

AASB Exposure Draft

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Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements

Comments to the AASB by 19 May 2014



Australian Government

**Australian Accounting
Standards Board**

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 19 May 2014. Comments should be addressed to:

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All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

Obtaining a Copy of this AASB Exposure Draft

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[Draft] Australian Accounting Standard AASB 2014-X *Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements* is set out in paragraphs 1 – 19. All the paragraphs have equal authority.

PREFACE

Introduction

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards, including Interpretations, to be applied by:

- (a) entities required by the *Corporations Act 2001* to prepare financial reports;
- (b) governments in preparing financial statements for the whole of government and the General Government Sector (GGS); and
- (c) entities in the private or public for-profit or not-for-profit sectors that are reporting entities or that prepare general purpose financial statements.

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards; and
- (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 1 requirements incorporate International Financial Reporting Standards (IFRSs), including Interpretations, issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of each Standard in the Australian environment.

Publicly accountable for-profit private sector entities are required to adopt Tier 1 requirements, and therefore are required to comply with IFRSs. Furthermore, other for-profit private sector entities complying with Tier 1 requirements will simultaneously comply with IFRSs. Some other entities complying with Tier 1 requirements will also simultaneously comply with IFRSs.

Tier 2 requirements comprise the recognition and measurement requirements of Tier 1 but substantially reduced disclosure requirements in comparison with Tier 1.

Australian Accounting Standards also include requirements that are specific to Australian entities. These requirements may be located in Australian

Accounting Standards that incorporate IFRSs or in other Australian Accounting Standards. In most instances, these requirements are either restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. These requirements do not prevent publicly accountable for-profit private sector entities from complying with IFRSs. In developing requirements for public sector entities, the AASB considers the requirements of International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB follows before making a new Australian Accounting Standard or amending an existing one. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

Reasons for Issuing this Exposure Draft

In June 2012 the AASB issued *AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle* incorporating the IASB Standard *Annual Improvements to IFRSs 2009–2011 Cycle*. The amendments AASB 2012-5 made to AASB 1 *First-time Adoption of Australian Accounting Standards* relate to an entity returning to Australian Accounting Standards that previously applied Australian Accounting Standards or IFRSs, but in its most recent previous annual financial statements did not include an explicit and unreserved statement of compliance with Australian Accounting Standards or IFRSs. Irrespective of whether AASB 1 has previously been applied, the amendments permit such an entity to apply AASB 1, or the option under AASB 1 to apply Australian Accounting Standards retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* as if the entity had never stopped applying Australian Accounting Standards or IFRSs. Additional disclosure requirements are also specified in the amendments.

At its May 2013 meeting the AASB noted that these AASB 1 amendments have implications for AASB 1053. Accordingly, the AASB decided to clarify some of the existing requirements in AASB 1053 and propose introducing new requirements into AASB 1053 (see the 'Main Features of this Exposure Draft' section below).

Main Features of this Exposure Draft

In addition to amending AASB 1053 to clarify that it relates only to general purpose financial statements, to make it consistent with the availability of the AASB 108 option in AASB 1 and to clarify certain circumstances in which an entity applying Tier 2 reporting requirements can avail itself of that option, this Exposure Draft proposes that:

- (a) an entity applying **Tier 2** reporting requirements for the **first time** be permitted to do so directly using the requirements in AASB 108 (rather than applying AASB 1) when, and only when, the entity had not applied, or only selectively applied, applicable recognition and measurement requirements in its most recent previous annual special purpose financial statements;
- (b) an entity that **resumes** the application of **Tier 2** reporting requirements through AASB 1 (whether or not it uses the AASB 108 option in AASB 1) because it had not continued to apply all applicable recognition and measurement requirements (i.e. the circumstances addressed in proposed paragraph 19B(d) of AASB 1053) be required to disclose:
 - (i) the reason it stopped applying Tier 2 reporting requirements;
 - (ii) the reason it is resuming the application of Tier 2 reporting requirements; and
 - (iii) when the AASB 108 option in AASB 1 is used, the reasons for electing to resume the application of Tier 2 reporting requirements as if it had never stopped applying them; and
- (c) an entity that **resumes** the application of **Tier 2** reporting requirements without applying AASB 1 or the AASB 108 option in AASB 1 because it had continued to apply all applicable recognition and measurement requirements (i.e. the circumstances addressed in proposed paragraph 19B(e) of AASB 1053) be required to disclose:
 - (i) the reason it stopped applying Tier 2 reporting requirements; and
 - (ii) the reason it is resuming the application of Tier 2 reporting requirements.

Application Date

It is proposed that this Standard would apply to annual reporting periods beginning on or after 1 July 2014 with early adoption permitted for annual reporting periods beginning on or after 1 July 2013 but before 1 July 2014.

Analysis of Disclosure Requirements for Tier 2 Purposes

At its May 2013 meeting, the Board concurred with the view that applying paragraphs 23A and 23B of AASB 1 (which specify disclosures about the reasons for stopping and resuming or commencing the application of Australian Accounting Standards and the reasons for the accounting policies adopted to effect that resumption or commencement) would not entail material additional costs for Tier 2 entities. These paragraphs were introduced into AASB 1 by AASB 2012-5.

Accordingly, as noted in (b) of the ‘Main Features of this Exposure Draft’ above, it is proposed that an entity that resumes the application of Tier 2 reporting requirements using the AASB 108 option in AASB 1 would not be exempted from complying with paragraphs 23A and 23B of AASB 1. (See also (c) of the ‘Main Features of this Exposure Draft’ above.)

Paragraphs 23A and 23B of AASB 1 are not applicable to entities applying Tier 2 reporting requirements for the first time as these paragraphs are only relevant to reapplication of AASB 1.

Request for Comments

Comments are invited on any of the proposals in this Exposure Draft by 19 May 2014. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the major issues. The AASB regards supportive and critical comments as essential to a balanced review of the issues and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

Specific Matters for Comment

The AASB would particularly value comments on the following:

- 1 whether you agree with the proposal that an entity applying Tier 2 reporting requirements for the first time be permitted to do so directly

using the requirements in AASB 108 (rather than applying AASB 1) when, and only when, the entity had not applied, or only selectively applied, applicable recognition and measurement requirements in its most recent previous annual special purpose financial statements;

- 2 whether you agree with the proposal that an entity that resumes application of Tier 2 reporting requirements through AASB 1 (whether or not it uses the AASB 108 option in AASB 1) because it had not continued to apply all applicable recognition and measurement requirements (i.e. the circumstances addressed in proposed paragraph 19B(d) of AASB 1053) be required to disclose:
 - (a) the reason it stopped applying Tier 2 reporting requirements;
 - (b) the reason it is resuming the application of Tier 2 reporting requirements; and
 - (c) when the AASB 108 option in AASB 1 is used, the reasons for electing to resume the application of Tier 2 reporting requirements as if it had never stopped applying them;
- 3 whether you agree with the proposal that an entity that resumes application of Tier 2 reporting requirements without applying AASB 1 or the AASB 108 option in AASB 1 because it had continued to apply all applicable recognition and measurement requirements (i.e. the circumstances addressed in proposed paragraph 19B(e) of AASB 1053) be required to disclose:
 - (a) the reason it stopped applying Tier 2 reporting requirements; and
 - (b) the reason it is resuming the application of Tier 2 reporting requirements;
- 4 whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
 - (a) not-for-profit entities; and
 - (b) public sector entities;
- 5 whether, overall, the proposals would result in financial statements that would be useful to users;
- 6 whether the proposals are in the best interests of the Australian economy; and

- 7 unless already provided in response to specific matters for comment 1 – 6 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

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ACCOUNTING STANDARD AASB 2014-X

AMENDMENTS TO AASB 1053 – TRANSITION TO AND BETWEEN TIERS, AND RELATED TIER 2 DISCLOSURE REQUIREMENTS

Objective

- 1 The objective of this Standard is to make amendments to AASB 1053 *Application of Tiers of Australian Accounting Standards* to:
- (a) clarify that AASB 1053 only applies to general purpose financial statements;
 - (b) make AASB 1053 consistent with the availability of the option under AASB 1 *First-time Adoption of Australian Accounting Standards* to apply Australian Accounting Standards retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;
 - (c) clarify certain circumstances in which entities resuming Tier 2 reporting requirements can apply the AASB 108 option in AASB 1;
 - (d) update requirements for entities applying Tier 2 reporting requirements for the first time; and
 - (e) specify disclosure requirements for entities that resume application of Tier 2 reporting requirements without applying AASB 1 or the AASB 108 option in AASB 1 (in the circumstances addressed in new paragraph 19B(e) of AASB 1053 as revised by this Standard).

Application

- 2 **This Standard applies to:**
- (a) **each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;**
 - (b) **general purpose financial statements of each reporting entity;**

- (c) financial statements 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*.
- 3 This Standard applies to annual reporting periods beginning on or after 1 July 2014.
- 4 This Standard may be applied to annual reporting periods beginning on or after 1 July 2013 but before 1 July 2014. When an entity applies this Standard to such an annual reporting period, it shall disclose that fact.
- 5 This Standard uses underlining, striking out and other typographical material to identify some of the amendments to AASB 1053, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material.

Amendments to AASB 1053

- 6 Paragraph 13 is amended as follows (new text is underlined and deleted text is struck through):
- 13 ~~The following types of entities shall, as a minimum, apply Tier 2 reporting requirements in preparing general purpose financial statements:~~ Tier 2 reporting requirements shall, as a minimum, apply to the general purpose financial statements of the following types of entities: ...
- 7 Paragraph 15 is amended as follows (new text is underlined and deleted text is struck through):
- 15 Whilst Tier 2 reporting requirements are available under this Standard ~~to for general purpose financial statements of~~ non-publicly accountable for-profit private sector entities, ...
- 8 The heading 'Transition' before paragraph 17 is replaced with the heading 'Application of AASB 1'.
- 9 Paragraph 17 is amended to refer to paragraph 18A(a) rather than 18.

- 10 The heading ‘Transition from Special Purpose Financial Statements to Tier 1 or Tier 2’ before paragraph 18 is replaced with the heading ‘First-time Adoption of Australian Accounting Standards’.
- 11 Paragraph 18 is replaced by paragraphs 18-18B as follows:
- 18 When applying Tier 1 reporting requirements for the first time, an entity that prepared its most recent previous financial statements in the form of special purpose financial statements shall apply all the relevant requirements of AASB 1.**
- 18A When applying Tier 2 reporting requirements for the first time, an entity that prepared its most recent previous financial statements in the form of special purpose financial statements:**
- (a) **without applying, or only selectively applying, applicable recognition and measurement requirements of Australian Accounting Standards shall apply either:**
- (i) **all the relevant requirements of AASB 1; or**
- (ii) **Tier 2 reporting requirements directly using the requirements in AASB 108; and**
- (b) **applying all applicable recognition and measurement requirements of Australian Accounting Standards shall not apply AASB 1.**
- 18B An entity applying paragraph 18A(b) continues applying the applicable recognition and measurement requirements of Australian Accounting Standards, whether it had previously initially applied recognition and measurement requirements consistent with AASB 1 or a predecessor to AASB 108, whichever was applicable at the time.
- 12 The heading ‘Reapplication of Australian Accounting Standards other than Transitioning between Tiers’ is added immediately before paragraph 19.
- 13 Paragraph 19 is replaced by paragraphs 19-19B as follows:
- 19 Subject to paragraphs 19A and 21, an entity that:**
- (a) **has applied Tier 1 reporting requirements or IFRSs in a previous reporting period; but**

- (b) whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with Tier 1 reporting requirements³ or IFRSs; and
- (c) is resuming or commencing the application of Tier 1 reporting requirements;

shall apply all the relevant requirements of AASB 1, or the AASB 1 option for retrospective application of Australian Accounting Standards in accordance with AASB 108 as if the entity had never stopped applying Australian Accounting Standards or IFRSs.

3 Compliance with Tier 1 reporting requirements is a reference to compliance with Australian Accounting Standards (Tier 1).

19A An entity that is to claim IFRS compliance on resuming Tier 1 reporting requirements under paragraph 19, shall not use the AASB 1 option for retrospective application of Australian Accounting Standards in accordance with AASB 108 if it was not previously IFRS compliant.

19B Subject to paragraph 23, an entity that:

- (a) has applied Tier 2 reporting requirements in a previous reporting period; but
- (b) whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with Tier 2 reporting requirements⁴; and
- (c) is resuming the application of Tier 2 reporting requirements;

shall:

- (d) apply all the relevant requirements of AASB 1, or the AASB 1 option for retrospective application of Australian Accounting Standards in accordance with AASB 108 as if the entity had never stopped applying Tier 2 reporting requirements, if the entity did not apply all applicable recognition and measurement requirements of Australian Accounting Standards; or

- (e) **not apply AASB 1, or the AASB 1 option for retrospective application of Australian Accounting Standards in accordance with AASB 108, if the entity applied all applicable recognition and measurement requirements of Australian Accounting Standards.**

4 Compliance with Tier 2 reporting requirements is a reference to compliance with Australian Accounting Standards – Reduced Disclosure Requirements.

14 The content of paragraph 20 is replaced by the following:

20 Entities described in paragraph 19B(a)-(c) resume the application of Tier 2 reporting requirements effectively using the same approach as an entity would for first transitioning from special purpose financial statements to Tier 2 reporting requirements set out in paragraph 18A. Accordingly, an entity that did not comply with Tier 2 reporting requirements due solely to omitting some disclosures, but otherwise continued to apply all applicable recognition and measurement requirements, is prohibited from applying AASB 1 on returning to Tier 2 requirements. Instead, it continues applying applicable recognition and measurement requirements, whether it had previously initially applied AASB 1 or a predecessor to AASB 108, whichever was applicable at the time. However, if such an entity did not continue to apply all applicable recognition and measurement requirements of Australian Accounting Standards in its most recent previous annual financial statements, that entity is required to apply AASB 1, or the AASB 1 option for retrospective application of Australian Accounting Standards in accordance with AASB 108, on resuming the application of Tier 2 reporting requirements.

15 Paragraphs 21 and 22 are amended to read as follows (new text is underlined and deleted text is struck through):

21 An entity transitioning from Tier 2 to Tier 1 shall:

- (a) **apply AASB 1⁵, if it is claiming compliance with IFRSs; and**
- (b) **not apply AASB 1, if it is a not-for-profit entity not claiming compliance with IFRSs.**

5 The AASB 1 option for the retrospective application of Australian Accounting Standards in accordance with AASB 108 might not be relevant here as it is available only in relation to the resumption, not first-time application, of Tier 1 reporting requirements.

22 In relation to paragraph 21(a), entities claiming compliance with IFRSs (which would include ~~all~~-for-profit entities applying Tier 1 reporting requirements) need to apply the ~~full~~-relevant requirements of AASB 1, ~~as~~. This is because, in previously applying Tier 2 reporting requirements, ~~they~~ these entities have applied only some of the disclosure requirements of AASB 1 or were prohibited or exempted from applying AASB 1.

16 The heading 'Disclosure' is added immediately after paragraph 23.

17 Paragraph 24 is added, as follows:

24 An entity applying paragraph 19B(e) shall disclose:

(a) the reason it stopped applying Tier 2 reporting requirements; and

(b) the reason it is resuming the application of Tier 2 reporting requirements.

18 The introductory paragraph to Appendix C accompanying AASB 1053 is amended to read as follows:

This Appendix is intended to facilitate the application of the requirements in paragraphs 17-23 of the Standard for the application of Tiers, and the transition between Tiers, of Australian Accounting Standards.

19 Charts 1 and 2 in Appendix C are deleted and replaced by Charts 1-4, as follows:

Chart 1: First-time Adoption of Tier 1 or Tier 2 Reporting Requirements (paragraphs 18-18B)

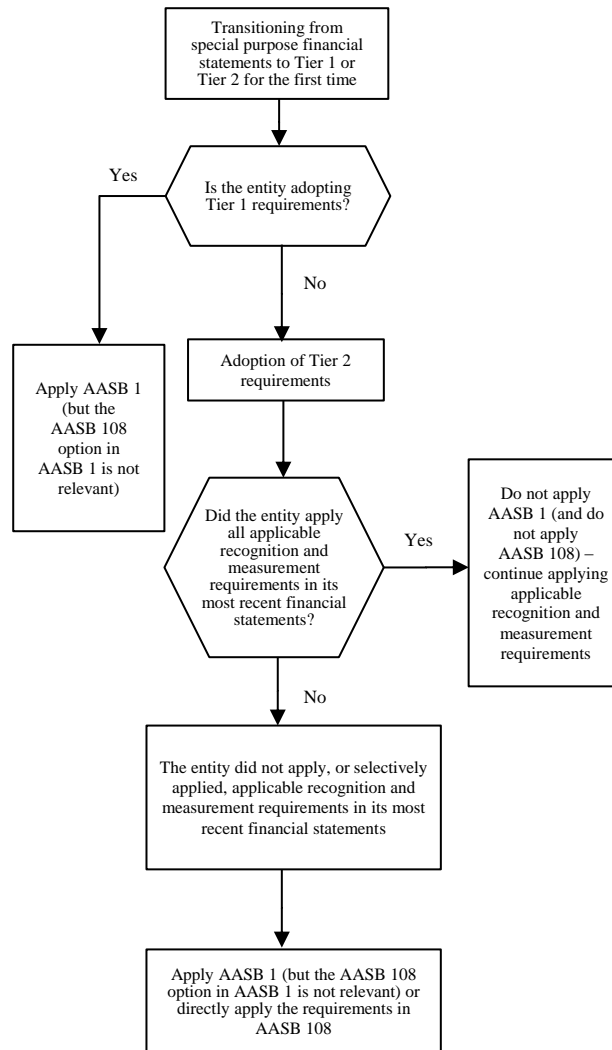


Chart 2: Re-application of Tier 1 Reporting Requirements (paragraphs 19 and 19A)

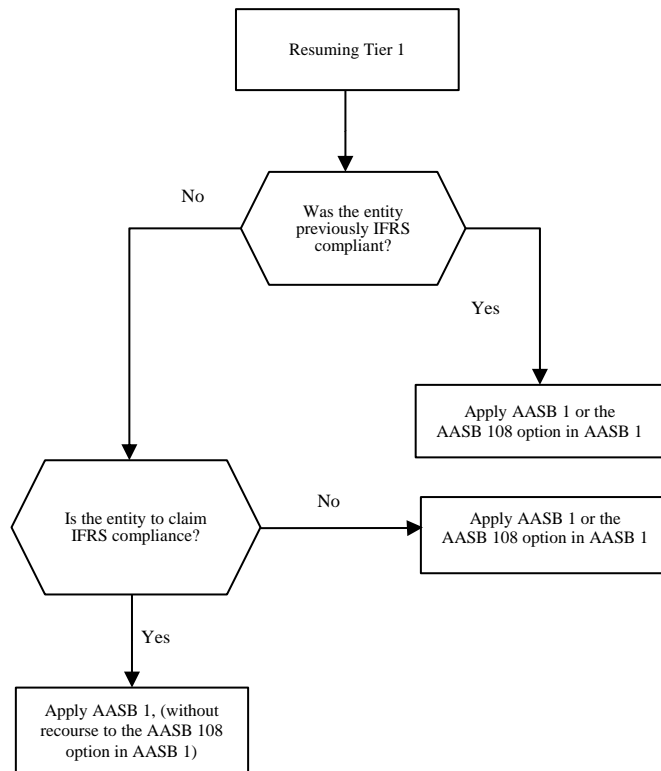


Chart 3: Re-application of Tier 2 Reporting Requirements (paragraph 19B)

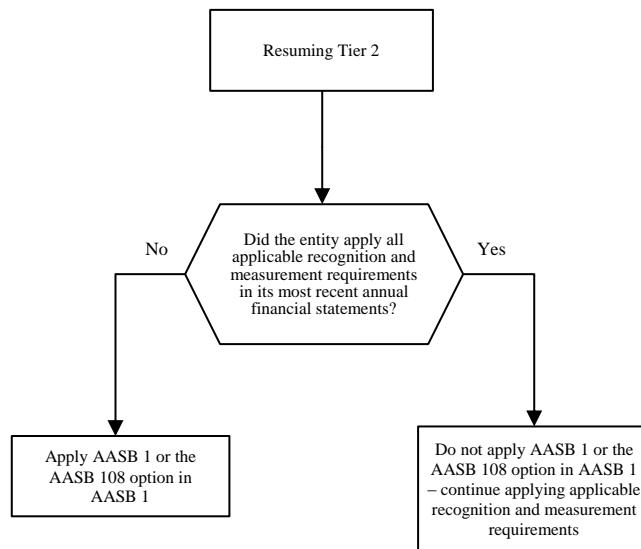
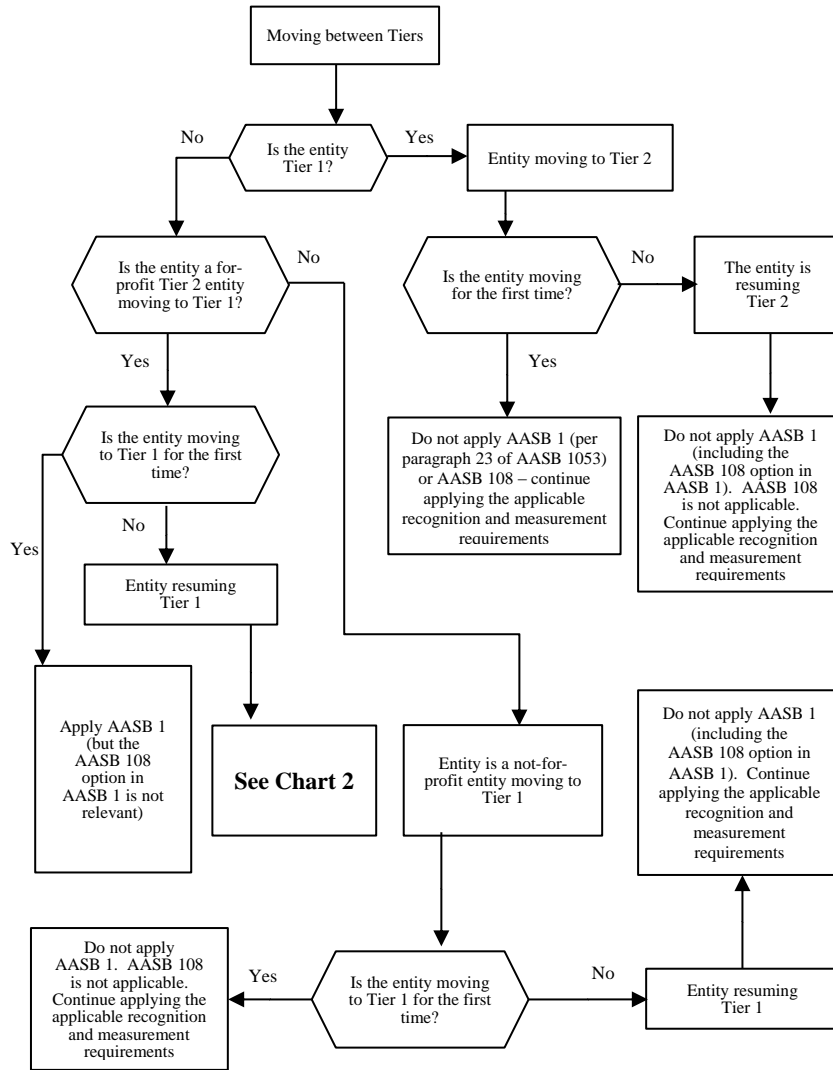


Chart 4: Moving between Tiers (paragraphs 21 and 23)



Proposed Text in AASB 1053

The proposed final text for paragraphs 13-24 of AASB 1053 is reproduced below for information purposes only.

- 13 Tier 2 reporting requirements shall, as a minimum, apply to the general purpose financial statements of the following types of entities:**
- (a) for-profit private sector entities that do not have public accountability;**
 - (b) not-for-profit private sector entities; and**
 - (c) public sector entities, whether for-profit or not-for-profit, other than the Australian Government and State, Territory and Local Governments.**

These types of entities may elect to apply Tier 1 reporting requirements in preparing general purpose financial statements.

- 14 Entities applying Tier 2 reporting requirements would not be able to state compliance with IFRSs.
- 15 Whilst Tier 2 reporting requirements are available under this Standard for general purpose financial statements of non-publicly accountable for-profit private sector entities, not-for-profit private sector entities and public sector entities (both for-profit or not-for-profit) other than those required to apply Tier 1 reporting requirements, regulators might exercise a power to require the application of Tier 1 reporting requirements.
- 16 Disclosures under Tier 2 reporting requirements are the minimum disclosures required to be included in general purpose financial statements. Entities may include additional disclosures using Tier 1 reporting requirements as a guide if, in their judgement, such additional disclosures are consistent with the objective of general purpose financial statements.

Application of AASB 1

- 17 Some of the disclosure requirements in AASB 1 *First-time Adoption of Australian Accounting Standards* have been excluded from Tier 2 reporting requirements. Accordingly, entities adopting Tier 2 reporting requirements for the first time that are required to apply AASB 1 shall

comply with the reduced disclosure requirements in AASB 1, including for the purposes of paragraph 18A(a).

First-time Adoption of Australian Accounting Standards

18 When applying Tier 1 reporting requirements for the first time, an entity that prepared its most recent previous financial statements in the form of special purpose financial statements shall apply all the relevant requirements of AASB 1.

18A When applying Tier 2 reporting requirements for the first time, an entity that prepared its most recent previous financial statements in the form of special purpose financial statements:

(a) without applying, or only selectively applying, applicable recognition and measurement requirements of Australian Accounting Standards shall apply either:

(i) all the relevant requirements of AASB 1; or

(ii) Tier 2 reporting requirements directly using the requirements in AASB 108; and

(b) applying all applicable recognition and measurement requirements of Australian Accounting Standards shall not apply AASB 1.

18B An entity applying paragraph 18A(b) continues applying the applicable recognition and measurement requirements of Australian Accounting Standards, whether it had previously initially applied recognition and measurement requirements consistent with or AASB 1 or a predecessor to AASB 108, whichever was applicable at the time.

Reapplication of Australian Accounting Standards other than Transitioning between Tiers

19 Subject to paragraphs 19A and 21, an entity that:

(a) has applied Tier 1 reporting requirements or IFRSs in a previous reporting period; but

(b) whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with Tier 1 reporting requirements³ or IFRSs;

and

- (c) is resuming or commencing the application of Tier 1 reporting requirements;

shall apply all the relevant requirements of AASB 1, or the AASB 1 option for retrospective application of Australian Accounting Standards in accordance with AASB 108 as if the entity had never stopped applying Australian Accounting Standards or IFRSs.

3 Compliance with Tier 1 reporting requirements is a reference to compliance with Australian Accounting Standards (Tier 1).

19A An entity that is to claim IFRS compliance on resuming Tier 1 reporting requirements under paragraph 19, shall not use the AASB 1 option for retrospective application of Australian Accounting Standards in accordance with AASB 108 if it was not previously IFRS compliant.

19B Subject to paragraph 23, an entity that:

- (a) has applied Tier 2 reporting requirements in a previous reporting period; but
- (b) whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with Tier 2 reporting requirements⁴; and
- (c) is resuming the application of Tier 2 reporting requirements;

shall:

- (d) apply all the relevant requirements of AASB 1, or the AASB 1 option for retrospective application of Australian Accounting Standards in accordance with AASB 108 as if the entity had never stopped applying Tier 2 reporting requirements, if the entity did not apply all applicable recognition and measurement requirements of Australian Accounting Standards; or
- (e) not apply AASB 1, or the AASB 1 option for retrospective application of Australian Accounting Standards in accordance with AASB 108, if the entity applied all applicable recognition and measurement requirements of Australian Accounting Standards.

4 Compliance with Tier 2 reporting requirements is a reference to compliance with Australian Accounting Standards – Reduced Disclosure Requirements.

20 Entities described in paragraph 19B(a)-(c) resume the application of Tier 2 reporting requirements effectively using the same approach as an entity would for first transitioning from special purpose financial statements to Tier 2 reporting requirements set out in paragraph 18A. Accordingly, an entity that did not comply with Tier 2 reporting requirements due solely to omitting some disclosures, but otherwise continued to apply all applicable recognition and measurement requirements, is prohibited from applying AASB 1, on returning to Tier 2 requirements. Instead, it continues applying applicable recognition and measurement requirements, whether it had previously initially applied AASB 1 or a predecessor AASB 108, whichever was applicable at the time. However, if such an entity did not continue to apply all applicable recognition and measurement requirements of Australian Accounting Standards in its most recent previous annual financial statements, that entity is required to apply AASB 1, or the AASB 1 option for retrospective application of Australian Accounting Standards in accordance with AASB 108, on resuming the application of Tier 2 reporting requirements.

21 An entity transitioning from Tier 2 to Tier 1 shall:

- (a) **apply AASB 1⁵, if it is claiming compliance with IFRSs; and**
- (b) **not apply AASB 1, if it is a not-for-profit entity not claiming compliance with IFRSs.**

5 The AASB 1 option for the retrospective application of Australian Accounting Standards in accordance with AASB 108 might not be relevant here as it is available only in relation to the resumption, not first-time application of Tier 1 reporting requirements.

22 In relation to paragraph 21(a), entities claiming compliance with IFRSs (which would include for-profit entities applying Tier 1 reporting requirements) need to apply the relevant requirements of AASB 1. This is because, in previously applying Tier 2 reporting requirements, these entities have applied only some of the disclosure requirements of AASB 1 or were prohibited or exempted from applying AASB 1.

23 An entity transitioning from Tier 1 to Tier 2 shall not apply AASB 1.

Disclosure

- 24 An entity applying paragraph 19B(e), shall disclose:
- (a) the reason it stopped applying Tier 2 reporting requirements; and
 - (b) the reason it is resuming the application of Tier 2 reporting requirements.

BASIS FOR CONCLUSIONS

This Basis for Conclusions accompanies, but is not part of, AASB 2014-X.

Background

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in the Exposure Draft. Individual Board members gave greater weight to some factors than to others.

Clarification of the Application of AASB 1053

BC2 The Board noted that paragraphs 13 and 15 of AASB 1053 *Application of Tiers of Australian Accounting Standards*, as expressed, might be read by some as implying that special purpose financial statements of non-reporting entities must be prepared in accordance with Tier 2 reporting requirements.

BC3 The Board decided to amend paragraphs 13 and 15 to clarify that Tier 2 reporting requirements only relate to general purpose financial statements.

Reapplication of Tier 1 Reporting Requirements that does not entail Transition from Tier 2

BC4 The Board noted that amendments made to AASB 1 *First-time Adoption of Australian Accounting Standards* in June 2012 by AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle* introduced an option for entities returning to Australian Accounting Standards or IFRSs. An entity can either:

- (a) apply AASB 1 (including all of its disclosure requirements);
or
- (b) apply Australian Accounting Standards¹ retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (as if the entity had never stopped applying Australian Accounting Standards or IFRSs), with some associated disclosures.

¹ It is relevant to note that the term 'Australian Accounting Standards' encompasses both Tier 1 and Tier 2 requirements.

- BC5 The Board noted that AASB 1 provides exceptions from applying some of the normal Tier 1 reporting requirements retrospectively on the basis that the cost of retrospectively applying some Tier 1 requirements would be likely to exceed the benefits to users of financial statements. However, the amendments made through AASB 2012-5 acknowledge that the costs of applying AASB 1 without recourse to the AASB 108 option in AASB 1 might exceed the benefits of doing so for an entity that had previously applied Tier 1 requirements. In particular, the AASB 2012-5 amendments allow an entity resuming the application of Tier 1 reporting requirements to do so using the more cost-beneficial approach. In applying the AASB 108 option in AASB 1, an entity would apply Tier 1 requirements retrospectively in accordance with AASB 108 as if the entity had never stopped applying Tier 1 requirements.
- BC6 However, the Board decided there should be a restriction in relation to the use of the AASB 1 option for retrospective application in accordance with AASB 108 in the Australian financial reporting environment. This arises because compliance with Tier 1 reporting requirements does not translate into compliance with IFRSs in all cases. For example, a not-for-profit entity applying AASB 1004 *Contributions* would apply recognition and measurement requirements that are different from those under IFRSs. Accordingly, the Board decided that an entity that is to claim IFRS compliance on resuming Tier 1 reporting requirements, but which was not previously IFRS compliant (i.e. it is effectively adopting IFRS for the first time), would not be able to avail itself of the option in AASB 1 for retrospective application in accordance with AASB 108. Such an entity would apply AASB 1, without recourse to the AASB 108 option in AASB 1, on resuming Tier 1 reporting requirements.
- BC7 The Board observed that the effect of the AASB 2012-5 amendments might be regarded as not having been fully reflected in AASB 1053 at the time of making AASB 2012-5. In particular, some consider that AASB 1053 needs to be amended to make it clear that entities could apply Australian Accounting Standards retrospectively in accordance with AASB 108 in the circumstances described in paragraphs BC5-BC6 above. Accordingly, the Board concluded it should propose making the clarification by replacing paragraph 19 with paragraphs 19 and 19A.

Reapplication of Tier 2 Reporting Requirements that does not entail Transition from Tier 1

- BC8 The Board noted the current prohibition in paragraph 19(a) of AASB 1053 for entities that had previously applied all applicable

recognition and measurement requirements of Australian Accounting Standards from applying AASB 1 on first transition to Tier 2 reporting requirements. Consistent with this prohibition, the Board decided to clarify in paragraphs 19B and 20² of AASB 1053 that an entity that has applied Tier 2 reporting requirements in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with those requirements, and the entity continued to apply all applicable recognition and measurement requirements, should also be prohibited from applying AASB 1 (and the AASB 108 option in AASB 1), on resuming Tier 2 reporting requirements. This is consistent with the view that it would not be appropriate to imply, through application of AASB 1, that the basis of accounting has changed.

- BC9 The Board also decided to propose that entities returning to Tier 2 reporting requirements should be required to meet the disclosure requirements equivalent to those in paragraph 23A (and, where relevant, paragraph 23B) of AASB 1, which would require an entity to disclose the reason it stopped applying Tier 2 requirements and the reason it is resuming reporting in accordance with those requirements (and the reasons it elected to use the AASB 108 option in AASB 1, where that election is available and adopted). The Board is of the view that these disclosure requirements provide users with useful information and the proposed disclosures in paragraph 23A would discourage the intentional omission of the statement of compliance with Tier 2 reporting requirements solely to allow an entity to take advantage of the exemptions in AASB 1.
- BC10 The Board noted, however, that entities returning to Tier 2 reporting requirements in circumstances noted in paragraph BC8 above are prohibited from applying AASB 1 and, by extension, they would be exempted from the disclosures of paragraph 23A (and the proposed disclosures in paragraph 23B would not be applicable). Accordingly, to provide relevant information to users, the Board concluded it should propose requiring the same disclosures as those in paragraph 23A of AASB 1 for entities resuming Tier 2 reporting requirements that are prohibited from applying AASB 1 and the AASB 108 option in AASB 1. These disclosures would be in addition to any other disclosures required by other Standards

² Paragraph 20 currently clarifies that first-time transitioning to Tier 1 reporting requirements from special purpose financial statements that applied applicable recognition and measurement requirements of Australian Accounting Standards (including those of AASB 1, where relevant) would entail application of the full disclosure requirements of AASB 1. This clarification is no longer needed because proposed paragraph 18 of AASB 1 is clear that Tier 1 reporting requirements would apply on first transition, irrespective of the degree of application of recognition and measurement requirements prior to transition.

(including comparative information in accordance with AASB 101 *Presentation of Financial Statements*).

First-time Application of Tier 2 Reporting Requirements that does not entail Transition from Tier 1

- BC11 The Board is of the view that entities transitioning to Tier 2 reporting requirements from special purpose financial statements for the first time should not be bound by AASB 1 for first-time application. In some cases it is envisaged that such entities might find application of Tier 2 reporting requirements retrospectively in accordance with AASB 108 more appropriate on cost-benefit grounds and should, therefore, be able to avail themselves of such a treatment. Accordingly, consistent with first-time adoption requirements that existed before AASB 1 was issued, the Board decided to propose to permit entities transitioning from special purpose financial statements to Tier 2 requirements for the first time to apply those requirements retrospectively in accordance with AASB 108 without going through AASB 1, when and only when an entity had not applied, or only selectively applied, applicable recognition and measurement requirements in its most recent special purpose financial statements (see paragraph BC13 below). [In contrast, the Board decided that transition from special purpose financial statements to Tier 1 reporting requirements for the first time should only be carried out using AASB 1, irrespective of whether an entity intends claiming IFRS compliance, consistent with the Board's IFRS adoption approach for Tier 1 entities.]
- BC12 The Board noted the rationale for the current prohibition in paragraph 19(a) of AASB 1053 for entities that had previously applied all applicable recognition and measurement requirements of Australian Accounting Standards from applying AASB 1 on first transition to Tier 2 reporting requirements. Consistent with this rationale, the Board decided to propose prohibiting the same entities from applying Tier 2 reporting requirements through AASB 1, or retrospectively in accordance with AASB 108 on first transition to Tier 2 requirements. Those entities would continue to apply the applicable recognition and measurement requirements, whether they had previously initially applied recognition and measurement requirements consistent with AASB 1 or a predecessor to AASB 108, whichever was applicable at the time.
- BC13 The Board noted that in some cases entities would not have applied, or only selectively applied, applicable recognition and measurement requirements in preparing their most recent previous annual financial

statements. Consistent with the rationale in paragraph BC89 of AASB 1053, the Board concluded that such entities should be treated differently from those that had applied all applicable recognition and measurement requirements in those financial statements. Accordingly, the Board decided that such entities would need to apply AASB 1, or, as explained in paragraph BC11 above, Tier 2 reporting requirements retrospectively in accordance with AASB 108, on first transition to Tier 2 reporting requirements.

Transition between Tiers

BC14 The Board considered whether the requirements in AASB 1053 relating to transition between Tiers warranted clarification and concluded that paragraphs 21 and 23 of AASB 1053 are adequate. However, it decided to add a footnote to paragraph 21(a) to explain that the AASB 108 option in AASB 1 might not be relevant if the transition from Tier 2 to Tier 1 is first-time adoption, rather than resumption, of Tier 1. For consistency, the Board also decided to amend paragraph 22, which provides guidance on paragraph 21(a).