

Differential Reporting – Some Technical Issues Requiring Board Consideration

Issue No 1: Applicability of AASB 133

The scope of AASB 133 *Earnings per Share* is limited to *Corporations Act 2001* entities preparing financial statements under Part 2M.3 of the Act. In the draft Application Standard, the scope of AASB 133 is expanded such that it applies to general purpose financial statements of any entity:

- “(a) whose ordinary shares or potential ordinary shares are publicly traded; or
- (b) that is in the process of issuing ordinary shares or potential ordinary shares in public markets; or
- (c) that discloses earnings per share.”

ED 192 proposes an RDR version of AASB 133 by exempting Tier 2 entities that elect to report EPS, from applying paragraph 72 of that Standard.

There have been comments by constituents about providing further exemptions for Tier 2 entities. For example it has been commented that, in situations where non-publicly accountable entities elect to disclose EPS information, the disclosures required by paragraph 70 of AASB 133 could be omitted on the basis of cost - benefit considerations. It has also been commented that AASB 133 should not be required of Tier 2 entities — consistent with the application of AASB 8 *Operating Segments*.

On revisiting the issues, staff recommend that:

- (a) the scope of AASB 133 should not be confined to Corporations Act entities because AASB 133 should apply to all publicly accountable for-profit private sector entities; and
- (b) AASB 133 should have no RDR equivalent and any Tier 2 entity that elects to disclose EPS should have to apply AASB 133 as a whole consistent with the application of AASB 8.

Issue No. 2: GGSs

Currently the application of Standards to general government sectors (GGSs) is expressed in terms of ‘financial statements’ of GGSs rather than ‘general purpose financial statements’ of GGSs, or in terms of GGSs as ‘reporting entities’. For example, paragraph 2 of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* states:

- “2 **This Standard applies to each government’s whole of government general purpose financial statements and GGS financial statements.**”

As Australian Accounting Standards would apply to general purpose financial statements under the revised differential reporting regime, the financial statements of GGSs need to be classified as general purpose if they are going to be subject to

Australian Accounting Standards. The draft Application Standard has been worded on this basis:

- “2 This Standard applies to general purpose financial statements of:**
- (a) each government’s whole of government; and**
 - (b) each GGS.”**

AASB 1004 mentions AASB 1049 in its application paragraph:

- “1. Subject to paragraphs 2 to 5, this Standard applies to:**
- (a) each not-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;**
 - (b) general purpose financial statements of each other not-for profit entity that is a reporting entity;**
 - (c) financial statements of not-for-profit entities that are, or are held out to be, general purpose financial statements; and**
 - (d) financial statements of General Government Sectors (GGSs) prepared in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.”**

Staff note that the separate reference to financial statements of GGSs in subparagraph 1(d) above may be due to the Board’s hesitation to regard financial statements of GGSs as general purpose or to regard GGSs as reporting entities. When AASB 1049 was first developed, the issues of whether GGSs prepare GPFSS and whether GGSs are reporting entities were sensitive matters. If GGS financial statements are regarded as general purpose, subparagraph 1(d) would no longer be needed.

Does the Board agree with the wording in the draft Application Standard in regard to application of AASB 1049 to GGSs cited above? If not, staff request direction as how to deal with the application of Standards to GGSs.

Issue No. 3 Concise financial reports

AASB 1039 *Concise Financial Reports* applies to a concise financial report prepared by an entity in accordance with paragraph 314(2)(a) in Part 2M.3 of the Corporations Act. However, concise financial reports provide limited information and are intended to help shareholders identify if and when they consider it would be useful to obtain more comprehensive and detailed information by requesting a copy of the (full) financial report. Accordingly, staff do not regard concise financial reports to be general purpose since they fail to satisfy the objective of financial reporting. Moreover, AASB 1039 does not purport that concise financial reports are general purpose.

Under the Board’s proposals for a revised differential reporting framework, the AASB deals with Standards only in respect of general purpose financial statements. Accordingly, does the Board agree to set in motion a process that involves coordination with other regulators that would lead to deletion of AASB 1039 as an Australian Accounting Standard?

Issue No.4: Terminology for the two tiers

At a previous meeting the Board considered the terms that should be used to label the requirements of Tier 1 and Tier 2 for the purposes of the AASB's final documents on differential reporting. Staff have most recently used the terms 'full IFRSs as adopted in Australia' and 'Reduced Disclosure Regime (RDR)' to identify the requirements of the two Tiers. Staff note that there seems to be general agreement that 'Australian Accounting Standards' is the umbrella term for the two tiers of AASB Standards.

The Board examined various terms for the different Tiers such as:

Option 1:

Tier 1 : Australian Accounting Standards – Full Disclosure Requirements

Tier 2 : Australian accounting Standards – Reduced Disclosure Regime

Option 2:

Tier 1: Full Australian Accounting Standards

Tier 2: Reduced Disclosure Australian Accounting Standards

Option 3

Tier 1: Full Disclosure Australian Accounting Standards

Tier 2: Reduced Disclosure Australian Accounting Standards

The Board settled on the following option:

Option 4:

Tier 1: Australian Accounting Standards

Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements (RDR)

Staff tried to apply Option 4 in drafting ED 192. However, because the Board had also agreed on 'Australian Accounting Standards' as the umbrella term to refer to the two tiers, the use Option 4 created inconsistency and some confusion from the reader point of view. Accordingly, ED 192 (and draft Standards presented to this meeting) have been drafted using the terms 'full IFRSs as adopted in Australia' for Tier 1 and 'the Reduced Disclosure Regime' for Tier 2.

However, staff acknowledge that the Board had chosen this wording on the basis that it promotes and protects the brand 'Australian Accounting Standards'.

Further possible options

Option 5:

Using 'Australian Accounting Standards' as an umbrella term for the two Tiers:

Tier1: full IFRSs as adopted in Australia and

Tier 2: the Reduced Disclosure Requirements (RDR).

Option 6:

Using ‘Australian Accounting Standards’ as an umbrella term for the two Tiers:

Tier 1: Australian Accounting Standards – Full Disclosure Requirements’ and

Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements (RDR)

These options facilitates references in Standards and possibly audit reports to different Tiers. Also as ‘RDR’ is already a well known term to the Australian profession, keeping it would facilitate identification of the Tier 2 content.

Staff request a final Board decision on this issue.

Issue No.5: Application wording

The transitional provisions in paragraphs 69 to 76 of the draft application Standard use the word ‘prepared’ rather than ‘presented’:

Example: paragraph 70 of the draft application Standard:

“70. An entity that prepared its most recent previous financial statements in the form of special purpose financial statements and did not apply the recognition and measurement requirements of full IFRSs as adopted in Australia shall apply AASB 1 on transition to either full IFRSs as adopted in Australia or the Reduced Disclosure Regime.”

Staff tried to ‘benchmark’ the wording to the IFRSs, in particular, IFRS 1. However, IFRSs sometimes use the word ‘prepared’ and other times the word ‘presented’ in similar situations. Staff prefer ‘prepared’ to ‘presented’ since the word ‘presented’ as used in IFRS 1 has the connotation of ‘making available’. This may create confusion as some readers may see a link between the word ‘presented’ and ‘making financial statements available’ (publicly or through holding out to a party) relating to the clarification of general purpose financial statements noted in paragraph 64 and 65 of the draft Application Standard.

Does the Board agree with the staff view in using the term ‘prepared’ instead of ‘presented’ ?

Issue No.6: Universities

Universities in the public sector are Tier 1 entities by virtue of deeming. However, universities in the private sector, being not-for-profit private sector entities, by default, would be eligible to apply the RDR.

Does the Board want to require all universities whether in the public or private sectors to be Tier 1 entities for consistency of treatment?

Issue No.7: Policy on for-profit entity IFRS compliance

It is the Board’s policy that for-profit entities that apply full IFRSs as adopted in Australia are IFRS compliant. This is reflected in the following paragraph which appears in the Preface to each AASB Standard that incorporates an IFRS.

“Private sector for-profit entities complying with full IFRSs as adopted in Australia would simultaneously comply with IFRSs. Many other entities complying with full IFRSs as adopted in Australia would also simultaneously comply with IFRSs.”

However, the transitional provisions, paragraph 74 of the draft Application Standard states:

“74 A for-profit private sector entity transitioning from the Reduced Disclosure Regime to full IFRSs as adopted in Australia shall apply AASB 1 for the entity to be able to claim (full) IFRS compliance. A not-for-profit entity transitioning from the Reduced Disclosure Regime to full IFRSs as adopted in Australia may elect to use AASB 1 to be able to claim (full) IFRS compliance; ...”

This paragraph implies there is a choice of applying AASB 1 when the for-profit private sector entity transitions from Tier 2 to Tier 1. If the entity does not want to claim IFRS compliance, it can avoid AASB 1. This would be inconsistent with the statement that for-profit entities that apply full IFRSs as adopted in Australia are IFRS compliant.

Does the Board wish to maintain its existing policy that for-profit private sector entities applying full IFRSs as adopted in Australia are IFRS compliant?