Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Australian Financial Reporting Framework**	**Meeting**	AASB December 2015 (M149)
Topic:	**Update**	**Agenda Item:**	7.1
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		Decision-Making:	Low
		Project Status:	In progress

Objective of this paper

1 The objective of this paper is to update the Board in relation to the Australian Financial Reporting Framework project.

Background

2 The overall objective of the project is to clarify and simplify the Australian financial reporting framework, so that objective criteria determine which entities would be required to prepare general purpose financial statements and the level of the reporting requirements. The criteria should ensure that only those entities that should prepare general purpose financial reports are identified as public lodgers. The project aims to cover both corporate and non-corporate entities, in conjunction with policymakers and regulators. Simple and clear legislative wording that could be used by all regulators would be one outcome.

3 There is considerable variation in the thresholds for financial reporting and the reporting requirements set by different regulators across the private sector in Australia, e.g. large proprietary companies, charities, incorporated associations, co-operatives, trade unions, etc. The complexity of the variations and thresholds makes it confusing for entities to determine their reporting requirements. Where entities determine that they are not a reporting entity, they may elect to prepare special purpose financial reports even if lodgement on the public record is required. These reports vary significantly in quality.

4 The AASB aims to encourage policymakers and regulators to revisit reporting thresholds to ensure that the benefits of financial reporting requirements exceed the costs. For example, a third tier of reporting requirements may be appropriate for smaller entities required to report, particularly in the not-for-profit private sector but possibly also in the public sector.

Recent Developments

5 A Project Key Points document was distributed to Board members late in October. The document addresses the full simplification project, covering financial reporting

requirements (led by the AASB), assurance requirements (led by the AUASB) and auditor requirements (led by the Accounting bodies and ASIC). The document will be considered by the Financial Reporting Council at its next meeting.

6 The *Tax Laws Amendment (Combating Multinational Tax Avoidance) Bill 2015* is being addressed in the Australian Parliament at present. An amendment passed by the Senate, but later rejected by the House of Representatives, proposed that certain Australian companies be required to lodge audited general purpose financial reports with the Australian Taxation Office. The amendment referred to accounting and auditing principles rather than to AASB and AUASB Standards. This is addressed further in agenda paper 17.1.

Benchmarking Report

7 At the October 2015 Board meeting, members requested staff to investigate the feasibility of including non-corporate for-profit entities within the scope of the partial draft benchmarking report on thresholds for public lodgement of financial statements for for-profit, private sector entities. Staff have concluded that the best approach would be to address Corporations Act entities in a first benchmarking report, and to cover other for-profit entities in a separate report. This would allow the first report to directly support the Treasury consultation paper in relation to company financial reporting.

8 This approach would mean that the considerable variation across State and Territory jurisdictions in respect of other financial reporting requirements would be addressed in another benchmarking report or reports, such as the requirements for incorporated associations. Associations could be for-profit or not-for-profit entities, although they are typically thought of as not-for-profit entities since in general a pecuniary profit may not be distributed to members. (Western Australia has recently passed a new *Associations Incorporation Act 2015* that classifies associations into three tiers based on revenue, which is the same as the Victorian approach. However, WA associations would not be required to lodge financial statements on the public record, unless the Commissioner directs a small or medium-sized association to have its financial statements audited or reviewed.)

Consultation Paper – Company Financial Reporting

9 The draft outline of the Consultation Paper addressing the corporate financial reporting framework was discussed with Treasury staff, who supported the outline. The outline was provided to the Board in agenda paper 14.4 for the October 2015 meeting. Drafting of the Paper is about to commence.

RDR – New Zealand Reporting Entities Deemed Tier 2

10 A question has arisen as to whether the deeming approach in respect of FMC reporting entities is consistent with the deeming approach in AASB 1053 *Application of Tiers of Australian Accounting Standards* (paragraph B2), under which certain entities are deemed to have public accountability and thus required to comply with Tier 1.

11 The NZ External Reporting Board (XRB) is in the process of revising its Standard XRB A1, having issued Exposure Draft ED XRB A1 *Application of the Accounting*

Standards Framework in August 2015. XRB A1 specifies the requirements for the various tiers of financial reporting for different types of entities in New Zealand.

12 The ED XRB A1 includes an expanded Basis for Conclusions, which addresses the criteria for Tier 1 financial reporting. Paragraph BC11 notes that the two criteria for determining whether a for-profit entity applies Tier 1 for-profit accounting requirements are "public accountability" and size: entities that have public accountability, and "large" for-profit public sector entities, are required to report in accordance with Tier 1. Entities that have public accountability comprise those that meet the IASB definition and also those deemed to have public accountability.

13 Paragraph BC15 for XRB A1, including amendments proposed by the NZ Accounting Standards Board, is expected to state the following:

> BC15 The Board [NZ XRB] noted that in most instances, the deeming approach means that the Financial Markets Authority (FMA) and/or the Financial Markets Conduct Act 2013 will determine which FMC reporting entities have "higher public accountability"[9] and must apply Tier 1 For-profit Accounting Requirements. The deeming provisions as they relate to FMC reporting entities clarify that only FMC reporting entities considered to have "higher public accountability" by law or by the FMA are deemed to have public accountability and must report under Tier 1. Other FMC reporting entities not considered to have "higher public accountability" may report under Tier 2. The Board considered that it is appropriate that all other entities that meet the IASB's public accountability definition apply Tier 1 For-profit Accounting Requirements because this is consistent with the reporting requirements of similar entities internationally.

14 Therefore, it appears that FMC reporting entities that are considered not to have higher public accountability are permitted to report under Tier 2 when they would otherwise be required to report under Tier 1. If so, this would appear to be a different approach to Australian reporting requirements, which deem certain entities to be subject to Tier 1 requirements instead of Tier 2.

15 However, New Zealand staff indicate that the FMC reporting entities permitted to report under Tier 2 are entities that would not meet the IASB's definition of "public accountability", and thus would not be required to report under Tier 1. The example given is of managers of registered schemes, in respect of their own financial statements. In contrast, the managers are classed as "higher public accountability" entities in respect of the financial statements of a scheme or fund – see footnote 9 to paragraph BC15 – which requires the scheme or fund to report under Tier 1.

16 On this basis, the NZ position would appear to be consistent with that in Australia, where reporting entities that do not have public accountability (as defined) can follow Tier 2 reporting requirements.

Question for the Board

Q1 Do members have any comments on the update?

9 The terms "FMC reporting entity" and an FMC reporting entity with "higher public accountability" are set out in the Financial Markets Conduct Act 2013. Under the Financial Markets Conduct Act 2013, certain FMC reporting entities are considered to have a "higher level of public accountability" for financial reporting purposes. These include issuers of equity securities or debt securities under a regulated offer; managers of registered schemes (in respect of financial statements of a scheme or fund); listed issuers; registered banks; licensed insurers; credit unions and building societies. In addition, the FMA may, by notice, specify that an entity (or a group of entities) is considered to have a higher level of public accountability or not to have a higher level of public accountability than other FMC reporting entities.