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Via online submission: www.aasb.gov.au

Invitation to comment 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 (ITC 56)

As one of the largest professional accounting bodies in the world, CPA Australia represents the diverse interests of more than 175,000 members working in over 100 jurisdictions and regions around the world, working in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally. We provide the following feedback on the above consultation (ITC 56) on behalf of our members and in the public interest.

Removal of Special Purpose Financial Statements (SPFS) and implementation of AASB 1060 *General Purpose Financial Statements – Simplified Disclosure for For-Profit and Not-for-Profit Tier 2 Entities (AASB 1060)*

The feedback on the removal of SPFS and the implementation of AASB 1060 has been positive in general. Improvements in the consistency and comparability of General Purpose Financial Statements (GPFS) prepared by larger entities subject to the financial reporting requirements of the *Corporations Act 2001* were noted. Some entities transitioning from preparing Special Purpose Financial Statements (SPFS) reported challenges in transitioning to the preparation of General Purpose Financial Statements (GPFS) but these issues appear to have been resolved since.

However, we continue to receive feedback of significant challenges faced by affected smaller entities with non-Corporations Act statutory financial reporting obligations that had previously prepared SPFS to fulfil their reporting obligations. A standout example is the Minimum Financial Reporting requirements regulated by the Queensland Building and Construction Commission (QBCC). When the requirements were implemented, reporting thresholds set at a very low level for affected building licensees resulted in an unnecessary and excessive requirement to prepare Tier 2 GPFS by many small for-profit entities. The absence of a simpler reporting framework for such smaller entities other than the Tier 2 framework exacerbated the problem. After years of advocacy by the Joint Accounting Bodies, changes have been made to ease the reporting burden, although some peripheral reporting challenges still remain to be addressed.

The QBCC example and other feedback we have received point to two suggestions for the Australian Accounting Standards Board (AASB) to consider and progress:

- Undertake a more rigorous and robust Impact or Effects Analysis as an essential part of major financial reporting reforms such as those arising from the removal of SPFS and the implementation of AASB 1060.
- Consider a more nuanced and fit-for-purpose reporting regime for the for-profit (FP) private sector that could include a further reporting Standard or framework that involves simplified recognition, measurement and disclosure requirements (a for-profit Tier 3 Standard). A Tier 3 Standard of this nature would have likely addressed

many of the challenges that arose with the QBCC reporting requirements and is likely to serve the broader reporting needs of smaller FP private sector entities for whom the Tier 2 reporting requirements may be excessive.

The proposed approach to update AASB 1060

We have received mixed feedback from stakeholders on the proposed approach to update AASB 1060, using the third edition of the IFRS for SMEs Standard as a starting point for any disclosure changes. Whilst most stakeholders representing the FP private sector and the not-for-profit (NFP) private sector have supported this approach, some stakeholders representing the NFP public sector have questioned the user-relevance of continuing with an approach underpinned by the IFRS for SMEs Standard. There is some concern that the potential increase in disclosures arising from the third edition of the IFRS for SMEs Standard could undermine the rationale behind the shift to Tier 2 by many NFP public sector entities. It has also been noted that when AASB 1060 was developed and issued, it was intended as a temporary Standard whilst the AASB undertook its NFP private sector and public sector financial reporting framework projects.

We suggest the AASB undertakes further outreach and research, particularly with public sector stakeholders, to further explore these concerns and find a suitable way forward. We also recommend the AASB revisits the conceptual basis behind the development and ongoing maintenance of AASB 1060, particularly in the context of NFP public sector entities.

The effect of AASB 18 *Presentation and Disclosure in Financial Statements (AASB 18)* on AASB 1060

We agree with the proposal to align the classification and presentation requirements in AASB 1060 with the equivalent requirements in AASB 18. We also agree with the proposal that it is justifiable for NFP public sector entities to depart from the new classification and presentation requirements, on the basis there are unlikely to be users relying on the information arising from the new classification and presentation requirements brought in by AASB 18. However, we note the AASB is currently consulting on the application of AASB 18 by Not-for-Profit entities preparing Tier 1 GPFS. We expect the outcomes of this consultation will also be relevant to these proposals.

Disclosure requirements in IFRS 19 *Subsidiaries without Public Accountability: Disclosures (IFRS 19)* and its availability for Tier 2

We support the AASB making IFRS 19 available for use in Australia for qualifying subsidiaries without public accountability. Our preference is for the AASB to issue IFRS 19 as a standalone Australian Accounting Standard. Whilst we have not received any specific feedback from preparers who may benefit from the Standard, we believe there is a conceptual basis for the adoption of the Standard in Australia. The AASB Due Process Framework for Setting Standards states that the AASB sets standards that use IFRS Standards (where they exist) for entities without public accountability. Accordingly, we recommend this Standard is made available for use for qualifying entities in Australia.

Further detail on our above comments, including our responses to questions in ITC 56 are included in the attached. If you require further information, please contact Ram Subramanian, Financial Reporting Lead at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

Ram Subramanian
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CPA Australia

ATTACHMENT – CPA AUSTRALIA’S RESPONSES TO QUESTIONS

SECTION 1

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.

CPA Australia believes the overall objective to improve the consistency, comparability, transparency and enforceability of the financial statements of affected entities has largely been achieved. As noted in the cover letter, some entities transitioning from SPFS to GPFS for the first time experienced challenges but these seem to have been resolved since.

However, the removal of Special Purpose Financial Statements (SPFS) for certain for-profit (FP) private sector entities has created challenges when seeking to comply with statutory financial reporting requirements. We provide two examples below:

- The removal of SPFS created significant challenges for building licensees registered with the Queensland Building and Construction Commission (QBCC). This arose as a result of the Minimum Financial Reporting (MFR) Regulations administered by the QBCC that previously required entities with revenue above \$800,000 to lodge annual financial reports that are General Purpose Financial Statements (GPFS). Following significant advocacy efforts by the Joint Accounting Bodies, these annual financial reporting requirements have been relaxed and now only licensees with revenue greater than \$30m are required to lodge GPFS. There however remain some outstanding issues relating to the application of recognition and measurement requirements of applicable accounting standards when SPFS are prepared and lodged.
- The Victorian Building Legislation Amendment (Buyer Protections) Act 2025 is introducing a Minimum Financial Reporting (MFR) regime for building licensees similar to the one currently operational in Queensland. Whilst the regulations that underpin this MFR regime are currently under development, we will be advocating for the ability of smaller licensees to prepare and lodge SPFS once public consultation of the proposals becomes available.

In addition to the above, challenges arose for Special Disability Trusts who are required to comply with the financial reporting requirements in the Social Security (Special Disability Trust – Trust Deed, Reporting and Audit Requirements) Determination 2013, as the removal of SPFS could have resulted in such entities having to prepare GPFS to satisfy the requirements. Following our advocacy efforts, the statutory requirements were amended to allow preparation of SPFS to satisfy the requirements.

Whilst we have not identified any other specific examples of statutory requirements that have created challenges from the removal of SPFS for certain FP private sector entities, we receive feedback from time to time that the application of full recognition and measurement requirements remains challenging for smaller FP private sector entities.

We recommend the AASB continues to monitor emerging reporting requirements such as the Victorian MFR regime noted above to ensure the financial reporting framework remains fit for purpose.

As noted in our [submission](#) to the AASB in response to its Discussion Paper for the development of a Tier 3 Standard for the not-for-profit (NFP) private sector, we remain of the view that there is sufficient justification for the AASB to explore developing a framework that allows for the preparation of GPFS by smaller FP private sector, based on a Standard with simplified recognition, measurement and disclosure requirements. To address this, the AASB could consider developing a Tier 3 Standard that is similar to the Tier 3 Standard currently being developed for smaller NFP private sector entities.

Feedback we have received indicates that whilst the initial costs of preparing GPFS for the first time were high, these were in line with expectations. Subject to our comments above in respect of smaller FP private sector entities for whom ongoing costs of compliance still remain high, we have not received any other feedback to indicate ongoing costs are not in line with expectations.

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.

As noted in our response to Q1 above, there continues to be some demand for a reporting standard for smaller FP private sector entities that includes simplified recognition, measurement and disclosure requirements.

Subject to the above, yes overall, we believe AASB 1060 has met its objective of achieving an appropriate balance between meeting user needs and minimising the costs of entities preparing Tier 2 GPFS.

Feedback we have received suggests that the initial or ongoing costs of applying AASB 1060 were/are broadly in line with expectations although some variability in ease of adoption on initial transition was noted, based on entity size, complexity and reporting infrastructure.

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.

We understand some entities availed the optional transitional relief relating to the presentation/restatement of comparative information. We did not receive any feedback whether entities availed the optional transitional relief relating to the correction of errors and changes in accounting policies.

- 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.

We have not received any feedback in relation to this question.

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

- 6) In relation to AASB 1060, were the educational initiatives, including webinars and publications, prepared by AASB staff helpful?
Please explain the reasons for your views on the above matters. Examples to illustrate your responses are also most helpful.**

The educational initiatives in relation to the removal of SPFS for certain FP private sector entities and AASB 1060 were broadly beneficial. CPA Australia also developed and provided [additional resources](#) to complement the educational resources developed and provided by the AASB. We note there were some gaps in educational material for some specific circumstances such as the impact of the changes on Australian Financial Services Licensees. CPA Australia and Chartered Accountants Australia and New Zealand jointly developed and published a [factsheet](#) to address this gap.

- 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.**

As noted in our response to Q1 above, challenges arose with the removal of SPFS in specific circumstances such as the QBCC MFR requirements. It took significant advocacy efforts by the Joint Accounting Bodies over a number of years to address these challenges and arrive at a position that is reasonable. Many of these challenges could have been avoided through better engagement by the AASB with regulators who were impacted by the changes to ensure the changes were fit for purpose for different reporting needs.

In future, we recommend the AASB undertakes an Impact or Effects analysis that comprehensively assesses and discusses the impact of changes from major standard-setting projects such as those brought in with the removal of SPFS for certain FP private sector entities and the introduction of AASB 1060.

For example, such an Impact or Effects Analysis would have considered the impact of the changes on specific circumstances discussed above such as the Queensland building licensees subject to the QBCC MFR regime and Special Disability Trusts. To address different types of entities and different sectors that may be affected, some suggestions for an Impact or Effects analysis would include an analysis of different categories of affected stakeholders such as:

- large corporate entities
- small corporate entities
- other for-profit private sector entities
- NFP private sector entities
- NFP public sector entities

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?

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.

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.

We have not received any feedback that identifies problems with how individually material information is disclosed in Tier 2 financial statements. We believe the current requirements in AASB 1060 are adequate to ensure information is suitably disaggregated to ensure disclosure of individually material items.

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.**

Overall, the disclosure requirements in AASB 1060 have been adequate and practical to apply. Using the IFRS for SMEs Standard for the disclosure requirements in AASB 1060 as a base, with further modifications based on full Australian Accounting Standards (AAS), is largely working well.

However, some stakeholders have raised concerns about continuing with the bottom-up approach of starting with the disclosures in the IFRS for SMEs standard, as set out in the for-profit and not-for-profit standard-setting frameworks. These concerns have been primarily raised by public sector stakeholders, and we have articulated these concerns and our views, in our responses to the questions under Section 2 below.

**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.**

Please see our comments in response to Q10 above and the questions in Section 2 below.

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?

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.

In our responses to Q1 above, we have highlighted some of the regulatory issues that have arisen in the past as a result of the application of AASB 1060 and AASB 2020-2. Whilst many of these issues have now been resolved, some remain including outstanding issues with the QBCC MFR regime and the upcoming Victorian MFR Regime, as known examples. There may be future legislative or regulatory frameworks that may require compliance with “Australian Accounting Standards” or “accounting standards” for smaller entities subject to reporting requirements, that may not warrant financial reporting using Tier 2. Therefore, the development of a Tier 3 accounting standards would be of value for such smaller entities. In the absence of a Tier 3 accounting standard, we recommend the AASB continues to monitor the regulatory environment to ensure the available reporting frameworks remain fit-for-purpose.

Additionally, it is essential that the AASB engages with regulators to make them aware of the implications of statutory requirements for the preparation of financial statements that state compliance with Australian Accounting Standards. Regulators may not always appreciate the level of sophistication necessary amongst financial statement preparers when required to apply the full recognition and measurement requirements of AAS, which are primarily designed and developed by the International Accounting Standards Board (IASB) for listed entities and other similar entities with public accountability.

13) Does the application of the requirements in AASB 1060 and AASB 2020-2 result in major auditing or assurance challenges?

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.

Based on our members’ experience, the introduction of AASB 1060 and AASB 2020-2 did not generally give rise to major auditing or assurance challenges in a technical sense, that is, practitioners did not encounter difficulties in applying the auditing standards when conducting engagements involving reporting using AASB 1060. We frame our response to this question in the context of statutory audit under the *Corporation Act 2001*. Members found,

many of the early issues stemmed from *expectation gaps* and *perception differences* rather than from the reporting standards themselves.

Whilst our feedback from preparers did not identify this particular concern, feedback we have received from some members of the auditor community is that initially some preparers and users may have misinterpreted the term “simplified disclosures” as implying “simplified accounting.” During the transition from SPFS to Tier 2 GPFS, this occasionally led to discussions between preparers and auditors to ensure there was an overall understanding by both preparers, and the users of their financial statements, about Tier 2 and how it differs from Tier 1. This included the need for auditors to reinforce that AASB 1060 simplifies disclosures, not recognition and measurement.

However, these issues appear to have been largely transitional. As preparers, users and auditors have become more familiar with the intent and scope of the simplified disclosure regime, these initial challenges have settled over time. Today, misunderstandings still arise occasionally, but they are far less frequent, and the framework is generally well-understood in practice, at least for the entities reporting under the *Corporation Act 2001*.

14) Are the requirements in the best interests of the Australian economy?

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.

Subject to our comments in response to Q1 above, yes we believe the requirements are 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.

We have no further comments.

SECTION 2

1.1) Do you agree with the AASB’s proposed approach for assessing whether to amend AASB 1060 in relation to amendments made by the IASB to the IFRS for SMEs Accounting Standard (see page 36 (of ITC 56))? If you disagree, with which aspects of the proposed approach do you disagree and what alternatives would you suggest instead?

We have received mixed feedback on the AASB’s proposed approach to amend AASB 1060. Stakeholders in the private for-profit and not-for-profit sectors are largely supportive of the approach to continue using the IFRS for SME’s Standard as a starting point for the disclosures in AASB 1060. This includes updating AASB 1060 for relevant disclosures in the third edition of the IFRS for SMEs Standard. However, public sector stakeholders have raised concerns about continuing the approach of using the IFRS for SMEs Standard as a starting point for updating disclosures in AASB 1060.

FP and NFP private sector

In developing the requirements included in the third edition of the IFRS for SMEs Standard, the IASB has obtained feedback globally from a range of stakeholders representing for-profit entities with no public accountability. Aligning the disclosures in AASB 1060 where possible with the third edition of the IFRS for SMEs Standard ensures these disclosures are aligned with global best practice for Australian FP private sector entities.

However, we suggest that in addition to the proposed approach of overall alignment with the latest third edition of the IFRS for SMEs Standard, the AASB should also consider whether the amendments to AASB 1060 arising from the third edition of the IFRS for SMEs Standard continue to meet Australian user needs. In further developing the proposals in ITC 56 to amend AASB 1060, we recommend describing how these amendments will best serve Australian user needs.

Public sector

Our stakeholders in the public sector have raised concerns about continuing with the current approach of using the IFRS for SMEs Standard as a starting point for the disclosures in AASB 1060. It has been noted that since the adoption of AASB 1060 for Tier 2 disclosures in Australia, a significant number of qualifying public sector entities have moved from Tier 1 to Tier 2 financial reporting. There is an overarching concern that the additional disclosures being proposed in ITC 56 for inclusion in AASB 1060 are not relevant or fit-for-purpose for public sector purposes and that the potential increase in disclosures arising from the third edition of the IFRS for SMEs Standard could undermine the rationale behind the shift to Tier 2 by many NFP public sector entities. Some public sector stakeholders are of the view that the AASB should continue updating AASB 1060 as and when new AAS are issued, rather than ongoing alignment with the IFRS for SMEs Standard.

To address the concerns raised, we recommend the following:

- The need to ensure public sector user needs are appropriately assessed and met. The AASB not-for-profit standard-setting framework sets out the key considerations for the AASB when determining Tier 2 disclosure requirements, including the use of the IFRS for SMEs standard as a starting point. Whilst this may have been appropriate at the time when AASB 1060 was first developed, given the subsequent expansion of qualifying public sector entities preparing Tier 2 GPFS, the AASB should reassess whether the original approach and rationale remain valid.
- Paragraph BC9 of AASB 1060 states that the Standard is an interim measure until more progress is made through further consultation and outreach (in relation to the private sector not-for-profit and public sector reporting framework projects). Whilst there has been progress on the private sector not-for-profit reporting framework project, similar progress needs to be made on the public sector reporting framework project too.

For the reasons stated above, we suggest the AASB revisit the conceptual basis underpinning the development of disclosures in AASB 1060, particularly in the context of the Australian public sector. We also suggest the AASB conduct further outreach with public sector stakeholders to address their concerns and identify a suitable way forward.

**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 (of ITC 56))?
If you disagree, with which recommendations do you disagree and what would you suggest instead?**

Subject to our comments in response to Q1.1 above, we broadly agree with the recommended amendments in Table 2.1.1, particularly in the context of FP and NFP private sector entities. We have identified a few minor matters for further consideration below:

- *Fair value measurement* – the reference to para 135(c) should read as 136(c)
- *Business combinations and goodwill* – it is not clear whether para 19.38(d) will be included in the amendments
- *Revenue from contracts with customers* – Paras 23.88 and 23.89 are proposed new additions. No rationale has been provided as to why these are being added to the existing disclosures in AASB 1060. Given the AASB has already included relevant disclosures from AASB 15 *Revenue from contracts with customers* in AASB 1060, we suggest providing the rationale for adding new disclosures that are currently not included in AASB 1060
- *Foreign currency translation* – Similar to the above point, if the AASB has previously concluded that these amendments are not expected to be relevant to the Tier 2 entities, it is not clear how it has now become relevant, other than the fact these disclosures are included in the third edition of the IFRS for SMEs Standard. We refer to our comments on user needs in response to Q1.1 above.

**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 (of ITC 56))?
If you disagree, with which recommendations do you disagree and what would you suggest instead?**

Subject to our comments in response to Q1.1 above, we have no further comments.

**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.**

Yes, we agree that the AASB should consider the impact of AASB 18 on AASB 1060 in advance of the IASB considering the suitability of the requirements for the IFRS for SMEs Standard. This is consistent with the current approach the AASB adopts of considering the impact new AAS (IFRS Accounting Standards) on AASB 1060 prior to the IASB considering the same for the IFRS for SMEs Standard.

**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 agree with replacing the AASB 101 classification and presentation requirements in AASB 1060 with the AASB 18 classification and presentation requirements. However, we note the AASB has issued Exposure Draft 338 *Application of AASB 18 and AASB 107 by Superannuation and Not-for-Profit Entities and Operating Cash Flow Reconciliation* (ED 338). We suggest the AASB takes into consideration the feedback received on ED 338 in finalising its approach to incorporating the AASB 18 classification and presentation requirements in AASB 1060.

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 prefer Option A. This aligns with the current approach of AASB 1060 being a standalone Standard that includes the classification and presentation requirements in addition to the disclosure requirements for Tier 2 GPFS.

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.

Whilst we have received mixed views on the disclosure requirements in Q2.4 a) and b), overall we believe there is merit in requiring additional disclosures for specified expenses by nature in a single note as required by para 83(a) of AASB 18. However, we do not believe there is need to provide additional information required by para 83(b) as we do not believe the benefits from these additional disclosures will exceed the associated costs.

We agree with the requirement to provide a qualitative description of the nature of expenses in each function line item.

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.

We do not believe there will be a significant demand for management-defined performance measures (MPMs) by users of Tier 2 financial statements. However, we see merit in including an option for those Tier 2 entities that choose to disclose MPMs and accordingly support option a) above.

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.

We agree with the proposal to include the Application guidance paragraphs from Appendix B of AASB 18 on aggregation and disaggregation as this provides clarity to preparers on aggregation and disaggregation criteria.

We also agree with the proposal to include relevant line item(s) in the primary financial statements when amounts disclosed in the notes are included in one or more line items, as this is likely to provide improved clarity around this information.

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.**

We agree with the proposal for NFP private sector entities preparing Tier 2 GPFS to comply with the requirements for classifying income and expenses into five categories, their presentation in the statement of profit or loss and the additional disclosures for operating expenses classified by function. In particular, feedback we have received supports the classification of income and expenses in the statement of profit or loss into the operating, investing and financing categories. It was noted that this classification provides clarity around the income and expenses arising from a NFP private sector entity's operating activities compared to the income and expenses arising from its investing activities.

Feedback we have received indicates that the disclosures around MPMs set out in AASB 18 is not necessary or relevant to the NFP private sector.

We believe the inclusion of the principles on aggregation and disaggregation will be of value to NFP private sector entities and provide further clarity to users of GPFS produced by NFP private sector entities.

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.

Whilst we don't expect dividends paid to commonly arise in the NFP private sector, we agree with the classification proposals for consistency with Tier 1.

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.

Subject to our comments in response to Q2.7 above, we have no further comments.

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.

Yes, we agree with the proposals that Tier 2 NFP public sector entities should be granted the same reliefs as Tier 1 NFP public sector entities for overall alignment on classification and presentation between the two tiers.

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.**

Yes, we agree for the same reasons provided in our response to Q2.10 above.

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.**

Yes, we agree for the same reasons provided in our response to Q2.10 above.

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.

We see merit in introducing the disclosure requirements regarding aggregation and disaggregation of items in the primary financial statements and notes, in line with Tier 1 NFP public sector entities. This is likely to enhance the overall quality and clarity of reporting by Tier 2 public sector entities. For similar reasons, we also agree with the proposals for disclosure requirements for relevant item(s) in the primary financial statements when amounts disclosed in the notes are included in one or more line items.

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

With some exceptions, we do not believe it is important for a majority of Tier 2 entities to be able to claim compliance with IFRS 19. For a majority of Tier 2 entities, the current approach of full AAS based recognition and measurement combined with simplified disclosures through AASB 1060 works well.

However, we have received some feedback that indicates there may be a need to claim compliance with IFRS 19 from a small group of Australian entities, namely those subsidiaries without public accountability that qualify to adopt IFRS 19.

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.

We prefer option d). Whilst we have received mixed feedback on the matter indicating there may be some entities that may benefit from IFRS 19, we also believe there is a conceptual rationale for adopting IFRS 19 for use as an alternative Tier 2 framework by qualifying subsidiaries in Australia. If the AASB has identified insufficient demand for IFRS 19 and is concerned about the costs and efforts of maintaining IFRS 19 against this backdrop, the same reasons may also apply to the recently published AASB 2025-4 *Amendments to Australian Accounting Standards – Translation to a Hyperinflationary Presentation Currency*.

Furthermore, the AASB Due Process Framework for Setting Standards states the following in para 1.2:

- 1.2 In accordance with the Financial Reporting Council’s broad strategic directions, the AASB sets standards that:
- (a) enable ‘publicly accountable’ private sector entities to maintain IFRS compliance; and
 - (b) for others, use IFRS Standards (where they exist), and transaction neutrality (modified as necessary), or develop Australian-specific standards and guidance.

Since IFRS 19 is an IFRS Standard that exists and is available for adoption by certain subsidiaries without-public accountability, we believe it is appropriate to make this Standard available for use in accordance with the AASB Due Process Framework for Setting Standards.

If the AASB decides not to proceed with option d), we prefer option c) as the next best option, particularly if the AASB believes there is no practical and justifiable need for the adoption of IFRS 19 in Australia.

We do not support the other options for the following reasons:

Option a) - IFRS 19 is specifically developed by the IASB for subsidiaries without public accountability and is not suitable for a broader group of Tier 2 entities.

Option b) – similar reasons to Option a) above. Taking this approach will also result in an additional cost to the AASB to ensure initial and ongoing alignment with IFRS 19.

Option e) – IFRS 19 is an optional standard issued by the IASB and this option proposes removing that optional approach.

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 partial adoption of IFRS 19 as we perceive no benefit from this approach. Also see our responses to Q3.1 and 3.2 above.