



Project:	Reissued New Principal Standards	Meeting	AASB October 2015 (M148)
Topic:	Sweep issue re scope paragraphs	Agenda Item:	17.1
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		Decision-Making:	Low
		Project Status:	Sweep issue

Introduction and objective of this paper

- 1 The objective of this paper is to obtain Board decisions in relation to whether to amend AASB 8 *Operating Segments* and AASB 133 *Earnings per Share* to insert scope paragraphs as they appear in the corresponding IFRSs, with consequential amendments to AASB 1057 *Application of Australian Accounting Standards*.

Summary of staff recommendations

- 2 The staff recommend the following:
- (a) the IFRS 8 scope paragraph (paragraph 2) should be inserted into AASB 8 and paragraphs 6(d) and (e) deleted from AASB 1057;
 - (b) the IAS 33 scope paragraph (paragraph 2) should be inserted into AASB 133 and paragraph 9 of AASB 1057 amended to remove the public trading references; and
 - (c) the amendments should be made without an exposure draft process, for application to annual periods beginning on or after 1 January 2016.

Background

- 3 The Board made new principal versions of nearly all of the existing AASB Standards and Interpretations (UIG and AASB) that incorporate IFRSs in July and August 2015. The reason for doing so was to remove all unnecessary editorial differences between the AASB pronouncements and the IFRSs.
- 4 In preparing the new principal versions, the Board decided at its May 2015 meeting that the application paragraphs (relating to reporting entities and general purpose financial statements) should be removed from each Standard and included in a general Standard to facilitate future amendment of those paragraphs. This was done, with a new Standard AASB 1057 being issued along with the new principal versions.

- 5 Comments have been received from a few constituents that the removal of the application paragraphs from AASB 8 and AASB 133 is problematic in that it has resulted in those Standards not including a scope paragraph that appears in the corresponding IFRSs. The scope paragraphs refer to the application of the Standard in relation to entities whose debt or equity instruments (AASB 8) or ordinary shares or potential ordinary shares (AASB 133) are traded in a public market and to entities filing with a securities commission for the purpose of issuing such instruments in a public market.

Staff analysis – scope paragraphs

- 6 The issue arises because these particular IASB scope paragraphs have always been treated as application paragraphs in AASB Standards. Hence, they now appear in or are addressed in AASB 1057 rather than AASB 8 or AASB 133.
- 7 The wording of the particular scope paragraph in IFRS 8 (paragraph 2) and in IAS 33 (paragraph 2) and the relevant application paragraphs in AASB 1057 is included in the attached Appendix to this staff paper.

Operating segments Standards

- 8 The IFRS 8 scope paragraph can be inserted into AASB 8 as paragraph 2, so that there is no editorial difference between AASB 8 and IFRS 8 in relation to paragraph 2. This would be consistent with the objective in issuing the new principal versions of Standards of removing unnecessary differences between AASB and IASB pronouncements. However, staff note that inserting paragraph 2 into AASB 8 is not necessary to ensure consistency with IFRSs as AASB 8 and AASB 1057 together give the same “scope” as IFRS 8.
- 9 If paragraph 2 is inserted into AASB 8, the next question is whether to amend paragraph 6 of AASB 1057. Paragraph 6 includes the text of IFRS 8 paragraph 2 in paragraphs 6(d) and (e), but also includes the limitation of the application of AASB 8 to certain types of for-profit entities and GPFs in paragraphs 6(a) – (c).
- 10 Deleting paragraphs 6(d) and (e) and retaining paragraphs 6(a) – (c) would be most consistent with the general approach adopted in preparing the new principal Standards. That is, the basic application statement in relation to entities and GPFs appears in AASB 1057 rather than the specific Standard.
- 11 For example, AASB 107 *Statement of Cash Flows* (August 2015) includes the IAS 7 scope paragraph 1, which specifies that “An entity shall prepare a statement of cash flows in accordance with the requirements of this Standard ...” However, AASB 107 does not apply to all entities because the application of AASB 107 to entities reporting under the Corporations Act and to GPFs is set out in AASB 1057 (paragraph 7).

Staff recommendation

- 12 Staff recommend that IFRS 8 paragraph 2 be inserted into AASB 8, and that paragraphs 6(d) and (e) be deleted from AASB 1057. This would leave paragraphs 6(a) – (c) in AASB 1057 regarding the basic application of AASB 8 to certain types of for-profit entities and GPFs, and the references to publicly traded debt and equity instruments would appear only in AASB 8.

Question to Board members

Q1 Does the Board agree with this staff recommendation?

Earnings per share Standards

- 13 The IAS 33 scope paragraph can be inserted into AASB 133 as paragraph 2, so that there is no editorial difference between AASB 133 and IAS 33 in relation to paragraph 2. This would be consistent with the objective in issuing the new principal versions of Standards of removing unnecessary differences between AASB and IASB pronouncements.
- 14 If paragraph 2 is inserted into AASB 133, the next question is whether to amend paragraph 9 of AASB 1057. Paragraph 9 sets out the application of AASB 133 to Corporations Act reporting entities with ordinary or potential ordinary shares that are publicly traded or that are in the process of issuing such, and to entities that disclose EPS. The text differs from the wording of IAS 33 paragraph 2, although the meaning appears essentially to be the same. Concise wording has featured in AASB 133 since the first version was issued by the Board in 2004.
- 15 Applying the general approach to application paragraphs in the new principal Standards (see paragraph 10 of this staff paper) would mean that paragraph 9 of AASB 1057 would be amended to remove the references to the public trading of shares. That scope limitation would then be included only in AASB 133 (in the same way as recommended for AASB 8). That is, paragraph 9 would refer to the application of AASB 133 to Corporations Act reporting entities and to other Corporations Act entities that disclose earnings per share.
- 16 This approach would also remove any possibility of a differing scope for AASB 133 compared with IAS 33 based on the abbreviated public trading references in paragraphs 9(a) and (b) of AASB 1057. Staff do not expect the wording differences to have any practical effect in terms of which entities are required to apply AASB 133.

Staff recommendation

- 17 Staff recommend that IAS 33 paragraph 2 be inserted into AASB 133, and that paragraph 9 of AASB 1057 be amended to read as follows:

“AASB 133 *Earnings per Share* applies to each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity or discloses earnings per share.”

Question to Board members

Q2 Does the Board agree with this staff recommendation?

Implementing amendments

- 18 If the Board decides that amendments should be made to AASB 8, AASB 133 and AASB 1057, then the amendments can be made via a single amending Standard.

Transitional provisions would not be required, as the amendments are not expected to have any practical effect. As the amendments would be of a minor or machinery nature that do not change the substance of the Standards, an exposure draft process is not warranted and the Board could move to make the amendments. This was the approach adopted when the Board issued the new principal versions.

- 19 The amendments would best apply to annual periods beginning on or after 1 January 2016. This is the application date of AASB 1057 and also of the new principal version of AASB 8.
- 20 However, for AASB 133, the new principal version applies to annual periods beginning on or after 1 January 2018. Therefore, it would be appropriate to amend both the current version of AASB 133 for periods beginning on or after 1 January 2016 (but before 1 January 2018) and also the new principal version of AASB 133 for periods beginning on or after 1 January 2018. This would ensure that AASB 1057 paragraph 9 and both versions of AASB 133 remain consistent in relation to the treatment of the scope paragraph.
- 21 Along with an amending Standard, staff can prepare a brief article or similar that explains to users of the Standards the role of AASB 1057 and the reason for the amendments for the scope paragraphs.

Staff recommendation

- 22 Staff recommend that the suggested amendments to AASB 8, AASB 133 and AASB 1057 be made without an exposure draft process, for application to annual periods beginning on or after 1 January 2016.

Question to Board members

- Q3 Does the Board agree with this staff recommendation?

APPENDIX

Extracts from Standards

IFRS 8 <i>Operating Segments</i>	AASB 1057 <i>Application of Australian Accounting Standards</i>
<p>Scope</p> <p>2 This IFRS shall apply to:</p> <p>(a) the separate or individual financial statements of an entity:</p> <p>(i) whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or</p> <p>(ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and</p> <p>(b) the consolidated financial statements of a group with a parent:</p> <p>(i) whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or</p> <p>(ii) that files, or is in the process of filing, the consolidated financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.</p>	<p>6 AASB 8 <i>Operating Segments</i> applies to:</p> <p>(a) each for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;</p> <p>(b) general purpose financial statements of each other for-profit reporting entity other than for-profit government departments; and</p> <p>(c) financial statements of a for-profit entity other than for-profit government departments that are, or are held out to be, general purpose financial statements;</p> <p>in respect of:</p> <p>(d) the separate or individual financial statements of an entity:</p> <p>(i) whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or</p> <p>(ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and</p> <p>(e) the consolidated financial statements of a group with a parent:</p> <p>(i) whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or</p> <p>(ii) that files, or is in the process of filing, the consolidated financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.</p>
	AASB 8 <i>Operating Segments</i>
	<p>Scope</p> <p>2 [Deleted by the AASB]</p>

<p><i>IAS 33 Earnings per Share</i></p>	<p><i>AASB 1057 Application of Australian Accounting Standards</i></p>
<p>Scope</p> <p>2 This Standard shall apply to</p> <p>(a) the separate or individual financial statements of an entity:</p> <p>(i) whose ordinary shares or potential ordinary shares are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or</p> <p>(ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing ordinary shares in a public market; and</p> <p>(b) the consolidated financial statements of a group with a parent:</p> <p>(i) whose ordinary shares or potential ordinary shares are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or</p> <p>(ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing ordinary shares in a public market.</p> <p>3 An entity that discloses earnings per share shall calculate and disclose earnings per share in accordance with this Standard.</p>	<p>9 AASB 133 <i>Earnings per Share</i> applies to each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is:</p> <p>(a) a reporting entity whose ordinary shares or potential ordinary shares are publicly traded; or</p> <p>(b) a reporting entity that is in the process of issuing ordinary shares or potential ordinary shares in public markets; or</p> <p>(c) an entity that discloses earnings per share.</p>
	<p><i>AASB 133 Earnings per Share</i></p>
	<p>Scope</p> <p>2 [Deleted by the AASB]</p> <p>3 An entity that discloses earnings per share shall calculate and disclose earnings per share in accordance with this Standard. <i>[this is shaded for RDR entities]</i></p>