



Memorandum

To:	AASB members	Date:	13 May 2013
From:	Clark Anstis and Ahmad Hamidi	Agenda Item:	13.1 (M131)
Subject:	Repeat Application of AASB 1 and Disclosure Requirements	File:	

Action

To consider the need for amendments to AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 1053 *Application of Tiers of Australian Accounting Standards* in relation to the disclosure requirements applying under a repeat application of AASB 1 by Tier 1 and Tier 2 entities.

Attachments

13.2 Extracts from Relevant Standards – AASB 2012-5 and AASB 1053.

Overview

Amendments made to AASB 1 through AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle* (June 2012) introduced an option concerning the repeat application of AASB 1 by a (Tier 1) entity – either (a) apply AASB 1 (including all of its disclosure requirements); or (b) apply Australian Accounting Standards retrospectively under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, and give only two narrative disclosures under AASB 1 – the reasons for ceasing and restarting application of Australian Accounting Standards (paragraph 23A) and for adopting the AASB 108 approach (paragraph 23B). These amendments are the same as those made to IFRS 1 by the IASB.

In an Australian context, this option gives rise to three issues:

- (1) the AASB 108 option added to AASB 1 could be interpreted as being inconsistent with references in AASB 1053 (paragraphs 20 and 22) to an entity transitioning to Tier 1 applying the “full” disclosure requirements of AASB 1, which could indicate the need for amendments to AASB 1053;
- (2) whether Tier 2 entities have or should have the same AASB 108 option concerning the repeat application of AASB 1 as Tier 1 entities, and, if so, whether the two related disclosure requirements in AASB 1 (i.e. paragraphs 23A and 23B) apply or should apply to Tier 2 entities, which may indicate the need for Tier 2 amendments to AASB 1; and

- (3) whether non-reporting entities that apply the recognition and measurement requirements of applicable Australian Accounting Standards should continue to be exempted from application of AASB 1, including the new AASB 108 option and its related disclosure requirements in AASB 1. Currently such entities are not required to apply AASB 1 on transition to Tier 2 and, accordingly, are exempted from the disclosure requirements of AASB 1 (this is because previous application of the recognition and measurement requirements of Australian Accounting Standards included application of the recognition and measurement requirements of AASB 1).

Staff recommend the Board proceeds with proposing amendments to both AASB 1 and AASB 1053 in relation to these three issues.

Background

The amendments to AASB 1 to address its repeat application emulate amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* by the IASB as part of an annual improvements project. Proposals addressing the issue were exposed through AASB Exposure Draft ED 213 *Improvements to IFRSs* (July 2011), which incorporated IASB ED/2011/2 of the same name. ED 213 did not include any specific Tier 2 disclosure proposals based on the view that none of the proposed improvements would significantly change disclosure requirements.

Paragraph 4A of AASB 1 indicates that a repeat application of AASB 1 arises when an entity that has applied Australian Accounting Standards or IFRSs in a previous reporting period, but did not do so in the most recent previous reporting period, is seeking to apply Australian Accounting Standards in its latest reporting period. Such an entity is required to apply AASB 1 again, unless instead it takes the option to apply AASB 108 and its disclosure requirements (plus the disclosures in paragraphs 23A and 23B of AASB 1). Paragraph 23A also applies to an entity that does elect to apply AASB 1 in full again.

Issue (1) – Apparent inconsistency between AASB 1 and AASB 1053

AASB 1053 addresses when AASB 1 is required to be applied by entities that are transitioning to either Tier 1 or Tier 2. For example, paragraph 18 states that an entity that did not apply all the recognition and measurement requirements of applicable Australian Accounting Standards in its most recent previous financial statements is required to apply “all the relevant requirements” of AASB 1 on transition to either Tier 1 or Tier 2. This wording would encompass the option to apply AASB 108 for a Tier 1 entity that had previously applied Australian Accounting Standards or IFRSs, and so is consistent with the repeat application requirements in AASB 1.

However, two other cases in AASB 1053 use different language to refer to the AASB 1 requirements, and appear not to be consistent with the repeat application requirements in AASB 1 because they do not appear to encompass the AASB 108 option with its limited AASB 1 disclosure requirements.

In the first case, paragraph 19 of AASB 1053 states that an entity that did apply all the recognition and measurement requirements of applicable Australian Accounting Standards in its most recent previous financial statements is required to “apply AASB 1” on transition to Tier 1. Paragraph 20 then notes that such entities claiming compliance with IFRSs (and not-for-profit entities claiming compliance with Australian Accounting Standards) need to “apply the full disclosure requirements of AASB 1”.

In the second case, paragraph 21 states that an entity transitioning from Tier 2 to Tier 1 shall “apply AASB 1”, if it is claiming compliance with IFRSs. Paragraph 22 then notes that such entities claiming compliance with IFRSs need to “apply the full requirements of AASB 1”, as in previously applying Tier 2 they have applied only some of the disclosure requirements. Paragraph BC91 also makes this statement, contrasting full and partial disclosure under AASB 1.

An implication of the wording in these two cases is that the subset of the AASB 1 disclosures (i.e. paragraphs 23A and 23B) that the AASB 108 option would require in a repeat application case would not meet these requirements of AASB 1053. This is the apparent inconsistency between AASB 1 and AASB 1053: the references to “full” disclosure requirements in paragraphs 20 and 22 of AASB 1053. In contrast, the reference to “relevant” requirements in paragraph 18 of AASB 1053 is not inconsistent with AASB 1.

Staff believe that the amendments could be considered as consequential of the earlier amendments made through AASB 2012-5 and arguably no due process is needed. However, if due process is being conducted on related issues, this issue could be included in that process.

Staff recommendation

Staff recommend amendment of AASB 1053 to resolve the inconsistency with AASB 1.

Question for the Board

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| Q1 | Does the Board agree that AASB 1053 should be amended to ensure consistency with the repeat application paragraphs in AASB 1? |
| Q2 | Does the Board agree with the staff view on due process? |

Issue (2) – Availability of the AASB 108 option to Tier 2 entities

Under paragraph 18 of AASB 1053, an entity that did not apply all the recognition and measurement requirements of applicable Australian Accounting Standards in its most recent previous financial statements is required to apply “all the relevant requirements” of AASB 1 on transition to Tier 2. If the entity complied with Tier 2 in prior financial statements, is the entity able to adopt the AASB 108 option on reapplying AASB 1 when it transitions once again to Tier 2?

It is unclear whether paragraph 4A of AASB 1 (which provides the option to apply AASB 108) applies only to Tier 1 entities from 1 July 2013, when Australian Accounting Standards – Reduced Disclosure Requirements (RDR) start to apply. Although the paragraph refers explicitly to Australian Accounting Standards and IFRSs, footnote 1 to paragraph 1 of AASB 1 will state (from 1 July 2013) that the term ‘Australian Accounting Standards’ encompasses Australian Accounting Standards – Reduced Disclosure Requirements (AAS-RDR). However, as AAS-RDR are not equivalent to IFRSs, there is some doubt whether paragraph 4A would apply to a Tier 2 entity that is reapplying AASB 1. If paragraph 4A does not apply, then paragraphs 4B, 23A and 23B do not apply either.

The question therefore arises whether the same option of AASB 1 compliance or the AASB 108 approach should be given to entities that had applied AAS-RDR in a previous period and intend to transition again to Tier 2 in the current period.

Staff are of the view that as Tier 2 entities should be able to avail themselves of all recognition and measurement requirements of Australian Accounting Standards, the retrospective application of AASB 108 should be available to them as an accounting policy choice alongside the choice of applying AASB 1.

Analysis of disclosure requirements

It is then necessary to consider the disclosure requirements arising from adoption of the AASB 108 option under AASB 1 from a Tier 2 perspective. This would involve the application of Tier 2 Disclosure Principles to paragraphs 23A and 23B of AASB 1.

Adoption of the AASB 108 option is not a choice for SMEs under the *IFRS for SMEs*. Accordingly, the recognition and measurement requirements under full IFRSs and the *IFRS for SMEs* would differ on this issue. Under Tier 2 Disclosure Principles, in such circumstances, user need and cost-benefit principles need to be applied to determine Tier 2 disclosure requirements. Staff are of the view that applying paragraphs 23A and 23B would not entail material additional costs for Tier 2 entities and based on paragraph 6(d) of Tier 2 Disclosure Principles regarding the particular interest of users of the financial statements of Tier 2 entities in information about the entity's accounting policy choices, paragraphs 23A and 23B should be retained in Tier 2 disclosure requirements.

Staff recommendations

Staff recommend amendment of AASB 1 to clarify that the option for the repeat application of AASB 1 also applies to entities transitioning again to Tier 2 from financial statements that did not comply with all the recognition and measurement requirements of applicable Australian Accounting Standards. Staff also recommend that such Tier 2 entities be required to comply with the disclosure requirements of paragraphs 23A and 23B in AASB 1.

Staff consider these amendments would need to be subject to due process, including an Exposure Draft.

Questions for the Board

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| Q3 | Does the Board agree that Tier 2 entities in such circumstances should have the same option for the repeat application of AASB 1? |
| Q4 | Does the Board agree that Tier 2 entities should be required to comply with paragraphs 23A and 23B if the AASB 108 option is applied? |
| Q5 | Does the Board agree with the staff view on due process? |

Issue (3) – Transitional exemptions for certain non-reporting entities

Under AASB 1053, paragraph 19(a), an entity that prepared its most recent previous financial statements in the form of special purpose financial statements and applied all the recognition and measurement requirements of applicable Australian Accounting Standards, including the recognition and measurement requirements of AASB 1, is exempt from application of AASB 1 on transition to Tier 2. This effectively exempts such entities from the disclosure requirements of AASB 1 on transition to Tier 2. With the inclusion of the AASB 108 option and related disclosure requirements under paragraphs 23A and 23B in AASB 1, this exemption from disclosure

requirements would extend to paragraphs 23A and 23B of AASB 1. This gives rise to two questions:

- (a) should the exemption be extended to paragraphs 23A and 23B on transitioning if the AASB 108 option is adopted? The answer to this question might depend on whether Tier 2 entities would be required to apply paragraph 23A and 23B disclosures under Tier 2 (see the section on Analysis of Disclosure Requirements above); and
- (b) what would be the position if the transitioning entity has previously applied AASB 1's default option (i.e. application of AASB 1) but adopts the AASB 108 option on this new transition? Should it still be exempt from application of AASB 1?

Staff recommendation

Staff recommend amendment of AASB 1053 to clarify that non-reporting entities transitioning to Tier 2 that have previously applied all the recognition and measurement requirements of applicable Australian Accounting Standards (including the AASB 108 option of AASB 1) should be exempted from repeat application of AASB 1. However, if such entities have previously applied AASB 1's default recognition and measurement requirements, and would elect to adopt the AASB 108 option for a new transition to Tier 2, they should apply the AASB 108 option under AASB 1 in full (i.e. including the paragraph 23A and 23B disclosures, which might be affected by the Board's decision relating to the analysis of disclosure requirements in relation to issue 2 above). This is because the AASB 108 option would require a greater degree of retrospectivity in terms of first-time adoption adjustments than AASB 1's default option.

Staff consider these amendments would need to be subject to due process, including an Exposure Draft.

Questions for the Board

- Q6 Does the Board agree that non-reporting entities that have in their most recent previous financial statements applied recognition and measurement requirements of all Australian Accounting Standards should:
- (a) apply AASB 1 if they have previously applied AASB 1's default option and would elect to apply the AASB 108 option on transition to Tier 2; and
 - (b) not apply AASB 1 if they have previously applied AASB 108?
- Q7 Does the Board agree with the staff view on the due process?