

Dr Keith Kendall
AASB Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VICTORIA 8007

20 January 2026

Dear Keith,

Invitation to Comment (ITC) 56 *Post-Implementation Review of Tier 2 and the Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities and Further Update of Tier 2*

Ernst & Young Australia is pleased to comment on the above Invitation to Comment. We welcome the opportunity to contribute to the future of financial reporting in Australia.

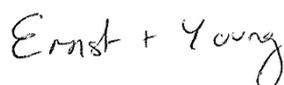
We support the Board's efforts to enhance Tier 2 reporting by entities in Australia. We agree with the continued consistency of recognition and measurement requirements between Tier 1 and Tier 2 entities, with Tier 2 having reduced disclosures.

With respect to the adoption of IFRS 19 *Subsidiaries without Public Accountability: Disclosures* in Australia, we believe it may appeal to a subset of entities that are part of global groups where there may be benefits in consistent reporting globally. However, whether IFRS 19 should be adopted locally is ultimately a matter of public policy. While the standard could offer advantages such as streamlined disclosures and alignment with international practices, it also presents challenges, including implementation complexity. These considerations suggest that any decision will require careful evaluation of both benefits and implications for stakeholders.

Our detailed responses to the specific questions raised in the Invitation to Comment are provided in Appendix A to this letter.

We would be pleased to discuss our comments further with either yourself or members of your staff. If you wish to do so, please contact Melissa Sim on (02) 9276 9965 or Tony Hanrahan on (03) 9635 4036.

Yours sincerely



Ernst & Young

Appendix A

Section 1: Post Implementation Review

Topic 1 - Overall objectives and assessment of AASB 2020-2

Questions for respondents

1. Regarding AASB 2020-2 and the removal of SPFS for certain FP private sector entities, please provide your views on the following matters:
 - (a) Has the *overall* objective to improve the consistency, comparability, transparency and enforceability of the financial statements of affected entities been achieved?
 - (b) Were the costs of preparing GPFS for the *first time* broadly in line with expectations?
 - (c) Are the *ongoing* costs of preparing GPFS broadly in line with expectations?

In addition to explaining the reasons for your views, information about the relevant circumstances, their significance and examples to illustrate your responses are also most helpful.

We agree the overall objective has been met for the affected entities. Feedback received suggests the costs of preparing were broadly in line with expectations, both up front and ongoing. We are aware of feedback from some preparers (small, individual AFSL holders) where initial and ongoing costs are considered punitive, but we consider this a question of scoping of specific legislative requirements and not a matter of scoping for the AASB.

Topic 2 - Overall objective and assessment of AASB 1060

Questions for respondents

2. Regarding AASB 1060, please provide your views on the following matters:
 - (a) *Overall*, has the Standard met its objective of achieving an appropriate balance between meeting user needs and minimising the costs for entities preparing Tier 2 GPFS?
 - (b) Were the costs of applying the Standard for the *first time* broadly in line with expectations?
 - (c) Are the *ongoing* costs of applying the Standard broadly in line with expectations?

In addition to explaining the reasons for your views, information about the relevant circumstances, their significance and examples to illustrate your responses are also most helpful.

We agree that overall, the objective of achieving balance has been met in most situations. However, we note that sometimes it can be challenging to require disclosure of information on material transactions beyond that required specifically in AASB 1060, although we believe it would be of benefit to users. For example, disclosures about impairment under AASB 1060 are quite limited and the additional disclosures in IFRS 19 on impairment would provide useful information on such non-cash adjustments. Further guidance on the application of paragraph 9(a) when additional disclosures are considered necessary to achieve fair presentation would be useful to preparers.

Feedback suggests the initial and ongoing costs of compliance with the disclosure requirements of AASB 1060 are broadly in line with expectations.

Topic 3 – Transition relief for FP private sector transitioning from SPFS to AASB 1060

Questions for respondents

3. In respect of FP private sector entities that transitioned from SPFS to AASB 1060:
- (a) Was any of the optional transition relief used?
 - (b) Did the optional transition relief achieve its objective of reducing the effort required during the transition? If not, what additional forms of transition relief should the AASB consider providing when developing transition requirements in future standard-setting projects?

In addition to explaining the reasons for your views on the above matters, information about the relevant circumstances, their significance and examples to illustrate your responses are also most helpful.

Very few entities early adopted AASB 1060 which is in line with general practice in Australia for any new standards. Generally, companies prefer to have aligned comparative information and as such this relief was only applied where comparatives were difficult to obtain.

One challenge that did arise was the relief from distinguishing errors from changes in accounting policy. Section 311 of the Corporations Act 2001 requires auditors to notify ASIC in writing if they become aware of circumstances that may indicate a contravention of the Corporations Act during an audit. The AASB relief did not override this requirement.

Topic 4 – Transition relief for entities transitioning from GPFS to AASB 1060

Questions for respondents

4. In respect of entities that transitioned from GPFS (Tier 1 or Tier 2 (RDR)) to AASB 1060:
- (a) Was the optional transition relief used?
 - (b) Did the optional transition relief achieve its objective of reducing the effort required during the transition? If not, what additional forms of transition relief should the AASB consider providing when developing transition requirements in future standard-setting projects?

In addition to explaining the reasons for your views on the above matters, information about the relevant circumstances, their significance and examples to illustrate your responses are also most helpful.

Nothing further to add compared to Topic 3.

Topic 5 – Education materials

Questions for respondents

- 5. In relation to the *removal of SPFS for certain FP private sector entities*, were the educational initiatives, including webinars and publications, prepared by AASB staff helpful?
- 6. In relation to *AASB 1060*, were the educational initiatives, including webinars and publications, prepared by AASB staff helpful?
- 7. Were there any other activities or resources that would have been helpful that the AASB could consider in future standard-setting projects?

Please explain the reasons for your views on the above matters. Examples to illustrate your responses are also most helpful.

We appreciated the educational initiatives in relation to the removal of SPFS for certain FP private sector entities and in relation to AASB 1060.

We are regularly asked for an analysis of the specific disclosure differences between Tier 1 and Tier 2, such an analysis would have been/would be helpful.

Topic 6 - Disclosure of individually material items

Questions for respondents

8. Do you consider the absence of a specific disclosure requirement for individually material items of income and expense in AASB 1060 has led to any problems in either preparing or using Tier 2 financial statements?
9. Do you think the AASB should add an explicit disclosure requirement to AASB 1060 that requires the disclosure of individually material items of income and expense?

In addition to explaining the reasons for your views on the above matters, information about the relevant circumstances, their significance and examples to illustrate your responses are also most helpful.

The lack of a specific reference to individually material items of income and expense can make it challenging to convince entities of need for disclosure. We believe it is worth the AASB considering the requirements of AASB 18 with respect to aggregation and disaggregation.

Topic 7 - Adequacy of disclosure requirements

Question for respondents

10. Do you have any comments about the disclosure requirements of AASB 1060, including their adequacy or practicality in application?

Please provide your views on the requirements, relevant circumstances and their significance, and areas where you consider changes are needed. Examples to illustrate your responses are also most helpful.

Please also consider whether the potential amendments to AASB 1060 outlined in Section 2 of this ITC regarding the current project to update AASB 1060 would address any concerns you may have. In particular, you may wish to look at the following tables in Section 2:

- Table 2.1.1 – Substantive amendments to the *IFRS for SMEs* Accounting Standard – recommendations for amending AASB 1060
- Table 2.2.A – New AASB 18 classification and presentation paragraphs proposed for inclusion in AASB 1060
- Table 2.2.B – New AASB 18 disclosure paragraphs to be considered for inclusion in AASB 1060.

Refer comments in Topic 2 above and comments on section 2 below.

Topic 8 - Maintaining AASB 1060

Question for respondents

11. Do you have any comments about the AASB's current approach to maintaining AASB 1060, including the frequency and timing of updates?

Please explain the reasons for your view.

Subject to comments in section 2 below, we agree with the current approach. We think this maintains comparability of recognition and measurement within the Australian environment, between Tier 1 and Tier 2 reporters, and incremental disclosure changes are often considered easier to process than more substantial changes every few years.

Topic 9 – Other Matters

Questions for respondents

12. Are there any regulatory issues or other issues arising in the Australian environment that adversely affect the application of AASB 1060 and AASB 2020-2?
13. Does the application of the requirements in AASB 1060 and AASB 2020-2 result in major auditing or assurance challenges?
14. Are the requirements in the best interests of the Australian economy?
15. Are there any other matters that the AASB should be aware of as it undertakes this PIR of AASB 1060 and AASB 2020-2?

If so, considering the objective of a PIR as described in the introduction on page 6, please provide your views on those issues or matters, relevant circumstances and their significance, and areas where you consider changes are needed. Examples to illustrate your responses are also most helpful.

For entities with a non-legislative requirement to comply with AAS, the Board introduced 'grandfathering' provisions when SPFS were removed largely. The Board acknowledged changing constitutional documents to remove the requirement to comply with AAS was possible, but noted it can be onerous and if not done correctly can have tax consequences. An entity however loses their 'grandfathering' where entities subsequently amend their constitutions, but do not also remove the requirement to prepare financial statements in accordance with AAS.

Therefore, the loss of grandfathering could be triggered by just a minor editorial change. This presents a challenge for auditors and those charged with governance to monitor and track if, and when, such an amendment occurs, and as a result a requirement to transition to GPFS.

Section 2 – AASB 1060 Update

Topic 1 – Potential amendments to AASB 1060 based on the third edition of IFRS for SMEs Accounting Standard

Questions for respondents

- 1.1 Do you agree with the AASB's proposed approach for assessing whether to amend AASB1060 in relation to amendments made by the IASB to the *IFRS for SMEs* Accounting Standard (see page 36)?

If you disagree, with which aspects of the proposed approach do you disagree and what alternatives would you suggest instead?
- 1.2 Do you agree with the AASB's recommendations for amendments to AASB 1060, as listed in Table 2.1.1 (which starts on page 38)?

If you disagree, with which recommendations do you disagree and what would you suggest instead?
- 1.3 Do you agree with the AASB's recommendations not to amend AASB 1060 for the changes presented in Table 2.1.2 (which starts on page 52)?

If you disagree, with which recommendations do you disagree and what would you suggest instead?

We largely agree with the overall approach for assessing whether to amend AASB 1060 in relation to amendments to *IFRS for SMEs*. As we have previously indicated we disagree with presentation differences between Tier 1 entities and Tier 2 entities. Our preference is where AASB 1060 continues to combine presentation and disclosure requirements, that presentation guidance is included in AASB 1060. Otherwise, we believe there is a risk that presentations may diverge unintendedly from that of Tier 1 entities, and guidance applying to Tier 1 entities will not be enforceable for Tier 2 entities.

The challenge we find in assessing the *IFRS for SMEs* amendments against AASB 1060 is the fact that the *IFRS for SMEs* and IFRS 19 have both been written using the same underlying principles for developing the disclosures, however the IASB has ultimately, in many cases, arrived at different disclosure outcomes. It would be useful to understand the basis for such differences and therefore which objective we see as more relevant in the Australian environment.

Topic 2 - Potential effects of AASB 18 on AASB 1060

2.1 Should the AASB consider the impact of AASB 18 on AASB 1060 in advance of the IASB considering the suitability of the IFRS 18 requirements for the IFRS for SMEs Accounting Standard?

If you think the AASB should consider the impact of AASB 18 on AASB 1060 now, please consider the following questions for Topic 2.

If you think the AASB should wait for the IASB's next edition of the IFRS for SMEs Accounting Standard, please explain your reasons.

Consistent with our earlier comments around comparability in the Australian environment, we believe the impact of AASB 18 on AASB 1060 should be considered now, or as early as possible. Many entities have assumed this has already been done with the issuance of AASB 18 for Tier 1 entities.

2.2 Do you agree with replacing the AASB 101 presentation requirements in AASB 1060 with the AASB 18 classification and presentation requirements, to retain consistency in the classification and presentation of items in the primary financial statements of both Tier 1 and Tier 2 entities?

If you disagree, with which aspects do you disagree and what would you suggest instead?

We support this view.

2.3 If you agree that the classification and presentation of items in the primary financial statements should remain consistent for Tier 1 and Tier 2 entities (see question 2.2), which of the following approaches do you prefer?

Option A: Include in AASB 1060 all of the relevant classification and presentation requirements that are in the main body of AASB 18 (see Appendix 2.2.A in this ITC), update the relevant defined terms in Appendix A of AASB 1060 and add references to additional guidance in Appendix B of AASB 18 where applicable. Applying this approach would result in including all relevant classification and presentation requirements from AASB 18 in AASB 1060. Therefore, Tier 2 entities would not be required to comply with AASB 18 (although AASB 1060 would reference to Appendix B of AASB 18 for additional guidance).

Option B: Specify in AASB 1060 that Tier 2 entities should refer to AASB 18 for the classification and presentation requirements for primary financial statements. Under this approach, a new Appendix would be added to AASB 18 to list the disclosure paragraphs that do not apply to Tier 2 entities, consistent with the approach for other Australian Accounting Standards that continue to apply to Tier 2 entities.

Please provide the reasons for your preference.

We previously supported AASB 1060 only including disclosure requirements related to AASB 101 *Presentation of Financial Statements* and AASB 107 *Statement of Cash Flows*. However, we understand the benefits of a "one stop shop" for all presentation and disclosure requirements. Our view is therefore AASB 1060 should include all presentation and disclosure requirements.

2.4 When operating expenses are presented by function in the statement of profit or loss, should AASB 1060 include a requirement to disclose:

- a) specified expenses by nature in a single note (as required by paragraphs 83-85 of AASB 18 for Tier 1 entities); and
- b) a qualitative description of the nature of expenses in each function line item (paragraph 82(b) of AASB 18)?

Please provide the reasons for your view.

We note that IFRS 19 includes the disclosures required by (a) but not (b). To the extent such disclosures in (a) are material we agree that such disclosures, generally non-cash expenses and

employee benefits, are relevant to users of the Tier 2 financial statements. However, we question the benefits of the disclosure of (b).

2.5 For management-defined performance measures (MPMs), should AASB 1060 include:

- a) a reference to the disclosure requirements in AASB 18 for Tier 2 entities that use MPMs as defined in AASB 18 (i.e. similar to the way that Tier 2 entities that disclose operating segments are required to apply AASB 8 Operating Segments);
- b) the full text of paragraphs 117-125 of AASB 18 (i.e. the same requirements as for Tier 1 entities);
- c) only some disclosure requirements about its MPMs (e.g. only qualitative information or a reconciliation of each MPM to the most directly comparable subtotal or total specified by the Australian Accounting Standards); or
- d) no disclosure requirements for MPMs?

Please provide the reasons for your view. If you support only some disclosure requirements, please identify which disclosures should be required and why.

MPMs are not as relevant/prevalent for Tier 2 entities, however where they have been used there is a need to understand how these have been calculated.

We support the inclusion of such disclosures in AASB 1060. The IFRS 19 disclosures have not provided any relief compared to AASB 18 - and given the same principles used to develop IFRS 19 and AASB 1060 we find it difficult to suggest reduced disclosure requirements.

2.6 Should AASB 1060 require disclosure of further information regarding:

- a) the aggregation and disaggregation of line items in the financial statements and/or notes; and
- b) the relevant line item(s) in the primary financial statements when amounts disclosed in the notes are included in one or more line items (paragraph 114 of AASB 18)?

Please provide the reasons for your view.

(a) We support the guidance in AASB 18 on aggregation and disaggregation.

(b) We note the equivalent of AASB 18.114 has not been included in IFRS 19 and therefore question the benefit of such disclosure.

Questions regarding NFP private sector entities preparing Tier 2 GPFS

2.7 Please provide comments on the suitability of applying AASB 18 to Tier 2 GPFS of NFP private sector entities, including:

- a) requirements for classifying income and expenses in five categories, their presentation in the statement of profit or loss and the additional disclosures for operating expenses classified by function;
- b) disclosure requirements regarding MPMs; and
- c) aggregation and disaggregation principles.

2.8 Please provide comments on the suitability of requiring NFP private sector entities to classify in their Tier 2 GPFS dividend and interest cash flows as follows (consistent with the revised AASB 107):

- a) dividends and interest received - investing cash flows; and
- b) dividends and interest paid - financing cash flows.

2.9 Are there any NFP-specific reasons for modifying the requirements in AASB 18 or the revised AASB 107 for NFP private sector entities preparing Tier 2 GPFS? If so, please identify the modifications you suggest and explain those reasons.

No comments being provided.

Questions regarding NFP public sector entities preparing Tier 2 GPFS

2.10 A forthcoming Exposure Draft for NFP public sector entities preparing Tier 1 GPFS is expected to propose the following reliefs related to the new AASB 18 classification and presentation requirements for primary financial statements:

- a) for the statement of profit or loss, these entities would not be required to:
 - i) apply paragraphs 47(a)-(c) of AASB 18 to categorise income and expenses into the operating, investing and financing categories;
 - ii) present the two subtotals operating profit or loss and profit or loss before financing and income taxes, which are set out in paragraphs 69(a) and (b) of AASB 18; or
 - iii) apply paragraphs 78, B80 and B81 of AASB 18 regarding the classification and presentation of expenses in order to present the most useful structured summary of the expenses; and
- b) for the statement of cash flows, these entities would be able to elect how to classify dividends received and interest paid and received.

If NFP public sector entities preparing Tier 1 GPFS are granted certain reliefs, should NFP public sector entities preparing Tier 2 GPFS be provided with the same reliefs?

Please provide the reasons for your view.

2.11 The forthcoming Exposure Draft for NFP public sector entities preparing Tier 1 GPFS is expected to propose relief from the requirement to disclose information about MPMS under paragraph 122 of AASB 18.

If NFP public sector entities preparing Tier 1 GPFS are granted this relief, should NFP public sector entities preparing Tier 2 GPFS be provided with the same relief?

Please provide the reasons for your view.

2.12 The forthcoming Exposure Draft for NFP public sector entities preparing Tier 1 GPFS is expected to propose relief that would permit the continued use of the 'profit or loss' total as the starting point for the indirect method of reporting cash flows from operating activities.

If NFP public sector entities preparing Tier 1 GPFS are granted this relief, should NFP public sector entities preparing Tier 2 GPFS be provided with the same relief?

Please provide the reasons for your view.

2.13 The forthcoming Exposure Draft for NFP public sector entities preparing Tier 1 GPFS is expected to propose that the aggregation and disaggregation requirements in AASB 18 apply without modification, which means NFP public sector entities preparing Tier 1 GPFS would be subject to disclosure requirements regarding:

- a) the aggregation and disaggregation of items in the primary financial statements and notes (paragraphs 43 and B24-B26 of AASB 18); and
- b) the relevant line item(s) in the primary financial statements when amounts disclosed in the notes are included in one or more line items (paragraph 114 of AASB 18)?

Should NFP public sector entities preparing Tier 2 GPFS be aligned with NFP public sector entities preparing Tier 1 GPFS in relation to the aggregation and disaggregation requirements in AASB 18 and so also be required to provide those disclosures?

Please provide the reasons for your view.

No comments being provided.

Topic 3 - Disclosure requirements in IFRS 19

3.1 Is it important for Tier 2 entities to be able to claim compliance with IFRS 19? Please explain your view.

Active endorsement processes have commenced in the UK and EU with respect to IFRS 19. Issues arose when Australia first adopted IFRS in 2005 because subsequent amendments were needed to ensure the world understood us as being IFRS compliant. To prevent a repeat of these complications we believe consideration for the ability for an Australian entity to state IFRS 19 compliance be made. We understand that this results in a number of challenges given the:

- the limited scope of IFRS 19; and
- the recognition and measurement differences that arise in moving in and out of IFRS 19 and full IFRS - this would not result in application of IFRS 1, however currently moving between AASB 1060 and Tier 1 AAS results in the application of AASB 1.

We believe alignment of the requirements of IFRS 1 and AASB 1 application would be difficult to achieve whilst the scope of AASB 1060 is broader than IFRS 19. That being said, we would prefer to avoid another tier of reporting due to the cost and confusion this would create.

Ideally we believe Australian entities should be able to claim IFRS 19 compliance if they so desire but believe corporates are in a better place to respond to this issue.

3.2 Which of the following options would you prefer:

- a) replace AASB 1060 with IFRS 19 and expand the scope from subsidiaries without public accountability to all Tier 2 entities;
- b) amend AASB 1060 to include the additional disclosures required by IFRS 19 to achieve compliance with IFRS 19;
- c) retain AASB 1060 and do not adopt IFRS 19 at all;
- d) adopt IFRS 19 as an alternative Tier 2 framework for subsidiaries without public accountability, so that these entities would have the option to prepare GPFS under either AASB 1060 or an AASB Standard incorporating IFRS 19; or
- e) adopt IFRS 19 as an alternative Tier 2 framework under which subsidiaries without public accountability would apply an AASB Standard incorporating IFRS 19 (without the option to apply AASB 1060 instead) and other Tier 2 entities would apply AASB 1060.

Please provide the reasons for your preference.

Following on from our earlier responses, the challenge in this question is the fact the principles for determining the disclosures in *IFRS for SMEs*, AASB 1060 and IFRS 19 were all consistent, with any differences only related to changes in recognition and measurement requirements in *IFRS for SMEs*. Ultimately, IFRS 19 and *IFRS for SMEs* disclosures do not align even when there are no recognition and measurement differences. Introducing an alternative tier 2 framework would result in additional costs through compliance, training and implementation of IT systems, however the ability to claim IFRS compliance has benefits.

As noted earlier, it would be useful to understand the basis for differences between IFRS 19 and *IFRS for SMEs* and therefore which objective is seen as more relevant in the Australian environment, which will determine which of the above options is most appropriate.

3.3 If you think only parts of IFRS 19 should be adopted in Australia, please identify the disclosure requirements currently not required under AASB 1060 that you consider appropriate for Tier 2 entities and/or subsidiaries without public accountability.

We do not support only partial adoption of IFRS 19.