

AASB staff issues paper

Feedback received on ED 248 *Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements*

Introduction

- 1 The purpose of this paper is to provide the Board with feedback received on ED 248 *Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements* (Agenda Paper 17.4) with a view to seeking final Board decisions on the proposed amendments, to enable staff to prepare a ballot draft of an Amending Standard for out-of-session Board voting.
- 2 At the time of writing this paper we have received two comment letters with respect to the ED¹. The comment letters are included as Tabled Agenda Paper 17.3.

Key Feedback received on ED 248

Issue 1: Reconciliations

- 3 One comment letter² does not support the proposal to allow an entity to apply the requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* rather than applying AASB 1 *First-time Adoption of Australian Accounting Standards*. The submitter notes that their view is based on the following:

...[there is] no requirement for these entities to include reconciliation of financial statements under AASB 108, whereas entities are required to prepare such reconciliation under AASB 1. We believe such reconciliation is useful for in-depth understanding of entities' financial statements and obtaining comparative information.

AASB staff response

- 4 AASB staff consider that the disclosure requirements in AASB 108 (in particular paragraph 28³) in relation to change of accounting policies provide adequate

1 Dr Bikram Chatterjee et al., Deakin Graduate School of Business and KPMG

2 Dr Bikram Chatterjee et al., Deakin Graduate School of Business

3 For example, paragraph 28(f)(i) of AASB 108 states: When initial application of an Australian Accounting Standard has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose ... for the current period and each prior period presented, to the extent practicable, the amount of the adjustment ... for each financial statement line item affected ..."

information for users to understand the nature and effect of changes arising from an entity applying Tier 2 for the first time and the entity had not applied, or only selectively applied, applicable recognition and measurement requirements in its most recent previous annual special purpose financial statements (SPFSs).

Issue 2: Simplification of Proposals

- 5 Another comment letter⁴ does not support certain aspects of the proposals in ED 248 and recommends the simplification of the transition rules such that AASB 1 is always required to be applied when an entity transitions from SPFSs to Tier 2 general purpose financial statements (GPFSs), even if the entity previously applied applicable recognition and measurement requirements (referred to in this paper as Issue 2A). This comment letter also suggests simplification of the transition rules such that AASB 1 is always required to be applied when an entity transitions to Tier 1 GPFSs, even if the entity does not intend complying with IFRSs (referred to in this paper as Issue 2B).
- 6 Each of the scenarios that the submitter disagrees with in ED 248 (and thinks should instead be mandated as ‘apply AASB 1’) are highlighted in the following table⁵:

4 KPMG

5 Extracted from AASB Staff Paper *Transitioning to and between Tiers of General Purpose Financial Reporting* – see Agenda Paper 17.5 of this meeting.

A previous reporting period	The most recent previous reporting period	Current reporting period	Applicable paragraph of existing AASB 1053	Applicable paragraph of proposed amended AASB 1053	Consequence	Rationale	Basis for conclusions paragraph accompanying AASB ED 248
		<i>First time adopt T1</i>					
SPFSs	SPFSs using R&M	Tier 1 IFRSs	19(b)	18	AASB 1	IFRS adoption	BC11
SPFSs	SPFSs using R&M	Tier 1 non-IFRS	19(b)	18	AASB 1	Consistent with IFRS	BC11
SPFSs	SPFSs not using R&M	Tier 1 IFRSs	18	18	AASB 1	IFRS adoption	BC11
SPFSs	SPFSs not using R&M	Tier 1 non-IFRS	18	18	AASB 1	Consistent with IFRS	BC11
SPFSs	Tier 2	Tier 1 IFRSs	21(a)	21(a)	AASB 1	IFRS adoption	BC14
SPFSs	Tier 2	Tier 1 non-IFRS	21(b)	21(b)	Not AASB 1	Continue R&M & BC93 of AASB 1053	BC14
		<i>First time adopt T2</i>					
SPFSs	SPFSs using R&M	Tier 2	19(a)	18A(b)	Not AASB 1	Continue R&M & BC93 of AASB 1053	BC12
SPFSs	SPFSs not using R&M	Tier 2	18	18A(a)	AASB 1 or directly through AASB 108	Cost/benefit considerations	BC11&BC13
SPFSs	Tier 1 IFRSs	Tier 2	23	23	Not AASB 1	Continue R&M & BC93 of AASB 1053	BC14
SPFSs	Tier 1 non-IFRSs	Tier 2	23	23	Not AASB 1	Continue R&M & BC93 of AASB 1053	BC14
		<i>Resume T1</i>					
Tier 1 IFRSs	SPFSs using R&M	Tier 1 IFRSs		19	AASB 1 or AASB 108 option in AASB 1	IFRS adoption	BC7
Tier 1 IFRSs	SPFSs using R&M	Tier 1 non-IFRSs		19	AASB 1 or AASB 108 option in AASB 1	Consistent with IFRS	BC7
Tier 1 IFRSs	SPFSs not using R&M	Tier 1 IFRSs		19	AASB 1 or AASB 108 option in AASB 1	IFRS adoption	BC7
Tier 1 IFRSs	SPFSs not using R&M	Tier 1 non-IFRSs		19	AASB 1 or AASB 108 option in AASB 1	Consistent with IFRS	BC7
Tier 1 IFRSs	Tier 2	Tier 1 IFRSs		21(a)	AASB 1 or AASB 108 option in AASB 1	IFRS adoption	BC14
Tier 1 IFRSs	Tier 2	Tier 1 non-IFRSs		21(b)	Not AASB 1	Continue R&M & BC93 of AASB 1053	BC14
Tier 1 non-IFRSs	SPFSs using R&M	Tier 1 IFRSs		19A	AASB 1 (but not AASB 108 option in AASB 1)	IFRS adoption	BC6
Tier 1 non-IFRSs	SPFSs using R&M	Tier 1 non-IFRSs		19	AASB 1 or AASB 108 option in AASB 1	Consistent with IFRS	
Tier 1 non-IFRSs	SPFSs not using R&M	Tier 1 IFRSs		19A	AASB 1 (but not AASB 108 option in AASB 1)	IFRS adoption	BC6
Tier 1 non-IFRSs	SPFSs not using R&M	Tier 1 non-IFRSs		19	AASB 1 or AASB 108 option in AASB 1	Consistent with IFRS	
Tier 1 non-IFRSs	Tier 2	Tier 1 IFRSs		19A&21(a)	AASB 1 (but not AASB 108 option in AASB 1)	IFRS adoption	BC6&BC14
Tier 1 non-IFRSs	Tier 2	Tier 1 non-IFRSs		21(b)	Not AASB 1	Continue R&M & BC93 of AASB 1053	BC14
		<i>Resume T2</i>					
Tier 2	SPFSs using R&M	Tier 2		19B(e)	Not AASB 1 or AASB 108 option in AASB 1	Continue R&M & BC93 of AASB 1053	BC8
Tier 2	SPFSs not using R&M	Tier 2		19B(d)	AASB 1 or AASB 108 option in AASB 1	Consistent with IFRS	
Tier 2	Tier 1 IFRSs	Tier 2		23	Not AASB 1 or AASB 108 option in AASB 1	Continue R&M & BC93 of AASB 1053	BC14
Tier 2	Tier 1 non-IFRSs	Tier 2		23	Not AASB 1 or AASB 108 option in AASB 1	Continue R&M & BC93 of AASB 1053	BC14

AASB staff response

- 7 Although AASB staff can see merit in these suggestions, AASB staff continue to prefer the proposals in ED 248 as drafted. AASB staff are of the view that although the suggestions might simplify requirements by increasing the number of scenarios where AASB 1 would be required to be applied, the application of AASB 1 would not necessarily be a simplification for particular entities. ED 248 proposes that entities in the circumstances raised by the submitter continue with their existing recognition and measurement policies. AASB staff consider this to be a less complex alternative to the consideration of and then the application of AASB 1. Furthermore, particularly in relation to Issue 2A, AASB staff note that entities that have previously applied applicable recognition and measurement requirements might have previously applied AASB 1.

AASB staff recommendation

- 8 Staff recommend not making any amendments to the proposals in ED 248, other than amending the Basis for Conclusions that will accompany the resulting amending standard to explicitly acknowledge the substantive comments raised by the submitters and explaining the Board's reasons for not amending the proposals in line with those comments.

Question 1 to Board members:

Does the Board agree with staff's recommendations in paragraph 8 above?

- 9 If the Board agrees with the AASB staff's recommendations in paragraph 8 above, AASB staff consider that, with best endeavours, the revised standard could be finalised in time for application to years beginning on or after 1 July 2014 (as proposed in ED 248).
- 10 AASB staff recommend the Board proceeds to a ballot draft of the document for vote by the Board as soon as practicable.

Question 2 to Board members:

- (a) Do you agree with staff's recommendation in paragraph 10 above?
- (b) Do any Board members intend to dissent or abstain from the ballot draft?