 Revenue ; and**
 - (b) **AASB 129 Financial Reporting in Hyperinflationary Economies.**
- 18 AASB 1031 *Materiality* applies equally to Tier 1 and Tier 2 entities.
- 19 AASB 1049 *Whole of Government and General Government Sector Financial Reporting* applies only to relevant Tier 1 entities and has no Tier 2 equivalent.

Definitions

- 20 The following terms have the meanings specified:

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.

Preparation in accordance with Australian Accounting Standards means application of all applicable requirements in either (a) Australian accounting Standards or (b) Australian Accounting Standards – Reduced Disclosure Requirements and not a subset of those applicable requirements.

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 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 investment banks.

Reporting entity means an entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries.

Public accountability

- 21 Public accountability is defined in paragraph 20. The notion of public accountability is consistent with the notion adopted by the IASB in its International Financial Reporting Standard for Small and Medium-sized Entities (*IFRS for SMEs*). This notion is different from the notion of public accountability in the general sense of the term that is often employed in relation to not-for-profit entities.
- 22 The following for-profit entities are deemed to have public accountability:
- (a) disclosing entities, even if their debt or equity instruments are not traded in a public market or are not in the process of being issued for trading in a public market;
 - (b) cooperatives that issue debentures;
 - (c) registered managed investment schemes;
 - (d) superannuation plans regulated by the Australian Prudential Regulation Authority; and
 - (e) Authorised Deposit-taking Institutions.

Transitional provisions

- 23 Some of the disclosure requirements in AASB 1 *First-time Adoption of Australian Accounting Standards* have been excluded from the Australian Accounting Standards – Reduced Disclosure Requirements. Accordingly, entities adopting the Australian Accounting Standards – Reduced Disclosure Requirements for the first time that are required to apply AASB 1 would only need to make the reduced disclosures in AASB 1.
- 24 An entity that prepared its most recent previous financial statements in the form of special purpose financial statements and did not apply the recognition and measurement requirements of Australian Accounting Standards shall apply AASB 1 on transition to either Australian Accounting Standards or Australian Accounting Standards – Reduced Disclosure Requirements.

- 25 An entity that prepared its most recent previous financial statements in the form of special purpose financial statements and applied the recognition and measurement requirements of Australian Accounting Standards, including having used the recognition and measurement requirements of AASB 1, shall not apply AASB 1 on transition to Australian Accounting Standards – Reduced Disclosure Requirements.
- 26 An entity that prepared its most recent previous financial statements in the form of special purpose financial statements and applied the recognition and measurement requirements of Australian Accounting Standards, including having used the recognition and measurement requirements of AASB 1, shall apply AASB 1 on transition to Australian Accounting Standards.
- 27 An entity that prepared its most recent previous financial statements in the form of special purpose financial statements and applied the recognition and measurement requirements of selected Australian Accounting Standards shall apply AASB 1 on transition to either Australian Accounting Standards or Australian Accounting Standards – Reduced Disclosure Requirements.
- 28 A for-profit private sector entity transitioning from Australian Accounting Standards – Reduced Disclosure Requirements to Australian Accounting Standards shall apply AASB 1 for the entity to be able to claim IFRS compliance. A not-for-profit entity transitioning from Australian Accounting Standards – Reduced Disclosure Requirements to Australian Accounting Standards may elect to use AASB 1 to be able to claim IFRS compliance.
- 29 An entity transitioning from Australian Accounting Standards to the Australian Accounting Standards – Reduced Disclosure Requirements would not apply AASB 1.
- 30 An entity’s first Australian Accounting Standards – Reduced Disclosure Requirements financial statements are the first annual financial statements in which the entity adopts Australian Accounting Standards – Reduced Disclosure Requirements by an explicit and unreserved statement in those financial statements of compliance with Australian Accounting Standards – Reduced Disclosure Requirements. Entities applying Australian Accounting Standards – Reduced Disclosure Requirements would state compliance with Australian Accounting Standards – Reduced Disclosure Requirements and would not be able to state compliance with IFRSs.

APPENDIX A

BASIS FOR CONCLUSIONS

The Basis for Conclusions accompanies, but is not part of, AASB 105X.

(To be prepared based on information already incorporated in the Discussion Paper and ED 192 and on the Board's deliberations subsequent to the release of these documents).