



<b>To:</b>	<b>AASB members</b>	<b>Date:</b>	13 May 2014
<b>From:</b>	<b>Ahmad Hamidi</b>	<b>Agenda Item:</b>	9.1
<b>Subject:</b>	<b>Amending Application Focus of Standards</b>	<b>File:</b>	

## Action

Consider:

- (a) background to the evolution of application paragraphs of Australian Accounting Standards that apply to corporate non-reporting entities; and
- (b) arguments relating to the manner in which those application paragraphs could be amended to apply to reporting entities/GPFSs only;

with a view to directing staff as to the next steps.

## Attachment

Agenda paper 9.2: Amending the Application Focus of Australian Accounting Standards

## Overview

Agenda paper 9.2 sets out the background to the evolution of the application paragraphs of those Australian Accounting Standards that apply to corporate non-reporting entities. It traces back the scope extensions to encompass such entities to a joint initiative in 1995 by the AASB and the Attorney-General's Department to include the requirements of the then outgoing Schedule 5 to Corporations Regulations in an Accounting Standard. The paper notes that, over the years: harmonisation with IASs; adoption of IFRSs; and harmonisation of financial reporting between Australia and New Zealand; have led to relocations, deletions, amendments and changes in the requirements of the Standards that were based on Schedule 5.

Agenda paper 9.2 focuses on the proposal included ED 192 *Revised Differential Reporting Framework* (2010) to change the focus of the application paragraphs of Australian Accounting Standards to apply to reporting entities/GPFSs only. The paper sets out arguments for and against progressing the amendments as an exercise separate from the implementation of other remaining proposals of ED 192. The paper includes a staff view that recommends the amendments to be taken up as a separate exercise.

## Background

ED 192 includes three distinct proposals. The first proposal related to the creation of a second Tier of reporting requirements for preparing GPFSs that involved substantial reductions in disclosure requirements compared with IFRSs as adopted in Australia. This was progressed to the standard

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stage through the publication of AASB 1053 *Application of Tiers of Australian Accounting Standards* in 2010.

The second proposal sought to deal with changing the application focus of Standards to reporting entities/GPFSs only.

The third proposal addressed the subjectivity in application of reporting concept in determining whether the entity should prepare GPFSs. That involved clarification of the meaning of GPFSs in an Australian context and greater involvement of other regulators in identifying reporting entities in respective jurisdictions.

Comments received on the above proposals, in particular, on the functionality of the reporting entity concept indicated divergent views on how well that concept is functioning. This led the Board to defer a decision on those proposals pending further research.

The AASB commissioned the services of three professional research contractors that began their research work in early 2011. The thrust of the research is to profile the characteristics of lodging entities and their accounting policies with a view to shedding some light on (i) whether there is a consistency in the current treatment of entities as non-reporting entities; and (ii) the nature of the accounting policy choices being made by those entities.

During 2011-2013 staff and the research contractors informed members about the progress of the research project and the interim research findings as they became available following tests performed on various sets of data relating to lodgements with the ASIC and three State based regulators. The AASB began a discussion of possible policy implications arising from the research in February 2013 based on a draft Research Report made available to the Board at the time and continued that discussion at its April 2013 meeting. Those discussions resulted in some tentative decisions about the manner in which the remaining ED 192 proposals should be progressed and elements of a Roadmap for future work that envisaged liaison with other regulators to discuss possible policy responses to the research findings. Agenda paper 9.2 contains a summary of those tentative decisions.

The AASB staff have since taken part in a number of meetings with the Chair of FRC's Financial Reporting Task Force and the Federal Treasury and ASIC staff to discuss the interim research results and the Board have been briefed on that liaison.